

Edgar Filing: AT&T CORP - Form 8-K

AT&T CORP
Form 8-K
April 23, 2003

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 8-K

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

Date of Report: April 23, 2003

AT&T CORP.
(Exact Name of Registrant as Specified in Charter)

New York

(State or Other Jurisdiction of Incorporation)

1-1105
(Commission File Number)

13-4924710
(IRS Employer Identification No.)

One AT&T Way
Bedminster, New Jersey
(Address of Principal Executive
Offices)

07921
(Zip Code)

Registrant's telephone number, including area code: (800) 257-7865

Not Applicable

(Former Name or Former Address, If Changed Since Last Report)

A New York
Corporation

Commission File
No. 1-1105

I.R.S. Employer
No.13-4924710

Form 8-K
April 23, 2003

AT&T Corp.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS.

(c) EXHIBITS

Exhibit 99 - Press release dated April 23, 2003.

ITEM 9. REGULATION FD DISCLOSURE.

On April 23, 2003, AT&T Corp. issued a press release announcing first quarter 2003 earnings. A copy of the press release is attached as Exhibit 99.

Edgar Filing: AT&T CORP - Form 8-K

This information furnished under "Item 9. Regulation FD Disclosure" is intended to be furnished under "Item 12. Results of Operations and Financial Condition" in accordance with SEC Release No. 33-8216.

The information in this Form 8-K and the Exhibit attached hereto shall not be deemed "filed" for purposes of Section 18 of the Securities Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.

Form 8-K
April 23, 2003

AT&T Corp.

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 CORP.

/s/ Robert S. Feit

By: Vice President - Law and Secretary

April 23, 2003

EXHIBIT 99

[AT&T LOGO OMITTED]

News Release

FOR RELEASE WEDNESDAY, APRIL 23, 2003

AT&T Announces First Quarter 2003 Earnings

- o Earnings per diluted share from continuing operations of \$0.67, compared to \$0.60 per diluted share in the prior year first quarter
- o Consolidated revenue of \$9.0 billion for the quarter
- o Operating income of \$1.2 billion for the quarter

BEDMINSTER, N.J. -- AT&T (NYSE: T) today reported income from continuing operations of \$529 million, or earnings per diluted share of \$0.67, for the first quarter of 2003. The company's current quarter income from continuing operations compares favorably to income of \$446 million, or earnings per diluted share of \$0.60, in the first quarter of 2002.

Edgar Filing: AT&T CORP - Form 8-K

First quarter 2003 net income of \$571 million, or earnings per diluted share of \$0.73, included income of \$42 million, or \$0.06, related to the cumulative effect of the adoption of a new accounting standard. First quarter 2002 net loss of \$975 million, or \$1.32 per diluted share, included losses of \$0.76 and \$1.16 from discontinued operations and the cumulative effect of the adoption of a new accounting standard, respectively.

"AT&T's solid first quarter results demonstrate our continued success in executing in the marketplace, taking market share and growing key areas of our business despite ongoing economic weakness and a difficult telecom services operating environment," said AT&T Chairman and CEO David W. Dorman. "We remain focused on meeting customer needs and further differentiating AT&T through targeted investments aimed at improving our network capabilities and cost structure in ways that our competitors simply cannot match."

AT&T reported first quarter 2003 consolidated revenue of \$9.0 billion, which included \$6.4 billion from AT&T Business Services and \$2.5 billion from AT&T Consumer Services. This represents a decline of 5.9 percent versus the first quarter of 2002, primarily due to continued declines in long distance (LD) voice services, partially offset by growth in several key segments of AT&T Business Services, as well as the continued success of AT&T Consumer Services' bundled local and LD offering. AT&T Business Services revenue declined by 1.4 percent compared with the prior year first quarter, while AT&T Consumer Services revenue declined by 17.8 percent.

AT&T's first quarter 2003 operating income totaled \$1.2 billion, resulting in a consolidated operating margin of 13.0 percent. AT&T Business Services posted operating income of \$600 million, yielding a margin of 9.3 percent, while AT&T Consumer Services generated operating income of \$632 million, yielding a margin of 24.9 percent.

Outlook

AT&T expects that it will meet or exceed its previously stated 2003 consolidated revenue growth and operating income margin guidance. The company has lowered its guidance for 2003 capital expenditures from a prior range of \$3.3 to \$3.5 billion to around \$3.0 billion.

AT&T UNIT HIGHLIGHTS

Effective with the current reporting period, AT&T is providing additional product-line revenue detail as part of its quarterly financial disclosures. Within AT&T Business Services, the company is now providing quarterly revenue for long distance voice, local voice, data services, Internet protocol & enhanced services (IP&E-services), outsourcing, professional services & other as well as additional operational details. Within AT&T Consumer Services, the company is now providing quarterly revenue for standalone long distance, transactional & other services, as well as bundled services.

AT&T Business Services

- o Revenue was \$6.4 billion, a decline of 1.4 percent from the prior year first quarter. The unit's revenue performance reflects continued weakness in retail demand and overall telecommunications spending, partially offset by strong growth in local, wholesale and IP&E-services revenue.
- o The managed component of total data services, and IP&E-services revenue grew nearly 7 percent from the prior year first quarter and now comprises 30 percent of this revenue total.

Edgar Filing: AT&T CORP - Form 8-K

- o Total data services revenue declined 0.9 percent and IP&E-services revenue grew 9.1 percent, from the prior year quarter.
- o Local voice revenue grew approximately 25 percent from the prior year first quarter. Local access lines grew approximately 24 percent versus the first quarter of 2002, with approximately 157,000 lines being added in the 2003 first quarter. Local access lines totaled nearly 3.8 million at the end of the current reporting period.
- o Long distance voice revenue declined 2.9 percent on a year-over-year basis, driven by continued pricing pressure and weakness in retail demand, partially offset by growth in wholesale revenue. Volumes grew approximately 12 percent on a year-over-year basis, driven by strong wholesale growth, which more than offset the decline in retail volumes.
- o Operating income totaled \$600 million. Operating margin was 9.3 percent, compared with 13.3 percent in the prior year first quarter. This decline is primarily due to continued pricing pressure, weak retail demand resulting from a soft economy, and a mix shift from higher margin retail LD service to lower margin wholesale service.

AT&T Consumer Services

- o Revenue was \$2.5 billion, a decline of 17.8 percent versus the prior year first quarter, driven by the continued impact of wireless and Internet substitution, competition and customer migration to lower priced products and calling plans. The revenue decline was partially offset by growth in bundled revenue, which nearly doubled compared to the prior year first quarter and now represents approximately 17 percent of total AT&T Consumer revenue.
- o Operating income totaled \$632 million, yielding an operating margin of 24.9 percent, compared with 26.6 percent in the prior year first quarter. The year-over-year decline reflects the impact of substitution, competition, and mix shift, mitigated by the successful management of expenses.
- o At the end of the first quarter, AT&T Consumer provided local service to approximately 2.8 million customers, an increase of more than 119 percent from the prior year first quarter. During the current reporting period, AT&T announced an expanded presence in Georgia as well as its intention to enter the District of Columbia, Indiana and Massachusetts markets. The company expects to offer local service in 11 markets by the second quarter of 2003.

OTHER CONSOLIDATED FINANCIAL HIGHLIGHTS

- o AT&T ended the quarter with net debt of \$12.0 billion. Net debt is defined as total debt of \$18.1 billion less cash of \$4.9 billion, restricted cash of \$0.5 billion and foreign debt fluctuations of \$0.8 billion.
- o Capital expenditures for the first quarter were \$662 million.
- o The effective tax rate for the first quarter of 35.2 percent was positively impacted by the recognition of tax benefits recorded in connection with the exchange and sale of AT&T's remaining interest in AT&T Wireless. The tax rate excluding these transactions would have been 40.5 percent.

Edgar Filing: AT&T CORP - Form 8-K

- o AT&T realized a \$20 million net reduction in operating expenses during the first quarter of 2003 due to its adoption of Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations."

DEFINITIONS and NOTES

AT&T Business Services

LD Voice - includes all of AT&T's domestic and international LD revenue, including Intralata toll when purchased as part of an LD calling plan.

Local Voice - includes all local calling and feature revenue, Intralata toll when purchased as part of a local calling plan, as well as Inter-carrier local revenue.

Data Services- includes bandwidth services (dedicated private line services through high-capacity optical transport), frame relay and asynchronous transfer mode (ATM) revenue for LD and local, as well as revenue for managed data services.

Internet Protocol & Enhanced Services (IP&E-services) - includes all services that ride on the IP common backbone or that use IP technology, including managed IP services, as well as application services (e.g., hosting, security).

Outsourcing, Professional Services & Other - includes complex bundled solutions primarily in the wide area/local area network space, AT&T's professional services revenue associated with the company's federal government customers, as well as all other Business Services revenue (and eliminations) not previously defined. Also included revenue from AT&T Latin America prior to the first quarter of 2003.

Data, IP&E-Services - Percent Managed - Managed services refers to AT&T's management of a client's network or network and applications including applications that extend to the customer premise equipment.

Data, IP&E-Services - Percent International - A data service that either originates or terminates outside of the United States, or an IP&E-service installed or wholly delivered outside the United States.

AT&T Consumer Services

Bundled Services - includes any customer with a local relationship as a starting point, and all other AT&T subscription-based voice products provided to that customer.

Standalone LD, Transactional & Other Services - includes any customer with solely a long distance relationship, non-voice products, or a non subscription-based relationship.

Local Customers - residential customers who subscribe to AT&T Local service.

Bundled Households - number of households in targeted markets where there is general availability of AT&T Local service.

Other Definitions and Notes

Restricted cash - includes \$0.5 billion of cash that collateralizes a portion of private debt and is included in other assets on the balance sheet.

Edgar Filing: AT&T CORP - Form 8-K

Foreign currency fluctuations - represents mark-to-market adjustments that increased the debt balance by approximately \$0.8 billion at March 31, 2003, on non-U.S. denominated debt of about \$4.0 billion. AT&T has entered into foreign exchange hedges that substantially offset the fluctuations in the debt balance. The offsetting mark-to-market adjustments of the hedges are included in other assets on the balance sheet.

Monetization - represents debt that was exchangeable into, and collateralized by, shares of AT&T Wireless.

Income Statement

AT&T Corp. Consolidated Statements of Income (U
Dollars in millions (except per share amount)

	2003	2002
Three Months Ended March		
	2003	2002
REVENUE		
AT&T Business Services	\$ 6,437	\$ 6,437
AT&T Consumer Services	2,536	3,125
Corporate and Other	13	13
Total Revenue	8,986	9,575
OPERATING EXPENSES		
Access and other connection	2,698	2,698
Costs of services and products	2,011	2,011
Selling, general and administrative	1,921	1,921
Depreciation and amortization	1,186	1,186
Net restructuring and other charges	4	4
Total operating expenses	7,820	7,820
Operating Income	1,166	1,166
Other income (expense), net	10	10
Interest (expense)	(332)	(332)
Income from continuing operations before income taxes, minority interest income, and net earnings (losses) related to equity investments	844	1,166
(Provision) for income taxes	(297)	(297)
Minority interest income	1	1
Net (losses) related to equity investments	(19)	(19)
Income from continuing operations	529	529
(Loss) from discontinued operations - net of taxes	-	-
Cumulative effect of accounting changes - net of taxes	42	42
Net income (loss)	\$ 571	\$ 571

Edgar Filing: AT&T CORP - Form 8-K

Weighted-average common shares (millions)	784	
Weighted-average common shares and potential common shares (millions)	785	
PER BASIC SHARE:		
Earnings from continuing operations	\$ 0.67	\$ 0
(Loss) from discontinued operations	-	(0)
Cumulative effect of accounting changes	0.06	(1)
Earnings (loss) per basic share	\$ 0.73	\$(1)
PER DILUTED SHARE:		
Earnings from continuing operations	\$ 0.67	\$ 0
(Loss) from discontinued operations	-	(0)
Cumulative effect of accounting changes	0.06	(1)
Earnings (loss) per diluted share	\$ 0.73	\$(1)
Dividends declared per share	\$ 0.1875	\$ 0.1

Quarterly Income Statements

AT&T Corp. Consolidated Statements of Income (Unaudited) Dollars in millions (except per share amounts)

	1Q03	4Q02	3Q02
REVENUE			
AT&T Business Services	\$ 6,437	\$ 6,588	\$ 6,700
AT&T Consumer Services	2,536	2,736	2,794
Corporate and Other	13	(34)	(85)
Total revenue	8,986	9,290	9,409
OPERATING EXPENSES			
Access and other connection	2,698	2,576	2,679
Costs of services and products	2,011	2,197	2,066
Selling, general and administrative	1,921	2,077	2,032
Depreciation and amortization	1,186	1,257	1,243
Net restructuring and other charges	4	1,463	(26)
Total operating expenses	7,820	9,570	7,994
Operating income (loss)	1,166	(280)	1,415
Other income (expense), net	10	208	(180)
Interest (expense)	(332)	(361)	(355)
Income (loss) from continuing operations before income taxes, minority interest income and net earnings (losses) related to equity investments	844	(433)	880
(Provision) for income taxes	(297)	(225)	(370)
Minority interest income	1	33	28
Net (losses) earnings related to equity investments	(19)	14	(13)
Income (loss) from continuing operations	529	(611)	525
(Loss) from discontinued operations - net of taxes	-	(197)	(318)
Gain on disposition of discontinued operations - net			

Edgar Filing: AT&T CORP - Form 8-K

of taxes	-	1,324	-
Income (loss) before cumulative effect of accounting changes	529	516	207
Cumulative effect of accounting changes, net of taxes	42	-	-
Net income (loss)	\$ 571	\$ 516	\$ 207
Weighted-average common shares (millions)	784	776	770
Weighted-average common shares and potential common shares (millions)	785	776	788
PER BASIC SHARE:			
Earnings (loss) from continuing operations	\$ 0.67	\$ (0.79)	\$ 0.68
(Loss) from discontinued operations	-	(0.26)	(0.41)
Gain on disposition of discontinued operations	-	1.71	-
Cumulative effect of accounting changes	0.06	-	-
Earnings (loss) per basic share	\$ 0.73	\$ 0.66	\$ 0.27
PER DILUTED SHARE:			
Earnings (loss) from continuing operations	\$ 0.67	\$ (0.79)	\$ 0.67
(Loss) from discontinued operations	-	(0.26)	(0.41)
Gain on disposition of discontinued operations	-	1.71	-
Cumulative effect of accounting changes	0.06	-	-
Earnings (loss) per diluted share	\$ 0.73	\$ 0.66	\$ 0.26

Historical Segment Data

Segment Disclosures (Unaudited)
Dollars in millions

	1Q03	4Q02	3Q02
AT&T Business Services			
LD Voice	\$ 2,961	\$ 2,853	\$ 3,129
Local Voice	335	336	274
Total Voice	3,296	3,189	3,403
Data Services	2,000	2,079	2,086
IP&E-Services	445	442	421
Total Data Services, IP&E-Services	2,445	2,521	2,507
Outsourcing, Professional Services & Other	696	878	790
Total Revenue	6,437	6,588	6,700
Operating Income (Loss) (1)	600	(612)	854
Operating Margin	9.3%	(9.3%)	12.7%
Capital Expenditures	636	1,297	912
Depreciation & Amortization	1,126	1,173	1,128
Total Data Services, IP&E-Services - % managed	30%	30%	29%
Total Data Services, IP&E-Services - % international	14%	15%	14%
LD Volume Growth - Yr/Yr	12%	7%	2%
LD Volume % Wholesale	45%	42%	38%

Edgar Filing: AT&T CORP - Form 8-K

AT&T Consumer Services			
Standalone LD, Transactional and Other Services	\$ 2,112	\$ 2,375	\$ 2,499
Bundled Services	424	361	295
Total Revenue	2,536	2,736	2,794
Operating Income(2)	632	389	595
Operating Margin	24.9%	14.2%	21.3%
Capital Expenditures	22	32	34
Depreciation & Amortization	35	57	89
Local Customers (in thousands)	2,778	2,423	1,916
Bundled Households (in millions)	32.2	32.2	32.2
Corporate and Other			
Revenue	\$ 13	\$ (34)	\$ (85)
Operating Income (Loss) (3)	(66)	(57)	(34)
Capital Expenditures	4	17	23
Depreciation & Amortization	25	27	26
Total AT&T			
Revenue	\$ 8,986	\$ 9,290	\$ 9,409
Operating Income (Loss) (4)	1,166	(280)	1,415
Operating Margin	13.0%	(3.0%)	15.0%
Capital Expenditures	662	1,346	969
Depreciation & Amortization	1,186	1,257	1,243

AT&T Corp. Consolidated Balance Sheets (Unaudited)
Dollars in millions

	March 31, 2003	December 2002
ASSETS		
Cash and cash equivalents	\$ 4,900	\$ 8,014
Accounts receivable, less allowances of \$697 and \$669	5,028	5,286
Deferred income taxes	779	910
Other current assets	1,150	1,693
Total Current Assets	11,857	15,903
Property, plant and equipment, net of accumulated depreciation of \$32,096 and \$31,021	25,246	25,604
Goodwill	4,660	4,626
Other purchased intangible assets, net of accumulated depreciation of \$262 and \$244	542	556
Prepaid pension costs	3,655	3,596
Other assets	4,463	4,987
TOTAL ASSETS	\$ 50,423	\$ 55,272
LIABILITIES		
Accounts payable	\$ 3,384	\$ 3,819
Payroll and benefit-related liabilities	941	1,519
Debt maturing within one year	4,346	3,762
Other current liabilities	3,046	2,924
Total Current Liabilities	11,717	12,024
Long-term debt	13,786	18,812
Long-term benefit-related liabilities	4,095	4,001

Edgar Filing: AT&T CORP - Form 8-K

Deferred income taxes	4,768	4,739
Other long-term liabilities and deferred credits	3,359	3,384
Total Liabilities	37,725	42,960
SHAREOWNERS' EQUITY		
AT&T Common Stock, \$1 par value, authorized 6,000,000,000 shares; issued and outstanding 785,563,631 shares (net of 171,748,905 treasury shares) at March 31, 2003 and 783,037,580 shares (net of 171,801,716 treasury shares) at December 31, 2002	786	783
Additional paid-in capital	28,079	28,163
Accumulated deficit	(15,995)	(16,566)
Accumulated other comprehensive loss	(172)	(68)
Total Shareowners' Equity	12,698	12,312
TOTAL LIABILITIES & SHAREOWNERS' EQUITY	\$ 50,423	\$ 55,272

Note to Financial Media: AT&T executives will discuss the company's performance in a two-way conference call for financial analysts at 8:15 a.m. ET today. Reporters are invited to listen to the call. U.S. callers should dial 888-276-0010 to access the call. Callers outside the U.S. should dial + 1-612-326-1003.

In addition, Internet rebroadcasts of the call will be available on the AT&T website beginning later today. The website address is <http://www.att.com/ir>. An audio rebroadcast of the conference call will be available beginning in the afternoon on Wednesday, April 23 until midnight on Friday, April 25. To access the replay, please visit <http://www.att.com/ir>, or U.S. callers can dial 800-475-6701, access code 661276. Callers outside the U.S. should dial +1-320-365-3844, access code 661276.

The foregoing are "forward-looking statements" which are based on management's beliefs as well as on a number of assumptions concerning future events made by and information currently available to management. Readers are cautioned not to put undue reliance on such forward-looking statements, which are not a guarantee of performance and are subject to a number of uncertainties and other factors, many of which are outside AT&T's control, that could cause actual results to differ materially from such statements. For a more detailed description of the factors that could cause such a difference, please see AT&T's filings with the Securities and Exchange Commission. AT&T disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. This information is presented solely to provide additional information to further understand the results of AT&T.

#