

AT&T WIRELESS SERVICES INC

Form 10-Q

November 13, 2002

**Table of Contents**

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  
September 30,  
2002 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

As of October 31, 2002, 2,709,050,456 shares of Common Stock were outstanding.



**TABLE OF CONTENTS**

**PART I FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**ITEM 4. CONTROLS AND PROCEDURES**

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

**ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS**

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

**ITEM 5. OTHER INFORMATION**

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

**EXHIBIT 99.1**

**EXHIBIT 99.2**

---

**Table of Contents**

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

Item 1. Financial  
Statements 3  
Item 2.  
Management's  
Discussion and  
Analysis of  
Financial  
Condition and  
Results of  
Operations 22  
Item 3.  
Quantitative and  
Qualitative  
Disclosures  
About Market  
Risk 55  
Item 4.  
Controls and  
Procedures 55

PART  
II OTHER  
INFORMATION

Item 1.  
Legal  
Proceedings 56  
Item 2.  
Changes in  
Securities and  
Use of  
Proceeds 56  
Item 3.  
Defaults Upon  
Senior  
Securities 56  
Item 4.  
Submission of  
Matters to a Vote  
of Security  
Holders 56  
Item 5.  
Other  
Information 56  
Item 6.  
Exhibits and  
Reports on  
Form 8-K 56

**Table of Contents**

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AT&T WIRELESS SERVICES, INC.  
AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS  
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)  
(UNAUDITED)

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2001	2002	2001
<b>REVENUE</b>				
Services	\$3,765	\$3,239	\$10,745	\$9,291
Equipment	298	257	839	791
<hr/>				
<hr/>				
<hr/>				
<hr/>				
Total revenue	4,063	3,496	11,584	10,082
<b>OPERATING EXPENSES</b>				
Costs of services (excluding depreciation of \$548 and \$376 for the three months ended September 30, and \$1,561 and \$1,080 for the nine months ended September 30, which is included below)	1,173	1,079	3,387	2,898
Costs of equipment sales	620	501	1,702	1,468
Selling, general and administrative	1,200	1,115	3,586	3,275
Depreciation and amortization	703	658	2,029	1,806
Impairment of licensing costs	1,329	1,329		
<hr/>				

---

---

---

Total operating expenses  
5,025 3,353 12,033 9,447

---

---

---

OPERATING (LOSS) INCOME

(962) 143 (449) 635  
Other (expense) income  
(164) 114 (188) 326  
Interest expense  
180 105 490 287

---

---

---

(LOSS) INCOME FROM CONTINUING  
OPERATIONS BEFORE INCOME TAXES AND  
NET EQUITY (LOSSES) EARNINGS FROM  
INVESTMENTS IN UNCONSOLIDATED  
SUBSIDIARIES

(1,306) 152 (1,127) 674  
(Benefit) provision for income taxes  
(139) 52 (70) 293  
Net equity (losses) earnings from investments in  
unconsolidated subsidiaries, net of tax  
(882) 56 (1,017) 174

---

---

---

(LOSS) INCOME FROM CONTINUING  
OPERATIONS

(2,049) 156 (2,074) 555

Edgar Filing: AT&T WIRELESS SERVICES INC - Form 10-Q

Loss from operations of discontinued business (net of tax benefit of \$49 and \$133 for the three and nine months ended September 30, 2001)

(79) (215)

Gain on disposal of discontinued business (net of tax provision of \$5 and \$29 for the three and nine months ended September 30, 2002)

8 47

---

---

---

---

INCOME (LOSS) FROM DISCONTINUED OPERATIONS

8 (79) 47 (215)

(LOSS) INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

(2,041) 77 (2,027) 340

CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE (net of tax benefit of \$103)

(166)

---

---

---

---

NET (LOSS) INCOME

(2,041) 77 (2,193) 340

Accretion of mandatorily redeemable preferred stock

6 13

Dividend requirements on preferred stock held by AT&T, net

76

---

---

---

---

NET (LOSS) INCOME AVAILABLE TO COMMON SHAREHOLDERS

\$(2,047) \$77 \$(2,206) \$264



---

---

---

---

(LOSS) INCOME PER BASIC AND DILUTED SHARE:

(Loss) income from continuing operations available to common shareholders  
\$(0.76) \$0.06 \$(0.77) \$0.19  
(Loss) income from discontinued operations  
(0.03) 0.01 (0.09)  
Cumulative effect of change in accounting principle  
(0.06)

---

---

---

---

Net (loss) income available to common shareholders  
\$(0.76) \$0.03 \$(0.82) \$0.10

---

---

---

---

WEIGHTED AVERAGE SHARES USED TO COMPUTE (LOSS) INCOME PER SHARE:

Basic  
2,708 2,530 2,678 2,530  
Diluted  
2,708 2,532 2,678 2,532

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

**Table of Contents**

AT&T WIRELESS SERVICES, INC.  
AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS  
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)  
(UNAUDITED)

	<u>AT SEPTEMBER 30, 2002</u>	<u>AT DECEMBER 31, 2001</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$3,751	\$3,352
Accounts receivable, less allowances of \$275 and \$239	2,194	2,026
Inventories	210	307
Income tax receivable	44	210
Deferred income taxes	222	
Prepaid expenses and other current assets	305	180
<hr/>		
<hr/>		
<b>TOTAL CURRENT ASSETS</b>	<b>6,504</b>	<b>6,297</b>
Property, plant and equipment, net of accumulated depreciation of \$6,784 and \$5,232	14,329	12,496
Licensing costs	13,994	13,100
Investments in and advances to unconsolidated subsidiaries	2,411	3,672
Goodwill	7,177	4,712
Other assets, net of accumulated amortization of \$729 and \$493	1,369	1,357
Assets of discontinued operations	88	
<hr/>		
<hr/>		
<b>TOTAL ASSETS</b>	<b>\$45,784</b>	<b>\$41,722</b>

---

LIABILITIES

Accounts payable  
 \$754 1,035  
 Payroll and benefit-related liabilities  
 427 409  
 Due on demand notes payable  
 88  
 Other current liabilities  
 1,927 1,900

---

TOTAL CURRENT LIABILITIES

3,108 3,432  
 Long-term debt due to others  
 11,033 6,617  
 Deferred income taxes  
 3,667 4,352  
 Other long-term liabilities  
 287 330

---

TOTAL LIABILITIES

18,095 14,731  
 COMMITMENTS AND CONTINGENCIES (NOTES (k) AND (l))

MINORITY INTEREST

51 46  
 MANDATORILY REDEEMABLE PREFERRED STOCK, \$0.01 par value, 1,000 shares  
 authorized, .233 shares issued and outstanding (\$268 liquidation value)  
 146

MANDATORILY REDEEMABLE COMMON STOCK, \$0.01 par value, 406 shares issued  
 and outstanding (\$10,599 redemption value)  
 7,664 7,664

SHAREHOLDERS EQUITY

Common stock, \$0.01 par value, 10,000 shares authorized, 2,302 and 2,125 shares issued and  
 outstanding  
 23 21

Additional paid-in capital  
 23,204 20,515

Accumulated deficit  
 (3,343) (1,150)

Accumulated other comprehensive loss  
 (56) (105)

---



---

TOTAL SHAREHOLDERS EQUITY  
19,828 19,281

---

---

TOTAL LIABILITIES AND SHAREHOLDERS EQUITY  
\$45,784 \$41,722

---

---

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

**Table of Contents**

AT&T WIRELESS SERVICES, INC.  
AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
(IN MILLIONS)  
(UNAUDITED)

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2001	2002	2001
<b>SUMMARY OF TOTAL COMPREHENSIVE (LOSS) INCOME:</b>				
Net (loss) income	\$(2,041)	\$77	\$(2,193)	\$340
Net revaluation of investments (net of taxes of \$5 and \$13 for the three and nine months ended September 30, 2002, and \$(11) and \$(4) for the three and nine months ended September 30, 2001)	5	(19)	20	(7)
Net revaluation of financial instruments (net of taxes of \$1 and \$1 for the three and nine months ended September 30, 2002, and \$1 and \$(42) for the three and nine months ended September 30, 2001)	4	2	3	(72)
Net foreign currency translation adjustments (net of taxes of \$(2) and \$17 for the three and nine months ended September 30, 2002, and \$(1) and \$(2) for the three and nine months ended September 30, 2001)	(6)	(1)	26	(3)
<hr/>				
<hr/>				
<hr/>				
<hr/>				
<hr/>				
<b>TOTAL COMPREHENSIVE (LOSS) INCOME</b>	<b>\$(2,038)</b>	<b>\$59</b>	<b>\$(2,144)</b>	<b>\$258</b>
<hr/>				
<hr/>				
<hr/>				
<hr/>				

Edgar Filing: AT&T WIRELESS SERVICES INC - Form 10-Q

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

**Table of Contents**AT&T WIRELESS SERVICES, INC.  
AND SUBSIDIARIESCONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
(IN MILLIONS)  
(UNAUDITED)FOR THE NINE  
MONTHS  
ENDED  
SEPTEMBER 30,2002      2001**OPERATING ACTIVITIES**

Net (loss) income

\$(2,193) \$340

Deduct: Income (loss) from  
discontinued operations

47 (215)

Net (loss) income, excluding  
discontinued operations

(2,240) 555

Adjustments to reconcile net  
(loss) income, excluding  
discontinued operations, to net cash  
provided by operating activities of  
continuing operations:Cumulative effect of change in  
accounting principle, net of tax

166

Losses on early extinguishments of  
debt

20

Losses from impairments of cost  
method investments

245 20

Net revaluation of securities

(56)

Depreciation and amortization

2,029 1,806

Impairment of licensing costs

1,329

Amortization of debt  
premium/discount and interest  
accretion

43

Deferred income taxes

(326) 231

Net equity losses (earnings) from  
investments in unconsolidated

subsidiaries  
1,017 (248)  
Provision for uncollectible  
receivables  
414 407  
Increase in accounts receivable  
(440) (663)  
Decrease in inventories  
146 194  
Decrease in accounts payable  
(92) 1  
Net change in other operating  
assets and liabilities  
(49) 101

---

---

NET CASH PROVIDED BY  
OPERATING ACTIVITIES OF  
CONTINUING OPERATIONS

2,262 2,348

INVESTING ACTIVITIES

Capital expenditures and other  
additions  
(3,031) (3,499)  
Net acquisitions of licenses  
(32) (2)  
Distributions and sales of  
unconsolidated subsidiaries  
27 658  
Contributions, advances and  
purchases of unconsolidated  
subsidiaries  
(402) (1,253)  
Acquisitions of businesses, net of  
cash acquired  
(75)  
Issuance of long-term note  
receivable to unconsolidated  
subsidiary  
(100)

---

---

NET CASH USED IN  
INVESTING ACTIVITIES OF  
CONTINUING OPERATIONS

(3,613) (4,096)

FINANCING ACTIVITIES

Repayment of debt due to AT&T  
(2,438)  
Repayment of debt due to others  
(1,619)



Proceeds from issuance of  
 long-term debt to others, net of  
 issuance costs  
 2,959 6,345  
 Redemption of preferred stock held  
 by AT&T  
 (3,000)  
 Proceeds attributed from DoCoMo  
 investment, net of costs  
 6,139  
 Proceeds from AT&T Wireless  
 Services common stock and AT&T  
 Wireless Group tracking stock  
 issued, and other financing  
 activities  
 418 54  
 Dividend requirements on  
 preferred stock held by AT&T, net  
 (76)

---



---

NET CASH PROVIDED BY  
 FINANCING ACTIVITIES OF  
 CONTINUING OPERATIONS  
 1,758 7,024  
 NET CASH USED IN  
 DISCONTINUED OPERATIONS  
 (8) (463)

---



---

NET INCREASE IN CASH AND  
 CASH EQUIVALENTS  
 399 4,813  
 CASH AND CASH  
 EQUIVALENTS AT  
 BEGINNING OF PERIOD  
 3,352 62

---



---

CASH AND CASH  
 EQUIVALENTS AT END OF  
 PERIOD  
 \$3,751 \$4,875

---

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

**Table of Contents**

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) BACKGROUND AND BASIS OF PRESENTATION

AT&T Wireless Services is a wireless telecommunications company, which presently operates in a single line of business as a provider of primarily domestic wireless voice and data services and products in the 850 megahertz (cellular) and 1900 megahertz (personal communications services, or PCS) markets. AT&T Wireless Services also holds equity interests in various domestic and international wireless communications ventures and partnerships.

BACKGROUND

On October 25, 2000, AT&T Corp. (AT&T) announced a restructuring plan, stating its intention to create a separate company for its wireless services businesses, named AT&T Wireless Services, Inc. This restructuring is called the split-off. AT&T Wireless Services includes substantially the same assets and liabilities that were represented by AT&T Wireless Group tracking stock, which AT&T created on April 27, 2000. In conjunction with the offering of AT&T Wireless Group tracking stock in April 2000, 15.6%, or 360 million shares, of AT&T Wireless Group tracking stock were sold at an offering price of \$29.50 per share. AT&T Wireless Group tracking stock was a class of AT&T common stock, which was intended to provide holders with financial returns based on the financial performance and economic value of AT&T's wireless services businesses.

During May 2001, AT&T completed an exchange offer, which allowed AT&T common shareholders to exchange shares of AT&T common stock for shares of AT&T Wireless Group tracking stock. Approximately 372.2 million shares of AT&T common stock (not adjusted for any subsequent splits) were tendered in exchange for approximately 437.7 million shares of AT&T Wireless Group tracking stock, at an exchange ratio of 1.176 shares of AT&T Wireless Group tracking stock for each validly tendered share of AT&T common stock.

On July 9, 2001, AT&T converted all shares of AT&T Wireless Group tracking stock into shares of AT&T Wireless Services common stock on a one-for-one basis. In addition, AT&T completed a distribution of approximately 1.136 billion shares of AT&T Wireless Services common stock to AT&T shareholders in the form of a stock dividend. These transactions effected the split-off of AT&T Wireless Services from AT&T, and resulted in AT&T Wireless Services becoming an independent, publicly traded company.

AT&T Wireless Services was incorporated in Delaware on July 7, 1987. Prior to the split-off, AT&T Wireless Services was a 100% owned direct subsidiary of AT&T. AT&T Wireless Services had authorized 500 shares of \$0.01 par value common stock, of which 100 shares were outstanding and held by AT&T prior to the split-off. These shares have not been assumed to be outstanding for purposes of the historical financial statements presented prior to the split-off, due to the recapitalization, which was effected with the split-off. Effective with the split-off, AT&T Wireless Services had 2,530 million common shares issued and outstanding.

BASIS OF PRESENTATION EFFECTIVE WITH THE SPLIT-OFF

The consolidated condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and, 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 consolidated condensed financial statements reflect the results of operations, financial position, changes in shareholders' equity and cash flows of AT&T Wireless Services as if it were a separate entity for all periods presented and are in conformity with accounting principles generally accepted in the United States of America.

The consolidated condensed financial statements reflect the assets, liabilities, revenue and expenses directly attributable to AT&T Wireless Services. The assets and liabilities included represent the assets and liabilities, which have been transferred to AT&T Wireless Services in accordance with the separation and distribution agreement between AT&T and AT&T Wireless Services. Prior to the split-off on July 9, 2001, substantially all of the assets and liabilities represented by AT&T Wireless Group were transferred to AT&T Wireless Services. AT&T Wireless Services has treated these transfers in a manner similar to a pooling of interests and has assumed these transfers were completed in historical periods by the legal entity AT&T Wireless Services. The consolidated condensed

**Table of Contents**

financial statements for the periods prior to the split-off include allocations deemed reasonable by management to present the results of operations, financial position and cash flows of AT&T Wireless Services as a separate entity and are not necessarily indicative of those that would have been incurred on a stand-alone basis for those periods presented. Additionally, the consolidated results for the interim periods presented may not be indicative of results for the full year. These consolidated condensed financial statements should be read in conjunction with AT&T Wireless Services consolidated financial statements for the three years ended December 31, 2001, included in Form 10K filed by AT&T Wireless Services on March 28, 2002, and consolidated condensed financial statements for the quarters ended June 30, 2002 and March 31, 2002, included in Form 10Q filed by AT&T Wireless Services on August 13, 2002 and May 9, 2002, respectively.

For the tax return period July 10, 2001 through December 31, 2001, AT&T Wireless Services incurred a tax net operating loss (NOL) of \$1.3 billion. In addition, for the nine months ended September 30, 2002, AT&T Wireless Services estimates it generated a NOL of \$2.3 billion. AT&T Wireless Services has determined that it is entitled to carryback certain of these losses which could be up to approximately \$1.3 billion of the 2001 NOL and up to \$1.5 billion of the 2002 NOL, against taxes paid by its former parent, AT&T Corp. The balance of the 2002 NOL can be carried forward to offset taxable income in future years.

The tax sharing agreement between AT&T Corp. and AT&T Wireless Services provides that AT&T Wireless Services may not seek a refund for taxes relating back to periods before the split-off without AT&T Corp.'s consent, and that such consent may not be unreasonably withheld. Federal tax laws generally provide that AT&T Wireless Services would only be entitled to a carryback benefit to the extent that the income of AT&T Corp. for the applicable carryback years is sufficient to absorb all of the carryback losses of AT&T Corp. and its affiliates in addition to the carryback losses of AT&T Wireless Services. The amount of the refund, if any, and the timing of any such payment cannot be determined with certainty at this time.

(b) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
GOODWILL AND OTHER INTANGIBLE ASSETS ADOPTION OF STATEMENT OF FINANCIAL  
ACCOUNTING STANDARDS (SFAS) NO. 142

Effective January 1, 2002, AT&T Wireless Services adopted SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 established new standards related to how acquired goodwill and other intangible assets are to be recorded upon their acquisition as well as how they are to be accounted for after they have been initially recognized in the financial statements.

Effective with the adoption of this standard, AT&T Wireless Services is no longer amortizing acquired goodwill and excess net book value associated with equity method investments. Instead, SFAS No. 142 requires acquired goodwill to be evaluated for impairment using a two-step test based upon a fair value approach. The first step is a screen for potential impairment, while the second step calculates the amount of impairment, if any. Upon adoption of this standard, AT&T Wireless Services completed a transitional impairment test for its acquired goodwill, determining fair value using primarily a discounted cash flow model. The determined fair value was sufficient to pass the first step impairment test, and therefore no impairment was recorded. The premise of the discounted cash flow model assumed a non-taxable or stock transaction. As a result, there was no step-up in basis of the assets and depreciation was carried over at current levels. In order to assess the fair value of AT&T Wireless Services, following the calculation of the discounted cash flows, the fair value of the interest bearing debt was deducted. In addition, the fair value of the assets not contributing to the discounted cash flows of AT&T Wireless Services, were added to derive an indication of net assets.

Additionally, upon adoption of SFAS No. 142, AT&T Wireless Services was required to reassess the useful life of its other intangible assets. AT&T Wireless Services other intangible assets primarily consist of customer lists and FCC licensing costs. AT&T Wireless Services re-assessed the useful life of its customer lists and determined that a five year life continues to be appropriate. Although FCC licenses are issued with a stated term, generally ten years, the renewal of FCC licenses is a routine matter involving a nominal fee and AT&T Wireless Services has determined that no legal, regulatory, contractual, competitive, economic or other factors currently exist that limit the useful life of its FCC licenses. As such, effective with the adoption of SFAS No. 142, AT&T Wireless Services is no longer amortizing licensing costs of domestic consolidated subsidiaries as these licensing costs are deemed to be intangible assets that have indefinite lives. AT&T Wireless Services unconsolidated subsidiaries completed a similar assessment for licensing costs. Its domestic and Canadian unconsolidated subsidiaries also determined that their licensing costs have indefinite lives and ceased amortization of those costs. Prospectively, AT&T Wireless Services will continue to periodically reevaluate its determination of an indefinite useful life with regards to FCC licenses. SFAS No. 142 requires that indefinite lived intangible assets be tested for impairment by comparing the fair value of the assets to their carrying amount. Upon adoption of this standard, AT&T Wireless Services completed a transitional impairment test for licensing costs, calculating fair value using primarily a discounted cash

**Table of Contents**

flow model, and determined that there was no impairment to be recorded. The discounted cash flow model estimates the required resources and eventual returns from the build out of an operational network and related customer support, starting with only FCC licenses. In this manner, the cash flows are isolated as specifically pertaining to the FCC licenses. A majority of the FCC license balance was tested for impairment on an aggregate basis, which is consistent with its management of the business and national scope of operations.

On a prospective basis, AT&T Wireless Services is required to test both acquired goodwill and other indefinite-lived intangible assets, including licensing costs, for impairment on an annual basis based upon a fair value approach. Additionally, goodwill shall be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of an entity below its carrying value. These events or circumstances could include a significant change in the business climate, including a significant sustained decline in an entity's market value, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of the business, or other factors. If AT&T Wireless Services' market value continues to be less than its book value for an extended period of time, it could trigger the need for impairment tests of acquired goodwill between annual tests. Other indefinite-lived intangible assets will be tested between annual tests if events or changes in circumstances indicate that the asset might be impaired. During the third quarter, AT&T Wireless Services completed its annual impairment tests for both acquired goodwill and licensing costs using methodologies consistent with those applied for its transitional impairment tests performed as of January 1, 2002. Such testing resulted in no impairment charge to goodwill as the determined fair value was again sufficient to pass the first step impairment test. The first annual reassessment of AT&T Wireless Services licensing costs, however, resulted in a total pre-tax impairment of \$1,329. See Note (c) for further information regarding these tests.

The following table provides a reconciliation of the reported net income (loss) available to common shareholders to an adjusted (loss) income before cumulative effect of change in accounting principle and basic and diluted earnings per share assuming that SFAS No. 142 had been adopted as of January 1, 2001:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2002	2001	2002	2001
Reported net (loss) income available to common shareholders	\$(2,047)	\$77	\$(2,206)	\$264
Accretion of mandatorily redeemable preferred stock				
6 13				
Dividend requirements on preferred stock held by AT&T, net				
76				
<hr/>				
<hr/>				
<hr/>				
<hr/>				
Net (loss) income	(2,041)	77	(2,193)	340
Cumulative effect of change in accounting principle, net of tax	(166)			
<hr/>				
<hr/>				
<hr/>				
<hr/>				

Reported (loss) income before cumulative effect of change in accounting principle

(2,041) 77 (2,027) 340

Add back amortization, net of tax:

Goodwill

31 85

Licensing costs

59 175

Excess net book value of equity method investments

12 29

---



---



---



---

Adjusted (loss) income before cumulative effect of change in accounting principle

\$(2,041) \$179 \$(2,027) \$629

---



---



---



---

Basic and diluted earnings per share:

Reported net (loss) income available to common shareholders

\$(0.76) \$0.03 \$(0.82) \$0.10

Accretion of mandatorily redeemable preferred stock

Dividend requirements on preferred stock held by AT&T, net

0.03

---



---



---



---

Net (loss) income

(0.76) 0.03 (0.82) 0.13

Cumulative effect of change in accounting principle, net of tax

(0.06)

---

---

---

---

Reported (loss) income before cumulative effect of change in accounting principle

(0.76) 0.03 (0.76) 0.13

Add back amortization, net of tax:

Goodwill

0.01 0.03

Licensing costs

0.03 0.07

Excess net book value of equity method investments

0.01 0.01

---

---

---

---

Adjusted (loss) income before cumulative effect of change in accounting principle

\$(0.76) \$0.08 \$(0.76) \$0.24

---

---

---

---

**Table of Contents**

The changes in the carrying amount of goodwill for the nine months ended September 30, 2002 are as follows:

Balance as of December 31, 2001	\$4,712
Goodwill acquired during the nine months ended September 30, 2002	
2,465	

---

Balance as of September 30, 2002  
\$7,177

---

During the first quarter of 2002, AT&T Wireless Services recorded a cumulative effect of change in accounting principle of \$166, net of tax, associated with its portion of transitional impairment losses recognized by its equity method investments upon adoption of SFAS No. 142. Of the total after-tax charge, \$72 and \$7 represented AT&T Wireless Services' proportionate share of impairments recognized by TeleCorp PCS, Inc. of its licensing costs and goodwill, respectively. The remaining \$87 represented AT&T Wireless Services' proportionate share of an impairment of licensing costs recognized by ACC Acquisitions, LLC. See Note (c) for additional impairment losses recognized by AT&T Wireless Services' equity method investments subsequent to adoption.

Intangible assets with indefinite lives at September 30, 2002, consisted of licensing costs of \$13,994. Amortizable intangible assets at September 30, 2002, consisted of customer lists of \$702, net of accumulated amortization of \$327. Customer lists are being amortized on a straight-line basis over five years. Pre-tax amortization expense associated with customer lists for the three and nine months ended September 30, 2002, totaled \$30 and \$87, respectively. The aggregate pre-tax amortization expense associated with customer lists for the years ended December 31, 2002, 2003, 2004, 2005 and 2006 are estimated to be \$117, \$119, \$113, \$86 and \$26, respectively.

**PROVISION FOR INCOME TAXES**

During the first quarter of 2002, AT&T Wireless Services changed its accounting for the calculation of the intraperiod income tax allocation. Effective with the first quarter of 2002, AT&T Wireless Services began estimating its annual effective income tax rates for continuing operations (excluding net equity (losses) earnings from investments in unconsolidated subsidiaries) and net equity (losses) earnings from investments in unconsolidated subsidiaries separately. In prior years, AT&T Wireless Services had estimated one combined annual effective income tax rate for continuing operations (including net equity (losses) earnings from investments in unconsolidated subsidiaries), then allocated a portion of the resulting tax provision or benefit to net equity (losses) earnings from investments in unconsolidated subsidiaries. This change has no impact to AT&T Wireless Services' annual income tax provision or benefit; it merely impacts the allocation of the full year's income tax provision to interim periods. AT&T Wireless Services believes this change results in a more accurate estimate of the intraperiod allocation of the tax provision or benefit. If the new intraperiod allocation methodology had been implemented January 1, 2001, the impact to the three and nine months ended September 30, 2001, would have been a decrease to net equity earnings from investments in unconsolidated subsidiaries and income from continuing operations available to common shareholders of \$94 and \$66, respectively, and a decrease to income from continuing operations available to common shareholders per basic and diluted share of \$0.04 and \$0.03, respectively.

As discussed in Note (c), AT&T Wireless Services recorded a tax valuation allowance in the third quarter of 2002. As a result of recording this allowance, AT&T Wireless Services' effective tax rate for all of 2002 will be substantially different than the United States federal statutory income tax rate.

**VALUATION OF LONG-LIVED ASSETS**

Effective January 1, 2002, AT&T Wireless Services adopted SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This statement replaces SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. SFAS No. 144 retains the fundamental provisions of SFAS No. 121 for recognition and measurement of the impairment of long-lived assets to be held and used and for measurement of long-lived assets to be disposed of by sale. This statement applies to all long-lived assets, including discontinued operations, and replaces the provisions of Accounting Principles Board (APB) Opinion No. 30, Reporting Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions,



## Edgar Filing: AT&T WIRELESS SERVICES INC - Form 10-Q

for the disposal of segments of a business. This statement requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. AT&T Wireless Services' initial adoption of this statement did not have a material impact on AT&T Wireless Services' results of operations, financial position or cash flows.

**Table of Contents**

**GAINS (LOSSES) ON EARLY EXTINGUISHMENT OF DEBT**

In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. Among other things, this statement rescinds FASB Statement No. 4, Reporting Gains and Losses from Extinguishment of Debt, which required all gains and losses from the early extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. As a result, the criteria in APB Opinion No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, will now be used to classify those gains and losses. AT&T Wireless Services elected to early adopt this statement effective April 1, 2002. As a result of the early adoption of this statement, AT&T Wireless Services reclassified the \$10 pre-tax extraordinary loss on early extinguishment of debt recognized during the first quarter of 2002 to other (expense) income, and reclassified the related \$4 tax benefit to provision for income taxes.

**RECLASSIFICATIONS AND RESTATEMENTS**

Certain reclassifications have been made to prior year amounts to conform to current year presentations. Prior year periods have been restated to reflect the results of the fixed wireless business as discontinued operations (see Note (d)). In addition, as discussed above, the extraordinary loss on early extinguishment of debt recognized during the first quarter of 2002 was reclassified to continuing operations in the second quarter of 2002.

**(c) IMPAIRMENT CHARGES AND TAX VALUATION ALLOWANCE**

*Impairment of licensing costs of consolidated subsidiaries:*

As discussed in Note (b), SFAS No. 142 requires that goodwill and other indefinite-lived intangible assets, including licensing costs, be tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of the goodwill and other indefinite-lived intangible assets with their carrying amounts.

AT&T Wireless Services completed its annual impairment tests for both goodwill and licensing costs during the third quarter of 2002, using methodologies consistent with those applied during the initial adoption of SFAS No. 142 on January 1, 2002. Such testing resulted in no impairment charge to goodwill in the third quarter of 2002. FCC licenses that support AT&T Wireless Services national strategic plan, which represent a majority of the licensing costs book value, were aggregated and valued using a discounted cash flow model. The remaining non-strategic licenses were valued on an asset-by-asset basis using comparative transaction data to determine a fair value. These tests resulted in a total pre-tax impairment of \$1,329, which was recorded in Impairment of licensing costs in the Consolidated Condensed Statement of Operations during the three months ended September 30, 2002. AT&T Wireless Services believes that the declines in the fair value of its licenses are due principally to uncertainty about industry prospects in light of continuing price competition, slowing subscriber growth, and the continued weakness of the US economy.

*Impairment of licensing costs of investments in and advances to unconsolidated subsidiaries:*

AT&T Wireless Services recognized pre-tax losses of \$369 in the third quarter of 2002 associated with its portion of impairment losses recognized by its equity method investments resulting from their annual impairment tests of licensing costs. Of the total pre-tax charge, \$260, \$84 and \$25 represent impairments of licensing costs recognized by Cascade Wireless, LLC, Alaska Native Wireless, LLC, and Lewis and Clark Communications, LLC, respectively. These losses are included in Net equity (losses) earnings from investments in unconsolidated subsidiaries in the Consolidated Condensed Statement of Operations.

*Equity method investment impairment charges:*

AT&T Wireless Services holds equity interests in various domestic and international ventures and partnerships. These ventures and partnerships operate primarily in the wireless telecommunications industry. These investments are accounted for primarily under the equity method of accounting. In accordance with APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock, AT&T Wireless Services periodically reviews its equity method investments for impairment. These reviews are performed to determine whether a decline in the fair value of an investment below its carrying value is deemed to be other than temporary. AT&T Wireless Services employs a systematic methodology that considers available evidence in evaluating potential impairment of its investments. In the event that the carrying value of an investment exceeds its fair value, AT&T Wireless Services



**Table of Contents**

evaluates, among other factors, the duration and extent to which the fair value is less than the carrying value; the financial health of and business outlook for the investee, including industry and sector performance, changes in technology, and operational and financing cash flow factors; and AT&T Wireless Services' intent and ability to hold the investment.

During the third quarter of 2002, AT&T Wireless Services recognized \$444 of pre-tax impairment losses due primarily to three of its equity method investments. These impairments related to declines in the fair values of certain international equity method investments that management deemed to be other than temporary. The majority of the total pre-tax charge represented impairments of investments in Rogers Wireless Communications, Inc., Eurotel Praha, spol. s r.o., and BPL Cellular Ltd. of \$232, \$185, and \$24, respectively. These losses are included in Net equity (losses) earnings from investments in unconsolidated subsidiaries in the Consolidated Condensed Statement of Operations.

During the second quarter of 2002, AT&T Wireless Services recognized a \$120 pre-tax impairment loss within Net equity (losses) earnings from investments in unconsolidated subsidiaries associated with its equity investment in ACC Acquisitions, LLC, which is the parent company of American Cellular Corporation (ACC). This impairment represented a write-off of AT&T Wireless Services' remaining equity investment balance. The impairment loss was recognized during the second quarter of 2002 due to a reassessment of the value of AT&T Wireless Services' investment as a result of ACC's failure to comply with the total debt leverage ratio covenant contained in ACC's bank credit facility.

*Cost method investment impairment charges:*

During the third quarter of 2002, AT&T Wireless Services recognized a \$187 pre-tax impairment charge related to its cost method investment in Dobson Communications Corporation (Dobson). Of the total pre-tax charge, \$173 related to AT&T Wireless Services' preferred stock investment and \$14 to AT&T Wireless Services' remaining common stock investment balance. Additionally, in the first quarter of 2002, AT&T Wireless Services recorded a pre-tax impairment loss of \$57 related to its common stock investment in Dobson. These losses are included in Other (expense) income in the Consolidated Condensed Statement of Operations.

*Tax valuation allowance:*

Due to the losses recorded during the third quarter of 2002, AT&T Wireless Services established a deferred tax valuation allowance of \$740. \$379 of the deferred tax valuation allowance was related to deferred tax assets associated with AT&T Wireless Services' equity method investments and was recorded within Net equity (losses) earnings from investments in unconsolidated subsidiaries. \$361 was related to deferred tax assets associated with its continuing operations, excluding net equity (losses) earnings from investments in unconsolidated subsidiaries, and was recorded within (Benefit) provision for income taxes in the Consolidated Condensed Statement of Operations.

The following table summarizes the impairment charges and tax valuation allowance recorded during the third quarter of 2002:

Impairment of licensing costs	\$ 1,329
Impairment of equity-method unconsolidated subsidiaries	
444	
AT&T Wireless Services proportionate share of licensing costs impairments recorded by equity-method unconsolidated subsidiaries	
369	
Impairment of cost-method unconsolidated subsidiary	
187	

---

Total impairment  
charges  
2,329  
Application of  
statutory tax rate  
of 38.25%  
(891)  
Deferred tax  
valuation  
allowance  
740

---

Impact of  
impairment  
charges and tax  
valuation  
allowance on third  
quarter results  
\$2,178

---

(d) DISCONTINUED OPERATIONS

In December 2001, AT&T Wireless Services finalized plans and received approval from its board of directors to exit the fixed wireless business. This decision resulted in a pre-tax charge during the fourth quarter of 2001 of \$1.3 billion, reflecting a write-down of the assets and the impact of phased exit charges. AT&T Wireless Services virtually completed the disposal of the fixed wireless business during the third quarter of 2002.

**Table of Contents**

In accordance with APB Opinion No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, the consolidated condensed financial statements of AT&T Wireless Services have been restated to reflect the fixed wireless business as discontinued operations. Accordingly, the revenue, costs and expenses, assets and cash flows of the fixed wireless business have been excluded from the respective captions in the consolidated condensed statements of operations, consolidated condensed balance sheets and consolidated condensed statements of cash flows and have been reported as Income (loss) from discontinued operations, net of applicable taxes; as Assets of discontinued operations; and as Net cash used in discontinued operations for all periods presented.

Revenue for discontinued operations was \$0 and \$6 for the three months ended September 30, 2002 and 2001, respectively, and \$1 and \$12 for the nine months ended September 30, 2002 and 2001, respectively. Assets of discontinued operations were \$0 and \$88 at September 30, 2002, and December 31, 2001, respectively. The liabilities of the fixed wireless business, including liabilities associated with the disposal and phased exit charges of the fixed wireless business, are not reflected within discontinued operations on AT&T Wireless Services consolidated condensed balance sheets, as these liabilities have not been assumed by third parties. Accordingly, the cash flows associated with the disposal and phased exit charges have been reflected as cash used by operating activities of AT&T Wireless Services continuing operations. The loss on disposal of discontinued business recorded in the fourth quarter of 2001 included \$74 for estimated pre-tax losses during the phase-out period, which were all recognized as of September 30, 2002.

During the first, second, and third quarters of 2002, AT&T Wireless Services recorded after-tax gains on disposal of the fixed wireless business totaling \$12, \$27, and \$8, respectively. The gains consisted of adjustments to the recoverability of assets and accruals associated with exit costs from the fixed wireless business.

On February 12, 2002, AT&T Wireless Services completed the sale of certain fixed wireless assets to Netro Corporation (Netro), a company that is engaged in a business substantially different from AT&T Wireless Services fixed wireless business. Netro paid \$16 in cash and 8.2 million shares of Netro common stock to acquire a license to intellectual property, equipment and proprietary software assets. As a result of the transaction, AT&T Wireless Services owned approximately 13.5% of Netro's outstanding common stock. During the third quarter of 2002, AT&T Wireless Services sold shares of Netro common stock which reduced its ownership percentage of Netro's outstanding common stock to less than five percent.

**(e) EARNINGS PER SHARE (EPS)**

Basic EPS for AT&T Wireless Services has been computed by dividing (loss) income from continuing operations available to common shareholders, (loss) income from discontinued operations, cumulative effect of change in accounting principle, and net (loss) income available to common shareholders, by the weighted average common shares outstanding for each period. (Loss) income from continuing operations available to common shareholders for each period includes (loss) income from continuing operations less accretion of mandatorily redeemable preferred stock and dividend requirements on preferred stock held by AT&T. Weighted average common shares outstanding for the three and nine months ended September 30, 2001, assume that all of the shares outstanding effective with the split-off, including the 406 million common share equivalents issued to NTT DoCoMo Inc. (DoCoMo) in January 2001, were outstanding for those periods.

Diluted EPS for AT&T Wireless Services has been computed by dividing (loss) income from continuing operations available to common shareholders, (loss) income from discontinued operations, cumulative effect of change in accounting principle, and net (loss) income available to common shareholders, by the weighted average common shares outstanding for each period, plus the effect of dilutive stock options, with the exception of the three and nine months ended September 30, 2002, as the effect of stock options was considered to be anti-dilutive. The dilutive effect of stock options for both the three and nine months ended September 30, 2001, was 2 million. The effect of dilutive stock options was determined under the treasury stock method. As of September 30, 2002 and 2001, there were 218 million and 171 million, respectively, of AT&T Wireless Services common stock options outstanding as well as the 41.7 million common stock warrants issued to DoCoMo in January 2001, that were anti-dilutive, and therefore were not included in the calculation of diluted EPS.

**(f) TELECORP PCS, INC. ACQUISITION**

On February 15, 2002, AT&T Wireless Services acquired the remaining 77% of TeleCorp PCS, Inc. (TeleCorp) that it did not previously own. The results of TeleCorp have been included in the consolidated condensed financial statements of AT&T Wireless Services since that date. As a result of the closing of the acquisition, AT&T Wireless Services no longer treats its previously owned interest in TeleCorp as an equity method investment. The purchase of TeleCorp was consistent with AT&T Wireless Services

**Table of Contents**

strategy to expand its footprint in major markets in North America through acquisitions of wireless carriers where there were opportunities to improve operating results. TeleCorp provided wireless voice services, through 1900 megahertz licenses in portions of the Midwestern and Southeastern United States, which complemented AT&T Wireless Services' footprint of licenses and service territory in the United States.

The acquisition of TeleCorp is being accounted for in accordance with SFAS No. 141, Business Combinations. The aggregate purchase price totaled \$2,414 including \$2,266 of AT&T Wireless Services common stock issued (146 million shares), \$133 of AT&T Wireless Services mandatorily redeemable preferred stock issued (233 thousand shares), and \$15 in cash. In addition, 46 million common shares were issued to a consolidated subsidiary of AT&T Wireless Services that owned shares of TeleCorp. These treasury shares were retired during the second quarter of 2002. AT&T Wireless Services also assumed a fair value of \$2,756 in debt. The fair value of the 146 million common shares issued was determined based upon the average market price of AT&T Wireless Services common stock over the 5-day trading period before and after the terms of the acquisition were agreed to and announced. The fair value of the mandatorily redeemable preferred stock issued was based upon the present value of future discounted cash flows as of the acquisition date.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. AT&T Wireless Services may make further refinements to the allocation of the purchase price for licensing costs, goodwill, customer lists, and operating accruals, including severance-related costs, in future periods.

Current assets	\$405
Property, plant and equipment	1,000
Licensing costs	1,977
Goodwill	2,465
Customer lists	94
Long-term deferred tax asset	106
Other non-current assets	7
<hr/>	
Total assets acquired	6,054
Current liabilities	412
Long-term debt	2,756
Other long-term liabilities	12
<hr/>	
Total liabilities assumed	3,180
Other consideration	(460)

---

Net assets acquired  
\$2,414

---

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, goodwill and licensing costs related to TeleCorp will not be amortized. Instead, AT&T Wireless Services tested these items for impairment as part of its annual impairment test of total consolidated goodwill and total consolidated licensing costs in the third quarter of 2002. See Notes (b) and (c). None of the goodwill recorded is deductible for tax purposes. Customer lists are being amortized over five years using a straight-line basis. Other consideration associated with the acquisition included the following items: (1) \$208 of AT&T Wireless Services non-consolidated investment balance which represented its 23% ownership interest in TeleCorp immediately prior to the acquisition; (2) \$318 of notes receivable made to TeleCorp, including \$100 made in January 2002, which, subsequent to the acquisition, were terminated; and (3) elimination of AT&T Wireless Services long-term and short-term liabilities totaling \$66 associated with deferred brand revenue from TeleCorp which existed prior to the acquisition.

The following unaudited pro forma consolidated results of operations for the nine months ended September 30, 2002 and the three and nine months ended September 30, 2001, assume the TeleCorp acquisition had been completed on January 1, 2001:

	<b>For the Three Months Ended September 30,</b>	<b>For the Nine Months Ended September 30,</b>	
	<b>2001</b>	<b>2002</b>	<b>2001</b>
Revenue	\$ 3,664	\$ 11,669	\$ 10,506
Income (loss) from continuing operations			
\$84 \$(2,110) \$334			
Income (loss) from continuing operations available to common shareholders per share basic and diluted			
\$0.03 \$(0.79) \$0.09			
Net income (loss) available to common shareholders			
\$ \$(2,166) \$28			
Net income (loss) available to common shareholders per share basic and diluted			
\$ \$(0.80) \$0.01			



**Table of Contents**

In conjunction with AT&T Wireless Services' acquisition of TeleCorp, DoCoMo exercised its preemptive rights to acquire the maximum number of shares to which it was entitled to, pursuant to the Investor Agreement between AT&T Wireless Services and DoCoMo. As a result, AT&T Wireless Services issued 26.7 million shares to DoCoMo in February 2002 and recorded cash proceeds of \$382.

**(g) OTHER ACQUISITIONS**

On April 1, 2002, AT&T Wireless Services completed its acquisition of the remaining 49% minority interest in the Philadelphia market owned by Exelon Corp. for \$285 in cash. In addition, during the first quarter of 2002, Exelon Corp. made a capital contribution of demand notes in the net amount of \$85 payable by AT&T Wireless Services to Exelon Corp., resulting in AT&T Wireless Services' due on demand notes payable being reclassified to minority interest as an equity contribution during the first quarter of 2002. The acquisition of the remaining 49% interest was treated as a step-acquisition, in accordance with SFAS No. 141, Business Combinations. The following table summarizes the estimated fair value step-up for the 49% of the assets acquired as of the date of the acquisition. Other consideration includes the reduction of the minority interest liability previously recorded by AT&T Wireless Services as this market was consolidated by AT&T Wireless Services prior to the acquisition of the remaining 49% interest.

Licensing costs	\$ 170
Customer lists	31
<hr/>	
Total assets acquired	\$201
Other consideration	84
<hr/>	
Net assets acquired	\$285
<hr/>	

**(h) INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES**

On July 25, 2002 AT&T Wireless Services and Triton PCS, Inc. signed an agreement pursuant to which AT&T Wireless Services has agreed to sell certain wireless licenses in Norfolk, Richmond and Roanoke, Virginia to Triton PCS, Inc. for \$65 in cash. AT&T Wireless Services owns approximately 16% of Triton PCS, Inc. The transaction, which is subject to certain conditions and regulatory approvals, is expected to close in the fourth quarter of 2002. AT&T Wireless Services expects to recognize a pre-tax gain of approximately \$35 upon closing of the sale.

During the first quarter of 2002, AT&T Wireless Services advanced an aggregate of \$251 to Cascade Wireless, LLC (Cascade), an entity in which AT&T Wireless Services owns a significant equity interest, but is controlled by Wayne Perry, who at that time was one of AT&T Wireless Services' board members. AT&T Wireless Services made the advance pursuant to contractual obligations entered into prior to Mr. Perry joining AT&T Wireless Services' board of directors. Cascade used these proceeds to finance the acquisition from third parties of licensed spectrum that AT&T Wireless Services was not eligible to own, as well as to fund operating requirements of Cascade. AT&T Wireless Services has entered into roaming and other agreements with Cascade, which allow AT&T Wireless Services' subscribers to roam in markets operated by Cascade.

See Note (c) for discussion on impairment charges recognized by AT&T Wireless Services' unconsolidated subsidiaries.

**(i) LONG-TERM DEBT**

## Edgar Filing: AT&T WIRELESS SERVICES INC - Form 10-Q

Additions to long-term debt due to others during the nine months ended September 30, 2002, consisted of the following:

### *AT&T Wireless Services Senior Notes:*

On April 16, 2002, AT&T Wireless Services completed a registered public offering of \$3.0 billion of Senior Notes. The Senior Notes are unsecured, ranking equally with AT&T Wireless Services' other unsecured indebtedness, with \$250 maturing on April 18, 2005, \$750 maturing on May 1, 2007, and \$2.0 billion maturing on May 1, 2012. The notes pay interest semiannually at fixed rates ranging from 6.875% to 8.125% per annum and include customary covenants. AT&T Wireless Services had \$59 and \$107 of interest expense associated with these notes for the three and nine months ended September 30, 2002, respectively.

### *TeleCorp Wireless, Inc. 10 5/8% Senior Subordinated Notes:*

In conjunction with the acquisition of TeleCorp, AT&T Wireless Services assumed the debt of TeleCorp's subsidiary, TeleCorp Wireless, Inc., and recorded this debt at its fair value as of the date of the TeleCorp acquisition. As of September 30, 2002, AT&T

**Table of Contents**

Wireless Services consolidated condensed balance sheet included \$318 of TeleCorp Wireless, Inc. 10 5/8% Senior Subordinated Notes, which reflected the repayment of the 35% redeemed during the second quarter of 2002. The notes have an aggregate principal amount of \$292 and mature on July 15, 2010, unless previously redeemed by TeleCorp Wireless, Inc. The notes pay interest semiannually and require compliance with customary financial covenants. The notes are guaranteed by AT&T Wireless Services and TeleCorp Wireless, Inc.'s wholly owned subsidiary, TeleCorp Communications, Inc. The notes are subject to optional redemption on or after July 15, 2005. In April 2002, TeleCorp Wireless, Inc. exercised its option to redeem 35%, or \$158 in aggregate principal amount at maturity of the TeleCorp Wireless, Inc. 10 5/8% Senior Subordinated Notes for \$174, in accordance with the early redemption provisions of the indenture. This redemption occurred in May 2002 with cash balances of TeleCorp Wireless, Inc., which were received from AT&T Wireless Services' purchase of additional equity in TeleCorp Wireless, Inc.

*TeleCorp Wireless, Inc. 11 5/8% Senior Subordinated Discount Notes:*

In conjunction with the acquisition of TeleCorp, AT&T Wireless Services assumed the debt of TeleCorp's subsidiary, TeleCorp Wireless, Inc. and recorded this debt at its fair value as of the date of the TeleCorp acquisition. As of September 30, 2002, AT&T Wireless Services consolidated condensed balance sheet included \$336 of TeleCorp Wireless, Inc. 11 5/8% Senior Subordinated Discount Notes, which reflected the repayment of the 35% redeemed during the second quarter of 2002. The notes have an aggregate principal amount at maturity of \$374 and mature on April 15, 2009, unless previously redeemed by TeleCorp Wireless, Inc. As interest accrues, it is added to the principal as an increase to interest expense and the carrying value of the notes until April 15, 2004. TeleCorp Wireless, Inc. will begin paying interest semiannually beginning October 15, 2004. The notes require compliance with customary financial covenants. The notes are guaranteed by AT&T Wireless Services and TeleCorp Wireless, Inc.'s wholly owned subsidiary, TeleCorp Communications, Inc. The notes are subject to optional redemption on or after April 15, 2004. In March 2002, TeleCorp Wireless, Inc. exercised its option to redeem 35%, or \$201 in aggregate principal amount at maturity of the TeleCorp Wireless, Inc. outstanding notes for \$179, in accordance with the early redemption provisions of the indenture. This redemption occurred in April 2002 with cash balances of TeleCorp Wireless, Inc., which were received from AT&T Wireless Services' purchase of additional equity in TeleCorp Wireless, Inc.

*Tritel PCS, Inc. 10 3/8% Senior Subordinated Notes:*

In conjunction with the acquisition of TeleCorp, AT&T Wireless Services assumed the debt of TeleCorp's subsidiary, Tritel PCS, Inc. and recorded this debt at its fair value as of the date of the TeleCorp acquisition. As of September 30, 2002, AT&T Wireless Services consolidated condensed balance sheet included \$318 of Tritel PCS, Inc. 10 3/8% Senior Subordinated Notes, which reflected the repayment of the 35% redeemed during the second quarter of 2002. The notes have an aggregate principal amount at maturity of \$292 and mature on January 15, 2011, unless previously redeemed by Tritel PCS, Inc. The notes pay interest semiannually and require compliance with customary financial covenants. The notes are guaranteed by AT&T Wireless Services, Tritel, Inc. (Tritel PCS, Inc.'s parent company), and by Tritel PCS, Inc.'s wholly owned subsidiaries Tritel Communications, Inc. and Tritel Finance, Inc. The notes are subject to optional redemption on or after January 15, 2006. In April 2002, Tritel PCS, Inc. exercised its option to redeem 35%, or \$158 in aggregate principal amount at maturity, of the Tritel PCS, Inc. 10 3/8% Senior Subordinated Notes for \$174, in accordance with the early redemption provisions of the indenture. This redemption occurred in May 2002 with cash balances of Tritel PCS, Inc., which were received from AT&T Wireless Services' purchase of additional equity in Tritel PCS, Inc.

*Tritel PCS, Inc. 12 3/4% Senior Subordinated Discount Notes:*

In conjunction with the acquisition of TeleCorp, AT&T Wireless Services assumed the debt of TeleCorp's subsidiary, Tritel PCS, Inc. and recorded this debt at its fair value as of the date of the TeleCorp acquisition. As of September 30, 2002, AT&T Wireless Services consolidated condensed balance sheet included \$218 of Tritel PCS, Inc. 12 3/4% Senior Subordinated Discount Notes, which reflected the repayment of the 35% redeemed during the second quarter of 2002. The notes have an aggregate principal amount of \$242 and mature on May 15, 2009, unless previously redeemed by Tritel PCS, Inc. As interest accrues, it is added to the principal as an increase to interest expense and the carrying value of the notes until May 15, 2004. Tritel PCS, Inc. will begin paying interest semiannually on November 15, 2004. The notes require compliance with customary financial covenants. The notes are guaranteed by AT&T Wireless Services, Tritel, Inc. (Tritel PCS, Inc.'s parent company), and by Tritel PCS, Inc.'s wholly owned subsidiaries Tritel Communications, Inc. and Tritel Finance, Inc. The notes are subject to optional redemption on or after May 15, 2004. In April 2002, Tritel PCS, Inc. exercised its option to redeem 35%, or \$130 in aggregate principal amount at maturity of the Tritel PCS, Inc. 12 3/4% Senior Subordinated Discount Notes for \$115, in accordance with the early redemption provisions of the indenture. This redemption occurred in May 2002 with cash balances of Tritel PCS, Inc., which were received from AT&T Wireless Services' purchase of additional equity in Tritel PCS, Inc.

**Table of Contents**

On May 10, 2002, AT&T Wireless Services guaranteed the repayment of the interest and principal of the TeleCorp Wireless, Inc. and Tritel PCS, Inc. senior subordinated obligations in the event of default. This guarantee ranks pari passu with the senior unsecured obligations of AT&T Wireless Services.

Both TeleCorp Wireless, Inc. and Tritel PCS, Inc. are consolidated operating subsidiaries of AT&T Wireless Services. Provisions of the notes, described above, limit the use of cash and cash equivalents of each subsidiary to the operations of the subsidiary. At September 30, 2002, Cash and cash equivalents on AT&T Wireless Services consolidated condensed balance sheet included a combined \$157 of cash and cash equivalents that are held by TeleCorp Wireless, Inc. and Tritel PCS, Inc.

*Hedged portion of Long-term debt:*

In accordance with the requirements of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, the portion of AT&T Wireless Services fixed rate long-term debt due to others that is hedged is reflected in the consolidated condensed balance sheet as an amount equal to the sum of the debt's carrying value plus a SFAS No. 133 fair value adjustment representing changes recorded in the fair value of the hedged debt obligations attributable to movements in market interest rates. At September 30, 2002, the SFAS No. 133 fair value adjustment included in AT&T Wireless Services long-term debt due to others was \$234. This fair value adjustment was recorded as an increase to long-term debt, with the related value for the interest rate swaps non-current portion recorded in other non-current assets.

*Repayments of Long-term debt:*

In addition to the TeleCorp Wireless, Inc. and Tritel PCS, Inc. Senior Subordinated Notes and Senior Subordinated Discount Notes, AT&T Wireless Services assumed debt of TeleCorp Wireless, Inc. and Tritel PCS, Inc. related to their Senior Credit Facilities, vendor financings and Federal Communications Commission debt. In February 2002, subsequent to the acquisition of TeleCorp, AT&T Wireless Services, Inc. purchased additional equity in TeleCorp. TeleCorp contributed \$955 in total to TeleCorp Wireless, Inc. and Tritel PCS, Inc. The contributions were subsequently utilized by TeleCorp Wireless, Inc. and Tritel PCS, Inc. to repay all amounts outstanding, including principal, interest and related fees, under their Senior Credit Facilities and Federal Communications Commission debt. TeleCorp Wireless, Inc. and Tritel PCS, Inc. repaid approximately \$20 associated with the cancellation of interest rate swap agreements. In addition, AT&T Wireless Services repaid \$53 of outstanding principal and interest of vendor financings owed by TeleCorp Wireless, Inc.

*Accounts Receivable Securitization program:*

On March 1, 2002, AT&T Wireless Services initiated a three-year accounts receivable securitization program. The program will allow for up to \$1.2 billion of financing, to be collateralized by subscriber trade accounts receivable. Under the program, AT&T Wireless Services can assign subscriber trade accounts receivable on a revolving basis to a special-purpose, wholly owned subsidiary of AT&T Wireless Services. The wholly owned subsidiary of AT&T Wireless Services would then sell an undivided interest in such receivables to an unrelated third-party financing entity. The financing is subject to program fees, payable monthly, including fees based on the outstanding borrowed amount. This financing arrangement is to be used for general corporate purposes, is subject to customary securitization covenants and will be recorded as an on-balance sheet transaction. Included in the covenants are provisions for the termination of the program in the event that AT&T Wireless Services unsecured Senior Notes are rated BB by Standard & Poor's or Ba2 by Moody's. No amounts had been borrowed under the accounts receivable securitization program as of September 30, 2002.

*Renewal of Credit Facility:*

On March 19, 2002, AT&T Wireless Services renewed its \$1.25 billion 364-day Competitive Advance and Revolving Credit Facility. There were no material revisions to the original terms of the credit facility except for a collateral increase of \$500 to allow for the accounts receivable securitization program noted above. No amounts had been borrowed under the facility as of September 30, 2002.

(j) **DERIVATIVE FINANCIAL INSTRUMENTS**

As of September 30, 2002, AT&T Wireless Services had entered into interest rate swaps with a total notional value of \$2.8 billion. On a semiannual basis, AT&T Wireless Services pays a floating rate of interest equal to the six month LIBOR plus a fixed spread and receives a fixed rate in return ranging from 6.875% to 8.125%. The swaps were entered into as hedges of the fair value of \$1.0 billion

**Table of Contents**

of the 7.35% Senior Notes due March 2006, \$250 of the 6.875% Senior Notes due April 2005, \$750 of the 7.5% Senior Notes due May 2007, and \$800 of the 8.125% Senior Notes due May 2012, and expire on the notes' respective maturity dates. The terms of the swap agreements and hedged items are such that effectiveness can be measured using the short-cut method defined in SFAS No. 133. Hedge ineffectiveness, as determined in accordance with SFAS No. 133, had no impact on AT&T Wireless Services' results of operations for the three and nine months ended September 30, 2002. No fair value hedges were derecognized or discontinued during the three and nine months ended September 30, 2002.

(k) COMMITMENTS

During the first quarter of 2002, AT&T Wireless Services funded \$251 to Cascade Wireless, LLC for spectrum acquisitions and operational funding requirements, fully satisfying its commitment.

AT&T Wireless Services has various purchase commitments for network equipment as well as handsets related to the development of its next-generation strategy. Those commitments totaled \$1.4 billion as of September 30, 2002, with payments to be made between 2002 and 2004. Subsequent to September 30, 2002, AT&T Wireless Services entered into additional purchase commitments for network equipment and services totaling \$227, with payments to be made between 2002 and 2003.

Pursuant to the Investor Agreement, as amended, between AT&T Wireless Services, AT&T Corp. and DoCoMo, DoCoMo may require AT&T Wireless Services to repurchase its investment at DoCoMo's original purchase price, plus interest, if under certain circumstances, and subject to the exceptions identified in the Investor Agreement:

AT&T Wireless Services fails to launch services based on W-CDMA technology in 13 of the top 50 wireless markets in the United States (as defined by reference to Basic Trading Areas listed in the Investor Agreement) prior to June 30, 2004; or

AT&T Wireless Services' Board of Directors approves changes in its use of W-CDMA technology as its primary standard for delivery of services based on third-generation technology prior to June 30, 2004.

During November 2000, AT&T Wireless Services joined with others in the formation of a venture, Alaska Native Wireless (ANW), which participated in the Federal Communication Commission's (FCC) Auction 35 of licensed spectrum in the 1900 megahertz band. In early 2001, the auction was completed, and ANW was the high bidder on approximately \$2.9 billion in licenses. On March 4, 2002, the FCC granted to ANW some of the licenses on which it was the high bidder, which required the payment of \$90 by ANW, which was funded by AT&T Wireless Services during the first quarter of 2002. As of September 30, 2002, AT&T Wireless Services had committed to fund \$2.6 billion for ANW's purchase of the remaining licenses, if granted, and had provided approximately \$400 toward this commitment to ANW through a combination of a non-controlling equity interest and debt securities of ANW. As of September 30, 2002, the other owners of ANW had the right to require AT&T Wireless Services to purchase their equity interests in ANW in March 2007. If exercised at that time the purchase price could have been as much as \$1.1 billion. As of September 30, 2002, AT&T Wireless Services had recognized approximately \$121 related to this potential obligation. See Note (n) for further information regarding revision of this right.

In June 2001, the federal appeals court for the D.C. Circuit ruled that the FCC had acted improperly in rescinding the licenses held by NextWave Telecom, Inc. and its affiliates (NextWave), which constituted most of the spectrum licenses offered in Auction 35. In August 2001, the FCC returned the licenses to NextWave, and on April 29, 2002, the FCC refunded \$473 to ANW, which was a portion of the down payment previously submitted for licenses on which ANW was the high bidder. The return of spectrum to NextWave, and the accompanying refund to ANW, did not affect the status of the non-NextWave licenses that the FCC granted to ANW on March 4, 2002. The U.S. Supreme Court agreed to hear the FCC's appeal of the D.C. Circuit Court ruling, and oral argument of such appeal was held on October 8, 2002. As of the date of this report, the Supreme Court had not issued a decision.

On September 12, 2002, the FCC solicited public comments on two proposals for the disposition of down payments and pending applications for the NextWave licenses that were offered in Auction 35. The proposals would allow the winning bidders in the auction to obtain a full refund of down payments, and a dismissal of pending applications, for some or all of the NextWave licenses. The public comment cycle concluded on October 21, 2002. The FCC had not announced its decision as of the date of this report. If either of the proposals is adopted, and ANW elects to dismiss its pending license applications, then AT&T Wireless Services would be relieved of its commitment to fund the balance of the license payments otherwise due in respect of any such dismissed applications. The amended ANW charter documents reflect that ANW's controlling owner has determined that it is in ANW's best interest to opt-out of Auction 35, and that it will do so if that opportunity becomes available without material cost or penalty.

**Table of Contents**

In conjunction with the split-off from AT&T, AT&T Wireless Services entered into a Master Carrier Agreement with AT&T to purchase certain voice and data telecommunications services. Under the Master Carrier Agreement, AT&T Wireless Services is required to purchase wholesale long-distance services it provides to its customers in an amount equal to its 2001 actual minutes of use for each of five years, beginning with the date of split-off. AT&T Wireless Services is required to pay AT&T any shortfall in cumulative usage at the rate of \$0.01 per minute at the end of the five-year period. AT&T Wireless Services' maximum remaining commitment as of September 30, 2002, was approximately \$404. AT&T Wireless Services is also required to purchase long-distance services associated with its administrative phone usage equal to \$70 for each of three years following the split-off. As of September 30, 2002, AT&T Wireless Services had fulfilled all of the first year's commitment and approximately \$18 of the second year's commitment under the agreement. In addition, AT&T Wireless Services is required to purchase certain network data services from AT&T in an amount equal to \$41 for each of the three years following the split-off. AT&T Wireless Services had fulfilled all of the first year's data commitment and approximately \$18 of the second year's data commitment under the agreement as of September 30, 2002.

AT&T Wireless Services has commitments with local exchange carriers for dedicated leased lines. The original terms of these commitments vary from month-to-month up to five years. AT&T Wireless Services incurred approximately \$105 and \$310 during the three and nine months ended September 30, 2002, respectively, related to these dedicated transport commitments.

AT&T Wireless Services has agreements with other wireless carriers regarding subscriber activity on other carriers' wireless systems. These agreements establish general terms and charges for system usage, and in some cases also establish minimum usage requirements.

AT&T Wireless Services also has various other purchase commitments for materials, supplies and other items incidental to the ordinary course of business, which are not material individually, nor in the aggregate. In addition, AT&T Wireless Services has material commitments associated with leases of land, buildings, and equipment.

(I) CONTINGENCIES

Several class action lawsuits have been filed in which claims have been asserted that challenge the quality of wireless service provided by AT&T Wireless Services, including claims for breach of contract, breach of warranty, misrepresentation, fraud, false advertising, and statutory consumer fraud. The plaintiffs in these cases have not asserted specific claims for damages, with the exception of one case filed in Texas in which the named plaintiffs have asserted claims for compensatory and punitive damages totaling \$100. That case was dismissed, although an appeal is pending and another case in Texas remains pending. An agreement has been reached to settle certain of these cases, although the agreement has not received court approval.

Several class action lawsuits have been filed asserting claims that AT&T Wireless Services, together with its competitors, have violated federal antitrust laws by allegedly restricting the portability of wireless handsets between carriers. These cases include tying, monopolization, and market allocation claims. The plaintiffs in these cases have not asserted specific claims for damages.

Several other class action or representative lawsuits have been filed against AT&T Wireless Services that allege, depending on the case, breach of contract, misrepresentation or unfair practice claims relating to AT&T Wireless Services billing practices (including rounding up of partial minutes of use to full minute increments and billing send to end), dropped calls, and/or mistaken bills. Although the plaintiffs in these cases have not specified alleged damages, the damages in two of the cases are alleged to exceed \$100. One of these two cases has alleged that, collectively, the major wireless carriers in California are responsible for damages in excess of \$1.2 billion. Settlement negotiations are ongoing in both cases.

Several class actions have been filed against AT&T and several wireless phone manufacturers and carriers, asserting products liability, breach of warranty and other claims relating to radio frequency transmissions to and from wireless phones. The complaints seek damages for the costs of headsets for wireless phone users as well as injunctive relief. In connection with the split-off, AT&T Wireless Services was allocated all of the liability, if any, arising from these lawsuits.

Stockholders of a former competitor of AT&T Wireless Services' air-to-ground business are plaintiffs in a lawsuit filed in 1993, alleging that AT&T Wireless Services breached a confidentiality agreement, used trade secrets to unfairly compete, and tortiously interfered with the business and potential business of the competitor. Plaintiffs have asserted claims for damages totaling \$8.2 billion. AT&T Wireless Services obtained partial summary judgment and then prevailed on the remainder of the claims at a trial on the validity of a release of plaintiffs' claims. Final judgment was entered against plaintiffs on their claims, and plaintiffs appealed. On

**Table of Contents**

appeal, the Appellate Court of Illinois, Second District, reversed and remanded the case for trial indicating that certain issues decided by the judge needed to be resolved by a jury.

Several lawsuits have been filed against AT&T, certain executives of AT&T and AT&T Wireless Services and a group of investment banking firms, seeking class certification and asserting claims under federal securities laws. The complaints assert claims that AT&T made material misstatements concerning earnings and financial condition, while omitting other material information, allegedly to maximize proceeds from the offering of AT&T Wireless Group tracking stock in April 2000 and/or to avoid paying a cash guarantee in connection with the MediaOne acquisition. The complaints do not specify amounts of damages claimed, although the plaintiffs are seeking to recover for declines in stock prices of AT&T securities, including the AT&T Wireless Group tracking stock. In connection with the split-off, certain provisions of the Separation Agreement between AT&T Wireless Services and AT&T Corp. may result in AT&T Wireless Services being allocated a portion of the liabilities, if any, arising out of these actions to the extent relating to AT&T Wireless Group tracking stock.

A lawsuit has been filed challenging AT&T Wireless Services involvement with Alaska Native Wireless LLC in connection with the auction of PCS spectrum licenses in FCC Auction 35. The complaint alleges claims of unfair business practices and interference with economic advantage, and alleges that Alaska Native Wireless is controlled by AT&T Wireless Services and therefore did not properly qualify as a designated entity under FCC requirements for bidding in the auction. The complaint does not seek to invalidate any licenses granted to Alaska Native Wireless in the auction, but seeks remedies of disgorgement and restitution of at least \$380 and punitive damages of \$677. The court dismissed the plaintiff's claims in their entirety, and the plaintiff has appealed.

Several class action lawsuits have been filed by shareholders of TeleCorp, challenging AT&T Wireless Services acquisition of TeleCorp (see Note (f)). The lawsuits allege that the consideration paid to TeleCorp shareholders was inadequate and allege conflicts of interest and breach of fiduciary duties by the directors of TeleCorp. Damages have not been specified, although the complaints seek injunctive relief to rescind the transaction.

A former employee and stockholder of Tritel, Inc., which, as a subsidiary of TeleCorp, was acquired by AT&T Wireless Services as part of its acquisition of TeleCorp, has filed a lawsuit against Tritel, Inc., Tritel Communications, Inc. and two board members seeking to rescind an earlier settlement agreement. The plaintiff alleges that the defendants withheld from him material information about an initial public offering that he claims was material to the settlement, and asserts claims for fraud, breach of fiduciary duty, and breach of the duty of good faith and fair dealing. The plaintiff is seeking \$60 in damages and/or restitution, and \$450 in punitive damages.

In the past several months, AT&T Wireless Services has received a series of payments from MCI WorldCom Network Services, Inc., as part of a pre-existing reseller's contract and a letter agreement. WorldCom filed for bankruptcy under Chapter 11 of the Bankruptcy Code on July 21, 2002. Neither WorldCom nor the Bankruptcy Court has asserted a preference liability claim to any of these payments.

The ultimate outcome of these claims and actions cannot be predicted with certainty, and accordingly, the aggregate ultimate liability of AT&T Wireless Services under these claims and actions was not determinable at September 30, 2002. It is the opinion of AT&T Wireless Services management that it is not probable that the resolution of such lawsuits will have a material adverse impact on AT&T Wireless Services consolidated condensed financial statements.

AT&T Wireless Services also is a defendant in other legal actions involving claims incidental to the normal conduct of the running of its business. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Additionally, AT&T Wireless Services also makes routine filings with the FCC and state regulatory authorities, as well as state and local tax regulatory authorities. However, AT&T Wireless Services believes that the amounts that may be paid in these actions will not be material to its financial position, or to its results of operations or cash flows.

(m) **RECENT ACCOUNTING PRONOUNCEMENTS**

In July 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. This statement provides accounting and reporting standards for costs associated with the retirement of long-lived assets. This statement requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the estimated useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. AT&T Wireless Services will be required to adopt this statement no later than January 1, 2003. AT&T Wireless Services is currently assessing the impact of this statement on its results of operations, financial position and cash flows.

**Table of Contents**

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). This statement requires that a liability for a cost associated with an exit or disposal activity be recognized at fair value when the liability is incurred. AT&T Wireless Services will be required to adopt this statement no later than January 1, 2003. AT&T Wireless Services is currently assessing the impact of this statement on its results of operations, financial position and cash flows.

(n) **SUBSEQUENT EVENTS**

On October 24, 2002, AT&T Wireless Services signed a non-binding letter of intent with a subsidiary of Dobson to transfer AT&T Wireless Services' ownership interests in the Anchorage, Alaska Metropolitan Service Area (MSA) and Alaska Rural Service Area (RSA) No. 2 markets, which includes a population of over 430 thousand. In addition, AT&T Wireless Services will transfer its shares of Dobson Series AA preferred stock, which AT&T Wireless Services purchased in February 2001, to Dobson. In exchange, AT&T Wireless Services will receive Dobson's ownership interests in the Santa Cruz, California MSA and California RSA No. 4 markets, which includes a population of over 640 thousand. The transaction remains subject to the execution of definitive agreements, final corporate approvals, federal regulatory approvals and certain other conditions.

On November 11, 2002, AT&T Wireless Services and the other owners of ANW amended the terms of the venture. Pursuant to the revised agreements:

ANW has agreed to make a prepayment of indebtedness owing to AT&T Wireless Services in the amount of \$98;

Upon the earlier of April 30, 2003, or ANW being relieved from any further obligations to the FCC with respect to Auction 35, AT&T Wireless Services will pay \$229 to the other owners of ANW and ANW will distribute certain amounts previously invested in ANW, resulting in distributions of \$144 to AT&T Wireless Services and \$233 to the other owners of ANW;

In March 2007, the other owners of ANW may elect to require AT&T Wireless Services to purchase their interests in ANW for an aggregate of \$145, whether or not ANW is granted the Auction 35 licenses. Under certain circumstances, this right may be exercised earlier, in which case the amount payable would be reduced by 5% per annum; and

AT&T Wireless Services has agreed to fund ANW's remaining purchase price for the NextWave licenses of \$2.8 billion, if the NextWave licenses are granted to ANW.

AT&T Wireless Services anticipates taking a charge of approximately \$108 in the fourth quarter of 2002 to reflect the difference between amounts accrued for its potential obligation to acquire the other owners' interests under the original terms of the venture and its current obligation associated with this amendment.



**Table of Contents**

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis in conjunction with the consolidated condensed financial statements and accompanying notes included elsewhere in this report. Except for the historical information, the following discussion contains forward-looking statements that involve risks and uncertainties, such as our objectives, expectations and intentions. Actual results could differ materially from results that may be anticipated by such forward-looking statements and discussed elsewhere in this report. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section below, and those discussed under "Additional Factors That May Affect Our Business, Future Operating Results and Financial Condition." Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. We undertake no obligation to revise any forward-looking statements in order to reflect events or circumstances that may subsequently arise. Readers are urged to carefully review and consider the various disclosures made in this report and in our other filings made with the Securities and Exchange Commission that attempt to advise interested parties of the risks and factors that may affect our business, prospects and results of operations. We make our periodic and current reports available, free of charge, on our website as soon as reasonably practicable after such material is electronically filed with the Commission.

OVERVIEW

We are one of the largest wireless communications service providers in the U.S. We seek to expand our customer base and revenue stream by providing high-quality, innovative wireless services. As of September 30, 2002, we had 20.2 million consolidated subscribers. For the nine months ended September 30, 2002, we had \$11.6 billion of total consolidated revenues.

As of September 30, 2002, we and our affiliates held 850 megahertz and 1900 megahertz licenses to provide wireless services covering approximately 99% of the U.S. population. At the same date, we and our affiliates were providing service in markets including approximately 79% of the U.S. population and in all 50 of the largest U.S. metropolitan areas. We supplement our operations with roaming agreements that allow our subscribers to use other providers' networks, including those of our affiliates, in markets not served by our networks. With these roaming agreements, we are able to offer customers wireless services covering over 95% of the U.S. population. We intend to expand our networks to enable us to provide service directly through our own network in markets covering approximately 75% of the U.S. population, and to continue to increase the quality of our services in those markets, principally through new network construction.

We currently provide voice services principally over our network which uses time division multiple access, or TDMA, as its signal transmission technology. Through the third quarter of 2002, we also continued to deploy, as an overlay over our TDMA network, a separate network using signal transmission technology known as global system for mobile communications, or GSM, and general packet radio service, or GPRS. Our GSM/GPRS network is capable of carrying voice and data traffic. We have deployed our GSM/GPRS network in markets representing almost 174 million people, which includes all of our pre-TeleCorp footprint. With the inauguration of GSM/GPRS service in New York and San Francisco in October 2002, we now have commercial GSM/GPRS service in 64 of the nation's top 100 markets. We are currently offering GSM/GPRS services in selected areas representing approximately 85% of the areas where we are currently providing services on our TDMA network. We have begun the effort to deploy our GSM/GPRS network over essentially all of the areas where we are currently providing services on TeleCorp's TDMA network, which we expect to be completed by mid 2003. Combining our GSM network with our GSM roaming arrangements, we are currently able to offer our customers GSM services covering approximately 63% of the U.S. population.

SUMMARY OF FINANCIAL PERFORMANCE

Services revenue for the third quarter was \$3,765 million, a 16.2% or \$526 million increase from the third quarter of 2001, primarily as a result of growth in the subscriber base, including the subscribers associated with our acquisition of TeleCorp. Services revenue increased 3.9% sequentially from the second quarter of 2002. Our average revenue per user per month (ARPU) of \$61.60 declined 3.1% from the prior year quarter but grew 2.0% sequentially compared to second quarter 2002. The year-over-year decrease in ARPU reflected competitive pricing pressures and the impact of migrating existing customers to more optimal calling plans, resulting in less minute overage fees than in their previous rate plans. The sequential increase in ARPU was a result of seasonally higher roaming revenue, fewer lower-ARPU reseller subscribers in the subscriber base resulting from deactivations associated with WorldCom's exit from the reseller business, pricing actions and the impact of emerging revenue sources such as two-way messaging (SMS) and international roaming. Minutes of use (MOUs) per subscriber increased to 484 average minutes per subscriber per month for the third quarter of 2002, up from 482 and 389 MOUs per subscriber per month during the second quarter of 2002 and third quarter of 2001, respectively. This increase was generally due to subscribers' continued shift toward calling plans with higher buckets of minutes and higher roaming minutes. Going forward, we expect a continued competitive pricing environment, combined with the

**Table of Contents**

ongoing impacts of a soft economy, to exert downward pressure on ARPU, which we expect will be at least partially offset by revenue enhancement initiatives, incremental revenue sources, and increased MOUs per subscriber.

Cash cost per user (CCPU) declined to \$32.50 for the third quarter of 2002, or 1.5% below the prior year quarter. The decline in our CCPU was driven by a lower provision for uncollectible receivables and decreased per-subscriber roaming expenses. Specifically, bad debt as a percentage of services revenue improved by 1.5 percentage points compared to the third quarter of the prior year while roaming expenses declined as a percentage of services revenue to less than 10% in the third quarter. Partially offsetting these declines were increases in per-subscriber network expenses associated with the growth in MOUs as well as transition costs related to migrating WorldCom reseller customers within the quarter. Incremental operating expenses associated with the launch of our GSM/GPRS network, will result in short-term diseconomies of scale, which would adversely impact CCPU. As the number of subscribers on the GSM/GPRS network grows, increased utilization should reduce the diseconomies of scale and reduce network costs per user.

EBITDA (defined as operating (loss) income excluding depreciation and amortization) for the three and nine months ended September 30, 2002 was a loss of \$259 million and income of \$1,580 million, respectively. The decline was due to the \$1.3 billion pre-tax impairment of licensing costs. EBITDA, excluding the pre-tax impairment of licensing costs (see Reconciliation of EBITDA, excluding the licensing costs impairment, to consolidated net (loss) income below), for the three months ended September 30, 2002 grew to \$1,070 million, up 33.7% from \$801 million for the three months ended September 30, 2001, and for the nine months ended September 30, 2002, grew to \$2,909 million, up 19.2% from \$2,441 million for the nine months ended September 30, 2001. The growth in EBITDA, excluding the licensing costs impairment, for both periods was primarily driven by higher services revenue and cost reduction efforts. Our ability to continue to grow EBITDA faster than our revenues, and therefore to continue to improve EBITDA margins, will be dependent upon a number of factors, including the success of our revenue enhancement programs, our ability to further reduce costs, and the level of new subscriber additions. While we expect our revenue and cost initiatives to improve EBITDA margins over time, our ultimate focus remains on delivering increased, long-term cash flow rather than any one particular operational metric, such as EBITDA as a percentage of service revenue.

In the third quarter of 2002 we increased consolidated subscribers by 201 thousand. We ended the quarter with 20.2 million consolidated subscribers, a 17.7% increase over the prior year quarter. During the three months ended September 30, 2002, we transitioned to be direct customers of ours approximately 300 thousand of the approximately 600 thousand former WorldCom reseller customers that we had at the end of the second quarter. The remaining approximately 300 thousand WorldCom customers that were not transitioned negatively impacted our subscriber net additions and churn in the third quarter. Slower projected growth in the wireless industry's overall net subscriber additions for the year will put pressure on our continuing ability to grow our subscriber base. The net subscriber additions for the fourth quarter will be impacted by the final resolution of WorldCom and depends upon a strong holiday buying season. We expect our net subscriber additions during the fourth quarter to improve significantly from our third quarter level.

The cost of acquiring new subscribers as measured by CPGA (cost per gross subscriber addition), rose to \$376 in the quarter ended September 30, 2002, compared with \$333 for the quarter ended September 30, 2001. CPGA increased from the prior year quarter due to increases in variable cost components such as equipment incentives and commissions, the inclusion of TeleCorp's higher cost subscriber acquisition structure, and the exclusion of WorldCom's lower cost reseller gross adds from the current quarter's activity. Additionally, CPGA was unfavorably impacted in the third quarter versus the prior year quarter by a decline in the number of gross customer acquisitions, which resulted in our fixed costs associated with acquiring customers (such as costs relating to our sales force and retail facilities) being allocated over a smaller number of acquired customers.

Our churn rate for the third quarter of 2002 was 2.9%, up from 2.4% in the second quarter of 2002, but down from 3.1% in the third quarter of last year. Lowering our churn rate is important, as the cost of acquiring new customers is generally much higher than the cost of retaining existing customers. Churn for the third quarter included a 0.4% impact from deactivations related to our WorldCom subscriber migration. Further deactivations related to former WorldCom reseller subscribers will occur in the fourth quarter, although we believe the WorldCom impact to be largely behind us.

## **Table of Contents**

### **BACKGROUND**

On October 25, 2000, AT&T Corp. (AT&T) announced a restructuring plan, stating its intention to create a separate company for its wireless services businesses, named AT&T Wireless Services, Inc. We call this restructuring the split-off. AT&T Wireless Services includes substantially the same assets and liabilities that were represented by AT&T Wireless Group tracking stock, which AT&T created on April 27, 2000. In conjunction with the offering of AT&T Wireless Group tracking stock in April 2000, 15.6%, or 360 million shares, of AT&T Wireless Group tracking stock were sold at an offering price of \$29.50 per share. AT&T Wireless Group tracking stock was a class of AT&T common stock, which was intended to provide holders with financial returns based on the financial performance and economic value of AT&T's wireless services businesses.

During May 2001, AT&T completed an exchange offer, which allowed AT&T common shareholders to exchange shares of AT&T common stock for shares of AT&T Wireless Group tracking stock. Approximately 372.2 million shares of AT&T common stock (not adjusted for any subsequent splits) were tendered in exchange for approximately 437.7 million shares of AT&T Wireless Group tracking stock, at an exchange ratio of 1.176 shares of AT&T Wireless Group tracking stock for each validly tendered share of AT&T common stock.

On July 9, 2001, AT&T converted all shares of AT&T Wireless Group tracking stock into shares of AT&T Wireless Services common stock on a one-for-one basis. In addition, AT&T completed a distribution of approximately 1.136 billion shares of AT&T Wireless Services common stock to AT&T shareholders in the form of a stock dividend. These transactions effected the split-off of AT&T Wireless Services from AT&T, and resulted in AT&T Wireless Services becoming an independent, publicly traded company.

### **TELECORP PCS, INC. ACQUISITION**

On February 15, 2002, we acquired the 77% of TeleCorp PCS, Inc. (TeleCorp) that we did not already own by issuing 146 million additional AT&T Wireless Services common shares and assuming a fair value of \$2.5 billion in net debt and \$133 million in preferred securities. This transaction resulted in our adding consolidated markets in 14 states and Puerto Rico, with over 800 thousand consolidated subscribers as of the acquisition date. Our consolidated subscriber numbers do not reflect all TeleCorp subscribers as of the acquisition date. Upon consummation of the TeleCorp acquisition, we established a 200 thousand subscriber reserve, reflecting anticipated subscriber losses resulting from changes in credit policies, service offerings, billing systems and rate plans similar to those we have previously experienced when integrating subscribers of an acquired entity into our systems. We expect our TeleCorp subscribers to be fully integrated into our systems by mid 2003.

Simultaneously with the transaction closing, NTT DoCoMo purchased 26.7 million shares of AT&T Wireless Services common shares directly from us, consistent with its rights to maintain an approximate 16% equity interest in us. The price per share was \$14.28, which was the average price of AT&T Wireless Services common shares over the 30 trading days immediately preceding their election to purchase the shares. We received \$382 million in cash for the additional shares issued to NTT DoCoMo.

### **EXIT OF FIXED WIRELESS BUSINESS**

In December 2001, we finalized plans and received approval from our board of directors to exit the fixed wireless business. This decision resulted in a pre-tax charge of \$1.3 billion during the fourth quarter of 2001, reflecting a write-down of the assets and the impact of phased exit charges. During the first quarter of 2002, we completed the sale of certain fixed wireless assets to Netro Corporation (Netro), a company that is engaged in a business substantially different from our fixed wireless business. Netro paid \$16 million in cash and 8.2 million shares of Netro common stock to acquire a license to intellectual property, equipment and proprietary software assets. During the first, second, and third quarters of 2002, we recorded after-tax gains on disposal of the fixed wireless business totaling \$12 million, \$27 million, and \$8 million, respectively. These gains consisted of adjustments to the recoverability of assets and accruals associated with exit costs from the fixed wireless business. We virtually completed the disposal of the fixed wireless business during the third quarter of 2002. During the third quarter of 2002, we sold shares of Netro common stock, which reduced our ownership percentage of Netro's outstanding common stock to less than five percent.

*The following discussion describes the financial condition and results of operations of AT&T Wireless Services. This discussion includes the effect of certain other subsidiaries, assets and liabilities of AT&T that constituted AT&T Wireless Group. AT&T has contributed to us all of the subsidiaries, assets and liabilities that constituted AT&T Wireless Group. Consistent with our historical financial statements, we have treated these contributions and related transactions in a manner similar to a pooling of interests and we have assumed these contributions and related transactions were completed in historical periods prior to the split-off by the legal entity AT&T Wireless Services.*

**Table of Contents**

**CONSOLIDATED RESULTS OF OPERATIONS**

The following discussion and analysis should be read in conjunction with the consolidated condensed financial statements and accompanying notes included elsewhere in the report and provides information that management believes is relevant to an assessment and understanding of our consolidated results of operations for the three and nine months ended September 30, 2002, and 2001, and financial condition as of September 30, 2002 and December 31, 2001. The quarter-over-quarter and year-to-date results comparisons are affected by the closing of the TeleCorp acquisition on February 15, 2002. The results of TeleCorp have been included in our consolidated financial results since that date. The results of our discontinued fixed wireless business are discussed within Income (loss) per share from discontinued operations. As a result of our discontinuation of the fixed wireless business, we operate in a single line of business.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The following discussion and analysis is based upon our consolidated condensed financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of our financial statements requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses, and assets and liabilities, during the periods reported. We use estimates when accounting for certain items such as unbilled revenues, allowance for doubtful accounts, sales and marketing programs and incentives, employee compensation programs, depreciation and amortization periods, taxes, inventory values, valuations of investments, intangible assets, and deferred tax assets, and determining when investment impairments are other than temporary. We base our estimates on historical experience, where applicable, and other assumptions that we believe are reasonable under the circumstances. Actual results may differ from our estimates under different assumptions or conditions. Additionally, we use estimates when recording the fair values of assets and liabilities assumed in a purchase business combination, such as our acquisition of TeleCorp, which closed in February 2002. Further adjustments to the purchase price allocations may be made as additional information becomes available.

On January 1, 2002, we adopted Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, which provides accounting and reporting standards for acquired intangible assets. Under this statement, acquired goodwill and other intangible assets with indefinite useful lives are no longer amortized, but will be tested for impairment at least annually. SFAS No. 142 requires acquired goodwill to be evaluated for impairment using a two-step test based on a fair value approach. The first step is a screen for potential impairment, while the second step calculates the amount of impairment, if any. The determination of fair value is critical to assessing impairments under SFAS No. 142 and includes significant assumptions and estimates. Additionally, goodwill shall be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of an entity below its carrying value. These events or circumstances could include a significant change in the business climate, including a significant sustained decline in an entity's market value, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of our business, or other factors. If our market value continues to be less than our book value for an extended period of time, it could trigger the need for impairment tests of acquired goodwill between annual tests. Other indefinite-lived intangible assets shall be tested between annual tests if events or changes in circumstances indicate that the asset might be impaired.

Upon adoption of SFAS No. 142, we completed our transitional impairment test related to our acquired goodwill, determining fair value using primarily a discounted cash flow model. The determined fair value was sufficient to pass the first step impairment test, and therefore no impairment was recorded. The premise of the discounted cash flow model assumed a non-taxable or stock transaction. As a result, there was no step-up in basis of the assets and depreciation was carried over at current levels. In order to assess our fair value, following the calculation of the discounted cash flows, the fair value of the interest bearing debt was deducted. In addition, the fair value of assets not contributing to the discounted cash flows are added to derive an indication of our net assets.

Additionally, upon adoption of SFAS No. 142, we were required to reassess the useful life of other intangible assets. Other intangible asset balances consist of customer lists and FCC licensing costs that support our national strategic plan. We re-assessed the useful life of our customer lists and determined that five years continues to be appropriate. Although FCC licenses are issued with a stated term, generally ten years, the renewal of FCC licenses is a routine matter involving a nominal fee, and we have determined that no legal, regulatory, contractual, competitive, economic, or other factors currently exist that limit the useful life of our FCC licenses. As such, effective with the adoption of SFAS No. 142, we are no longer amortizing licensing costs of domestic consolidated subsidiaries as these licensing costs are deemed to be intangible assets that have indefinite lives.

**Table of Contents**

Our unconsolidated subsidiaries completed a similar assessment for licensing costs. Our domestic and Canadian unconsolidated subsidiaries also determined that their licensing costs have indefinite lives and ceased amortization of those costs. We will continue to reevaluate our determination of an indefinite useful life with regards to FCC licenses. SFAS No. 142 requires that indefinite lived intangible assets be tested for impairment by comparing the fair value of the assets to their carrying amounts. Upon adoption of this standard, we completed our transitional impairment test for licensing costs, calculating fair value using primarily a discounted cash flow model, and determined that there was no impairment to be recorded. The discounted cash flow model estimates the required resources and eventual returns from the build out of an operational network and related customer support, starting with only FCC licenses. In this manner, the cash flows are isolated as specifically pertaining to the FCC licenses. A majority of our FCC license balance was tested for impairment on an aggregate basis, which is consistent with the management of our business and our national scope of operations.

During the third quarter of 2002, we completed our annual impairment test for both acquired goodwill and licensing costs, using methodologies consistent with those applied during the initial adoption. Such testing resulted in no impairment charge to goodwill as the determined fair value was again sufficient to pass the first step impairment test. The first annual reassessment of our licensing costs, however, resulted in a total pre-tax impairment of \$1,329 million. See **IMPAIRMENT CHARGES AND TAX VALUATION ALLOWANCE** below for further information regarding these tests.

Upon adoption of SFAS No. 142, our equity method investments recorded impairments that resulted in proportionate charges to our operations totaling \$166 million, after-tax, or \$(0.06) per share. Of the total after-tax charge, \$72 million and \$7 million represented our proportionate share of impairments recognized by TeleCorp PCS, Inc. of its licensing costs and goodwill, respectively. The remaining \$87 million represented our proportionate share of an impairment of licensing costs recognized by ACC Acquisitions, LLC. See **IMPAIRMENT CHARGES AND TAX VALUATION ALLOWANCE** below for additional impairment losses recognized by our equity method investments subsequent to adoption.

At September 30, 2002, the carrying values of goodwill and licensing costs were \$7,177 million and \$13,994 million, respectively. Had SFAS No. 142 been applied as of January 1, 2001, our income before cumulative effect of change in accounting principle would have been higher by \$0.05 per share and \$0.11 per share for the three and nine months ended September 30, 2001, respectively.

Effective January 1, 2002, we adopted SFAS No. 144, **Accounting for the Impairment or Disposal of Long-Lived Assets**. This statement replaces SFAS No. 121, **Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of**. SFAS No. 144 retains the fundamental provisions of SFAS No. 121 for recognition and measurement of the impairment of long-lived assets to be held and used and for measurement of long-lived assets to be disposed of by sale. This statement applies to all long-lived assets, including discontinued operations, and replaces the provisions of Accounting Principles Board (APB) Opinion No. 30, **Reporting Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions**, for the disposal of segments of a business. This statement requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Our initial adoption of this statement did not have a material impact on our results of operations, financial position or cash flows.

In April 2002, the FASB issued SFAS No. 145, **Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections**. Among other things, this statement rescinds FASB Statement No. 4, **Reporting Gains and Losses from Extinguishment of Debt**, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. As a result, the criteria in APB Opinion No. 30, **Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions**, will now be used to classify those gains and losses. We elected to early adopt this statement effective April 1, 2002. As a result of the early adoption of this statement, we reclassified the \$10 million pre-tax extraordinary loss on early extinguishment of debt recognized during the first quarter of 2002 to other (expense) income, and reclassified the related \$4 million tax benefit to provision for income taxes.

For more information on our critical accounting policies and estimates, see **Critical Accounting Policies and Estimates** in our most recent Annual Report on Form 10K.

**Table of Contents**

**IMPAIRMENT CHARGES AND TAX VALUATION ALLOWANCE**

**Impairment of licensing costs of consolidated subsidiaries**

As discussed above, SFAS No. 142 requires that goodwill and other indefinite-lived intangible assets, including licensing costs, be tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of the goodwill and other indefinite-lived intangible assets with their carrying amounts.

We completed our annual impairment tests for both goodwill and licensing costs during the third quarter of 2002, using methodologies consistent with those applied during the initial adoption of SFAS No. 142 on January 1, 2002. Such testing resulted in no impairment charge to goodwill in the third quarter of 2002. FCC licenses that support our national strategic plan, which represent a majority of the licensing costs book value, were aggregated and valued using a discounted cash flow model. The remaining non-strategic licenses were valued on an asset-by-asset basis using comparative transaction data to determine a fair value. These tests resulted in a total pre-tax impairment of \$1,329 million, which was recorded as an impairment of licensing costs during the three months ended September 30, 2002. We believe that the declines in the fair value of our licenses are due principally to uncertainty about industry prospects in light of continuing price competition, slowing subscriber growth, and the continued weakness of the US economy.

**Impairment of licensing costs of investments in and advances to unconsolidated subsidiaries**

We recognized pre-tax losses of \$369 million in the third quarter of 2002 associated with our portion of impairment losses recognized by our equity method investments resulting from their annual impairment tests of licensing costs. Of the total pre-tax charge, \$260 million, \$84 million and \$25 million represent impairments of licensing costs recognized by Cascade Wireless, LLC, Alaska Native Wireless, LLC, and Lewis and Clark Communications, LLC, respectively. These losses are included within net equity (losses) earnings from investments in unconsolidated subsidiaries for the three and nine months ended September 30, 2002.

**Equity method investment impairment charges**

We hold equity interests in various domestic and international ventures and partnerships. These ventures and partnerships operate primarily in the wireless telecommunications industry. These investments are accounted for primarily under the equity method of accounting. In accordance with APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock, we periodically review our equity method investments for impairment. These reviews are performed to determine whether a decline in the fair value of an investment below its carrying value is deemed to be other than temporary. We employ a systematic methodology that considers available evidence in evaluating potential impairment of our investments. In the event that the carrying value of an investment exceeds its fair value, we evaluate, among other factors, the duration and extent to which the fair value is less than the carrying value; the financial health of and business outlook for the investee, including industry and sector performance, changes in technology, and operational and financing cash flow factors; and our intent and ability to hold the investment.

During the third quarter of 2002, we recognized \$444 million of pre-tax impairment losses due primarily to three of our equity method investments. These impairments related to declines in the fair values of certain international equity method investments that management deemed to be other than temporary. The majority of the total pre-tax charge represented impairments of our investments in Rogers Wireless Communications, Inc., Eurotel Praha, spol. s r.o., and BPL Cellular Ltd. of \$232 million, \$185 million, and \$24 million, respectively. These losses are included within net equity (losses) earnings from investments in unconsolidated subsidiaries for the three and nine months ended September 30, 2002.

During the second quarter of 2002, we recognized a \$120 million pre-tax impairment loss within net equity (losses) earnings from investments in unconsolidated subsidiaries associated with our equity investment in ACC Acquisitions, LLC, which is the parent company of American Cellular Corporation (ACC). This impairment represented a write-off of our remaining equity investment balance. The impairment loss was recognized during the second quarter of 2002 due to a reassessment of the value of our investment as a result of ACC's failure to comply with the total debt leverage ratio covenant contained in ACC's bank credit facility.

**Table of Contents**

## Cost method investment impairment charges

During the third quarter of 2002, we recognized a \$187 million pre-tax impairment charge related to our cost method investment in Dobson Communications Corporation (Dobson). Of the total pre-tax charge, \$173 million related to our preferred stock investment and \$14 million to our remaining common stock investment balance. Additionally, in the first quarter of 2002, we recorded a pre-tax impairment loss of \$57 million related to our common stock investment in Dobson. These losses are included within other (expense) income for the three and nine months ended September 30, 2002.

## Tax valuation allowance

Due to the losses recorded during the third quarter of 2002, we established a deferred tax valuation allowance of \$740 million. \$379 million of the deferred tax valuation allowance was related to deferred tax assets associated with our equity method investments and was recorded within net equity (losses) earnings from investments in unconsolidated subsidiaries. \$361 million was related to deferred tax assets associated with our continuing operations, excluding net equity (losses) earnings from investments in unconsolidated subsidiaries, and was recorded within (benefit) provision for income taxes. As a result of recording this allowance, our effective tax rate for all of 2002 will be substantially different than the United States federal statutory income tax rate.

The following table summarizes the impairment charges and tax valuation allowance recorded during the third quarter of 2002:

(In millions)	
Impairment of licensing costs	\$ 1,329
Impairment of equity-method unconsolidated subsidiaries	444
AT&T Wireless Services proportionate share of licensing costs impairments recorded by equity-method unconsolidated subsidiaries	369
Impairment of cost-method unconsolidated subsidiary	187
<hr/>	
Total impairment charges	2,329
Application of statutory tax rate of 38.25%	(891)
Deferred tax valuation allowance	740

Impact of  
impairment  
charges and tax  
valuation  
allowance on third  
quarter results  
\$2,178

THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED WITH THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2001

(In Millions)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2002	2001	2002	2001
	<b>REVENUE</b>			
Services	\$3,765	\$3,239	\$10,745	\$9,291
Equipment	298	257	839	791
<b>Total revenue</b>	<b>\$4,063</b>	<b>\$3,496</b>	<b>\$11,584</b>	<b>\$10,082</b>

Total revenue includes services revenue and equipment revenue. Services revenue primarily includes monthly recurring charges, airtime and toll usage charges, and roaming charges billed to both our customers and other wireless service providers. Services revenue is recognized based upon minutes of use processed and contracted fees, net of credits and adjustments for service discounts. Amounts collected in advance of the service period are recorded as unearned revenue and are recognized when earned. Customer activation fees, along with the related costs up to but not exceeding these fees, are deferred and amortized over the estimated customer relationship period. Services revenue is derived primarily from voice services. Revenue from data services has not been material in any of the periods presented. We do not anticipate that revenue from data services will be material to our overall services revenue during 2002, nor can we give any assurance that it will become material in subsequent periods. Equipment revenue is generated primarily from the sale of wireless handsets and accessories. We generally sell handsets to our subscribers and distributors at or below our cost. The revenue and related expenses associated with the sale of wireless handsets and accessories are recognized when the products are delivered and accepted by the customer or distributor, as this is considered to be a separate earnings process from the sale of wireless services.



**Table of Contents**

Total revenue grew 16.2% to \$4,063 million in the three months ended September 30, 2002, compared with the prior year quarter, and 14.9% to \$11,584 million for the nine months ended September 30, 2002, compared with the nine months ended September 30, 2001. These increases included revenue associated with TeleCorp subsequent to its acquisition on February 15, 2002.

Services revenue for the three months ended September 30, 2002, grew to \$3,765 million, an increase of \$526 million, or 16.2%, compared with the three months ended September 30, 2001. Services revenue for the nine months ended September 30, 2002, was \$10,745 million, an increase of \$1,454 million, or 15.6%, compared with the nine months ended September 30, 2001. Services revenue increased for both periods due to growth in the subscriber base, including the impact of subscribers acquired with the TeleCorp acquisition, which more than offset the effect of a decline in ARPU.

As of September 30, 2002, we had 20.2 million consolidated subscribers, including subscribers acquired with TeleCorp, an increase of 17.7% compared with September 30, 2001. Of these 20.2 million subscribers, over 97% were digital subscribers, up from over 94% as of September 30, 2001. Net consolidated wireless subscriber additions during the three and nine months ended September 30, 2002, totaled 201 thousand and 1,268 thousand, respectively, representing decreases of 73.1% and 36.6%, respectively, over the comparable prior year periods. The decrease in our net subscriber additions for both the three and nine months ended September 30, 2002 was primarily attributable to a decline in our subscriber additions related to WorldCom's exit from the wireless business. Prepaid subscribers as of September 30, 2002, remained a mid-single digit percentage of the total consolidated subscriber base, similar to the prior year. Total subscribers, including affiliate markets in which we do not own a controlling interest, were 22.1 million as of September 30, 2002, a 12.2% increase over the prior year.

Our average monthly churn rates for the three and nine months ended September 30, 2002, were 2.9%, and 2.6%, respectively, down from 3.1% and 3.0% for the three and nine months ended September 30, 2001, respectively. The churn rate related to our postpaid customers of 2.6% for the three months ended September 30, 2002, remained consistent with the prior year quarter. However, our year-to-date postpaid customer churn rate of 2.4% was down from 2.7% for the nine months ended September 30, 2001. The improvement in our postpaid churn versus the prior year was the result of our focus on high quality subscribers and ongoing customer retention efforts.

Our ARPU for the three months ended September 30, 2002, was \$61.60, an increase of 2.0% over the second quarter of 2002, but a decrease of 3.1% compared with the three months ended September 30, 2001. ARPU for the nine months ended September 30, 2002 was \$60.20, a decrease of 4.7% compared with the nine months ended September 30, 2001. Our ARPU increased from the second quarter of 2002 as a result of seasonality, primarily due to an increase in roaming minutes during the third quarter, fewer lower-ARPU reseller subscribers in the subscriber base resulting from deactivations associated with WorldCom's exit from the reseller business, pricing actions and the impact of emerging revenue sources such as two-way messaging (SMS) and international roaming. Our ARPU decline versus the prior year periods reflected competitive pricing and our success in attracting a broader base of new customers and assisting existing customers in moving to more optimal calling plans based on their needs. Despite this decline in ARPU, average minutes of use per subscriber increased for the three and nine months ended September 30, 2002 compared with the respective prior year periods. Average minutes of use per subscriber were 484 and 389 for the third quarter of 2002 and 2001, respectively, and were 466 and 376 for the nine months ended September 30, 2002 and 2001, respectively. The growth in the current year is generally due to subscribers continuing to shift toward calling plans with higher buckets of minutes and higher roaming minutes.

Equipment revenue for the three months ended September 30, 2002, was \$298 million, an increase of \$41 million, or 15.9%, compared with the three months ended September 30, 2001. Equipment revenue for the three months ended September 30, 2002, increased from the prior quarter primarily due to an increased volume of handset and accessory sales and an increase in the average revenue per item sold. Equipment revenue for the nine months ended September 30, 2002, was \$839 million, an increase of \$48 million, or 6.0%, compared with the nine months ended September 30, 2001. Equipment revenue for the nine months ended September 30, 2002 increased from the prior year period due to equipment revenues associated with our acquisition of TeleCorp, which were partially offset by a decrease in the average revenue per item sold.

(In Millions)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2002	2001	2002	2001
Costs of services (excluding depreciation of \$548 and \$376 for the three months ended September 30, and \$1,561 and \$1,080 for the nine months ended September 30)	\$1,173	\$1,079	\$3,387	\$2,898



**Table of Contents**

Costs of services primarily include the costs to place calls over our networks (including the costs to operate and maintain our networks and roaming costs paid to other wireless providers), as well as access, interconnection and toll charges paid to connect our customers' calls on other networks. Additionally, costs of services include the provision for uncollectible receivables and non-income related taxes. Costs of services for the three months ended September 30, 2002, were \$1,173 million, an increase of \$94 million, or 8.6%, compared with the three months ended September 30, 2001. Costs of services for the nine months ended September 30, 2002, were \$3,387 million, an increase of \$489 million, or 16.9%, compared with the nine months ended September 30, 2001. For both periods, the increase was attributable to the growth in the subscriber base and their increased minutes of use, which resulted in an increase in the access, toll and other connection charges paid to connect calls on other networks. Additionally, higher costs were required to maintain our owned and operated networks driven by our continued expansion of our network, including costs associated with our GSM/GPRS network. The increase over the prior year quarter was partially offset by a decrease in the provision for uncollectible receivables.

(In Millions)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2002	2001	2002	2001
	Costs of equipment sales	\$ 620	\$ 501	\$ 1,702

Costs of equipment sales include the costs of the handsets and accessories sold to new as well as existing customers. Costs of equipment sales for the three months ended September 30, 2002, were \$620 million, an increase of \$119 million, or 24.0% compared with the three months ended September 30, 2001. The increase in costs of equipment sales for the three months ended September 30, 2002, as compared with the prior year quarter, was due to an increase in sales volume and an increase in the average cost of equipment sold. Costs of equipment sales for the nine months ended September 30, 2002, were \$1,702 million, an increase of \$234 million, or 15.9%, compared with the nine months ended September 30, 2001. The increase in costs of equipment sales for the nine months ended September 30, 2002, as compared with the prior year resulted from equipment costs associated with our acquisition of TeleCorp and increased subsidies of handsets associated with new subscriber additions and retention efforts to maintain the existing subscriber base.

(In Millions)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2002	2001	2002	2001
	Selling, general and administrative	\$ 1,200	\$ 1,115	\$ 3,586

Selling, general and administrative expenses (SG&A) for the quarter ended September 30, 2002, were \$1,200 million, an increase of \$85 million, or 7.6%, compared with the prior year quarter. Higher expenses in the three months ended September 30, 2002 resulted from increased customer care, subscriber billing and other general and administrative expenses associated with growth in the subscriber base. These increases were partially offset by a reduction in advertising and sales commission expenses associated with a decline in gross subscriber additions as compared with the prior year. SG&A expenses for the nine months ended September 30, 2002, were \$3,586 million, an increase of \$311 million, or 9.5%, compared with the same period in the prior year. Contributing to the higher SG&A costs in the nine months ended September 30, 2002, were increased customer care, subscriber billing, other general and administrative expenses to support growth in the subscriber base, and higher subscriber acquisition costs, primarily sales commissions expenses. Partially offsetting these increases was a decline in advertising and promotion expenses in the nine months ended September 30, 2002 as compared with the prior year period. Cost per gross subscriber addition (CPGA), which includes the cost of handset subsidies recorded in costs of equipment sales, was \$376 for the three months ended September 30, 2002, a 12.9% increase compared with the three months ended September 30, 2001, and was \$375 for the nine months ended September 30, 2002, a 13.3% increase compared to the nine months ended September 30, 2001.

(In Millions)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2002	2001	2002	2001

## Edgar Filing: AT&T WIRELESS SERVICES INC - Form 10-Q

	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Depreciation and amortization	\$ 703	\$ 658	\$2,029	\$ 1,806

Depreciation and amortization expenses for the three months ended September 30, 2002, were \$703 million, an increase of \$45 million, or 6.9%, compared with the three months ended September 30, 2001. Depreciation and amortization expenses for the nine months ended September 30, 2002, were \$2,029 million, an increase of \$223 million, or 12.4%, compared with the nine months ended September 30, 2001. The increases in depreciation and amortization expenses for both periods resulted primarily from growth in our depreciable asset base resulting from capital expenditures associated with the build out of our next-generation (GSM/GPRS) network

**Table of Contents**

and equipment acquired with the TeleCorp acquisition. Higher amortization expenses associated with internal use software also contributed to the year-to-date increase over the prior year. Capital expenditures, excluding capital additions related to internal-use software, were \$1,210 million and \$1,055 million for the three months ended September 30, 2002 and 2001, respectively, and \$2,738 million and \$3,155 million for the nine months ended September 30, 2002 and 2001, respectively. Capital additions related to internal-use software were \$57 million and \$63 million for the three months ended September 30, 2002 and 2001, respectively, and \$162 million and \$189 million for the nine months ended September 30, 2002 and 2001, respectively. Partially offsetting the increases in depreciation expense for both periods was a reduction in amortization expense associated with our adoption of SFAS No. 142. As a result of the adoption of this statement, effective January 1, 2002, we are no longer amortizing goodwill and other indefinite-lived intangible assets, including licensing costs. Amortization of goodwill and licensing costs for the three and nine months ended September 30, 2001 were \$132 million and \$386 million, respectively.

(In Millions)	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2002	2001	2002	2001
Impairment of licensing costs	\$ 1,329	\$	\$ 1,329	\$

Impairment of licensing costs of \$1,329 million resulting from our annual assessment required by SFAS No. 142 was recorded during the third quarter of 2002. Specifically, SFAS No. 142 requires that goodwill and other indefinite-lived intangible assets, including licensing costs, be tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of the goodwill and licensing costs with their carrying amounts. We completed our assessment during the third quarter using methodologies consistent with those applied during the initial adoption of SFAS No. 142 on January 1, 2002. There was no impairment charge required for goodwill during the third quarter of 2002.

(In Millions)	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2002	2001	2002	2001
Other (expense) income	\$(164)	\$ 114	\$(188)	\$ 326

Other (expense) income primarily includes interest income, impairment losses associated with our investments accounted for under the cost method and losses on the early extinguishment of debt. Other (expense) income was \$164 million of expense and \$114 million of income for the quarters ended September 30, 2002 and 2001, respectively, and was expense of \$188 million and income of \$326 million for the nine months ended September 30, 2002 and 2001, respectively. Other (expense) income for the quarter ended September 30, 2002 primarily included a \$187 million pre-tax impairment loss recognized for investments in Dobson common and preferred stock for which the declines in fair value were deemed to be other than temporary, partially offset by interest income earned during the quarter. The nine months ended September 30, 2002, primarily included \$20 million of pre-tax losses associated with the early extinguishment of debt and \$244 million in total pre-tax impairment losses related to our investments in Dobson. Partially offsetting these losses was interest income earned during the first nine months of 2002. Other (expense) income for both the three and nine months ended September 30, 2001, primarily included interest income from AT&T earned prior to the split-off and a \$56 million mark-to-market adjustment related to fair value adjustments associated with warrants held by NTT DoCoMo to purchase our common stock that previously were required to be adjusted to fair value.

(In Millions)	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2002	2001	2002	2001
Interest expense	\$ 180	\$ 105	\$ 490	\$ 287

Interest expense, net of amounts capitalized, consists primarily of interest on our bonds. Prior to our split-off from AT&T, interest expense consisted primarily of interest on intercompany debt owed to AT&T. Interest expense for the three months ended September 30, 2002, was

## Edgar Filing: AT&T WIRELESS SERVICES INC - Form 10-Q

\$180 million, an increase of \$75 million, or 71.1%, compared with the three months ended September 30, 2001. Interest expense for the nine months ended September 30, 2002, was \$490 million, an increase of \$203 million, or 71.0%, compared with the nine months ended September 30, 2001. The increase in interest expense for the three months ended September 30, 2002, related primarily to increased interest expense associated with the \$3.0 billion Senior Notes offering which occurred in April 2002 and interest expense associated with the debt we assumed with our acquisition of TeleCorp in February 2002. The increase in interest expense for the nine months ended September 30, 2002, related to increased interest expense associated with the \$6.5 billion Senior

**Table of Contents**

Notes offering which occurred in March 2001, the \$3.0 billion Senior Notes offering which occurred in April 2002 and interest associated with the TeleCorp debt, which was partially offset by the elimination of interest paid on the AT&T debt in the nine months ended September 30, 2001, as a result of the split-off.

(In Millions)	For the Three Months		For the Nine Months Ended September 30,	
	Ended September 30,			
	2002	2001	2002	2001
(Benefit) provision for income taxes	\$ (139)	\$ 52	\$ (70)	\$ 293

(Benefit) provision for income taxes was a benefit of \$139 million for the three months ended September 30, 2002, compared to a provision of \$52 million for the prior year quarter, and a benefit of \$70 million for the nine months ended September 30, 2002, as opposed to a provision of \$293 million for the comparative prior year period. The benefits generated during the current year were due to tax benefits associated primarily with pre-tax impairment charges we recorded during the third quarter of 2002, partially offset by \$361 million of a deferred tax valuation allowance established due to the losses recorded during the third quarter of 2002. The 2001 estimated annual effective income tax rate for continuing operations, excluding net equity (losses) earnings from investments in unconsolidated subsidiaries, was 43.4% as of the nine months ended September 30, 2001, and was primarily impacted by the amortization of non-deductible goodwill and reserve adjustments associated with the split-off.

During the first quarter of 2002, we changed our accounting for the calculation of the intraperiod income tax allocation. Effective with the first quarter of 2002, we began estimating our annual effective income tax rates for continuing operations (excluding net equity (losses) earnings from investments in unconsolidated subsidiaries) and net equity (losses) earnings from investments in unconsolidated subsidiaries separately. In prior years, we had estimated one combined annual effective income tax rate for continuing operations (including net equity (losses) earnings from investments in unconsolidated subsidiaries), then allocated a portion of the resulting tax provision or benefit to net equity (losses) earnings from investments in unconsolidated subsidiaries. This change has no impact to our annual income tax provision or benefit; it merely impacts the allocation of the full year's income tax provision to interim periods. We believe this change results in a more accurate estimate of the intraperiod allocation of the tax provision or benefit. Under the new intraperiod allocation methodology, the impact to the three and nine months ended September 30, 2001, would have been a decrease to net equity earnings from investments in unconsolidated subsidiaries and income from continuing operations available to common shareholders of \$94 million and \$66 million, respectively, and a decrease to income from continuing operations available to common shareholders per basic and diluted share of \$0.04 and \$0.03, respectively.

(In Millions)	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2002	2001	2002	2001
Net equity (losses) earnings from investments in unconsolidated subsidiaries, net of tax	\$ (882)	\$ 56	\$ (1,017)	\$ 174

Net equity (losses) earnings from investments in unconsolidated subsidiaries was a loss of \$882 million for the three months ended September 30, 2002, versus earnings of \$56 million for the prior year quarter. For the nine months ended September 30, 2002, net equity (losses) earnings from investments in unconsolidated subsidiaries was a loss of \$1,017 million compared to earnings of \$174 million for the nine months ended September 30, 2001. During the third quarter of 2002, net equity (losses) earnings from investments in unconsolidated subsidiaries primarily included pre-tax impairment charges totaling \$813 million and a net tax provision of \$68 million. The pre-tax impairment charges consisted of \$444 million primarily associated with the write-down of our equity investments in Rogers Wireless Communications, Inc., Eurotel Praha, spol. s r.o., and BPL Cellular Ltd. of \$232 million, \$185 million, and \$24 million, respectively. Additionally, we recognized pre-tax losses of \$369 million in the three months ended September 30, 2002 associated with our portion of equity-method unconsolidated subsidiaries' annual impairment tests related to their other indefinite-lived intangible assets. This charge primarily related to impairments on licensing costs recognized by Cascade Wireless, LLC, Alaska Native Wireless, LLC, and Lewis and Clark Communications, LLC. The net tax provision included a deferred tax valuation allowance of \$379 million related to the deferred tax assets attributable to investments in unconsolidated subsidiaries. The deferred tax valuation allowance was established due to the losses recorded during the third quarter of 2002. The remaining decrease in net equity earnings versus the prior year quarter was due primarily to the change in the intraperiod income tax allocation discussed above, partially offset by the discontinuation of amortization of goodwill associated with our equity method investments

## Edgar Filing: AT&T WIRELESS SERVICES INC - Form 10-Q

effective with the adoption of SFAS No. 142 on January 1, 2002. Net equity (losses) earnings from investments in unconsolidated subsidiaries for the nine months ended September 30, 2002 also included a pre-tax impairment charge of \$120 million associated with the write-down of our equity investment in ACC Acquisitions, LLC (which is the parent company of ACC), which occurred during the second quarter of 2002. The remaining decrease in net equity earnings for the nine months ended September 30, 2002 as compared with the prior year period was



**Table of Contents**

due to a \$298 million after-tax gain on the sale of Japan Telecom in April 2001, partially offset by the discontinuation of amortization of goodwill associated with our equity method investments effective with their adoption of SFAS No. 142 on January 1, 2002 and lower losses associated with our foreign equity investments.

(In Millions)	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2002	2001	2002	2001
Loss from operations of discontinued business (net of tax benefit of \$49 and \$133 for the three and nine months ended September 30, 2001)	\$	\$(79)	\$	\$(215)
Gain on disposal of discontinued business (net of tax provision of \$5 and \$29 for the three and nine months ended September 30, 2002)	8	47		

Income (loss) from discontinued operations, net of tax, was income of \$8 million for the third quarter of 2002, compared with a loss of \$79 million for the prior year quarter, and was income of \$47 million for the nine months ended September 30, 2002 compared with a loss of \$215 million for the same period in the prior year. The income recorded during the three and nine months ended September 30, 2002, consisted of adjustments to the recoverability of assets and accruals associated with exit costs from the fixed wireless business. The losses from discontinued operations for the three and nine months ended September 30, 2001, represented the operational losses associated with the fixed wireless business for those periods. The disposition of the fixed wireless business was virtually completed during the third quarter of 2002.

(In Millions)	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2002	2001	2002	2001
Cumulative effect of change in accounting principle (net of tax benefit of \$103)	\$	\$	\$(166)	\$

Cumulative effect of change in accounting principle, net of tax, was zero and a loss of \$166 million during the three and nine months ended September 30, 2002, respectively, and related to our proportionate share of impairment losses recorded by our equity method investments upon their adoption of SFAS No. 142 effective January 1, 2002. Of the total after-tax charge, \$72 million and \$7 million represented our proportionate share of impairments recognized by TeleCorp PCS, Inc. of its licensing costs and goodwill, respectively. The remaining \$87 million represented our proportionate share of an impairment of licensing costs recognized by ACC Acquisitions, LLC.

(In Millions)	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2002	2001	2002	2001
Accretion of mandatorily redeemable preferred stock	\$ 6	\$	\$ 13	\$

Accretion of mandatorily redeemable preferred stock was \$6 million and \$13 million during the three and nine months ended September 30, 2002, and represented the interest accretion associated with the mandatorily redeemable preferred stock issued by us in February 2002 in conjunction with our acquisition of TeleCorp.

Edgar Filing: AT&T WIRELESS SERVICES INC - Form 10-Q

(In Millions)

	<b>For the Three Months Ended September 30,</b>		<b>For the Nine Months Ended September 30,</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
Dividend requirements on preferred stock held by AT&T, net	\$	\$	\$	\$ 76

Dividend requirements on preferred stock held by AT&T, net of tax, decreased to zero for the nine months ended September 30, 2002, down from \$76 million for the nine months ended September 30, 2001. The preferred stock was redeemed by AT&T during the second quarter of 2001.

**Table of Contents**

(In Millions)	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2002	2001	2002	2001
(Loss) income from continuing operations available to common shareholders	\$(0.76)	\$0.06	\$(0.77)	\$0.19
(Loss) income from discontinued operations				
(0.03) 0.01 (0.09)				
Cumulative effect of change in accounting principle				
(0.06)				
<hr/>				
<hr/>				
<hr/>				
<hr/>				
<hr/>				
Net (loss) income available to common shareholders	\$(0.76)	\$0.03	\$(0.82)	\$0.10

(Loss) income from continuing operations available to common shareholders per share was a loss of \$0.76 for the three months ended September 30, 2002, compared with income of \$0.06 in the prior year quarter, and was a loss of \$0.77 for the nine months ended September 30, 2002, compared with income of \$0.19 for the corresponding prior year period. The decreases are primarily attributable to the per-share impact of the after-tax impairment charges and the deferred tax valuation allowances recorded during the third quarter which are discussed above. Additionally, the nine months ended September 30, 2001 included the after-tax impact of \$298 million associated with the sale of our equity interest in Japan Telecom.

(Loss) income from discontinued operations per share was zero for the three months ended September 30, 2002, versus a loss of \$0.03 for the third quarter of the prior year, and was income of \$0.01 for the nine months ended September 30, 2002, compared with a loss of \$0.09 for the same prior year period.

Cumulative effect of change in accounting principle per share was zero for the three months ended September 30, 2002 and a loss of \$0.06 for the nine months ended September 30, 2002, compared with zero for the same prior year periods.

Net (loss) income available to common shareholders per share was a loss of \$0.76 for the three months ended September 30, 2002, compared with income of \$0.03 for the three months ended September 30, 2001, and was a loss of \$0.82 for the nine months ended September 30, 2002, compared to income of \$0.10 for the nine months ended September 30, 2001. The decreases were primarily attributable to the per-share impact of the after-tax impairment charges and deferred tax valuation allowances recorded during the third quarter which are discussed above. Additionally, the nine months ended September 30, 2001 included the after-tax impact of \$298 million associated with the sale of our equity interest in Japan Telecom.

**LIQUIDITY AND CAPITAL RESOURCES****Capital Resources**

Prior to the split-off, financing activities for AT&T Wireless Services and the rest of AT&T Wireless Group were managed by AT&T on a centralized basis and were subject to the review of the AT&T Wireless Group capital stock committee of AT&T's board of directors. Sources of funds included AT&T Wireless Group tracking stock offering proceeds attributed from AT&T, intercompany borrowings from AT&T, internally generated funds, and proceeds attributed to us from AT&T related to the DoCoMo transaction. In addition, AT&T performed cash management functions on our behalf. Cash balances maintained and reported by us prior to the split-off primarily represented cash balances for which no right of offset existed with AT&T. Effective with the split-off, we began performing cash management and financing activities as a stand-alone entity.

## Edgar Filing: AT&T WIRELESS SERVICES INC - Form 10-Q

We expect to fund our capital requirements for at least the next 12 months by using existing cash balances, which totaled \$3.8 billion as of September 30, 2002, and cash generated from operations, and if necessary, by drawing on our committed credit facilities and receivables securitization program. We may also utilize other external funding sources, including the issuance of public equity or debt securities, or issuances of commercial paper. We may also generate cash from the sale of non-strategic investments or excess spectrum. Our need to obtain additional cash from external sources will be impacted by our ability to reduce costs and to continue to achieve subscriber and revenue growth. Our capital requirements over the next 12 months will be driven by capital expenditures associated with continued network expansion, interest payments and acquisition of new subscribers. Additional capital requirements may include spectrum purchases, including commitments associated with our affiliate, Alaska Native Wireless (ANW), acquisitions, debt retirements, and cash contributions to our unconsolidated subsidiaries.

In February 2002, NTT DoCoMo purchased 26.7 million shares of AT&T Wireless Services common shares directly from us consistent with its rights to maintain an approximate 16% equity interest in us. We received \$382 million in cash for the additional shares issued to NTT DoCoMo.

**Table of Contents**

On March 1, 2002, we initiated a three-year accounts receivable securitization program. The program will allow for up to \$1.2 billion of financing, to be collateralized by subscriber trade accounts receivable. Under the program, we can assign subscriber trade accounts receivable on a revolving basis to a special-purpose, wholly owned subsidiary. The wholly owned subsidiary would then sell an undivided interest in such receivables to an unrelated third-party financing entity. The financing is subject to program fees, payable monthly, including fees based on the outstanding borrowed amount. We will use the proceeds from this financing arrangement for general corporate purposes. This financing arrangement is subject to customary securitization covenants and will be recorded as an on-balance sheet transaction. Included in the covenants are provisions for the termination of the program in the event that our unsecured Senior Notes are rated BB by Standard & Poor's or Ba2 by Moody's. See discussion of our credit ratings below. We are currently in compliance with the securitization covenants and have no amounts outstanding under this financing arrangement.

On March 19, 2002, we renewed our \$1.25 billion 364-day Competitive Advance and Revolving Credit Facility. There were no material revisions to the original terms of the facility except for a collateral increase of \$500 million to allow for the accounts receivable securitization program discussed above. Both our 364-day Competitive Advance and Revolving Credit Facility and our \$1.25 billion Five-Year Competitive Advance and Revolving Credit Facility, which expires in March 2006, require us to maintain certain financial ratios, including maintaining a net debt to EBITDA ratio (as defined in the agreement) of 4X or less and an interest coverage ratio of 3.5X or higher, both of which we are currently in compliance with. The facilities are subject to a facility fee, which will fluctuate based on our Senior Notes rating. We currently have no amounts outstanding under the facilities.

On April 16, 2002, we completed a public offering of \$3.0 billion of Senior Notes. The Senior Notes are unsecured, ranking equally with our other senior unsecured indebtedness, with \$250 million maturing on April 18, 2005, \$750 million maturing on May 1, 2007, and \$2.0 billion maturing on May 1, 2012. The notes pay interest semiannually at fixed rates ranging from 6.875% to 8.125% per annum. The notes include customary covenants.

**Credit Rating Discussion**

Our credit ratings impact our ability to obtain short- and long-term financing, and the cost of such financing. In determining our credit ratings, the rating agencies consider a number of factors, including EBITDA, operating cash flow, total debt outstanding, off-balance sheet obligations, commitments, interest requirements, and liquidity needs and availability. Other factors considered may include our business strategy, the condition of our industry, and our industry position. Although these factors are among those considered by the rating agencies, each agency may calculate and weigh each factor differently.

AT&T Wireless Services' credit ratings as of the date of this report were as follows:

<b>Rating Agency</b>	<b>Rating-Long Term Debt</b>	<b>Outlook</b>
Moody's (a)	Baa2	Negative
Standard & Poor's (b)		
BBB Stable		
Fitch (c)	BBB Stable	

(a) On June 21, 2002, Moody's changed the outlook for the entire wireless industry to negative, including changing the outlook for AT&T Wireless Services from stable to negative. A negative outlook could result in our credit rating being lowered in the future. This change did not impact the availability or cost of our financing arrangements.

(b) On June 20, 2002, Standards & Poor's reaffirmed our long-term debt rating of BBB with a stable outlook.

(c) On July 3, 2002, Fitch reaffirmed our long-term debt rating of BBB with a stable outlook.

**Capital Requirements Capital Expenditures and Other Capital Additions**

The operation, upgrade and expansion of our networks, including our upgrade to next-generation technologies, will require substantial amounts of capital over the next several years. Our capital expenditures and other capital additions discussed below are calculated on an accrual basis, and therefore, may vary from cash outflows during the period. Capital expenditures, excluding capital additions related to internal-use software, totaled \$1,210 million and \$2,738 million for the three and nine months ended September 30, 2002, respectively. During the full year of 2002, we expect to spend approximately \$5.1 billion on capital expenditures, excluding capital additions related to internal-use software, of which we estimate that approximately 70% will be spent on our GSM/GPRS network. We have entered into various purchase commitments for network equipment related to the development of our next-



**Table of Contents**

generation strategy. Those commitments totaled \$1.3 billion as of September 30, 2002, with payments to be made between 2002 and 2004. Subsequent to September 30, 2002, we entered into additional purchase commitments for network equipment and services totaling \$227 million, with payments to be made between 2002 and 2003. Capital additions related to internal-use software totaled \$162 million for the nine months ended September 30, 2002. During the full year of 2002, we expect to spend less than \$300 million on capital additions related to internal-use software.

Capital Requirements    Spectrum

We may also require substantial capital to purchase additional spectrum, including our existing commitment as discussed below to fund spectrum purchases made by our affiliate ANW. To the extent the licenses are not granted to ANW, we may pursue other alternatives to acquire additional spectrum. Access to additional spectrum, or other sources of spectrum, will enhance our existing spectrum portfolio, as well as help us to meet demand for existing wireless products and to facilitate deployment of next-generation services in critical markets.

During November 2000, we joined with others in the formation of a venture, Alaska Native Wireless (ANW), which participated in the Federal Communication Commission's (FCC) Auction 35 of licensed spectrum in the 1900 megahertz band. In early 2001, the auction was completed, and ANW was the high bidder on approximately \$2.9 billion in licenses. On March 4, 2002, the FCC granted to ANW some of the licenses on which it was the high bidder, which required the payment of \$90 million by ANW, which we funded during the first quarter of 2002. As of September 30, 2002, we had provided approximately \$400 million toward this commitment to ANW through a combination of a non-controlling equity interest and debt securities of ANW.

In June 2001, the federal appeals court for the D.C. Circuit ruled that the FCC had acted improperly in rescinding the licenses held by NextWave Telecom, Inc. and its affiliates (NextWave), which constituted most of the spectrum licenses offered in Auction 35. In August 2001, the FCC returned the licenses to NextWave, and on April 29, 2002, the FCC refunded \$473 million to ANW, which was a portion of the down payment previously submitted for licenses on which ANW was the high bidder. The return of spectrum to NextWave, and the accompanying refund to ANW, did not affect the status of the non-NextWave licenses that the FCC granted to ANW on March 4, 2002. The U.S. Supreme Court agreed to hear the FCC's appeal of the D.C. Circuit Court ruling, and oral argument of such appeal was held on October 8, 2002. As of the date of this report, the Supreme Court had not issued a decision.

On September 12, 2002, the FCC solicited public comments on two proposals for the disposition of down payments and pending applications for the NextWave licenses that were offered in Auction 35. The proposals would allow the winning bidders in the auction to obtain a full refund of down payments, and a dismissal of pending applications, for some or all of the NextWave licenses. The public comment cycle concluded on October 21, 2002. The FCC had not announced its decision as of the date of this report. If either of the proposals is adopted, and ANW elects to dismiss its pending license applications, then we would be relieved of our commitment to fund the balance of the license payments otherwise due in respect of any such dismissed applications. The amended ANW charter documents reflect that ANW's controlling owner has determined that it is in ANW's best interest to opt-out of Auction 35, and that it will do so if that opportunity becomes available without material cost or penalty.

On November 11, 2002, we and the other owners of ANW amended the terms of the venture. Pursuant to the revised agreements:

ANW has agreed to make a prepayment of indebtedness owing to us in the amount of \$98 million;

Upon the earlier of April 30, 2003, or ANW being relieved from any further obligations to the FCC with respect to Auction 35, we will pay \$229 million to the other owners of ANW and ANW will distribute certain amounts previously invested in ANW, resulting in distributions of \$144 million to us and \$233 million to the other owners of ANW;

In March 2007, the other owners of ANW may elect to require us to purchase their interests in ANW for an aggregate of \$145 million, whether or not ANW is granted the Auction 35 licenses. Under certain circumstances, this right may be exercised earlier, in which case the amount payable would be reduced by 5% per annum; and

We have agreed to fund ANW's remaining purchase price for the NextWave licenses of \$2.8 billion, if the NextWave licenses are granted to ANW.

We anticipate taking a charge of approximately \$108 million in the fourth quarter of 2002 to reflect the difference between amounts accrued for our potential obligation to acquire the other owners' interests under the original terms of the venture and our current obligation associated with this amendment.

During the first quarter of 2002, we funded \$251 million to Cascade Wireless, LLC for spectrum acquisitions and operational funding requirements, fully satisfying our commitment.

## Edgar Filing: AT&T WIRELESS SERVICES INC - Form 10-Q

### Capital Requirements    Acquisitions

On February 15, 2002, we acquired the 77% of TeleCorp that we did not already own. The aggregate purchase price totaled \$2,414 million including \$2,266 million of AT&T Wireless Services common stock issued (146 million shares), \$133 million of AT&T Wireless Services mandatorily redeemable preferred stock issued (233 thousand shares), and \$15 million in cash.

In February 2002, subsequent to the acquisition of TeleCorp, we purchased additional equity in TeleCorp. TeleCorp contributed \$955 million in total to TeleCorp Wireless, Inc. and Tritel PCS, Inc. The contributions were subsequently utilized by TeleCorp Wireless, Inc. and Tritel PCS, Inc. to repay all amounts outstanding, including principal, interest and related fees, under their Senior Credit Facilities and Federal Communications Commission debt. TeleCorp Wireless, Inc. and Tritel PCS, Inc. repaid approximately \$20 million associated with the cancellation of interest rate swap agreements. In addition, we repaid \$53 million of outstanding principal and interest of vendor financings owed by TeleCorp Wireless, Inc.

On April 1, 2002, we completed an acquisition from Exelon Corp. of the remaining 49% minority interest in the Philadelphia market, in which we previously held a 51% ownership interest, for \$285 million in cash.



**Table of Contents**

Capital Requirements Debt Repayments and Interest Requirements

Our debt includes the following interest payment requirements and maturity dates:

Principal Amount as of 9/30/02 - (In Millions)	Interest Rate	Interest Payments	Maturity
AT&T Wireless Services, Inc. Senior Notes:			
\$250			
6.875% Semiannually April			
18, 2005			
\$1,000			
7.350% Semiannually March			
1, 2006			
\$750			
7.500% Semiannually May			
1, 2007			
\$3,000			
7.875% Semiannually March			
1, 2011			
\$2,000			
8.125% Semiannually May			
1, 2012			
\$2,500			
8.750% Semiannually March			
1, 2031TeleCorp			
Wireless, Inc.			
Senior			
Subordinated &			
Senior			
Subordinated			
Discount			
Notes:			
\$374			
11.625% (1) April			
15, 2009			
\$292			
10.625% Semiannually July			
15, 2010Tritel			
PCS, Inc. Senior			
Subordinated &			
Senior			
Subordinated			
Discount			
Notes:			
\$242			
12.75% (2) May			
15, 2009			
\$292			
10.375% Semiannually January			
15, 2011			

(1) Interest accrues to the principal balance of the Discount Notes until April 15, 2004. Interest will be paid semiannually beginning October 15, 2004.

(2) Interest accrues to the principal

balance of the  
Discount  
Notes until  
May 15, 2004.  
Interest will be  
paid  
semiannually  
beginning  
November 15,  
2004.

In March 2002, TeleCorp Wireless, Inc. exercised its option to redeem 35% or \$201 million aggregate principal amount at maturity of the TeleCorp Wireless, Inc. 11.625% Senior Subordinated Discount Notes for \$179 million in cash. The notes were redeemed in April 2002 with existing cash balances. During April 2002, TeleCorp Wireless exercised its option to redeem 35%, or \$158 million in aggregate principal amounts at maturity of the TeleCorp Wireless, Inc. 10.625% Senior Subordinated Notes for \$174 million. Additionally, Tritel PCS, Inc. exercised its option to redeem 35% or \$158 million and \$130 million in aggregate principal amounts at maturity of the Tritel PCS, Inc. 10.375% Senior Subordinated Notes and the Tritel PCS, Inc. 12.75% Senior Subordinated Discount Notes, respectively, for \$174 million and \$115 million, respectively. These notes were redeemed in May 2002 with cash balances of TeleCorp Wireless and Tritel PCS received from our purchase of additional equity in these companies.

Capital Requirements Other

Pursuant to our Investor Agreement, as amended, between AT&T Wireless Services, AT&T Corp. and DoCoMo, DoCoMo may require us to repurchase its investment at DoCoMo's original purchase price, plus interest, if under certain circumstances, and subject to the exceptions identified in the Investor Agreement:

we fail to launch services based on W-CDMA technology in 13 of the top 50 wireless markets in the United States (as defined by reference to Basic Trading Areas listed in the Investor Agreement) prior to June 30, 2004; or

our Board of Directors approve changes in our use of W-CDMA technology as our primary standard for delivery of services based on third-generation technology prior to June 30, 2004.

We periodically make equity contributions into international and domestic investments in which we do not own a controlling interest. We currently have no material commitments outstanding related to these investments, with the exception of our commitment to ANW discussed above.

**Table of Contents**

In conjunction with the split-off from AT&T, we entered into a Master Carrier Agreement with AT&T to purchase certain voice and data telecommunications services. Under the Master Carrier Agreement, we are required to purchase wholesale long-distance services we provide to our customers in an amount equal to our 2001 actual minutes of use for each of five years, beginning with the date of split-off. We are required to pay AT&T any shortfall in cumulative usage at the rate of \$0.01 per minute at the end of the five-year period. Our maximum remaining commitment as of September 30, 2002, was approximately \$404 million. We are also required to purchase long-distance services associated with our administrative phone usage equal to \$70 million for each of three years following the split-off. As of September 30, 2002, we had fulfilled all of the first year's commitment and approximately \$18 million of the second year's commitment under the agreement. In addition, we are required to purchase certain network data services from AT&T in an amount equal to \$41 million for each of the three years following the split-off. As of September 30, 2002, we had fulfilled all of the first year's data commitment and approximately \$18 million of the second year's data commitment under the agreement.

We have commitments with local exchange carriers for dedicated leased lines. The original terms of these commitments vary from month-to-month up to five years. We incurred approximately \$105 million and \$310 million during the three and nine months ended September 30, 2002, related to these dedicated transport commitments.

We have agreements with other wireless carriers that allow our customers to roam on other carriers' wireless systems. These agreements establish general terms and charges for system usage, and in some cases also establish minimum usage requirements.

We also have various other purchase commitments for materials, supplies and other items incidental to the ordinary course of business, which are not material individually, nor in the aggregate. In addition, we have material commitments associated with leases of land, buildings, and equipment.

We currently have no material off-balance sheet financing arrangements. Our off-balance sheet financing arrangements included two synthetic leases for office facilities, which had outstanding commitments totaling \$64 million as of September 30, 2002.

**CASH FLOWS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED WITH THE NINE MONTHS ENDED SEPTEMBER 30, 2001**

(In Millions)	<b>For the Nine Months Ended September 30,</b>	
	<b>2002</b>	<b>2001</b>
Net Cash Flows:		
Provided by operating activities of continuing operations	\$2,262	\$2,348
Used in investing activities of continuing operations (3,613) (4,096)		
Provided by financing activities of continuing operations 1,758 7,024		
Used in discontinued operations (8) (463)		

Net cash provided by operating activities of continuing operations for the nine months ended September 30, 2002, was \$2,262 million, compared with \$2,348 million for the nine months ended September 30, 2001. The decrease in net cash provided by operating activities from continuing operations was primarily due to higher interest payments made during the nine months ended September 30, 2002 as compared to the prior year period, as well as cash payments made related to exit costs of the fixed wireless business, partially offset by higher operating income, excluding the impairment of licensing costs and depreciation and amortization, and a smaller increase in accounts receivable.

Net cash used in investing activities from continuing operations for the nine months ended September 30, 2002, was \$3,613 million, compared with \$4,096 million for the nine months ended September 30, 2001. The decrease in net cash used was primarily due to lower cash paid for capital expenditures and fewer contributions made to unconsolidated subsidiaries in the nine months ended September 30, 2002, compared with the nine months ended September 30, 2001, partially offset by the cash received during the second quarter of 2001 related to the sale of our equity interest in Japan Telecom.

Net cash provided by financing activities of continuing operations for the nine months ended September 30, 2002, was \$1,758 million, compared with \$7,024 million for the nine months ended September 30, 2001. Financing activities of continuing operations for the nine months ended September 30, 2002, primarily included net proceeds of \$3.0 billion associated with our Senior Notes offering in April 2002 and cash

## Edgar Filing: AT&T WIRELESS SERVICES INC - Form 10-Q

proceeds of \$382 million from the sale of AT&T Wireless Services common shares sold to DoCoMo associated with the exercise of their preemptive rights triggered by the TeleCorp acquisition. Partially offsetting these proceeds were the repayment of approximately \$1.6 billion of TeleCorp debt subsequent to the acquisition, including the repayments of the TeleCorp

**Table of Contents**

public debt associated with the equity clawback provisions that we exercised during the second quarter of 2002. Financing activities of continuing operations for the nine months ended September 30, 2001, included the \$6.1 billion of allocated net proceeds from AT&T associated with the investment by DoCoMo and the \$6.3 billion of net proceeds received from our Senior Notes offering in March 2001. Partially offsetting these proceeds were the repayment of \$2.4 billion of debt due to AT&T and redemption of the \$3.0 billion of preferred stock held by AT&T in June of 2001.

The decrease in cash used in discontinued operations is primarily a result of decreased operational activities during the nine months ended September 30, 2002, compared with the nine months ended September 30, 2001. We virtually completed the disposal of the fixed wireless business during the third quarter of 2002.

**EBITDA FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED WITH THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2001**

EBITDA, defined as operating income excluding depreciation and amortization, and EBITDA, excluding our non-cash asset impairment charges, are the primary measures used by our management to measure our ability to generate cash flow. EBITDA may or may not be consistent with the calculation of EBITDA for other public companies and should not be viewed by investors as an alternative to accounting principles generally accepted in the United States of America, measures of profitability or to cash flows from operating, investing and financing activities as a measure of liquidity.

EBITDA for the three months ended September 30, 2002 was a loss of \$259 million, compared with income of \$801 million for the three months ended September 30, 2001, and for the nine months ended September 30, 2002, was income of \$1,580 million, compared with \$2,441 million for the nine months ended September 30, 2001. EBITDA, excluding the pre-tax impairment of licensing costs, was income of \$1,070 million for the three months ended September 30, 2002, compared with income of \$801 million for the three months ended September 30, 2001, and for the nine months ended September 30, 2002, was income of \$2,909 million, compared with \$2,441 million for the nine months ended September 30, 2001. The growth in EBITDA, excluding the impairment of licensing costs, for the three months ended September 30, 2002 as compared with the prior year period was primarily due to an increase in services revenue and cost reduction efforts (primarily resulting from decreases in advertising spending, sales commissions, and roaming expenses) and a lower provision for uncollectible receivables, partially offset by increased network costs attributable to the growth in subscribers and their related increased minutes of use, increased equipment incentives, and an increase in general and administrative expenses. The growth in EBITDA, excluding the impairment of licensing costs for the nine months ended September 30, 2002 as compared with the prior year period was primarily due to an increase in services revenues partially offset by increased network costs attributable to the growth in subscribers and their related increased minutes of use, increased equipment incentives, and an increase in general and administrative expenses.

**RECONCILIATION OF EBITDA, EXCLUDING THE IMPAIRMENT OF LICENSING COSTS, TO CONSOLIDATED NET (LOSS) INCOME**

Items required to reconcile EBITDA, excluding the pre-tax impairment of licensing costs, to consolidated net (loss) income include: depreciation and amortization expense, impairment of licensing costs, other (expense) income, interest expense, and benefit (provision) for income taxes, as well as the after-tax impacts of net equity (losses) earnings from investments in unconsolidated subsidiaries, income (loss) from discontinued operations, and cumulative effect of change in accounting principle.

**Table of Contents**

The following table summarizes the reconciliation of EBITDA, excluding the impairment of licensing costs, to consolidated net (loss) income:

(In Millions)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2002	2001	2002	2001
EBITDA, excluding the impairment of licensing costs	\$ 1,070	\$ 801	\$ 2,909	\$ 2,441
Depreciation and amortization	(703)	(658)	(2,029)	(1,806)
Impairment of licensing costs	(1,329)	(1,329)		
Other (expense) income	(164)	114	(188)	326
Interest expense	(180)	(105)	(490)	(287)
Benefit (provision) for income taxes	139	(52)	70	(293)
Net equity (losses) earnings from investments in unconsolidated subsidiaries, net of tax	(882)	56	(1,017)	174
Income (loss) from discontinued operations, net of tax	8	(79)	47	(215)
Cumulative effect of change in accounting principle, net of tax	(166)			
Net (loss) income	\$(2,041)	\$77	\$(2,193)	\$340

**EBITDA MARGIN FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED WITH THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2001**

EBITDA margin, defined as EBITDA, excluding the impairment of licensing costs, as a percentage of services revenue was 28.4% for the three months ended September 30, 2002, compared with 24.7% for the three months ended September 30, 2001, and was 27.1% for the nine months ended September 30, 2002, compared with 26.3% for the nine months ended September 30, 2001.

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISK

Prior to the split-off, our market risk was managed by AT&T, as AT&T performed cash management and other treasury-related functions on our behalf. Subsequent to the split-off, we are responsible for managing market risk as a separate company. We are exposed to market risk from changes in interest and foreign exchange rates. Additionally, we are exposed to market risk associated with changes in prices of AT&T Wireless Services common stock. We have minimal cash flow exposure related to interest rate changes associated with our long-term, fixed-rate debt. We use certain derivative financial instruments, primarily interest rate swaps, to manage our interest rate risks. We do not use derivative financial instruments for trading or speculative purposes.

As of September 30, 2002, we had outstanding \$9.5 billion of Senior Notes of AT&T Wireless Services, Inc. with fixed interest rates ranging from 6.875% to 8.75%, and with maturity dates between 2005 and 2031. As of September 30, 2002, we had entered into interest rate swaps with a total notional value of \$2.8 billion. On a semi-annual basis, we pay a floating rate of interest equal to the six-month LIBOR plus a fixed spread and receive a fixed rate in return ranging from 6.875% to 8.125%. The swaps were entered into as hedges of the fair value of our 7.35% Senior Notes due March 2006, our 6.875% Senior Notes due April 2005, our 7.5% Senior Notes due May 2007, and our 8.125% Senior Notes due May 2012. The swaps expire on the bonds' respective maturity dates. Assuming a 10% shift in interest rates, the fair value of the interest rate swaps and the underlying hedged debt would have changed by approximately \$53 million at September 30, 2002.

As of September 30, 2002, we had outstanding \$1.2 billion of Senior Notes and Senior Discount Notes of TeleCorp Wireless, Inc. and Tritel PCS, Inc., both of which are wholly owned subsidiaries of AT&T Wireless Services, Inc. These notes have fixed interest rates ranging from 10.375% to 12.75% with maturity dates between 2009 and 2011. As of September 30, 2002, we had not entered into any derivative financial instruments to manage our market risks associated with these notes.

We may have future interest rate risk associated with the \$2.5 billion Competitive Advance and Revolving Credit Facilities, as well as the commercial paper agreement we finalized in June 2001. These credit facilities bear interest at variable rates based upon, in various cases, (i) LIBOR plus 32.5 to 100 basis points depending upon our Senior Notes rating, or (ii) the greater of the prime rate or the Federal funds effective rate plus 50 basis points. As of September 30, 2002, there were no amounts outstanding under the facilities, or any notes outstanding under the commercial paper agreement.

We may have future interest rate risk associated with our \$1.2 billion accounts receivable securitization program which was entered into in March 2002. The program is subject variable interest rates based upon, in various cases, (i) LIBOR plus or minus a

**Table of Contents**

variable spread depending upon demand or (ii) LIBOR plus a fixed spread depending upon our Senior Notes rating. As of September 30, 2002, there were no amounts outstanding under the program.

We have foreign currency risk associated with investments in wireless companies outside of the United States of America. Results for our international investments in unconsolidated subsidiaries are translated from the designated functional currency to the U.S. dollar using average exchange rates during the period, while assets and liabilities are translated at the exchange rate in effect at the reporting date. We have not entered into any derivative financial instruments to hedge our foreign currency exposure. We believe that the potential exposure is not material to our overall financial position or results of operations.

We have equity price risk associated with common stock warrants in our common stock which are held by DoCoMo. In association with the split-off, DoCoMo's warrants in AT&T Wireless Group tracking stock were converted into 41.7 million common stock warrants in AT&T Wireless Services with a strike price of \$35 per share.

The risk management discussion above, related to our market risks, contains forward-looking statements. Future impacts of market risk would be based on actual developments in the financial markets.

**FINANCIAL CONDITION AT SEPTEMBER 30, 2002, COMPARED WITH DECEMBER 31, 2001**

(In Millions)

	<b>At September 30, 2002</b>	<b>At December 31, 2001</b>
Total assets	\$ 45,784	\$ 41,722
Total liabilities		
18,095	14,731	
Minority interest		
51	46	
Mandatorily redeemable preferred stock		
146		
Mandatorily redeemable common stock		
7,664	7,664	
Total shareholders' equity		
\$19,828	\$19,281	

Total assets increased to \$45,784 million at September 30, 2002, an increase of \$4,062 million, or 9.7%, compared with December 31, 2001. The increase in total assets as of September 30, 2002, primarily resulted from an increase in goodwill, licensing costs, and property, plant and equipment associated with our acquisition of TeleCorp during the first quarter of 2002. Additionally, property, plant and equipment increased due to capital expenditures during the first three quarters of 2002. These increases were partially offset by the impairment charges recorded during the three months ended September 30, 2002 associated with licensing costs and investments in unconsolidated subsidiaries. Our cash and cash equivalents increased as well due to the proceeds received in our offering of \$3.0 billion of Senior Notes in April 2002, partially offset by the repayment of approximately \$1.6 billion of debt and related interest of subsidiaries of TeleCorp subsequent to the merger, and capital expenditures made during the nine months ended September 30, 2002.

Total liabilities were \$18,095 million at September 30, 2002, an increase of \$3,364 million, or 22.8%, compared with December 31, 2001. The increase was primarily due to the debt we assumed in conjunction with the acquisition of TeleCorp less the repayment of long-term debt subsequent to the merger, as well as an increase in long-term debt due to others associated with the \$3.0 billion of Senior Notes offering we completed in April 2002. The carrying value of our long-term debt due to others also increased by the \$234 million fair value adjustment on our interest rate swaps recorded in accordance with SFAS No. 133. This increase was partially offset by a decrease in deferred income taxes primarily due to the tax benefits of impairments recorded during the quarter, which was somewhat counteracted by the deferred tax valuation allowance.

Mandatorily redeemable preferred stock totaling \$146 million as of September 30, 2002, represented the fair value of the mandatorily redeemable preferred stock we issued in conjunction with the acquisition of TeleCorp and the related interest accretion subsequent to the acquisition date.

Mandatorily redeemable common stock totaling \$7,664 million as of September 30, 2002, and as of December 31, 2001, represented the fair value as of split-off date of the AT&T Wireless Services common shares held by DoCoMo. These shares are presented as mandatorily



## Edgar Filing: AT&T WIRELESS SERVICES INC - Form 10-Q

redeemable common stock due to certain redemption rights held by DoCoMo. Under certain circumstances, DoCoMo may require the repurchase of this investment at DoCoMo's original purchase price, plus interest, if we fail to meet specified technological milestones.

Shareholders' equity was \$19,828 million at September 30, 2002, an increase of \$547 million, or 2.8%, from December 31, 2001. The increase in shareholders' equity resulted primarily from the issuance of 146 million additional shares of AT&T Wireless Services

**Table of Contents**

common stock in conjunction with the acquisition of TeleCorp. Partially offsetting this increase was the net loss for the nine months ended September 30, 2002, which resulted in an increase in our accumulated deficit.

**RELATED PARTY TRANSACTIONS**

During the first quarter of 2002, we advanced an aggregate of \$251 million to Cascade Wireless, LLC (Cascade), an entity in which we own a significant equity interest, but is controlled by Wayne Perry, who at the time was one of our board members. We made the advance pursuant to contractual obligations entered into prior to Mr. Perry joining our board of directors. Cascade used these proceeds to finance the acquisition from third parties of licensed spectrum that we were not eligible to own, as well as to fund operating requirements of Cascade. We have entered into roaming and other agreements with Cascade, which allow our subscribers to roam in markets operated by Cascade.

In conjunction with our acquisition of TeleCorp, DoCoMo exercised its preemptive rights to acquire the maximum number of shares to which it was entitled pursuant to the Investor Agreement between us and DoCoMo. As a result, we issued 26.7 million shares to DoCoMo in February 2002 and recorded cash proceeds of \$382 million.

**INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES**

We hold equity interests in various domestic and international ventures and partnerships. These ventures and partnerships operate primarily in the wireless telecommunications industry. We account for these investments primarily under the equity method of accounting. In accordance with APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, we periodically review our cost method investments and equity method investments for impairment. These reviews are performed to determine whether declines in market values of our investments below their carrying values are deemed to be other than temporary. We employ a systematic methodology that considers available evidence in evaluating potential impairment of our investments. In the event that the carrying value of an investment exceeds its fair value, we evaluate, among other factors, the duration and extent to which the fair value is less than the carrying value; the financial health of and business outlook for the investee, including industry and sector performance, changes in technology, and operational and financing cash flow factors; and our intent and ability to hold the investment. We may record additional impairment losses in the future if additional declines occur which are deemed to be other than temporary.

The following discussion addresses significant transactions related to our investments in unconsolidated subsidiaries that occurred during the nine months ended September 30, 2002.

During the third quarter of 2002, we recognized pre-tax losses of \$369 million associated with our portion of impairment losses recognized by our equity method investments resulting from their annual impairment tests of licensing costs. Of the total pre-tax charge, \$260 million, \$84 million and \$25 million represent impairments of licensing costs recognized by Cascade Wireless, LLC, Alaska Native Wireless, LLC and Lewis and Clark Communications, LLC, respectively.

During the third quarter of 2002, we recorded pre-tax impairment losses of \$444 million primarily on three of our equity method investments. These impairments relate to declines in the fair values of certain international equity method investments that management deemed to be other than temporary. The majority of the total pre-tax charges represented impairments of our investments in Rogers Wireless Communications, Inc., Eurotel Praha, spol. s r.o. and BPL Cellular Ltd., of \$232 million, \$185 million, and \$24 million, respectively.

During the third quarter of 2002, we recognized a \$187 million pre-tax impairment charge related to our cost method investment in Dobson. Of the total pre-tax charge, \$173 million relates to our preferred stock investment and \$14 million to our remaining common stock investment balance.

Due to the losses recorded during the third quarter of 2002, we established a deferred tax valuation allowance of \$740 million. \$379 million of the deferred tax valuation allowance was allocated to our equity method investments within net equity (losses) earnings from investments in unconsolidated subsidiaries.

On July 25, 2002 we signed an agreement with Triton PCS, Inc. pursuant to which we have agreed to sell certain wireless licenses in Norfolk, Richmond and Roanoke, Virginia to Triton PCS, Inc. for \$65 million in cash. We own approximately 16% of Triton PCS, Inc. The transaction, which is subject to certain conditions and regulatory approvals, is expected to close in the fourth quarter of 2002. We expect to recognize a pre-tax gain of approximately \$35 million upon closing of the sale.

## **Table of Contents**

During the second quarter of 2002, we recorded a pre-tax impairment charge of \$120 million associated with our 50% equity interest in ACC Acquisitions, LLC, which is the parent company of ACC, which represents a write-off of our remaining equity investment balance. ACC has significant debt outstanding, including a bank credit facility and Senior Subordinated Notes. ACC's credit facility includes a financial covenant requiring it to not exceed a specified total debt leverage ratio. During the second quarter of 2002, ACC violated this covenant, which could result in acceleration of repayment of its credit facility and Senior Subordinated Notes. We have no guarantees or financial commitments associated with ACC's debt.

During the first quarter of 2002, we recorded a pre-tax impairment loss of \$57 million related to our common stock investment in Dobson.

On February 15, 2002, we acquired the 77% of TeleCorp that we did not already own. As a result of this transaction, we no longer treat our previously owned interest in TeleCorp as an equity method investment. See discussion under "TeleCorp PCS, Inc. Acquisition" for further details of this transaction.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement provides accounting and reporting standards for costs associated with the retirement of long-lived assets. This statement requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes the cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value, and the capitalized cost is depreciated over the estimated useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. We will be required to adopt this statement no later than January 1, 2003. We are currently assessing the impact of this statement on our results of operations, financial position and cash flows.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." This statement requires that a liability for a cost associated with an exit or disposal activity be recognized at fair value when the liability is incurred. We will be required to adopt this statement no later than January 1, 2003. We are currently assessing the impact of this statement on our results of operations, financial position and cash flows.

## **SUBSEQUENT EVENTS**

On October 24, 2002, we signed a non-binding letter of intent with a subsidiary of Dobson to transfer our ownership interests in the Anchorage, Alaska Metropolitan Service Area (MSA) and Alaska Rural Service Area (RSA) No.2 markets, which includes a population of over 430 thousand. In addition, we will transfer our shares of Dobson Series AA preferred stock, which we purchased in February 2001, to Dobson. In exchange, we will receive Dobson's ownership interests in the Santa Cruz, California MSA and California RSA No. 4 markets, which includes a population of over 640 thousand. The transaction remains subject to the execution of definitive agreements, final corporate approvals, federal regulatory approvals and certain other conditions.

On November 11, 2002, we and the other owners of ANW amended the terms of the venture. Pursuant to the revised agreements:

ANW has agreed to make a prepayment of indebtedness owing to us in the amount of \$98 million;

Upon the earlier of April 30, 2003, or ANW being relieved from any further obligations to the FCC with respect to Auction 35, we will pay \$229 million to the other owners of ANW and ANW will distribute certain amounts previously invested in ANW, resulting in distributions of \$144 million to us and \$233 million to the other owners of ANW;

In March 2007, the other owners of ANW may elect to require us to purchase their interests in ANW for an aggregate of \$145 million, whether or not ANW is granted the Auction 35 licenses. Under certain circumstances, this right may be exercised earlier, in which case the amount payable would be reduced by 5% per annum; and

We have agreed to fund ANW's remaining purchase price for the NextWave licenses of \$2.8 billion, if the NextWave licenses are granted to ANW.

**Table of Contents**

We anticipate taking a charge of approximately \$108 million in the fourth quarter of 2002 to reflect the difference between amounts accrued for our potential obligation to acquire the other owners' interests under the original terms of the venture and our current obligation associated with this amendment.

**FORWARD-LOOKING STATEMENTS**

Our disclosure and analysis in this document may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to our relationship with our former parent, AT&T, following our separation from AT&T in July 2001, financial condition, results of operations, cash flows, financing plans, business strategies, operating efficiencies or synergies, capital and other expenditures, network build-out and upgrade, competitive positions, availability of capital, growth opportunities for existing and new products and services, our acquisition and growth strategy, benefits from new technologies, availability and deployment of new technologies, our decision to exit the fixed wireless business, our acquisition of TeleCorp PCS, Inc., plans and objectives of management, and other matters.

Statements in this document that are not historical facts are hereby identified as forward-looking statements. These forward-looking statements, including, without limitation, those relating to the future business prospects, revenues, working capital, liquidity, capital needs, network build-out, interest costs and income, in each case, relating to us, wherever they occur in this document, are necessarily estimates reflecting the best judgment of senior management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. These forward-looking statements should, therefore, be considered in light of various important factors. Important factors that could cause actual results to differ materially from estimates or projections contained in the forward-looking statements include, without limitation:

the risks associated with the implementation of our GSM/GPRS network and our technology migration strategy, including risks relating to the implementation and operations of new systems and technologies, substantial required expenditures and potential unanticipated costs, the need to enter into roaming agreements with third parties, uncertainties regarding the adequacy of suppliers on whom we must rely to provide both network and consumer equipment and consumer acceptance of the products and services to be offered;

the effects of vigorous competition in the markets in which we operate and competition for more valuable customers, which may decrease prices charged, increase churn and change the customer mix, profitability and average revenue per user;

uncertainty about the level of consumer demand for our GSM/GPRS products and services, including the possibility of consumer dissatisfaction which could result from unfamiliarity with new technology, smaller footprint and service areas, differences in levels of customer care and different rate plans;

the potential impact of NTT DoCoMo's investment in us, including provisions of the agreements that restrict our future operations, and provisions that may require the repurchase of NTT DoCoMo's investment if we fail to meet specified conditions, under certain circumstances, and the cost of complying with our technology commitment;

the risk of increased churn resulting from introduction or popularity of new products and services by our competitors, potential FCC regulations mandating number portability for wireless phones, or customer dissatisfaction with our products and services;

the impact of oversupply of capacity resulting from excessive deployment of network capacity in the markets we serve;

the ongoing global and domestic trend towards consolidation in the telecommunications industry, which may have the effect of making our competitors larger and better financed and give these competitors more extensive resources, improved buying power and greater geographic reach, allowing them to compete more effectively;

the ability to enter into agreements to provide nationwide services and the cost of entering new markets necessary to provide nationwide services;

our ability to monetize our non-strategic assets, including our non-consolidated investments in foreign entities and excess spectrum;

the ability to establish a significant market presence in new geographic and service markets;

the availability and cost of capital and the consequences of increased leverage;

**Table of Contents**

the impact of any unusual items resulting from ongoing evaluations of our business strategies;

the requirements imposed on us or latitude allowed to competitors by the FCC or state regulatory commissions under the Telecommunications Act of 1996 or other applicable laws and regulations;

the risks and costs associated with the need to acquire additional spectrum to expand or enhance current and future services;

the risks and uncertainties associated with the integration of TeleCorp PCS, Inc.'s business and operations;

the results of litigation filed or to be filed against us, or of some types of litigation filed or to be filed against AT&T for which we have agreed to assume liability under the split-off agreements with AT&T;

the impact of WorldCom's bankruptcy, and decision to exit the wireless reseller business, on our results of operations, the resulting negative impact on our reseller distribution channel, and the risk of insolvency of other resellers, vendors and customers with whom we do business;

the possibility of one or more of the markets in which we compete being affected by changes in political, economic or other factors, such as monetary policy, legal and regulatory changes or other external factors over which we have no control; and

those factors discussed under Additional Factors That May Affect Our Business, Future Operating Results and Financial Condition in the following section.

The words estimate, project, intend, expect, believe, plan and similar expressions are intended to identify forward-looking statements. These forward-looking statements are found at various places throughout this document. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document. Moreover, in the future, we may make forward-looking statements about the matters described in this document or other matters concerning us.

**ADDITIONAL FACTORS THAT MAY AFFECT OUR BUSINESS, FUTURE OPERATING RESULTS AND FINANCIAL CONDITION**

*You should carefully consider the following factors that may affect our business, future operating results and financial condition, as well as other information included in this report. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of the following risks actually occur, our business, financial condition and operating results could be materially adversely affected.*

**We may substantially increase our debt in the future, which could subject us to various restrictions and higher interest costs and decrease our cash flow and earnings.**

We may substantially increase our debt in the future, which could subject us to various restrictions and higher interest costs and decrease our cash flow and earnings. We may also encounter difficulties in obtaining all the financing we need to fund our business and growth strategy on desirable terms. We may require substantial additional financing to fund capital expenditures, license purchases and costs and expenses in connection with funding our operations, domestic and international investments and growth strategy. We currently rely on our committed credit facilities and receivables securitization program to meet any additional financing needs. We are exploring and evaluating the relative advantages and disadvantages of various funding mechanisms. Other funding mechanisms that still may be considered include other forms of public and private debt facilities. The decision on debt composition is dependent on, among other things, our business and financial plans and the market conditions at the time of financing. The agreements governing this indebtedness may contain financial and other covenants that could impair our flexibility and restrict our ability to pursue growth opportunities. We may also need to utilize other funding sources, including issuance of public equity or debt securities, or issuance of commercial paper.

**Table of Contents**

**Our relationship with NTT DoCoMo, Inc. contains features that could adversely affect our financial condition or the way in which our business is conducted.**

DoCoMo, a leading Japanese wireless communications company, is our largest shareholder, and the agreements relating to DoCoMo's investment contain requirements and contingencies that could materially adversely affect our financial condition and technology strategies. Pursuant to the Investor Agreement, as amended, between AT&T Wireless Services, AT&T Corp. and DoCoMo, DoCoMo may require us to repurchase its investment at DoCoMo's original purchase price, plus interest, if under certain circumstances, and subject to the exceptions identified in the Investor Agreement:

AT&T Wireless Services fails to launch services based on W-CDMA technology in 13 of the top 50 wireless markets in the United States (as defined by reference to Basic Trading Areas listed in the Investor Agreement) prior to June 30, 2004; or

AT&T Wireless Services Board of Directors approves changes in its use of W-CDMA technology as its primary standard for delivery of services based on third-generation technology prior to June 30, 2004.

Two other provisions of the Investor Agreement limit our ability to take certain actions without DoCoMo's consent. We need to obtain DoCoMo's consent to change the scope of our business such that our current businesses, including businesses that are part of our business plan and natural evolutions of those businesses, taken as a whole no longer constitute our primary business, or to allow another wireless operator to acquire more than 15% but less than 50% of our equity in connection with the formation of a strategic alliance, with certain exceptions specified in the Investor Agreement. These limitations could prevent us from taking advantage of some business opportunities or relationships that we might otherwise pursue.

**Our significant network build-out requirements may not be completed as planned.**

We need to complete significant build-out activities, including:

completion of regularly required build-out activities in some of our existing wireless markets;

deployment of GSM/GPRS in additional markets;

deployment of next-generation technology to support enhanced data services and increase network efficiency.

Failure to complete the build-out of our GSM/GPRS network and support facilities and systems and launch of operations, a delay in the build-out and launch or increased cost of the build-out and launch could have a material adverse effect on our operations and financial condition. As we deploy our GSM/GPRS network, we may need to reallocate spectrum previously utilized by our TDMA network in certain markets. This could result in disruptions to, or decreased quality of service to TDMA customers in those markets, or may result in our TDMA customers roaming on another wireless service provider's system in that market, which could increase our roaming costs. Although we plan to build out our GSM/GPRS network over virtually all of our TDMA footprint, coverage will not be identical, which could adversely affect consumer demand for our GSM/GPRS service. As we continue to build out our network, we must, among other things, continue to:

lease, acquire or otherwise obtain rights to a large number of cell and switch sites;

obtain zoning variances or other local governmental or third-party approvals or permits for network construction;

complete the radio frequency design, including cell site design, frequency planning and network optimization, for each of our markets; and

improve, expand and maintain customer care, network management, billing and other financial and management systems.

In addition, problems in vendor equipment availability, technical resources, system performance or system adequacy could delay the launch of new or expanded operations in new or existing markets or result in increased costs in all markets. Due to the accelerated build-out of our GSM/GPRS network, many of the customer care and infrastructure support systems for this network are not fully implemented. We may experience unforeseen difficulties, or incur additional expenses, if traffic on the network or subscriber growth exceeds the capacity of our support and care systems. We intend to rely on the services of various companies that are experienced in design and

## **Table of Contents**

build-out of wireless networks in order to accomplish our build-out schedule. However, we may not be able to obtain satisfactory contractors on economically attractive terms or ensure that our contractors or the systems they install will perform as we expect.

### **We have substantial capital requirements that we may not be able to fund.**

Our strategy and business plan will continue to require substantial capital, which we may not be able to obtain on favorable terms or at all. A failure to obtain necessary capital would have a material adverse effect on us, and result in the delay, change or abandonment of our development or expansion plans and the failure to meet regulatory build-out requirements. We currently estimate that our capital expenditures for the build out of our mobility networks will total up to \$4.0 billion in 2003, as compared to \$5.1 billion in 2002, \$5.0 billion in 2001 and \$3.7 billion in 2000. We also expect to incur substantial capital expenditures in future years. The actual amount of the funds required to finance our network build out and other capital expenditures may vary materially from management's estimate. We have entered into various contractual commitments associated with the development of our next-generation strategy, of which approximately \$1.4 billion were outstanding at September 30, 2002. These include purchase commitments for network equipment, as well as handsets. In addition, we anticipate that we will enter into material purchase commitments in the future. We also may require substantial additional capital for, among other uses, acquisitions of providers of wireless services, spectrum license or system acquisitions, system development and network capacity expansion. We have also entered into agreements for investments and ventures which have required or may require substantial capital, including our agreement to invest up to \$2.8 billion in Alaska Native Wireless if it is awarded additional licenses from the 1900 megahertz auction concluded in 2001. These agreements also may contain provisions potentially requiring substantial additional capital in future circumstances, such as allowing the other investors to require us to purchase assets or investments. If we are unable to finance our capital commitments either through cash from operations or external financing, it would have a material adverse effect on our financial condition and results of operations.

### **The actual amount of funds necessary to implement our strategy and business plan may materially exceed current estimates, which could have a material adverse effect on our financial condition and results of operations.**

The actual amount of funds necessary to implement our strategy and business plan may materially exceed our current estimates in the event of various factors including: departures from our current business plan, unforeseen delays, cost overruns, unanticipated expenses, regulatory developments, engineering design changes, and technological and other risks. If actual costs do materially exceed our current estimates for these or other reasons, this could have a material adverse effect on our financial condition and results of operations.

### **Our business and operations could be hurt if we are unable to establish new affiliate relationships to expand our digital network or if our existing or any new affiliates do not or cannot develop their systems in a manner consistent with our systems.**

To accelerate the build out of wide scale coverage of the U.S. by a digital mobile wireless network operating on the technical standards we have adopted, we have entered into affiliation agreements with other entities that provide wireless services or hold spectrum licenses. Through contractual arrangements between these affiliates and us, our customers are able to obtain service in the affiliates' territories, and the affiliates' customers are able to obtain service in our territory. In all markets where these affiliates operate, we are at risk because we do not control the affiliates. As a result, we cannot compel these affiliates to participate in our technology migration strategy. Our ability to provide service on a nationwide level and to implement our next-generation strategy could be adversely affected if these affiliates are unable or unwilling to participate in the further development of our digital network. We may establish additional affiliate relationships to accelerate build out of our digital mobile network. If we are unable to establish such affiliate relationships, or if any such affiliates are unable to or do not develop their systems in a successful manner consistent with our network, our ability to service our customers and expand the geographic coverage of our digital network could be adversely affected.

### **If Alaska Native Wireless is granted the NextWave licenses in Auction 35 for which it was the winning bidder, we could be required to invest up to \$2.8 billion to fund the acquisition of licenses that are currently worth significantly less than that amount.**

Alaska Native Wireless was the winning bidder for licenses costing \$2.9 billion in Auction 35, which occurred in early 2001. We may be required to invest up to \$2.8 billion in Alaska Native Wireless to fund the purchase for licenses, which might be awarded to Alaska Native Wireless in Auction 35. The value of the NextWave licenses has declined since Auction 35 was completed. Further declines in value could occur pending resolution of the disposition of the NextWave licenses, which is subject to a pending Supreme Court decision and FCC rule making proposals. If NextWave licenses are ultimately awarded to Alaska Native Wireless, pursuant to Auction 35, and we are required to fund the remaining purchase price of \$2.8 billion, we could be required to take an impairment charge reflecting the difference between the purchase price for the licenses and their fair value.

**Table of Contents**

**If Alaska Native Wireless is granted the NextWave licenses in Auction 35 for which it was the winning bidder and we are unable to reach agreement with them regarding the development and use of those licenses, our ability to implement our next-generation strategy may be adversely affected.**

We have not reached any agreements with Alaska Native Wireless as to whether it will participate in our digital mobile wireless network or whether our subscribers will be able to roam on their network. If Alaska Native Wireless is granted the remaining NextWave licenses in Auction 35 for which it was the highest bidder and we are unable to reach agreement regarding the use and development of those licenses it could have a material adverse impact on the timing and cost of our technology migration strategy.

**Potential acquisitions may require us to incur substantial additional debt and integrate new technologies, operations and services, which may be costly and time-consuming.**

An element of our strategy is to expand our networks so that each covers approximately 75% of the U.S. population, which we intended to accomplish in part through the acquisition of TeleCorp PCS and which we may continue to pursue through other acquisitions of licenses, systems and wireless providers. The acquisition of TeleCorp PCS resulted in our assumption of substantial additional indebtedness. Further, other acquisitions may cause us to incur substantial additional indebtedness to finance such acquisitions or to assume indebtedness of the entities that are acquired. In addition, we may encounter difficulties in integrating those acquired operations into our own operations, including as a result of different technologies, systems, services or service offerings. These actions could prove costly or time-consuming or divert our management's attention from other business matters.

**We may encounter difficulties implementing our GSM/GPRS deployment strategy, which could have a negative impact on subscriber growth and retention, and our financial results.**

Our technology strategy involves operating our recently deployed GSM/GPRS network separately from our TDMA network. We may not be able to achieve or maintain the balanced loading on each network necessary to optimize capital spending or operational expenses. We deployed our GSM/GPRS equipment at our existing TDMA sites, to the extent possible. Due to the different operating characteristics of TDMA and GSM/GPRS equipment the coverage of our GSM/GPRS network will not be identical to our TDMA network, particularly where we have deployed a GSM/GPRS system utilizing 1900 MHz spectrum over a TDMA system using 850 MHz spectrum. This may result in customer dissatisfaction.

We may have difficulty upgrading our TDMA network as our suppliers shift resources to next-generation technology development, decreasing their incentives to develop enhancements or upgrades to their TDMA product lines because of decreased economies of scale. As a result, the cost structure for our TDMA offerings might increase, or the quality of our services could be impaired, resulting in increased churn of TDMA customers and reduced profitability.

Handsets that will operate on both our TDMA and GSM/GPRS networks are more expensive than TDMA handsets and may have operational limitations, which could impede our efforts to sell GSM/GPRS services and lead to increased churn. Our strategy assumes a portion of our customers will prefer the flexibility offered by new dual mode TDMA/GSM/GPRS handsets, referred to as "GAIT" phones. Because GAIT phones are required by only a limited number of carriers that operate both TDMA and GSM/GPRS networks, they may not be produced in sufficient quantities when needed, and their limited use may be insufficient to achieve high economies of scale. These handsets are new products that may have operational limitations or sub-optimal features that may discourage customer



**Table of Contents**

use. If these handsets are not economical or attractive to customers, we may experience increased churn, our costs could increase, and our profitability could be reduced.

**If our wireless service offerings do not meet customer expectations, we will be unable to attract and retain customers.**

Customer acceptance of the services we offer is and will continue to be affected by technology-based differences and by the operational performance and reliability of our wireless networks. We may have difficulty attracting and retaining customers if we are unable to resolve quality issues relating to our wireless networks as they arise or if those issues limit our ability to expand our network capacity or were to place us at a competitive disadvantage to other wireless service providers in our markets. The level of consumer demand for our next generation products is uncertain. Consumer demand could be impacted by differences in technology, footprint and service areas, customer care levels and rate plans.

**If the demand for wireless data services does not grow, or if we fail to capitalize on such demand, it could have an adverse effect on our growth potential.**

We have committed significant resources to develop and market wireless data services, in anticipation of a growth in demand for those services. That demand may not materialize. Even if such demand does develop, our ability to deploy and deliver wireless data services relies, in many instances, on new and unproven technology. Existing technology may not perform as expected. We may not be able to successfully develop or obtain new technology to effectively and economically deliver these services. The success of wireless data services is substantially dependent on the ability of others to develop applications for wireless data devices and to develop and manufacture devices that support wireless applications. These applications or devices may not be developed or developed in sufficient quantities to support the deployment of wireless data services. These services may not be widely introduced and fully implemented at all or in a timely fashion. These services may not be successful when they are in place, and customers may not purchase the services offered. Consumer needs for wireless data services may be met by technologies such as 802.11, known as wi-fi, which does not rely on FCC regulated spectrum. The lack of standardization of across wireless data handsets may contribute to customer confusion, which could slow acceptance of wireless data services, or increase customer care costs. Either could adversely affect our ability to provide these services profitably. If these services are not successful or costs associated with implementation and completion of the rollout of these services materially exceed our current estimates, our financial condition and prospects could be materially adversely affected.

**We face substantial competition.**

There is substantial competition in the wireless telecommunications industry. We expect competition to intensify as a result of the entry of new competitors and the development of new technologies, products and services. Competition is expected to increase as the rate of subscriber growth for the industry slows. Other two-way wireless providers, including other cellular and personal communications services, operators and resellers, serve each of the markets in which we compete. Some of the indirect retailers who sell our services also sell our competitors' services. A majority of U.S. markets have five or more commercial mobile radio service providers, and all of the top 50 U.S. metropolitan markets have at least four, and in some cases as many as seven or more, facilities-based wireless service providers offering wireless services on cellular, personal communications services or specialized mobile radio frequency. Competition also may increase to the extent that smaller, stand-alone wireless providers transfer licenses to larger, better capitalized and more experienced wireless providers. This competition puts downward pressure on revenue growth and profit margins, and we expect this trend to continue.

**Market prices for wireless services may decline in the future.**

We anticipate that market prices for two-way wireless services generally will decline in the future due to increased competition. We expect significant competition among wireless providers, including from new entrants, to continue to drive service and equipment prices lower. We also expect that there will be increases in advertising and promotional spending, along with increased demands on access to distribution channels. All of this may lead to greater choices for customers, possible consumer confusion, and increasing movement of customers between competitors, which we refer to as churn. Our ability to compete successfully also will depend on marketing, and on our ability to anticipate and respond to various competitive factors affecting the industry, including new services, changes in consumer preferences, demographic trends, economic conditions and discount pricing strategies by competitors.

## **Table of Contents**

### **Consolidation in the wireless communications industry may adversely affect us.**

The wireless communications industry has experienced significant consolidation. The mergers or joint ventures of Bell Atlantic Corporation/GTE Corporation/Vodafone AirTouch, now called Verizon, SBC/BellSouth, now called Cingular, and Deutsche Telekom/VoiceStream Wireless, now called T-Mobile, have created large, well-capitalized competitors with substantial financial, technical, marketing and other resources to respond to our offerings. As a result, these competitors may be able to offer nationwide services and plans more quickly and more economically, may be able to obtain more favorable roaming rates, and may be better able to respond to our offers.

We have had in the past, and we may have in the future, discussions with other companies in the wireless communications industry relating to various possible transactions or business combinations. While there is no assurance that any such discussions will result in any transaction, if we were to engage in such a transaction, it could have a significant impact on our business, financial condition and results of operations. In addition, if the wireless communications industry continues to consolidate and we do not participate in that consolidation, the consolidation may create even stronger competitors and adversely affect us and our competitive position.

### **Our business and operations would be adversely affected if we fail to acquire adequate radio spectrum in FCC auctions or through other transactions.**

Our domestic business depends on the ability to use portions of the radio spectrum licensed by the FCC. We could fail to obtain sufficient spectrum capacity in new and existing markets, whether through FCC auctions or other transactions, in order to meet the expanded demands for our existing services, as well as to enable development of next-generation services. This type of failure would have a material adverse impact on the quality of our services or our ability to roll out such future services in some markets, or could require that we curtail existing services in order to make spectrum available for our next-generation services. We may acquire more spectrum through a combination of alternatives, including participation in spectrum auctions. As required by law, the FCC periodically conducts auctions for licenses to use some parts of the radio spectrum. The decision to conduct auctions, and the determination of what spectrum frequencies will be made available for auction, are provided for by laws administered by the FCC. The FCC may not allocate spectrum sufficient to meet the demands of all those wishing to obtain licenses. Even if the FCC determines to conduct further auctions in the future, we may not be successful in those future auctions in obtaining the spectrum that we believe is necessary to implement our business and technology strategies. We may also seek to acquire radio spectrum through purchases and swaps with other spectrum licensees or otherwise, including by purchases of other licensees outright. However, we may not be able to acquire sufficient spectrum through these types of transactions, and we may not be able to complete any of these transactions on favorable terms.

### **Significant changes in wireless industry technology or demand for wireless service could materially adversely affect us.**

The wireless communications industry is experiencing significant technological change. This change includes evolving industry standards, ongoing improvements in the capacity and quality of digital technology, shorter development cycles for new products, enhancements and changes in end-user needs and preferences, development of data and broadband capabilities, and migration to next-generation services. The pace and extent of customer demand may not continue to increase, and airtime and monthly recurring charges may continue to decline. As a result, the future prospects of the industry and of our company and the success of our competitive services remain uncertain. Also, alternative technologies may develop that may provide wireless communications service or alternative service superior to that available from us. Such developments could have a material adverse affect on us.

### **Our technology may not be competitive with other technologies or be compatible with next-generation technology.**

There are three existing digital transmission technologies, none of which is compatible with the others. We selected time division multiple access technology for our second-generation network because we believe that this technology offers several advantages over other second-generation technologies. However, a number of other wireless service providers chose code division multiple access or global system for mobile communications as their digital wireless technology. For our path to next-generation technology, we have chosen a global system for mobile communications platform to make available, among other things, enhanced data services using general packet radio service technology, and next-generation capabilities using enhanced data rates for global evolution and ultimately universal mobile telecommunications systems technologies. These technologies may not provide the advantages we expect. Other wireless providers have chosen a competing wideband technology as their next-generation technology. If the universal mobile telecommunications standard does not gain widespread acceptance, it could materially adversely affect our business, financial condition and prospects. As we implement our plans for deployment of technology for next-generation capabilities, we will continue

## **Table of Contents**

to incur substantial costs associated with maintaining our time division multiple access networks. Also, these networks are not compatible, and customers with phones that operate only on one network will not initially be able to use those phones on the other networks. There are risks inherent in the development of new next-generation equipment and we may face unforeseen costs, delays or problems that may have a material adverse effect on us.

### **Termination or impairment of our relationship with a small number of key suppliers or vendors could adversely affect our revenues and results of operations.**

We have developed relationships with a small number of key vendors, including Nokia Mobile Phones, Inc., Sony Ericsson Mobile Communications, Siemens AG, Motorola, Inc. and Matsushita Electric Industrial Co., Ltd. (Panasonic) for our supply of wireless handsets; Nortel Networks, Inc., Telefonaktiebolaget LM Ericsson, and Nokia Networks, Inc. and Hewlett Packard Company for our supply of telecommunications infrastructure equipment; Convergys Information Management Group for our billing services; Bechtel Corporation for build out of our networks; and Siebel Systems, Inc. for information systems. We do not have operational or financial control over our key suppliers and have limited influence with respect to the manner in which these key suppliers conduct their businesses. If these key suppliers were unable to honor, or otherwise fail to honor, their obligations to us, we could experience disruptions of our business and adverse effects on our revenues and results of operations.

### **We rely on roaming arrangements with other carriers, which we may be unable to obtain or maintain in the future.**

We may not continue to be able to obtain or maintain roaming agreements with other wireless providers on terms that are acceptable to us. Our customers automatically can access another provider's analog cellular or digital system only if the other provider allows our customers to roam on its network. We rely on agreements to provide roaming capability to our customers in many areas of the U.S. that either of our networks does not serve. Some competitors may be able to obtain lower roaming rates than we do because they have larger call volumes or because of their affiliations with, or ownership of, wireless providers. In addition, the quality of service that a wireless provider delivers during a roaming call may be inferior to the quality of service we or our affiliates provide, the price of a roaming call may not be competitive with prices of other wireless providers for such call, and our customers may not be able to use any of the advanced features, such as voicemail notification, that the customer enjoys when making calls within our network. Finally, we may not be able to obtain roaming agreements for our GSM/GPRS and next-generation products and services with pricing or coverage we desire.

### **Our business is seasonal and we depend on fourth quarter results, which may not continue to be strong.**

The wireless industry, including our company, has experienced a trend of generating a significantly higher number of customer additions and handset sales in the fourth quarter of each year as compared to the other three fiscal quarters. A number of factors contribute to this trend, including the increasing use of retail distribution, which is dependent upon the year-end holiday shopping season, the timing of new product and service announcements and introductions, competitive pricing pressures, and aggressive marketing and promotions. Strong fourth quarter results for customer additions and handset sales may not continue for the wireless industry or for us. In the future, the number of our customer additions and handset sales in the fourth quarter could decline for a variety of reasons, including our inability to match or beat pricing plans offered by competitors, failure to adequately promote our products, services and pricing plans, failure to have an adequate supply or selection of handsets, or lower demand for wireless services. If in any year fourth quarter results fail to significantly improve upon customer additions and handset sales from the year's previous quarters, this could adversely impact our results for that year.

### **A high rate of churn would negatively impact our business.**

A high rate of churn would adversely affect our results of operations because of loss of revenue and because the cost of adding a new subscriber, which generally includes a commission expense and/or a handset subsidy, is a significant factor in income and profitability for participants in the wireless industry. We may be required to subsidize product upgrades and/or reduce pricing to match competitors' initiatives and to retain customers, which could adversely impact our revenue and profitability.

### **Our industry will continue to be adversely affected if the economic slowdown persists.**

The economies of the United States and many other nations are suffering from a significant economic slowdown, and the rate at which the industry has added subscribers has slowed. There can be no assurance that such a slowdown will not continue to adversely affect the industry.

**Table of Contents**

**Equipment failure and natural disasters or terrorist acts may adversely affect our operations.**

A major equipment failure or a natural disaster or terrorist act that affects our mobile telephone switching offices, microwave links, third-party owned local and long distance networks on which we rely, our cell sites or other equipment or the networks of other providers on which our subscribers roam could have a material adverse effect on our operations. While we have insurance coverage for some of these events, our inability to operate our wireless system even for a limited time period may result in a loss of subscribers or impair our ability to attract new subscribers, which would have a material adverse effect on our business, results of operations and financial condition.

**Our future financial results could be adversely impacted by asset impairments or other charges.**

Effective January 1, 2002, we adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets. As a result, we are required to test both acquired goodwill and other indefinite-lived intangible assets, consisting of our licensing costs, for impairment on an annual basis based upon a fair value approach, rather than amortizing them over time. We are also required to test goodwill for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce our enterprise fair value below its book value. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of the business, or other factors. If our market value continues to be less than our book value for an extended period of time, it could trigger the need for impairment tests of acquired goodwill between annual tests. Additionally, our licensing costs must be tested between annual tests if events or changes in circumstances indicate that the asset might be impaired. The amount of any such annual or interim impairment charge could be significant, and could have a material adverse effect on our reported financial results for the period in which the charge is taken.

**Media and other reports have suggested radio frequency emissions may be linked to various health concerns and interfere with various medical devices, and we may be subject to potential litigation relating to these health concerns.**

Media and other reports have linked radio frequency emissions from wireless handsets to various health concerns, including cancer, and to interference with various electronic medical devices, including hearing aids and pacemakers. Research and studies are ongoing. Whether or not such research or studies conclude there is a link between radio frequency emissions and health, these concerns over radio frequency emissions may discourage the use of wireless handsets or service or expose us to potential litigation, which could have a material adverse effect on our results of operations. Several class action lawsuits have been filed against us, several other wireless service providers and several wireless phone manufacturers, asserting products liability, breach of warranty and other claims relating to radio frequency transmissions to and from wireless phones. The complaints seek damages for personal injuries and the costs of headsets for wireless phone users as well as injunctive relief.

**Our operations are subject to government regulation that could have adverse effects on our business.**

The licensing, construction, operation, sale, resale and interconnection arrangements of wireless communications systems are regulated to varying degrees by the FCC, and, depending on the jurisdiction, by state and local regulatory agencies. These regulations may include, among other things, required service features and capabilities, such as number portability or emergency 911 service. We recently entered into a consent decree with the FCC relating to our implementation of emergency 911 service. If we are unable to comply with the terms of the decree, it could have an adverse effect on our business. In addition, the FCC, together with the U.S. Federal Aviation Administration, regulates tower marking and lighting. Any of these agencies having jurisdiction over our business could adopt regulations or take other actions that could require us to make unanticipated capital expenditures or otherwise adversely affect our business. Our ability to comply with these regulations may depend on third parties if the regulations require new features to be built into our infrastructure.

FCC licenses to provide wireless services or personal communications services are subject to renewal and revocation. There may be competition for our licenses upon their expiration and it is possible that the FCC will not renew them. FCC rules require all wireless and personal communications services licensees to meet specified build-out requirements. We may not be able to meet these requirements in each market. Failure to comply with these requirements in a given license area could result in revocation or forfeiture of our license for that license area or the imposition of fines on us by the FCC.

## **Table of Contents**

### **We may be subject to potential litigation relating to the use of wireless phones while driving.**

Some studies have indicated that some aspects of using wireless phones while driving may impair drivers' attention in some circumstances, making accidents more likely. These concerns could lead to potential litigation relating to accidents, deaths or serious bodily injuries, or to new restrictions or regulations on wireless phone use, any of which also could have material adverse effects on our results of operations.

### **State and local legislation restricting or prohibiting wireless phone use while driving could cause subscriber usage to decline.**

Some state and local legislative bodies have proposed legislation restricting or prohibiting the use of wireless phones while driving motor vehicles. Similar laws have been enacted in other countries. On June 28, 2001, New York State enacted a law prohibiting the use of handheld wireless phones while driving motor vehicles other than through the use of hands-free equipment. To date, a small number of communities in the U.S. have also passed restrictive local ordinances. These laws, or if passed, other laws prohibiting or restricting the use of wireless phones while driving, could have the effect of reducing subscriber usage, which could cause a material adverse effect on our results of operations.

### **The historical financial information of AT&T Wireless Group may not be representative of our results as an independent entity and, therefore, may not be reliable as an indicator of our historical or future results.**

The historical financial information of AT&T Wireless Group may not reflect what our results of operations, financial position and cash flows would have been had we been an independent entity during the periods prior to the split-off. This is because the financial information reflects allocations for services provided to AT&T Wireless Group by AT&T, and these allocations may not reflect the costs we incur for similar or incremental services as an independent entity.

### **We will generally be responsible for tax liability if the split-off is taxable.**

Under the separation and distribution agreement between us and AT&T, subject to limited exceptions, we will be responsible for any tax liability and any related liability that results from the split-off failing to qualify as a tax-free transaction. If the split-off failed to qualify as a tax-free transaction, this liability would have a material adverse effect on us.

### **We no longer receive tax sharing payments from AT&T since we ceased to be a member of the AT&T consolidated tax return group, and we may incur other tax liabilities as a result of the split-off and pre-split-off transactions.**

As a result of the split-off, we ceased to be a member of the consolidated federal income tax return group of which AT&T is the common parent. Consequently, taxable income and losses, and our other tax attributes in post-split-off taxable periods can generally no longer offset taxable income or losses and other tax attributes of the AT&T consolidated tax return group. For two taxable years after the split-off, under U.S. federal income tax rules, to the extent provided by agreement, we would generally be able to carry back any such tax losses of members of the AT&T Wireless Group, subject to limitations, against taxable income, if any, of members of AT&T Wireless Group for pre-split-off periods. The Job Creation and Worker Assistance Act of 2002 increased the carry back period for net operating losses from two years to five years for tax periods ending in 2001 or 2002. Under our tax sharing agreement with AT&T, we generally may only carry back net operating losses (and not other tax attributes) from post-split-off taxable periods to pre-split-off taxable periods, and only if those losses are significant and with the consent of AT&T, which consent AT&T has agreed not to withhold unreasonably. To the extent we have tax losses in post-split-off taxable periods, we would generally no longer receive current tax sharing payments with respect to those losses (other than payments attributable to net operating loss carrybacks as described above). Instead, except where those losses can be carried back, we would benefit from those losses only if and when we generated sufficient taxable income in future years to utilize those tax losses on a stand-alone basis. In addition, there may be tax costs associated with the split-off that result from our ceasing to be a member of the AT&T consolidated tax return group, as well as from pre-split-off transactions. If incurred, these costs could be material to our results.

### **Various factors may interfere with our ability to engage in desirable strategic transactions and equity issuances.**

We may be prevented from engaging in some desirable strategic transactions. The Internal Revenue Code restricts the ability of a company which has undergone a tax-free split-off to make particular issuances of shares generally within a two-year period after the split-off. In addition, the separation and distribution agreement prohibits us, for a period of 30 months following the split-off, from entering into particular transactions that could render the split-off taxable. This may discourage, delay or prevent a merger, change of

**Table of Contents**

control, or other strategic or capital raising transactions involving our issuance of equity. Provisions of our amended and restated certificate of incorporation and by-laws, rights plan, applicable law and the DoCoMo agreements may also have the effect of discouraging, delaying or preventing change of control transactions that our shareholders find desirable.

**We may lose rights under agreements with AT&T if a change of control occurs.**

Some of the agreements that we have entered into with AT&T in connection with the split-off, including the brand license agreement, master carrier agreement and other commercial agreements, contain provisions that give one party rights in the event of a change of control of the other party. These provisions may deter a change of control. In the event of a change of control, the exercise of these rights could have a material adverse effect on us.

**The value to us of our right to use the AT&T brand could be adversely impacted by A&T Corp. or others.**

Our license from AT&T Corp. of the AT&T brand grants us limited exclusivity. Our ability to control who is licensed to use the AT&T brand is limited. We may not be able to prevent AT&T Corp. from licensing the brand for uses that we feel could adversely impact the value of the brand to us. The value of the brand could be adversely impacted by actions of AT&T Corp, or any licensee, or the public perception of companies using the brand.

**Table of Contents**

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information relating to market risk is included in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations under the heading Quantitative and Qualitative Information About Market Risk.

ITEM 4. CONTROLS AND PROCEDURES

We maintain a rigorous set of disclosure controls and procedures and internal controls designed to ensure that information required to be disclosed in our filings under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Our principal executive and financial officers have evaluated our disclosure controls and procedures within 90 days prior to the filing of this Quarterly Report on Form 10-Q and have determined that such disclosure controls and procedures are effective.

Subsequent to our evaluation, there were no significant changes in internal controls or other factors that could significantly affect internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

**Table of Contents**

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

**Title**

99.1 Certification of CEO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

99.2 Certification of CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

(b) Reports on Form 8-K

None.



**Table of Contents**

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AT&T WIRELESS SERVICES, INC.

By: /s/ Joseph McCabe, Jr.

---

Joseph McCabe, Jr.  
Executive Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer) Dated: November 13,  
2002

CERTIFICATIONS

I, John D. Zeglis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AT&T Wireless Services, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: November 13, 2002

By: /s/ John D. Zeglis

---

## Edgar Filing: AT&T WIRELESS SERVICES INC - Form 10-Q

John D. Zeglis  
Chief Executive Officer

I, Joseph McCabe, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of AT&T Wireless Services, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: November 13, 2002

By: /s/ Joseph McCabe, Jr.

---

Joseph McCabe, Jr.  
Chief Financial Officer