AT&T INC.
Form 10-Q
November 05, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009

or

o 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 1-8610

AT&T INC.

Incorporated under the laws of the State of Delaware
I.R.S. Employer Identification Number 43-1301883

208 S. Akard St., Dallas, Texas 75202
Telephone Number: (210) 821-4105

Indicate 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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “accelerated filer,” “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

	[X]	Accelerated filer	[ ]

Large accelerated filer				
Non-accelerated filer	[ ]	(Do not check if a smaller reporting company)	Smaller reporting company	[ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [X]

At October 31, 2009, there were 5,901 million common shares outstanding.

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements

AT&T INC.
CONSOLIDATED STATEMENTS OF INCOME
Dollars in millions except per share amounts
(Unaudited)

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Operating Revenues				
Wireless service	$12,372	$11,227	$35,978	$32,726
Voice	7,940	9,313	24,702	28,525
Data	6,424	6,144	18,981	18,170
Directory	1,162	1,333	3,622	4,114
Other	2,957	3,325	8,877	9,417
Total operating revenues	30,855	31,342	92,160	92,952
Operating Expenses				
Cost of sales (exclusive of depreciation and amortization shown separately below)	12,885	13,022	37,605	36,914
Selling, general and administrative	7,672	7,724	23,225	23,034
Depreciation and amortization	4,910	4,978	14,699	14,839
Total operating expenses	25,467	25,724	75,529	74,787
Operating Income	5,388	5,618	16,631	18,165
Other Income (Expense)				
Interest expense	(853)	(858)	(2,581)	(2,577)
Equity in net income of affiliates	181	257	549	712
Other income (expense) – net	27	(23)	43	97
Total other income (expense)	(645)	(624)	(1,989)	(1,768)
Income Before Income Taxes	4,743	4,994	14,642	16,397
Income taxes	1,468	1,705	4,890	5,746
Net Income	3,275	3,289	9,752	10,651
Less: Net Income Attributable to Noncontrolling Interest	(83)	(59)	(236)	(188)
Net Income Attributable to AT&T	$3,192	$3,230	$9,516	$10,463
Basic Earnings Per Share Attributable to AT&T	$0.54	$0.55	$1.61	$1.76
Diluted Earnings Per Share Attributable to AT&T	$0.54	$0.55	$1.61	$1.75
Weighted Average Number of Common Shares Outstanding – Basic (in millions)	5,901	5,893	5,899	5,938
Dividends Declared Per Common Share	$0.410	$0.400	$1.230	$1.200

See Notes to Consolidated Financial Statements.

AT&T INC.
CONSOLIDATED BALANCE SHEETS
Dollars in millions except per share amounts

	September 30, 2009 (Unaudited)	December 31, 2008
Assets		
Current Assets		
Cash and cash equivalents	$6,167	$1,792
Accounts receivable – net of allowances for uncollectibles of $1,345 and $1,270	14,796	16,047
Prepaid expenses	1,791	1,538
Deferred income taxes	991	1,014
Other current assets	2,176	2,165
Total current assets	25,921	22,556
Property, plant and equipment	225,669	218,579
Less: accumulated depreciation and amortization	(127,348)	(119,491)
Property, Plant and Equipment – Net	98,321	99,088
Goodwill	71,727	71,829
Licenses	47,946	47,306
Customer Lists and Relationships – Net	7,814	10,582
Other Intangible Assets – Net	5,656	5,824
Investments in Equity Affiliates	2,813	2,332
Other Assets	6,370	5,728
Total Assets	$266,568	$265,245
Liabilities and Stockholders' Equity		
Current Liabilities		
Debt maturing within one year	$6,755	$14,119
Accounts payable and accrued liabilities	18,093	20,032
Advanced billing and customer deposits	4,036	3,849
Accrued taxes	1,965	1,874
Dividends payable	2,419	2,416
Total current liabilities	33,268	42,290
Long-Term Debt	65,909	60,872
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	22,279	19,196
Postemployment benefit obligation	31,750	31,930
Other noncurrent liabilities	13,361	14,207
Total deferred credits and other noncurrent liabilities	67,390	65,333
Stockholders' Equity		
Common shares issued ($1 par value)	6,495	6,495
Capital in excess of par value	91,678	91,728
Retained earnings	38,841	36,591
Treasury shares (at cost)	(21,280)	(21,410)
Accumulated other comprehensive loss	(16,161)	(17,057)
Noncontrolling interest	428	403
Total stockholders' equity	100,001	96,750

Total Liabilities and Stockholders' Equity	$266,568	$265,245

See Notes to Consolidated Financial Statements.

3

AT&T INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Dollars in millions, increase (decrease) in cash and cash equivalents
(Unaudited)

	Nine months ended September 30,	
	2009	2008
Operating Activities		
Net income	$9,752	$10,651
Adjustments to reconcile net income to		
net cash provided by operating activities:		
Depreciation and amortization	14,699	14,839
Provision for uncollectible accounts	1,384	1,297
Deferred income tax expense	2,574	4,063
Net (gain) loss from impairment on sale of investments	89	(2)
Changes in operating assets and liabilities:		
Accounts receivable	(133)	(1,597)
Other current assets	(288)	616
Accounts payable and accrued liabilities	(361)	(5,958)
Stock-based compensation tax benefit	-	(15)
Other - net	(2,235)	(1,121)
Total adjustments	15,729	12,122
Net Cash Provided by Operating Activities	25,481	22,773
Investing Activities		
Construction and capital expenditures		
Capital expenditures	(11,067)	(14,388)
Interest during construction	(553)	(455)
Acquisitions, net of cash acquired	(184)	(10,086)
Dispositions	205	1,444
Investments in securities, net of sales	(14)	(103)
Sale of other investments	-	436
Other	44	33
Net Cash Used in Investing Activities	(11,569)	(23,119)
Financing Activities		
Net change in short-term borrowings with		
original maturities of three months or less	(3,918)	5,188
Issuance of long-term debt	8,161	10,924
Repayment of long-term debt	(6,170)	(3,143)
Purchase of treasury shares	-	(6,077)
Issuance of treasury shares	8	317
Dividends paid	(7,252)	(7,150)
Stock-based compensation tax benefit	-	15
Other	(366)	(104)
Net Cash Used in Financing Activities	(9,537)	(30)
Net increase (decrease) in cash and cash equivalents	4,375	(376)
Cash and cash equivalents beginning of year	1,792	1,970
Cash and Cash Equivalents End of Period	$6,167	$1,594

Cash paid during the nine months ended September 30 for:		
Interest	$3,307	$3,068
Income taxes, net of refunds	$2,535	$5,217

See Notes to Consolidated Financial Statements.

4

AT&T INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
Dollars and shares in millions, except per share amounts
(Unaudited)

	Nine months ended September 30, 2009	
	Shares	Amount
Common Stock		
Balance at beginning of year	6,495	$6,495
Balance at end of period	6,495	$6,495
Capital in Excess of Par Value		
Balance at beginning of year		$91,728
Issuance of shares		26
Share-based payments		(76)
Balance at end of period		$91,678
Retained Earnings		
Balance at beginning of year		$36,591
Net income attributable to AT&T ($1.61 per diluted share)		9,516
Dividends to stockholders ($1.23 per share)		(7,255)
Other		(11)
Balance at end of period		$38,841
Treasury Shares		
Balance at beginning of year	(602)	$(21,410)
Issuance of shares	7	130
Balance at end of period	(595)	$(21,280)
Accumulated Other Comprehensive Income (Loss), net of tax		
Balance at beginning of year		$(17,057)
Other comprehensive income (see Note 2)		896
Balance at end of period		$(16,161)
Noncontrolling Interest		
Balance at beginning of year		$403
Net income		236
Distributions		(209)
Translation adjustments		(2)
Balance at end of period		$428
Total stockholders' equity as of December 31, 2008		$96,750
Changes attributable to AT&T stockholders		3,226
Changes attributable to noncontrolling interest		25
Total stockholders' equity as of September 30, 2009		$100,001

See Notes to Consolidated Financial Statements.

5

AT&T INC.
SEPTEMBER 30, 2009

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
Dollars in millions except per share amounts

NOTE 1. PREPARATION OF INTERIM FINANCIAL STATEMENTS

Basis of Presentation Throughout this document, AT&T Inc. is referred to as "AT&T," "we" or the "Company." The consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission that permit reduced disclosure for interim periods. We believe that these consolidated financial statements include all adjustments (consisting only of normal recurring accruals) necessary to present fairly the results for the interim periods shown. The results for the interim periods are not necessarily indicative of results for the full year. You should read this document in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2008.

The consolidated financial statements include the accounts of the Company and our majority-owned subsidiaries and affiliates. Our subsidiaries and affiliates operate in the communications services industry both domestically and internationally, providing wireless and wireline communications services and equipment, managed networking, wholesale services and advertising solutions.

All significant intercompany transactions are eliminated in the consolidation process. Investments in partnerships and less than majority-owned subsidiaries where we have significant influence are accounted for under the equity method. Earnings from certain foreign equity investments accounted for using the equity method are included for periods ended within up to one month of our period end.

For interim periods, we calculate income taxes by determining an expected annual effective tax rate and applying that rate to pre-tax income for the period. The resulting tax expense is then adjusted for the impact of significant events or issues that arise during the period, such as enactment of tax legislation or resolution of tax controversies. During the third quarter of 2009, we recorded a benefit related to the favorable resolution of federal and state audit issues, which resulted in a decrease to our effective tax rate for the period.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, including estimates of probable losses and expenses. Actual results could differ from those estimates. We have reclassified certain amounts in prior-period financial statements to conform to the current period's presentation.

Valuation and Other Adjustments In accordance with GAAP, we established obligations for expected termination benefits provided under existing plans to former or inactive employees after employment but before retirement. These benefits include severance payments, workers' compensation, disability, medical continuation coverage, and other benefits. At September 30, 2009, we had severance accruals of $516. At December 31, 2008, we had severance accruals of $752.

Included in the current liabilities reported on our consolidated balance sheets are accruals established prior to 2009. These liabilities include accruals for severance, lease terminations and equipment removal costs associated with our acquisitions of AT&T Corp., BellSouth Corporation and Dobson Communications Corporation. Following is a summary of the accruals recorded at December 31, 2008, cash payments made during 2009, and the adjustments thereto.

	12/31/08 Balance	Cash Payments	Adjustments and Accruals	9/30/09 Balance
Severance accruals paid from:				
Company funds	$ 140	$ (105)	$ (23)	$ 12
Pension and postemployment benefit plans	103	(4)	-	99
Lease terminations	387	(54)	(16)	317
Equipment removal and other related costs	88	(38)	(6)	44
Total	$ 718	$ (201)	$ (45)	$ 472

AT&T INC.
SEPTEMBER 30, 2009

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Dollars in millions except per share amounts

Recent Accounting Standards

Accounting Standards Codification In June 2009, the FASB issued standards that established the FASB Accounting Standards Codification (ASC or Codification) as the source of authoritative GAAP by the FASB for nongovernmental entities. The ASC supersedes all non-SEC accounting and reporting standards that existed at the ASC's effective date. The FASB uses Accounting Standards Updates (ASU) to amend the ASC. These standards are effective for interim and annual periods ending after September 15, 2009 (i.e., the quarterly period ended September 30, 2009, for us).

Subsequent Events In May 2009, the FASB issued a standard that established general standards of accounting for and disclosing events that occur after the balance sheet date but before financial statements are issued or are available for issuance. They were effective for interim and annual periods ending after June 15, 2009 (i.e., the quarterly period ended June 30, 2009, for us). In preparing the accompanying unaudited consolidated financial statements, we have reviewed all known events that have occurred after September 30, 2009, and through the filing on November 5, 2009, for inclusion in the financial statements and footnotes.

Noncontrolling Interests Reporting In December 2007, the FASB issued a standard that requires noncontrolling interests held by parties other than the parent in subsidiaries to be clearly identified, labeled, and presented in the consolidated statements of financial position within equity, but separate from the parent's equity. For us, the new standard became effective January 1, 2009, with restatement of prior financial statements and had no material impact on our financial position and results of operations.

Fair Value Measurement and Disclosures In April 2009, the FASB issued staff positions that require enhanced disclosures, including interim disclosures, on financial instruments, determination of fair value in turbulent markets, and recognition and presentation of other-than-temporary impairments. These staff positions were effective for interim and annual reporting periods beginning in our second quarter of 2009, and they have increased quarterly disclosures but have not had an impact on our financial position and results of operations (see Note 6).

In August 2009, the FASB issued ASU 2009-5, "Measuring Liabilities at Fair Value" (ASU 2009-5), which amends existing GAAP for fair value measurement guidance by clarifying the fair value measurement requirements for liabilities that lack a quoted price in an active market. Per the Codification, a valuation technique based on a quoted market price for the identical or similar liability when traded as an asset or another valuation technique (e.g., an income or market approach) that is consistent with the underlying principles of GAAP for fair value measurements would be appropriate. ASU 2009-5 was effective August 2009, the issuance date, and had no material impact on our financial position or results of operations.

In September 2009, the FASB issued ASU 2009-12, "Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)" (ASU 2009-12), which provides guidance for an investor on using the net asset value per share provided by an investee to estimate the fair value of an alternative investment when the fair value for the primary investment is not readily determinable. It affects certain investments that are required or permitted by GAAP to be measured or disclosed at fair value on a recurring or nonrecurring basis. It requires disclosures by major category of investment about certain attributes (e.g., applicable redemption restrictions, unfunded commitments to the issuer of the investments, and the investment strategies of that issuer). ASU 2009-12 will be effective for interim and annual periods ending on or after December 15, 2009 (i.e., the year ending December 31, 2009, for us). Fair value standards apply not only to the investments we hold but also to investments held by our benefit plans. We are currently evaluating the impact on our financial position and results of operations.

Variable Interest Entities In June 2009, the FASB issued a standard that requires an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. This standard is effective for both interim and annual periods as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009 (i.e., January 1, 2010, for us), and we are currently evaluating its impact on our financial position and results of operations.

AT&T INC.
SEPTEMBER 30, 2009

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Dollars in millions except per share amounts

Revenue Arrangements with Multiple Deliverables In October 2009, the FASB issued ASU 2009-13, “Multiple-Deliverable Revenue Arrangements” (ASU 2009-13), which addresses how revenues should be allocated among all products and services included in our sales arrangements. It establishes a selling price hierarchy for determining the selling price of each product or service, with vendor-specific objective evidence (VSOE) at the highest level, third-party evidence of VSOE at the intermediate level, and a best estimate at the lowest level. It replaces “fair value” with “selling price” in revenue allocation guidance. It also significantly expands the disclosure requirements for such arrangements. ASU 2009-13 will be effective prospectively for sales entered into or materially modified in fiscal years beginning on or after June 15, 2010 (i.e., the year beginning January 1, 2011, for us). The FASB permits early adoption of ASU 2009-13, applied retrospectively, to the beginning of the year of adoption. We are currently evaluating the impact on our financial position and results of operations.

Software In October 2009, the FASB issued ASU 2009-14, “Certain Revenue Arrangements That Include Software Elements” (ASU 2009-14), which clarifies the guidance for allocating and measuring revenue, including how to identify software that is out of the scope. ASU 2009-14 amends accounting and reporting guidance for revenue arrangements involving both tangible products and software that is “more than incidental to the tangible product as a whole” and the hardware components will also be outside of the scope of software revenue guidance and may result in more revenue recognized at the time of the hardware sale. Additional disclosures will discuss allocation of revenue to products and services and the significant judgments applied in the revenue allocation method, including impacts on the timing and amount of revenue recognition. ASU 2009-14 will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010 (i.e., the year beginning January 1, 2011, for us). ASU 2009-14 has the same effective date, including early adoption provisions, as ASU 2009-13. Companies must adopt ASU 2009-14 and ASU 2009-13 at the same time. We are currently evaluating the impact on our financial position and results of operations.

AT&T INC.
SEPTEMBER 30, 2009

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Dollars in millions except per share amounts

NOTE 2. COMPREHENSIVE INCOME

The components of our comprehensive income for the three and nine months ended September 30, 2009 and 2008 include net income, adjustments to stockholders' equity for the foreign currency translation adjustment, net unrealized gain (loss) on available-for-sale securities, net unrealized gain (loss) on cash flow hedges and defined benefit postretirement plans. The foreign currency translation adjustment was due to exchange rate fluctuations in our foreign affiliates' local currencies and the reclassification adjustment on cash flow hedges was due to the amortization of losses from our interest rate locks.

Following is our comprehensive income with the respective tax impacts for the three months and nine months periods ending September 30, 2009 and 2008:

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Net income	$3,275	$3,289	$9,752	$10,651
Other comprehensive income, net of tax:				
Foreign currency translation adjustment (includes $6, $3, $(2) and $8 attributable to noncontrolling interest), net of taxes of $1, $(75), $45 and $(15)	2	(139)	86	(29)
Net unrealized gains (losses) on securities:				
Unrealized gains (losses), net of taxes of $115, $(118), $130 and $(153)	229	(220)	258	(284)
Less reclassification adjustment realized in net income, net of taxes of $(17), $(6), $24 and $(15)	(34)	(12)	43	(28)
Net unrealized gains (losses) on cash flow hedges:				
Unrealized gains (losses) on cross currency swaps, net of taxes of $(26), $24, $169 and $(28)	(52)	44	316	(52)
Unrealized gain (loss) on interest rate locks, net of taxes of $(30), $0, $(1) and $(2)	(60)	-	(10)	(3)
Reclassification adjustment for losses on cash flow hedges included in net income, net of taxes of $2, $2, $6 and $6	4	4	11	13
Defined benefit postretirement plans:				
Amortization of net actuarial (gain) loss and prior service benefit included in net income, net of taxes of $32, $(17), $99 and $(50)	64	(31)	190	(90)
Other	-	(1)	-	(1)
Other comprehensive income (loss)	153	(355)	894	(474)
Less: Total comprehensive income attributable to the noncontrolling interest	(89)	(62)	(234)	(196)
Total Comprehensive IncomeAttributable to AT&T	$3,339	$2,872	$10,412	$9,981

9

AT&T INC.
SEPTEMBER 30, 2009

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Dollars in millions except per share amounts

NOTE 3. EARNINGS PER SHARE

A reconciliation of the numerators and denominators of basic earnings per share and diluted earnings per share for net income for the three and nine months ended September 30, 2009 and 2008 are shown in the table below:

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Numerators				
Numerator for basic earnings per share:				
Net income attributable to AT&T	$ 3,192	$ 3,230	$ 9,516	$ 10,463
Dilutive potential common shares:				
Other stock-based compensation	2	2	7	7
Numerator for diluted earnings per share	$ 3,194	$ 3,232	$ 9,523	$ 10,470
Denominators (000,000)				
Denominator for basic earnings per share:				
Weighted-average number of common				
shares outstanding	5,901	5,893	5,899	