

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

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

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2009

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). 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 []

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Large accelerated
filer

Non-accelerated [] (Do not check if a smaller reporting Smaller reporting []
filer company) 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 July 31, 2009, there were 5,900 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		Six months ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Operating Revenues				
Wireless service	\$11,960	\$10,894	\$23,606	\$21,499
Voice	8,256	9,519	16,762	19,212
Data	6,307	6,054	12,557	12,026
Directory	1,211	1,383	2,460	2,781
Other	3,000	3,016	5,920	6,092
Total operating revenues	30,734	30,866	61,305	61,610
Operating Expenses				
Cost of sales (exclusive of depreciation and amortization shown separately below)	12,478	11,897	24,720	23,892
Selling, general and administrative	7,847	7,444	15,553	15,310
Depreciation and amortization	4,903	4,958	9,789	9,861
Total operating expenses	25,228	24,299	50,062	49,063
Operating Income	5,506	6,567	11,243	12,547
Other Income (Expense)				
Interest expense	(879)	(854)	(1,728)	(1,719)
Equity in net income of affiliates	231	212	368	455
Other income (expense) – net	31	29	16	120
Total other income (expense)	(617)	(613)	(1,344)	(1,144)
Income Before Income Taxes	4,889	5,954	9,899	11,403
Income taxes	1,613	2,111	3,422	4,041
Net Income	3,276	3,843	6,477	7,362
Less: Net Income Attributable to Noncontrolling Interest	(78)	(71)	(153)	(129)
Net Income Attributable to AT&T	\$3,198	\$3,772	\$6,324	\$7,233
Basic Earnings Per Share Attributable to AT&T	\$0.54	\$0.64	\$1.07	\$1.21
Diluted Earnings Per Share Attributable to AT&T	\$0.54	\$0.63	\$1.07	\$1.21
Weighted Average Number of Common				
Shares Outstanding – Basic (in millions)	5,900	5,926	5,898	5,962
Dividends Declared Per Common Share	\$0.410	\$0.400	\$0.820	\$0.800

See Notes to Consolidated Financial Statements.

AT&T INC.

CONSOLIDATED BALANCE SHEETS

Dollars in millions except per share amounts

	June 30, 2009 (Unaudited)	December 31, 2008
Assets		
Current Assets		
Cash and cash equivalents	\$7,348	\$1,792
Accounts receivable – net of allowances for uncollectibles of \$1,269 and \$1,270	14,846	16,047
Prepaid expenses	1,786	1,538
Deferred income taxes	964	1,014
Other current assets	1,996	2,165
Total current assets	26,940	22,556
Property, plant and equipment	222,926	218,579
Less: accumulated depreciation and amortization	(124,697)	(119,491)
Property, Plant and Equipment – Net	98,229	99,088
Goodwill	71,691	71,829
Licenses	47,674	47,306
Customer Lists and Relationships – Net	8,682	10,582
Other Intangible Assets – Net	5,773	5,824
Investments in Equity Affiliates	2,749	2,332
Other Assets	6,180	5,728
Total Assets	\$267,918	\$265,245
Liabilities and Stockholders' Equity		
Current Liabilities		
Debt maturing within one year	\$10,155	\$14,119
Accounts payable and accrued liabilities	18,046	20,032
Advanced billing and customer deposits	3,932	3,849
Accrued taxes	1,667	1,874
Dividends payable	2,419	2,416
Total current liabilities	36,219	42,290
Long-Term Debt	66,565	60,872
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	20,354	19,196
Postemployment benefit obligation	31,985	31,930
Other noncurrent liabilities	13,783	14,207
Total deferred credits and other noncurrent liabilities	66,122	65,333
Stockholders' Equity		
Common shares issued (\$1 par value)	6,495	6,495
Capital in excess of par value	91,637	91,728
Retained earnings	38,069	36,591
Treasury shares (at cost)	(21,284)	(21,410)
Accumulated other comprehensive loss	(16,308)	(17,057)
Noncontrolling interest	403	403
Total stockholders' equity	99,012	96,750

Total Liabilities and Stockholders' Equity	\$267,918	\$265,245
See Notes to Consolidated Financial Statements.		

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AT&T INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in millions, increase (decrease) in cash and cash equivalents

(Unaudited)

	Six months ended	
	June 30,	
	2009	2008
Operating Activities		
Net income	\$6,477	\$7,362
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,789	9,861
Provision for uncollectible accounts	976	860
Deferred income tax expense	744	1,384
Net loss from impairment and sale of investments	74	-
Changes in operating assets and liabilities:		
Accounts receivable	226	(776)
Other current assets	(105)	274
Accounts payable and accrued liabilities	(887)	(5,117)
Stock-based compensation tax benefit	-	(14)
Other - net	(1,492)	(329)
Total adjustments	9,325	6,143
Net Cash Provided by Operating Activities	15,802	13,505
Investing Activities		
Construction and capital expenditures		
Capital expenditures	(7,036)	(9,320)
Interest during construction	(368)	(257)
Acquisitions, net of cash acquired	(55)	(10,087)
Dispositions	199	623
Proceeds from sale of securities, net of investments	(21)	(73)
Other	38	41
Net Cash Used in Investing Activities	(7,243)	(19,073)
Financing Activities		
Net change in short-term borrowings with original maturities of three months or less		
	(3,915)	6,590
Issuance of long-term debt	8,161	10,924
Repayment of long-term debt	(2,037)	(1,605)
Purchase of treasury shares	-	(6,077)
Issuance of treasury shares	4	310
Dividends paid	(4,834)	(4,802)
Stock-based compensation tax benefit	-	14
Other	(382)	(125)
Net Cash Provided by (Used in) Financing Activities	(3,003)	5,229
Net increase (decrease) in cash and cash equivalents	5,556	(339)
Cash and cash equivalents beginning of year	1,792	1,970
Cash and Cash Equivalents End of Period	\$7,348	\$1,631

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Cash paid (refunded) during the six months ended June 30 for:

Interest	\$2,219	\$1,863
Income taxes, net of refunds	\$2,295	\$4,730

See Notes to Consolidated Financial Statements.

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AT&T INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Dollars and shares in millions, except per share amounts
(Unaudited)

	Six months ended June 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		(117)
Balance at end of period		\$91,637
Retained Earnings		
Balance at beginning of year		\$36,591
Net income attributable to AT&T (\$1.07 per diluted share)		6,324
Dividends to stockholders (\$0.82 per share)		(4,837)
Other		(9)
Balance at end of period		\$38,069
Treasury Shares		
Balance at beginning of year	(602)	\$(21,410)
Purchase of shares	-	-
Issuance of shares	7	126
Balance at end of period	(595)	\$(21,284)
Accumulated Other Comprehensive Income (Loss), net of tax		
Balance at beginning of year		\$(17,057)
Other comprehensive income (see Note 2)		749
Balance at end of period		\$(16,308)
Noncontrolling interest at beginning of year		
Net income		153
Distributions		(145)
Translation adjustments		(8)
Noncontrolling interest at end of period		\$403
Total stockholders equity as of December 31, 2008		\$96,750
Changes attributable to AT&T stockholders		2,262
Changes attributable to noncontrolling interest		-
Total stockholders equity as of June 30, 2009		\$99,012

See Notes to Consolidated Financial Statements.

AT&T INC.
JUNE 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.

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.

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 160, “Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51” (FAS 160). FAS 160 requires noncontrolling interests held by parties other than the parent in subsidiaries to be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent’s equity. For us, FAS 160 became effective January 1, 2009, with restatement of prior financial statements.

In April 2009, the FASB issued FASB Staff Position FAS 107-1 and APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments” (FSP FAS 107-1 and APB 28-1), FASB Staff Position FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly” (FSP FAS 157-4), and FASB Staff Position FAS 115-2 and FAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments” (FSP FAS 115-2 and FAS 124-2). These staff positions require enhanced disclosures on financial instruments, and are effective for interim and annual reporting periods beginning in our second quarter and have increased quarterly disclosures but did not have an impact on our financial position and results of operations (see Note 6).

Valuation and Other Adjustments In accordance with Statement of Financial Accounting Standards No. 112, “Employers’ Accounting for Postemployment Benefits” (FAS 112), we establish 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, 2009, we had severance accruals under FAS 112 of \$400. At December 31, 2008, we had severance accruals of \$752.

AT&T INC.
JUNE 30, 2009

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

Included in the current liabilities reported on our consolidated balance sheet are accruals established prior to 2009 under Emerging Issues Task Force (EITF) Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination" (EITF 95-3). The liabilities include accruals for severance, lease terminations and equipment removal costs associated with our acquisitions of AT&T Corp., BellSouth Corporation (BellSouth) and Dobson Communications Corporation. Following is a summary of the accruals recorded under EITF 95-3 at December 31, 2008, cash payments made during 2009 and the adjustments thereto.

	12/31/08 Balance	Cash Payments	Adjustments and Accruals	6/30/09 Balance
Severance accruals paid from:				
Company funds	\$ 140	\$ (89)	\$ (23)	\$ 28
Pension and postemployment benefit plans	103	(3)	-	100
Lease terminations	387	(37)	(11)	339
Equipment removal and other related costs	88	(36)	(10)	42
Total	\$ 718	\$ (165)	\$ (44)	\$ 509

New Accounting Standards

FAS 165 In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, "Subsequent Events" (FAS 165). FAS 165 establishes general standards of accounting for and disclosing events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This statement is effective for interim and annual periods ending after June 15, 2009. In preparing the accompanying unaudited consolidated financial statements, the Company has reviewed, as determined necessary by the Company's management, events that have occurred after June 30, 2009, up until the issuance of the financial statements, which occurred on August 5, 2009.

FAS 166 In June 2009, the FASB issued Statement of Financial Accounting Standards No. 166, "Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140" (FAS 166). FAS 166 amends FASB Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (FAS 140), removing the concept of a qualifying special-purpose entity, and removing the exception from applying FASB Interpretation No. 46(R) (revised December 2003), "Consolidation of Variable Interest Entities" (FIN 46(R)), to qualifying special-purpose entities. This statement 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, and its impact will vary with each future transfer of financial assets.

FAS 167 In June 2009, the FASB issued Statement of Financial Accounting Standards No. 167, "Amendments to FASB Interpretation No. 46(R)" (FAS 167). FAS 167 amends FIN 46(R), to require 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 statement 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, and we are currently evaluating its impact on our financial position and results of operations.

AT&T INC.
JUNE 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 six months ended June 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 forward contracts.

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Net income	\$3,276			