

AT&T INC.  
Form 10-Q  
August 01, 2014

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, 2014

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, 2014, there were 5,186 million common shares outstanding.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

AT&amp;T INC.

## CONSOLIDATED STATEMENTS OF INCOME

Dollars in millions except per share amounts

(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Operating Revenues	\$32,575	\$32,075	\$65,051	\$63,431
Operating Expenses				
Cost of services and sales (exclusive of depreciation and amortization shown separately below)	14,212	13,270	27,533	25,824
Selling, general and administrative	8,197	8,121	16,457	16,454
Depreciation and amortization	4,550	4,571	9,167	9,100
Total operating expenses	26,959	25,962	53,157	51,378
Operating Income	5,616	6,113	11,894	12,053
Other Income (Expense)				
Interest expense	(881 )	(825 )	(1,741 )	(1,652 )
Equity in net income of affiliates	102	218	190	403
Other income (expense) – net	1,269	288	1,414	320
Total other income (expense)	490	(319 )	(137 )	(929 )
Income Before Income Taxes	6,106	5,794	11,757	11,124
Income tax expense	2,485	1,914	4,402	3,471
Net Income	3,621	3,880	7,355	7,653
Less: Net Income Attributable to Noncontrolling Interest	(74 )	(58 )	(156 )	(131 )
Net Income Attributable to AT&T	\$3,547	\$3,822	\$7,199	\$7,522
Basic Earnings Per Share Attributable to AT&T	\$0.68	\$0.71	\$1.38	\$1.38
Diluted Earnings Per Share Attributable to AT&T	\$0.68	\$0.71	\$1.38	\$1.38
Weighted Average Number of Common Shares				
Outstanding – Basic (in millions)	5,204	5,381	5,213	5,446
Weighted Average Number of Common Shares				
Outstanding – with Dilution (in millions)	5,220	5,397	5,229	5,463
Dividends Declared Per Common Share	\$0.46	\$0.45	\$0.92	\$0.90

See Notes to Consolidated Financial Statements.

AT&amp;T INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Dollars in millions

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Net income	\$3,621	\$3,880	\$7,355	\$7,653
Other comprehensive income, net of tax:				
Foreign Currency:				
Translation adjustments (includes \$1, \$(1), \$1 and \$(1) attributable to noncontrolling interest), net of taxes				
of \$15, \$(127), \$5 and \$(65)	26	(239 )	6	(118 )
Reclassification adjustment included in net income, net of taxes of \$210, \$19, \$224 and \$19	391	34	416	34
Available-for-sale securities:				
Net unrealized gains, net of taxes of \$24, \$6, \$34 and \$46	43	11	59	86
Reclassification adjustment realized in net income, net of				
taxes of \$(1), \$(1), \$(8) and \$(5)	(3 )	(3 )	(14 )	(10 )
Cash flow hedges:				
Net unrealized gains (losses), net of taxes of \$(56), \$66, \$(53) and \$115	(104 )	120	(98 )	210
Reclassification adjustment included in net income, net of taxes of \$7, \$4, \$11 and \$8	14	8	21	15
Defined benefit postretirement plans:				
Reclassification adjustment included in net income, net of				
taxes \$31, \$5, \$33 and \$5	58	8	61	8
Amortization of net prior service credit included in net income, net of taxes of \$(142), \$(109), \$(289) and \$(218)	(239 )	(177 )	(479 )	(355 )
Other comprehensive income (loss)	186	(238 )	(28 )	(130 )
Total comprehensive income	3,807	3,642	7,327	7,523
Less: Total comprehensive income attributable to noncontrolling interest	(75 )	(57 )	(157 )	(130 )
Total Comprehensive Income Attributable to AT&T	\$3,732	\$3,585	\$7,170	\$7,393

See Notes to Consolidated Financial Statements.

## AT&amp;T INC.

## CONSOLIDATED BALANCE SHEETS

Dollars in millions except per share amounts

	June 30, 2014	December 31, 2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 11,305	\$ 3,339
Accounts receivable - net of allowances for doubtful accounts of \$461 and \$483	13,001	12,918
Prepaid expenses	928	960
Deferred income taxes	1,180	1,199
Other current assets	6,698	4,780
Total current assets	33,112	23,196
Property, plant and equipment	283,252	274,798
Less: accumulated depreciation and amortization	(168,892 )	(163,830 )
Property, Plant and Equipment – Net	114,360	110,968
Goodwill	70,094	69,273
Licenses	59,655	56,433
Other Intangible Assets – Net	6,380	5,779
Investments in Equity Affiliates	159	3,860
Other Assets	9,706	8,278
Total Assets	\$ 293,466	\$ 277,787
Liabilities and Stockholders' Equity		
Current Liabilities		
Debt maturing within one year	\$ 10,482	\$ 5,498
Accounts payable and accrued liabilities	22,966	21,107
Advanced billing and customer deposits	3,990	4,212
Accrued taxes	3,962	1,774
Dividends payable	2,388	2,404
Total current liabilities	43,788	34,995
Long-Term Debt	73,570	69,290
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	36,835	36,308
Postemployment benefit obligation	30,070	29,946
Other noncurrent liabilities	16,578	15,766
Total deferred credits and other noncurrent liabilities	83,483	82,020
Stockholders' Equity		
Common stock (\$1 par value, 14,000,000,000 authorized at June 30, 2014 and December 31, 2013; issued 6,495,231,088 at June 30, 2014 and December 31, 2013)	6,495	6,495
Additional paid-in capital	91,057	91,091
Retained earnings	33,554	31,141
Treasury stock (1,304,409,511 at June 30, 2014 and 1,268,914,913 at December 31, 2013, at cost)	(46,825 )	(45,619 )
Accumulated other comprehensive income	7,851	7,880
Noncontrolling interest	493	494
Total stockholders' equity	92,625	91,482

Total Liabilities and Stockholders' Equity	\$293,466	\$277,787
See Notes to Consolidated Financial Statements.		

AT&T INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Dollars in millions  
(Unaudited)

	Six months ended June 30,	
	2014	2013
<b>Operating Activities</b>		
Net income	\$7,355	\$7,653
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,167	9,100
Undistributed earnings from investments in equity affiliates	(58 )	(198 )
Provision for uncollectible accounts	444	439
Deferred income tax expense	546	1,081
Net gain from sale of investments, net of impairments	(1,365 )	(260 )
Changes in operating assets and liabilities:		
Accounts receivable	(566 )	(290 )
Other current assets	(771 )	784
Accounts payable and accrued liabilities	2,894	(340 )
Retirement benefit funding	(280 )	-
Other - net	(497 )	(258 )
Total adjustments	9,514	10,058
Net Cash Provided by Operating Activities	16,869	17,711
<b>Investing Activities</b>		
Construction and capital expenditures:		
Capital expenditures	(11,649 )	(9,665 )
Interest during construction	(118 )	(140 )
Acquisitions, net of cash acquired	(857 )	(1,182 )
Dispositions	4,921	825
Return of advances to and investments in equity affiliates	2	301
Other	-	(4 )
Net Cash Used in Investing Activities	(7,701 )	(9,865 )
<b>Financing Activities</b>		
Net change in short-term borrowings with original maturities of three months or less	134	-
Issuance of other short-term borrowings	-	1,476
Repayment of other short-term borrowings	-	(233 )
Issuance of long-term debt	8,564	6,416
Repayment of long-term debt	(3,508 )	(1,823 )
Purchase of treasury stock	(1,396 )	(9,217 )
Issuance of treasury stock	27	104
Dividends paid	(4,784 )	(4,930 )
Other	(239 )	41
Net Cash Used in Financing Activities	(1,202 )	(8,166 )
Net increase (decrease) in cash and cash equivalents	7,966	(320 )
Cash and cash equivalents beginning of year	3,339	4,868
Cash and Cash Equivalents End of Period	\$11,305	\$4,548
Cash paid during the six months ended June 30 for:		

Interest	\$2,292	\$2,002
Income taxes, net of refunds	\$987	\$591

See Notes to Consolidated Financial Statements.



AT&amp;T INC.

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Dollars and shares in millions except per share amounts

(Unaudited)

	June 30, 2014 Shares		Amount
<b>Common Stock</b>			
Balance at beginning of year	6,495	\$	6,495
Issuance of stock	-		-
Balance at end of period	6,495	\$	6,495
<b>Additional Paid-In Capital</b>			
Balance at beginning of year		\$	91,091
Issuance of treasury stock			4
Share-based payments			(34)
Change related to acquisition of interests held by noncontrolling owners			(4)
Balance at end of period		\$	91,057
<b>Retained Earnings</b>			
Balance at beginning of year		\$	31,141
Net income attributable to AT&T (\$1.38 per diluted share)			7,199
Dividends to stockholders (\$0.92 per share)			(4,786)
Balance at end of period		\$	33,554
<b>Treasury Stock</b>			
Balance at beginning of year	(1,269)	\$	(45,619)
Repurchase of common stock	(42)		(1,396)
Issuance of treasury stock	7		190
Balance at end of period	(1,304)	\$	(46,825)
<b>Accumulated Other Comprehensive Income Attributable to AT&amp;T, net of tax</b>			
Balance at beginning of year		\$	7,880
Other comprehensive loss attributable to AT&T			(29)
Balance at end of period		\$	7,851
<b>Noncontrolling Interest</b>			
Balance at beginning of year		\$	494
Net income attributable to noncontrolling interest			156
Distributions			(158)
Translation adjustments attributable to noncontrolling interest, net of taxes			1
Balance at end of period		\$	493
Total Stockholders' Equity at beginning of year		\$	91,482
Total Stockholders' Equity at end of period		\$	92,625
See Notes to Consolidated Financial Statements.			



AT&T INC.  
JUNE 30, 2014

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, that are 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, 2013. On March 13, 2014, we closed our acquisition of Leap Wireless International, Inc. (Leap) (see Note 7), and we incorporated Leap into our wireless operations following the date of acquisition.

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 communications services, traditional wireline voice services, data/broadband and Internet services, video services, telecommunications equipment, managed networking and wholesale services.

All significant intercompany transactions are eliminated in the consolidation process. Investments in less than majority-owned subsidiaries and partnerships 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. We also record our proportionate share of our equity method investees’ other comprehensive income (OCI) items, including actuarial gains and losses on pension and other postretirement benefit obligations. On June 30, 2014, we completed the sale of our investment in América Móvil, S.A.B. de C.V. (América Móvil) to an unrelated third party (see Note 7).

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. Certain amounts have been reclassified to conform to the current period’s presentation.

**Stock Repurchase Program** During the first six months of 2014, we repurchased approximately 42 million shares for \$1,396 under a repurchase authorization that was approved by our Board of Directors in March 2013. In March 2014, our Board of Directors approved another authorization to repurchase 300 million shares of our common stock. At June 30, 2014, we had 421 million shares remaining under these authorizations. The repurchase authorizations have no expiration date, and we expect to make future repurchases opportunistically.

**Software Costs** During 2014, we completed a study evaluating the periods that we were utilizing our non-network software assets. As of April 1, 2014, we modified our amortization period for capitalized non-network software to five years to better reflect the estimated periods during which these assets will remain in service and to align with amortization periods used in the industry. Had we not revised the amortization period, our depreciation and amortization expense would have been \$4,763 in the second quarter and \$9,380 for the first six months.

**New Accounting Standards** In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (ASU 2014-09), which replaces existing revenue recognition rules with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. Upon initial evaluation, we believe the key changes in the standard that impact our revenue

recognition relate to the allocation of contract revenues between service and equipment, and the timing in which those revenues are recognized. ASU 2014-09 also specifies that incremental costs of obtaining or fulfilling our contracts with customers should be deferred. ASU 2014-09 becomes effective for annual reporting periods beginning after December 15, 2016.

The FASB will allow two adoption methods under ASU 2014-09. Under one method, a company will apply the rules to contracts in all reporting periods presented, subject to certain allowable exceptions. Under the other method, a company will apply the rules to all contracts existing as of January 1, 2017, recognizing in beginning retained earnings an adjustment for the cumulative effect of the change and provide additional disclosures comparing results to previous rules. We continue to evaluate the impact of the new standard and available adoption methods.

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AT&T INC.  
JUNE 30, 2014

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

NOTE 2. EARNINGS PER SHARE

A reconciliation of the numerators and denominators of basic earnings per share and diluted earnings for the three and six months ended June 30, 2014 and 2013, is shown in the table below:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Numerators				
Numerator for basic earnings per share:				
Net Income	\$ 3,621	\$ 3,880	\$ 7,355	\$ 7,653
Less: Net income attributable to noncontrolling interest	(74 )	(58 )	(156 )	(131 )
Net Income attributable to AT&T	3,547	3,822	7,199	7,522
Dilutive potential common shares:				
Share-based payment	3	2	7	6
Numerator for diluted earnings per share	\$ 3,550	\$ 3,824	\$ 7,206	\$ 7,528
Denominators (000,000)				
Denominator for basic earnings per share:				
Weighted average number of common shares outstanding	5,204	5,381	5,213	5,446
Dilutive potential common shares:				
Share-based payment (in shares)	16	16	16	17
Denominator for diluted earnings per share	5,220	5,397	5,229	5,463
Basic earnings per share attributable to AT&T	\$ 0.68	\$ 0.71	\$ 1.38	\$ 1.38
Diluted earnings per share attributable to AT&T	\$ 0.68	\$ 0.71	\$ 1.38	\$ 1.38

At June 30, 2014 and 2013, we had issued and outstanding options to purchase approximately 11 million and 13 million shares of AT&T common stock. For the quarter ended June 30, 2014 and 2013, the exercise prices of 3 million and 2 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&T INC.  
JUNE 30, 2014

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

### NOTE 3. OTHER COMPREHENSIVE INCOME

Changes in the balances of each component included in accumulated other comprehensive income (accumulated OCI) for the six months ended June 30, 2014 and 2013, are presented below. For the period ended June 30, 2014, the amounts reclassified from accumulated OCI include the adjustments resulting from our change in accounting for América Móvil (see Note 7). All amounts are net of tax and exclude noncontrolling interest.

At June 30, 2014 and for the period ended:

	Foreign Currency Translation Adjustment	Net Unrealized Gains (Losses) on Available- for-Sale Securities	Net Unrealized Gains (Losses) on Cash Flow Hedges	Defined Benefit Postretirement Plans	Accumulated Other Comprehensive Income
Balance as of December 31, 2013	\$ (367)	\$ 450	\$ 445	\$ 7,352	\$ 7,880
Other comprehensive income (loss) before reclassifications	5	59	(98)	-	(34)
Amounts reclassified from accumulated OCI	416 1	(14) 2	21 3	(418) 4	5
Net other comprehensive income (loss)	421	45	(77)	(418)	(29)
Balance as of June 30, 2014	\$ 54	\$ 495	\$ 368	\$ 6,934	\$ 7,851

At June 30, 2013 and for the period ended:

	Foreign Currency Translation Adjustment	Net Unrealized Gains (Losses) on Available- for-Sale Securities	Net Unrealized Gains (Losses) on Cash Flow Hedges	Defined Benefit Postretirement Plans	Accumulated Other Comprehensive Income
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Balance as of December 31, 2012	\$ (284)	\$ 272	\$ (110)	\$ 5,358	\$ 5,236
Other comprehensive income					
(loss) before reclassifications	(117)	86	210	-	179
Amounts reclassified from accumulated					
OCI	34 1	(10) 2	15 3	(347) 4	(308)
Net other comprehensive income (loss)	(83)	76	225	(347)	(129)
Balance as of June 30, 2013	\$ (367)	\$ 348	\$ 115	\$ 5,011	\$ 5,107

1 Pre-tax translation loss reclassifications are included in Other income (expense) - net in the consolidated statements of income.

2 Pre-tax gains are included in Other income (expense) - net in the consolidated statements of income. (Gains) losses are included in interest expense in the consolidated statements of income. See Note 6 for additional information.

3 The amortization of prior service credits associated with postretirement benefits, net of amounts capitalized as part of construction labor, are included in Cost of services and sales and Selling, general and administrative in the consolidated statements of income (see Note 5).

4 Actuarial loss reclassifications related to our equity method investees are included in Other income (expense) - net in the consolidated statements of income.

AT&T INC.  
JUNE 30, 2014

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 operating segments based on segment income before income taxes. We make our capital allocation decisions based on our strategic direction of the business, needs of the network (wireless or wireline) providing services and demands to provide emerging services to our customers. 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. Therefore, these items are not included in each segment's reportable results. The customers and long-lived assets of our reportable segments are predominantly in the United States. We have two reportable segments: (1) Wireless and (2) Wireline.

The Wireless segment uses our nationwide network to provide consumer and business customers with wireless data and voice communications services. This segment includes our portion of the results from our mobile wallet joint venture which is accounted for as an equity investment.

The Wireline segment uses our regional, national and global network to provide consumer and business customers with data and voice communications services, AT&T U-verse® high speed Internet, video and VoIP services and managed networking to business customers.

The Corporate and Other column includes unallocated corporate expenses, which includes costs to support corporate-driven activities and operations, impacts of corporate-wide decisions for which the individual operating segments are not being evaluated, including interest costs and expected return on plan assets for our pension and postretirement benefit plans as well as our actuarial gains and losses on our pension and postretirement plan valuations. Results from equity method investments in América Móvil (prior to our May 2014 announcement of our intention to dispose of our investment), YP Holdings LLC, and Otter Media (our joint venture with The Chernin Group), are also excluded from our segment results as those results are nonoperational and not considered in our assessment of segment performance. We have revised our prior-period presentation to conform to our current reporting.



AT&T INC.  
JUNE 30, 2014

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Dollars in millions except per share amounts

In the following tables, we show how our segment results are reconciled to our consolidated results reported.

For the three months ended June 30, 2014

	Wireless	Wireline	Corporate and Other	Consolidated Results
Service	\$15,148	\$14,408	\$-	\$ 29,556
Equipment	2,782	229	8	3,019
Total segment operating revenues	17,930	14,637	8	32,575
Operations and support expenses	11,568	10,700	141	22,409
Depreciation and amortization expenses	2,035	2,514	1	4,550
Total segment operating expenses	13,603	13,214	142	26,959
Segment operating income (loss)	4,327	1,423	(134 )	5,616
Interest expense	-	-	881	881
Equity in net income (loss) of affiliates	(29 )	-	131	102
Other income (expense) – net	-	-	1,269	1,269
Segment income before income taxes	\$4,298	\$1,423	\$385	\$ 6,106

For the six months ended June 30, 2014

	Wireless	Wireline	Corporate and Other	Consolidated Results
Service	\$30,535	\$28,797	\$-	\$ 59,332
Equipment	5,261	441	17	5,719
Total segment operating revenues	35,796	29,238	17	65,051
Operations and support expenses	22,450	21,157	383	43,990
Depreciation and amortization expenses	3,966	5,198	3	9,167
Total segment operating expenses	26,416	26,355	386	53,157
Segment operating income (loss)	9,380	2,883	(369 )	11,894
Interest expense	-	-	1,741	1,741
Equity in net income (loss) of affiliates	(49 )	1	238	190
Other income (expense) – net	-	-	1,414	1,414
Segment income (loss) before income taxes	\$9,331	\$2,884	\$(458 )	\$ 11,757

AT&T INC.  
JUNE 30, 2014

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

For the three months ended  
June 30, 2013