

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

We expect to see margin pressure from REOC entry and bundled pricing activities to put further pressure on consumer margins going forward. Specifically, we expect some competitors to be very aggressive this quarter as they begin their much-anticipated entry into new states. This coupled with the increase in expense to facilitate our aggressive state entry should translate into fourth quarter margin pressure on a sequential basis.

We now expect to reduce total headcount by 10% this year versus 2002. At the end of the third quarter, substantially all of these targeted headcount reductions were completed. In total, these reductions will correspond to an annual cost savings of approximately \$650 million dollars during 2004. We understand that to even maintain our margin in the current economic and pricing environment, we need to continue driving costs from the business through automation and operational efficiencies.

We now expect our net debt balance to be under \$9 billion by year-end. Expected net debt consists of estimated total debt of \$14.1 billion, net of estimated cash (including restricted cash) and estimated foreign exchange fluctuations of at least \$5.2 billion. The components of net debt may fluctuate as we evaluate debt and cash management strategies; however these shifts should not have a significant impact on net debt.

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

(c) EXHIBITS

Exhibit 99 - Press release dated October 21, 2003.

ITEM 12. RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS

On October 21, 2003, AT&T Corp. issued a press release announcing third quarter earnings. A copy of the press release is attached as Exhibit 99.

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.

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: Robert S. Feit
Vice President - Law and Secretary

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

October 21, 2003

Exhibit 99

[AT&T LOGO OMITTED]

News Release

FOR RELEASE TUESDAY, OCTOBER 21, 2003

SECTION 1.01. AT&T Announces Third Quarter 2003 Earnings -----

- o Third quarter earnings per diluted share from continuing operations of \$0.58
- o Consolidated revenue of \$8.6 billion
- o Operating income of \$829 million

BEDMINSTER, N.J. -- AT&T (NYSE: T) today reported income from continuing operations of \$458 million, or earnings per diluted share of \$0.58, for the third quarter of 2003. The company's current quarter income from continuing operations compares to income of \$525 million, or earnings per diluted share of \$0.67, in the third quarter of 2002. This quarter's net income of \$418 million, or \$0.53 per share, included a charge of \$27 million, or \$0.03 per share, related to the cumulative effect of the adoption of a new accounting standard and \$13 million, or \$0.02 per share, of losses from discontinued operations.

"AT&T's third quarter results demonstrate our ability to successfully execute in a difficult environment by maintaining our focus on controlling costs, streamlining processes and delighting our customers," said AT&T Chairman and Chief Executive Officer David W. Dorman. "We continue to operate from a position of leadership and strength, and we remain among the best positioned in our industry for a recovery in employment growth and improved telecom sector spending and demand."

AT&T reported third quarter 2003 consolidated revenue of \$8.6 billion, which included \$6.3 billion from AT&T Business Services and \$2.4 billion from AT&T Consumer Services. This represents a consolidated revenue decline of 8.1 percent versus the third quarter of 2002, primarily due to continued declines in long distance (LD) voice revenue, partially offset by the continued success of AT&T Consumer Services' bundled local and LD offering, as well as growth in several key markets of AT&T Business Services.

AT&T's third quarter 2003 operating income totaled \$829 million, resulting in a consolidated operating margin of 9.6 percent. AT&T Business Services posted operating income of \$417 million, yielding a margin of 6.6 percent, while AT&T Consumer Services generated operating income of \$500 million, yielding a margin of 21.2 percent.

"AT&T is making solid progress in improving our cost structure and enhancing our overall financial flexibility and strength," said AT&T Chief Financial Officer Thomas W. Horton. "This quarter's significant free cash flow allowed us to reduce net debt by \$1.5 billion and reduce our year-end net debt target to less than \$9 billion while continuing to invest in the future of our business."

AT&T UNIT HIGHLIGHTS

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

AT&T Business Services

- o Revenue was \$6.3 billion, a decline of 6.2 percent from the prior year third quarter. The unit's revenue performance reflects pricing pressure, weakness in retail LD and data demand and overall telecommunications spending, partially offset by strong growth in wholesale volumes, local voice and IP&E-services revenue.
- o Long distance voice revenue declined 10.5 percent on a quarter-over-quarter basis, driven by continued pricing pressure, partially offset by volume growth. Volumes grew nearly 15 percent on a quarter-over-quarter basis, driven by strong wholesale growth, which more than offset the decline in retail volumes.
- o Local voice revenue grew approximately 38 percent from the prior year third quarter. Local access lines totaled over 4.3 million at the end of the current period, representing an increase of almost 97,000 lines from the second quarter of 2003.
- o IP&E-services revenue grew 13.0 percent, while data services revenue declined 6.5 percent from the prior year quarter.
- o The managed component of total data services and IP&E-services revenue grew about 10 percent from the prior year third quarter and now comprises approximately 33 percent of this total revenue.
- o Operating income totaled \$417 million. Operating margin was 6.6 percent, compared with 12.7 percent in the prior year third quarter. The decline is primarily due to pricing pressure, weak retail demand resulting from a soft economy, a mix shift from higher margin retail LD voice service to lower margin wholesale, data and IP&E services, a \$125 million access expense adjustment, as well as a \$53 million net restructuring charge in the current period.

AT&T Consumer Services

- o Revenue was \$2.4 billion, a decline of 15.8 percent versus the prior year third quarter, driven by lower LD revenue as a result of the continued impact of competition, wireless and Internet substitution, and customer migration to lower priced products and calling plans. These declines were partially offset by growth in bundled revenue and pricing actions. Bundled revenue grew by 77 percent compared to the prior year third quarter, and now represents over 22 percent of AT&T Consumer Services' total revenue.
- o Operating income totaled \$500 million, yielding an operating margin of 21.2 percent, compared with 21.3 percent in the prior year third quarter. The slight quarter-over-quarter decline reflects the impact of substitution, competition and mix shift, largely offset by pricing actions taken during the quarter.
- o At the end of the third quarter, AT&T Consumer provided local service to more than 3.5 million customers, an increase of 85 percent from the prior year third quarter. During the current reporting period, AT&T began offering service in Wisconsin, Minnesota and Arizona. As of September 30, 2003, local service was available in 15 markets. The company plans to be testing or actively marketing its residential One Rate USAsm bundled service in 35 states by year-end.

OTHER CONSOLIDATED FINANCIAL HIGHLIGHTS

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

- o In September 2003, in conjunction with our review of accounting and internal control systems, the Company determined that the liability on the balance sheet relating to costs incurred in 2001 and 2002 pertaining to access and other connection expense was understated by \$125 million. Since the impact to prior years' annual financial statements was not material, the Company recorded an additional expense of \$125 million (\$77 million after-tax) in the third quarter to reflect the proper estimate of the liability. The expense, properly recorded in the respective prior periods, would have decreased annual income from continuing operations for 2001 and 2002 by \$32 million, or \$0.04 per diluted share, and \$45 million, or \$0.06 per diluted share, respectively.

The expense, properly recorded in the respective periods, would have (decreased) increased quarterly income from continuing operations for the three months ended September 30, 2001 by (\$33) million, or (\$0.04) per diluted share; for the three months ended December 31, 2001 by \$1 million, or \$0.01 per diluted share; for the three months ended March 31, 2002 by (\$64) million, or (\$0.08) per diluted share; for the three months ended June 30, 2002 by \$12 million, or \$0.02 per diluted share; for the three months ended September 30, 2002 by \$14 million, or \$0.01 per diluted share; and for the three months ended December 31, 2002 by (\$7) million, or (\$0.01) per diluted share.

A review was conducted by outside legal counsel, under the direction of the Audit Committee. This review found that two employees, one lower-level and one mid-level management employee, circumvented the internal controls process resulting in the financial impacts noted above. The Company made the appropriate personnel changes and enhanced its internal controls accordingly.

- o Third quarter 2003 income from continuing operations of \$458 million included pretax net restructuring and other charges of \$64 million, primarily related to separation costs associated with management streamlining initiatives. The company expects to realize an additional charge for employee separations in the fourth quarter of 2003, although this charge is expected to be significantly less than the third quarter 2003 restructuring charge.
- o Other income (expense) of (\$7) million in the third quarter primarily consisted of losses from the early extinguishment of debt, primarily offset by investment-related income.
- o The third quarter income tax provision reflected an approximate \$120 million benefit relating to final governmental approval of Research and Experimentation tax credit claims from prior years.
- o As of July 1, 2003, AT&T adopted Financial Accounting Standards Board Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities - an Interpretation of Accounting Research Bulletin No. 51." The consolidation of two entities from which AT&T leases buildings resulted in the addition of \$433 million of assets (principally the leased properties) and \$477 million of liabilities (debt secured by the properties). This resulted in a charge of \$27 million, net of income taxes, as the cumulative effect of an accounting change.
- o AT&T ended the quarter with net debt of \$9.3 billion, which includes \$0.5 billion of debt associated with the adoption of FIN 46. Net debt is defined as total debt of \$17.4 billion less cash of \$6.8 billion, restricted cash of \$0.5 billion and net foreign debt fluctuations of \$0.9 billion.

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

- o In July of 2003, AT&T announced a \$2 billion debt repurchase program. During the quarter, AT&T redeemed two long-term debt issues totaling \$0.5 billion. AT&T also called three additional debt issues totaling \$1.1 billion to be redeemed on October 22, 2003. In addition, AT&T exercised its right to repay \$0.5 billion of debt associated with leases capitalized in conjunction with the adoption of FIN 46. The pretax loss recorded in the third quarter from these events was \$0.1 billion.
- o Free cash flow was \$2.0 billion for the third quarter, which included \$0.6 billion of tax refunds. Free cash flow is defined as cash flows provided by operating activities of \$2.8 billion less cash used for capital expenditures and other additions of \$0.8 billion.
- o Capital expenditures for the third quarter were \$1.2 billion, which includes \$433 million for properties consolidated in connection with the adoption of FIN 46.
- o The third quarter loss from discontinued operations reflects an estimated loss on certain environmental clean-up matters associated with the business of NCR Corp., which was spun-off from AT&T in 1996. In accordance with the separation and distribution agreement between AT&T and NCR, AT&T shares in certain costs associated with potential litigation liabilities. AT&T recorded its estimated proportionate share of the clean-up costs.

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 includes 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

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

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

Foreign currency fluctuations - represents mark-to-market adjustments, net of cash collateral collected, that increased the debt balance by approximately \$0.9 billion at September 30, 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.

Income Statement

AT&T Corp. Consolidated Statements of Operations (Unaudited)		
Dollars in millions (except per share amounts)		
	Three Months Ended	
	September 30,	
	2003	2002
REVENUE		
AT&T Business Services	6,282	\$ 6,700
AT&T Consumer Services	2,353	2,794
Corporate and Other	14	(85)
Total Revenue	8,649	9,409
OPERATING EXPENSES		
Access and other connection	2,785	2,679
Costs of services and products	1,954	2,066
Selling, general and administrative	1,793	2,032
Depreciation and amortization	1,224	1,243
Net restructuring and other charges	64	(26)
Total operating expenses	7,820	7,994
Operating Income	829	1,415
Other (expense) income, net	(7)	(180)
Interest (expense)	(289)	(355)
Income from continuing operations before income taxes, minority interest income, and net earnings (losses) related to equity investments	533	880

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

(Provision) for income taxes	(72)	(370)
Minority interest income	-	28
Net (losses) earnings related to equity investments	(3)	(13)
Income from continuing operations	458	525
(Loss) from discontinued operations - net of income taxes	(13)	(318)
Income (loss) before cumulative effect of accounting changes	445	207
Cumulative effect of accounting changes - net of income taxes	(27)	-
Net income (loss)	418	207
Weighted-average common shares (millions)	789	770
Weighted-average common shares and potential common shares (millions)	791	788
PER BASIC SHARE:		
Earnings from continuing operations	\$ 0.58	\$ 0.68
(Loss) from discontinued operations	(0.02)	(0.41)
Cumulative effect of accounting changes	(0.03)	-
Earnings (loss) per basic share	\$ 0.53	\$ 0.27
PER DILUTED SHARE:		
Earnings from continuing operations	\$ 0.58	\$ 0.67
(Loss) from discontinued operations	(0.02)	(0.41)
Cumulative effect of accounting changes	(0.03)	-
Earnings (loss) per diluted share	\$ 0.53	\$ 0.26
Dividends declared per share	\$ 0.2375	\$ 0.1875

Quarterly Income Statements

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

	3Q03	2Q03	1Q03	4Q02	3Q02
REVENUE					
AT&T Business Services	\$6,282	\$6,406	\$6,437	\$6,588	\$6,700
AT&T Consumer Services	2,353	2,376	2,536	2,736	2,794
Corporate and Other	14	13	13	(34)	(85)
Total revenue	8,649	8,795	8,986	9,290	9,409
OPERATING EXPENSES					
Access and other connection	2,785	2,708	2,698	2,576	2,679
Costs of services and products	1,954	1,958	2,011	2,197	2,066
Selling, general and administrative	1,793	1,837	1,921	2,077	2,032
Depreciation and amortization	1,224	1,197	1,186	1,257	1,243
Net restructuring and other charges	64	66	4	1,463	(26)
Total operating expenses	7,820	7,766	7,820	9,570	7,994
Operating income (loss)	829	1,029	1,166	(280)	1,415
Other (expense)/income, net	(7)	86	10	208	(180)

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

Interest (expense)	(289)	(296)	(332)	(361)	(355)
Income (loss) from continuing operations before income taxes, minority interest income, and net earnings (losses) related to equity investments	533	819	844	(433)	880
(Provision) for income taxes	(72)	(308)	(297)	(225)	(370)
Minority interest income	-	-	1	33	28
Net (losses) earnings related to equity investments	(3)	25	(19)	14	(13)
Income (loss) from continuing operations	458	536	529	(611)	525
(Loss) from discontinued operations - net of income taxes	(13)	-	-	(197)	(318)
Gain on disposition of discontinued operations - net of income taxes	-	-	-	1,324	-
Income (loss) before cumulative effect of accounting changes	445	536	529	516	207
Cumulative effect of accounting changes, net of income tax	(27)	-	42	-	-
Net income (loss)	\$ 418	\$ 536	\$ 571	\$ 516	\$ 207
Weighted-average common shares (millions)	789	787	784	776	770
Weighted-average common shares and potential common shares	791	787	785	776	788
PER BASIC SHARE:					
Earnings (loss) from continuing operations	\$ 0.58	\$ 0.68	\$ 0.67	\$ (0.79)	\$ 0.68
(Loss) from discontinued operations	(0.02)	-	-	(0.26)	(0.41)
Gain on disposition of discontinued operations	-	-	-	1.71	-
Cumulative effect of accounting changes	(0.03)	-	0.06	-	-
Earnings (loss) per basic share	\$ 0.53	\$ 0.68	\$ 0.73	\$ 0.66	\$ 0.27
PER DILUTED SHARE:					
Earnings (loss) from continuing operations	\$ 0.58	\$ 0.68	\$ 0.67	\$ (0.79)	\$ 0.67
(Loss) from discontinued operations	(0.02)	-	-	(0.26)	(0.41)
Gain on disposition of discontinued operations	-	-	-	1.71	-
Cumulative effect of accounting changes	(0.03)	-	0.06	-	-
Earnings (loss) per diluted share	\$ 0.53	\$ 0.68	\$ 0.73	\$ 0.66	\$ 0.26

Historical Segment Data

	Segment Disclosures (Unaudited) Dollars in Millions				
	3Q03	2Q03	1Q03	4Q02	3Q02
AT&T Business Services					
LD Voice	\$ 2,801	\$ 2,873	\$ 2,961	\$ 2,853	\$ 3,111
Local Voice	379	384	335	336	287
Total Voice	3,180	3,257	3,296	3,189	3,400
Data Services	1,949	1,993	2,000	2,079	2,000
IP&E-Services	476	459	445	442	445
Total Data Services, IP&E-Services	2,425	2,452	2,445	2,521	2,500
Outsourcing, Professional Services & Other	677	697	696	878	777
Total Revenue	6,282	6,406	6,437	6,588	6,700

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

Operating Income (Loss) (1)	417	597	600	(612)	8
Operating Margin	6.6%	9.3%	9.3%	(9.3%)	12.
Capital Expenditures(5)	995	763	636	1,297	9
Depreciation & Amortization	1,162	1,133	1,126	1,173	1,1
Total Data Services, IP&E-Services - % managed	33%	31%	30%	30%	2
Total Data Services, IP&E-Services - % international	14%	14%	14%	15%	1
LD Volume Growth - Yr/Yr	15%	12%	12%	7%	
LD Volume % Wholesale	51%	47%	45%	42%	3
AT&T Consumer Services					
Standalone LD, Transactional and Other Services	\$ 1,832	\$ 1,916	\$ 2,112	\$ 2,375	\$ 2,4
Bundled Services	521	460	424	361	2
Total Revenue	2,353	2,376	2,536	2,736	2,7
Operating Income (2)	500	489	632	389	5
Operating Margin	21.2%	20.6%	24.9%	14.2%	21.
Capital Expenditures	14	19	22	32	
Depreciation & Amortization	35	36	35	57	
Local Customers (in thousands)	3,547	3,130	2,778	2,423	1,9
Bundled Households (in millions)	47.7	40.1	32.2	32.2	32
Corporate and Other					
Revenue	\$ 14	\$ 13	\$ 13	\$ (34)	\$ (
Operating (Loss) (3)	(88)	(57)	(66)	(57)	(
Capital Expenditures(5)	198	8	4	17	
Depreciation & Amortization	27	28	25	27	
Total AT&T					
Revenue	\$8,649	\$8,795	\$8,986	\$9,290	\$9,4
Operating Income (Loss) (4)	829	1,029	1,166	(280)	1,4
Operating Margin	9.6%	11.7%	13.0%	(3.0%)	15.
Capital Expenditures(5)	1,207	790	662	1,346	9
Depreciation & Amortization	1,224	1,197	1,186	1,257	1,2

Balance Sheet

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

	September 30, 2003	December 20
ASSETS		
Cash and cash equivalents	\$ 6,751	\$ 8,
Accounts receivable, less allowances of \$681 and \$669	4,525	5,
Deferred income taxes	617	
Other current assets	1,109	1,

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

Total Current Assets	13,002	15,
Property, plant and equipment, net of accumulated depreciation of \$33,689 and \$31,021	24,719	25,
Goodwill	4,691	4,
Other purchased intangible assets, net of accumulated depreciation of \$298 and \$244	508	
Prepaid pension costs	3,791	3,
Other assets	4,596	4,
	-----	-----
TOTAL ASSETS	\$ 51,307	\$ 55,
	-----	-----
LIABILITIES		
Accounts payable	\$ 3,297	\$ 3,
Payroll and benefit-related liabilities	1,091	1,
Debt maturing within one year	4,647	3,
Other current liabilities	2,974	2,
	-----	-----
Total Current Liabilities	12,009	12,
Long-term debt	12,759	18,
Long-term benefit-related liabilities	4,240	4,
Deferred income taxes	5,580	4,
Other long-term liabilities and deferred credits	3,180	3,
	-----	-----
Total Liabilities	37,768	42,
	-----	-----
SHAREOWNERS' EQUITY		
AT&T Common Stock, \$1 par value, authorized 6,000,000,000 shares; issued and outstanding 789,220,022 shares (net of 171,692,349 treasury shares) at September 30, 2003 and 783,037,580 shares (net of 171,801,716 treasury shares) at December 31, 2002	789	
Additional paid-in capital	27,855	28,
Accumulated deficit	(15,044)	(16,
Accumulated other comprehensive loss	(61)	
	-----	-----
Total Shareowners' Equity	13,539	12,
	-----	-----
TOTAL LIABILITIES & SHAREOWNERS' EQUITY	\$ 51,307	\$ 55,
	-----	-----

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 Web site beginning later today. The Web site address is <http://www.att.com/ir>. An audio rebroadcast of the conference call will be available beginning at 11:15AM on Tuesday, October 21 until 11:59PM on Thursday, October 23. To access the replay, please visit <http://www.att.com/ir>, or U.S. callers can dial 800-475-6701, access code 661284. Callers outside the U.S. should dial +1-320-365-3844, access code 661284.

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

The foregoing, including statements relating to possible future dividends, 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 10-K, 10-Q, 8-K and other 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. The declaration of future dividends is made at the discretion of AT&T's Board of Directors, which will consider AT&T's financial condition and all other relevant factors, and there can be no assurance as to the declaration and amount of future dividends, if any.

#