

AT&T INC.
Form 10-Q
August 05, 2011

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 June 30, 2011

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 1-8610

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).

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Yes ☒ 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.

Large accelerated filer ☒

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 ☒

At July 29, 2011, there were 5,926 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 June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Operating Revenues				
Wireless service	\$ 14,157	\$ 13,186	\$ 28,118	\$ 26,036
Data	7,356	6,866	14,536	13,517
Voice	6,342	7,224	12,893	14,707
Directory	841	1,007	1,709	2,048
Other	2,799	2,525	5,486	5,030
Total operating revenues	31,495	30,808	62,742	61,338
Operating Expenses				
Cost of services and sales (exclusive of depreciation and amortization shown separately below)	13,332	12,452	26,735	24,835
Selling, general and administrative	7,396	7,454	14,848	14,850
Depreciation and amortization	4,602	4,819	9,186	9,599
Total operating expenses	25,330	24,725	50,769	49,284
Operating Income	6,165	6,083	11,973	12,054
Other Income (Expense)				
Interest expense	(848)	(754)	(1,694)	(1,519)
Equity in net income of affiliates	207	195	456	412
Other income (expense) net	27	723	86	701
Total other income (expense)	(614)	164	(1,152)	(406)
Income from Continuing Operations Before Income Taxes	5,551	6,247	10,821	11,648
Income tax expense	1,893	2,160	3,695	5,023
Income from Continuing Operations	3,658	4,087	7,126	6,625
Loss from Discontinued Operations, net of tax	-	(5)	-	(3)
Net Income	3,658	4,082	7,126	6,622
Less: Net Income Attributable to Noncontrolling Interest	(67)	(79)	(127)	(166)

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Net Income Attributable to AT&T	\$ 3,591	\$ 4,003	\$ 6,999	\$ 6,456
Basic Earnings Per Share from Continuing Operations Attributable to AT&T	\$ 0.60	\$ 0.68	\$ 1.18	\$ 1.09
Basic Earnings Per Share from Discontinued Operations Attributable to AT&T	-	-	-	-
Basic Earnings Per Share Attributable to AT&T	\$ 0.60	\$ 0.68	\$ 1.18	\$ 1.09
Diluted Earnings Per Share from Continuing Operations Attributable to AT&T	\$ 0.60	\$ 0.67	\$ 1.18	\$ 1.09
Diluted Earnings Per Share from Discontinued Operations Attributable to AT&T	-	-	-	-
Diluted Earnings Per Share Attributable to AT&T	\$ 0.60	\$ 0.67	\$ 1.18	\$ 1.09
Weighted Average Number of Common Shares Outstanding Basic (in millions)	5,932	5,909	5,929	5,907
Weighted Average Number of Common Shares Outstanding with Dilution (in millions)	5,953	5,937	5,948	5,936
Dividends Declared Per Common Share	\$ 0.43	\$ 0.42	\$ 0.86	\$ 0.84

See Notes to Consolidated Financial Statements.

AT&T INC.

CONSOLIDATED BALANCE SHEETS

Dollars in millions except per share amounts

	June 30, 2011	December 31, 2010
Assets	(Unaudited)	
Current Assets		
Cash and cash equivalents	\$ 3,831	\$ 1,437
Accounts receivable net of allowances for doubtful accounts of \$908 and \$957	13,608	13,610
Prepaid expenses	1,563	1,458
Deferred income taxes	1,180	1,170
Other current assets	2,057	2,276
Total current assets	22,239	19,951
Property, plant and equipment	252,050	243,833
Less: accumulated depreciation and amortization	(147,444)	(140,637)
Property, Plant and Equipment Net	104,606	103,196
Goodwill	73,591	73,601
Licenses	50,403	50,372
Customer Lists and Relationships Net	3,643	4,708
Other Intangible Assets Net	5,407	5,440
Investments in Equity Affiliates	5,207	4,515
Other Assets	6,918	6,705
Total Assets	\$ 272,014	\$ 268,488
Liabilities and Stockholders Equity		
Current Liabilities		
Debt maturing within one year	\$ 7,910	\$ 7,196
Accounts payable and accrued liabilities	18,145	20,055
Advanced billing and customer deposits	3,804	4,086
Accrued taxes	1,130	72
Dividends payable	2,548	2,542
Total current liabilities	33,537	33,951
Long-Term Debt	58,663	58,971
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	25,065	22,070
Postemployment benefit obligation	28,350	28,803
Other noncurrent liabilities	12,290	12,743
Total deferred credits and other noncurrent liabilities	65,705	63,616
Stockholders Equity		
Common stock (\$1 par value, 14,000,000,000 authorized at June 30, 2011 and December 31, 2010; issued 6,495,231,088 at June 30, 2011 and December 31, 2010)	6,495	6,495
Additional paid-in capital	91,687	91,731
Retained earnings	33,687	31,792

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Treasury stock (570,191,742 at June 30, 2011 and 584,144,220 at December 31, 2010, at cost)	(20,786)	(21,083)
Accumulated other comprehensive income	2,720	2,712
Noncontrolling interest	306	303
Total stockholders' equity	114,109	111,950
Total Liabilities and Stockholders' Equity	\$ 272,014	\$ 268,488

See Notes to Consolidated Financial Statements.

AT&T INC.**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Dollars in millions
(Unaudited)

	Six months ended June 30,	
	2011	2010
Operating Activities		
Net income	\$ 7,126	\$ 6,622
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,186	9,599
Undistributed earnings from investments in equity affiliates	(417)	(378)
Provision for uncollectible accounts	523	671
Deferred income tax expense and noncurrent unrecognized tax benefits	2,818	2,249
Net gain from impairment and sale of investments	(44)	(629)
Loss from discontinued operations	-	3
Changes in operating assets and liabilities:		
Accounts receivable	(521)	394
Other current assets	104	389
Accounts payable and accrued liabilities	(1,133)	(3,063)
Net income attributable to noncontrolling interest	(127)	(166)
Other net	(758)	120
Total adjustments	9,631	9,189
Net Cash Provided by Operating Activities	16,757	15,811
Investing Activities		
Construction and capital expenditures:		
Capital expenditures	(9,405)	(7,856)
Interest during construction	(77)	(379)
Acquisitions, net of cash acquired	(62)	(2,554)
Dispositions	30	14
(Purchases) and sales of securities, net	45	(545)
Other	19	15
Net Cash Used in Investing Activities	(9,450)	(11,305)
Financing Activities		
Net change in short-term borrowings with original maturities of three months or less	(1,603)	3,280
Issuance of long-term debt	2,985	-
Repayment of long-term debt	(1,290)	(4,661)
Issuance of treasury stock	199	5
Dividends paid	(5,082)	(4,960)
Other	(122)	(534)
Net Cash Used in Financing Activities	(4,913)	(6,870)
Net increase (decrease) in cash and cash equivalents	2,394	(2,364)
Cash and cash equivalents beginning of year	1,437	3,741
Cash and Cash Equivalents End of Period	\$ 3,831	\$ 1,377

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Cash paid during the six months ended June 30 for:

Interest	\$	2,200	\$	2,390
Income taxes, net of refunds	\$	(196)	\$	2,449

See Notes to Consolidated Financial Statements.

AT&T INC.**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**

Dollars and shares in millions except per share amounts

(Unaudited)

	June 30, 2011	
	Shares	Amount
Common Stock		
Balance at beginning of year	6,495	\$ 6,495
Balance at end of period	6,495	\$ 6,495
Additional Paid-In Capital		
Balance at beginning of year		\$ 91,731
Issuance of treasury shares		122
Share-based payments		(140)
Change related to acquisition of interests held by noncontrolling owners		(26)
Balance at end of period		\$ 91,687
Retained Earnings		
Balance at beginning of year		\$ 31,792
Net income attributable to AT&T (\$1.18 per diluted share)		6,999
Dividends to stockholders (\$0.86 per share)		(5,091)
Other		(13)
Balance at end of period		\$ 33,687
Treasury Stock		
Balance at beginning of year	(584)	\$ (21,083)
Issuance of treasury shares	14	297
Balance at end of period	(570)	\$ (20,786)
Accumulated Other Comprehensive Income Attributable to AT&T, net of tax:		
Balance at beginning of year		\$ 2,712
Other comprehensive income attributable to AT&T (see Note 2)		8
Balance at end of period		\$ 2,720
Noncontrolling Interest:		
Balance at beginning of year		\$ 303
Net income attributable to noncontrolling interest		127
Distributions		(120)
Acquisition of interests held by noncontrolling owners		(4)
Balance at end of period		\$ 306

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Total Stockholders	Equity at beginning of year	\$	111,950
Total Stockholders	Equity at end of period	\$	114,109

See Notes to Consolidated Financial Statements.

AT&T INC.

JUNE 30, 2011

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. We believe that these consolidated financial statements include all adjustments (consisting only of normal recurring accruals) necessary to present fairly the results for the presented interim periods. The results for the interim periods are not necessarily indicative of those 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, 2010.

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.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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. See Notes 4 and 5 for a discussion of our changes in accounting and reporting for our pension and other postretirement benefit costs.

Employee Separations 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 June 30, 2011, we had severance accruals of \$501 and at December 31, 2010, we had severance accruals of \$848.

Income Taxes In March 2010, the President of the United States signed into law comprehensive healthcare reform legislation under the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, which included a change in the tax treatment related to Medicare Part D subsidies. As a result, during the first quarter of 2010, we recorded a \$995 charge to income tax expense in our consolidated statement of income. The charge also contributed to a higher effective tax rate of 43.1% for the six months ended June 30, 2010, compared to 34.1% for the six months ended June 30, 2011.

AT&T INC.

JUNE 30, 2011

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 six months ended June 30, 2011 and 2010 are included in the table below. Prior-year results have been adjusted to reflect our change in method of recognizing actuarial gains and losses for pension and other postretirement benefits (see Note 5).

	Three months ended		Six months ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Net income	\$ 3,658	\$ 4,082	\$ 7,126	\$ 6,622
Other comprehensive income, net of tax:				
Foreign currency translation adjustments (includes \$0, \$(1), \$0 and \$(2) attributable to noncontrolling interest), net of taxes of \$73, \$11, \$123 and \$62	135	21	228	115
Net unrealized gains (losses) on available-for-sale securities:				
Unrealized gains (losses), net of taxes of \$2, \$(62), \$29 and \$(14)	6	(115)	55	(25)
Reclassification adjustment realized in net income, net of taxes of \$(2), \$(16), \$(21) and \$(29)	(6)	(30)	(41)	(55)
Net unrealized gains (losses) on cash flow hedges:				
Unrealized gains (losses) net of taxes of \$(12), \$(257), \$(8) and \$(273)	(21)	(472)	(14)	(502)
Reclassification adjustment for losses included in net income, net of taxes of \$2, \$2, \$3 and \$4	3	3	5	6
Defined benefit postretirement plans:				
Amortization of net prior service cost (benefit) included in net income, net of taxes of \$(66), \$(61), \$(137) and \$(122)	(109)	(99)	(224)	(198)
Other	(1)	-	(1)	-
Other comprehensive income (loss)	7	(692)	8	(659)
Total comprehensive income	3,665	3,390	7,134	5,963
Less: Total comprehensive income attributable to noncontrolling interest	(67)	(78)	(127)	(164)
Total Comprehensive Income Attributable to AT&T	\$ 3,598	\$ 3,312	\$ 7,007	\$ 5,799

AT&T INC.

JUNE 30, 2011

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 attributable to AT&T for the three and six months ended June 30, 2011 and 2010, are shown in the table below:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Numerators				
Numerator for basic earnings per share:				
Income from continuing operations	\$ 3,658	\$ 4,087	\$ 7,126	\$ 6,625
Net income attributable to noncontrolling interest	(67)	(79)	(127)	(166)
Income from continuing operations attributable to AT&T	3,591	4,008	6,999	6,459
Dilutive potential common shares:				
Other share-based payment	3	2	6	4
Numerator for diluted earnings per share	\$ 3,594	\$ 4,010	\$ 7,005	\$ 6,463
Denominators (000,000)				
Denominator for basic earnings per share:				
Weighted average number of common shares outstanding	5,932	5,909	5,929	5,907
Dilutive potential common shares:				
Stock options	5	3	4	3
Other share-based payment	16	25	15	26
Denominator for diluted earnings per share	5,953	5,937	5,948	5,936
Basic earnings per share from continuing operations attributable to AT&T	\$ 0.60	\$ 0.68	\$ 1.18	\$ 1.09
Basic earnings per share from discontinued operations attributable to AT&T	-	-	-	-
Basic earnings per share attributable to AT&T	\$ 0.60	\$ 0.68	\$ 1.18	\$ 1.09
Diluted earnings per share from continuing operations attributable to AT&T	\$ 0.60	\$ 0.67	\$ 1.18	\$ 1.09
Diluted earnings per share from discontinued operations attributable to AT&T	-	-	-	-
Diluted earnings per share attributable to AT&T	\$ 0.60	\$ 0.67	\$ 1.18	\$ 1.09

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At June 30, 2011 and 2010, we had issued and outstanding options to purchase approximately 90 million and 143 million shares of AT&T common stock. At June 30, 2011 and 2010, the exercise prices of 57 million and 127 million shares were above the market price of AT&T stock for the respective periods. Accordingly, we did not include these amounts in determining the dilutive potential common shares. At June 30, 2011 and 2010, the exercise prices of 30 million and 12 million vested stock options were below market price.

AT&T INC.

JUNE 30, 2011

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Dollars in millions except per share amounts

NOTE 4. SEGMENT INFORMATION

Our segments are strategic business units that offer different products and services over various technology platforms and are managed accordingly. We analyze our various operating segments based on segment income before income taxes. We make our capital allocations decisions primarily based on the network (wireless or wireline) providing services. Actuarial gains and losses from pension and other postretirement benefits, interest expense and other income (expense) net, are managed only on a total company basis and are, accordingly, reflected only in consolidated results. The customers and long-lived assets of our reportable segments are predominantly in the United States. We have four reportable segments: (1) Wireless, (2) Wireline, (3) Advertising Solutions and (4) Other.

The Wireless segment uses our nationwide network to provide consumer and business customers with wireless voice and advanced data communications services.

The Wireline segment uses our regional, national and global network to provide consumer and business customers with landline voice and data communications services, AT&T U-verse® TV, high-speed broadband and voice services and managed networking to business customers. Additionally, we receive commissions on sales of satellite television services offered through our agency arrangements.

The Advertising Solutions segment includes our directory operations, which publish Yellow and White Pages directories and sell directory advertising and Internet-based advertising and local search.

The Other segment includes results from customer information services, our portion of the results from our international equity investments and all corporate and other operations. Also included in the Other segment are impacts of corporate-wide decisions for which the individual operating segments are not being evaluated, including interest cost and expected return on plan assets for our pension and postretirement benefit plans.

In January 2011, we announced a change in our method of recognizing actuarial gains and losses for pension and other postretirement benefits as well as the attribution of those benefit costs to our segments. Historically, the total benefit costs were attributed to our various segments. As part of the benefit accounting change, the service cost and the amortization of prior service costs, which represent the benefits earned by active employees during the period, will continue to be attributed to the segment in which the employee is employed, while interest cost and expected return on assets are recorded in the Other segment as those financing activities are managed on a corporate level. Actuarial gains and losses resulting from the remeasurement of our pension and postretirement benefit plans, which generally occurs in the fourth quarter, will be reflected in AT&T's consolidated results only. We have adjusted prior-period segment information to conform to the current period's presentation.

In the following tables, we show how our segment results are reconciled to our consolidated results reported. The Wireless, Wireline, Advertising Solutions and Other columns represent the segment results of each such operating segment. The Consolidations column adds in those line items that we manage on a consolidated basis only: actuarial gains and losses from pension and other postretirement benefits, interest expense and other income (expense) net.

AT&T INC.

JUNE 30, 2011

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Dollars in millions except per share amounts

For the three months ended June 30, 2011

	Wireless	Wireline	Advertising Solutions	Other	Consolidations	Consolidated Results
Total segment operating revenues	\$ 15,602	\$ 14,935	\$ 841	\$ 117	\$ -	\$ 31,495
Operations and support expenses	9,782	10,104	580	262	-	20,728
Depreciation and amortization expenses	1,613	2,876	102	11	-	4,602
Total segment operating expenses	11,395	12,980	682	273	-	25,330
Segment operating income (loss)	4,207	1,955	159	(156)	-	6,165
Interest expense	-	-	-	-	848	848
Equity in net income (loss) of affiliates	(8)	-	-	215	-	207
Other income (expense) net	-	-	-	-	27	27
Segment income before income taxes	\$ 4,199	\$ 1,955	\$ 159	\$ 59	\$ (821)	\$ 5,551

At June 30, 2011 or for the six months ended

	Wireless	Wireline	Advertising Solutions	Other	Consolidations	Consolidated Results
Total segment operating revenues	\$ 30,911	\$ 29,885	\$ 1,709	\$ 237	\$ -	\$ 62,742
Operations and support expenses	19,640	20,370	1,153	420	-	41,583
Depreciation and amortization expenses	3,118	5,834	207	27	-	9,186
Total segment operating expenses	22,758	26,204	1,360	447	-	50,769
Segment operating income (loss)	8,153	3,681	349	(210)	-	11,973
Interest expense	-	-	-	-	1,694	1,694
Equity in net income (loss) of affiliates	(12)	-	-	468	-	456
Other income (expense) net	-	-	-	-	86	86
Segment income before income taxes	\$ 8,141	\$ 3,681	\$ 349	\$ 258	\$ (1,608)	\$ 10,821
Segment assets	\$ 124,054	\$ 133,882	\$ 7,867	\$ 11,622	\$ (5,411)	\$ 272,014
Investments in equity method affiliates	13	-	-	5,194	-	5,207
Expenditures for additions to long-lived assets	4,381	5,088	12	1	-	9,482

For the three months ended June 30, 2010

	Wireless	Wireline	Advertising Solutions	Other	Consolidations	Consolidated Result
Total segment operating revenues	\$ 14,242	\$ 15,422	\$ 1,007	\$ 137	\$ -	\$ 30,808
Operations and support expenses	8,553	10,289	662	402	-	19,906
Depreciation and amortization expenses	1,578	3,105	132	4	-	4,819
Total segment operating expenses	10,131	13,394	794	406	-	24,725
Segment operating income (loss)	4,111	2,028	213	(269)	-	6,083
Interest expense	-	-	-	-	754	754
Equity in net income of affiliates	8	-	-	187	-	195
Other income (expense) net	-	-	-	-	723	723
Segment income before income taxes	\$ 4,119	\$ 2,028	\$ 213	\$ (82)	\$ (31)	\$ 6,247

For the six months ended June 30, 2010

	Wireless	Wireline	Advertising Solutions	Other	Consolidations	Consolidated Results
Total segment operating revenues	\$ 28,139	\$ 30,868	\$ 2,048	\$ 283	\$ -	\$ 61,338
Operations and support expenses	16,726	20,801	1,326	832	-	39,685
Depreciation and amortization expenses	3,136	6,181	270	12	-	9,599

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Total segment operating expenses	19,862	26,982	1,596	844	-	49,284
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