

AT&T INC.  
Form 10-Q  
May 03, 2013

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 March 31, 2013

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 ☒ 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 ☒ 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.

☒ Accelerated filer ☐

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Large accelerated  
filer

Non-accelerated [ ] (Do not check if a smaller reporting company) 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 April 30, 2013 there were 5,380 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 March 31,	
	2013	2012
Operating Revenues	\$31,356	\$31,822
Operating Expenses		
Cost of services and sales (exclusive of depreciation and amortization shown separately below)	12,554	12,817
Selling, general and administrative	8,333	8,344
Depreciation and amortization	4,529	4,560
Total operating expenses	25,416	25,721
Operating Income	5,940	6,101
Other Income (Expense)		
Interest expense	(827 )	(859 )
Equity in net income of affiliates	185	223
Other income (expense) – net	32	52
Total other income (expense)	(610 )	(584 )
Income Before Income Taxes	5,330	5,517
Income tax expense	1,557	1,865
Net Income	3,773	3,652
Less: Net Income Attributable to Noncontrolling Interest	(73 )	(68 )
Net Income Attributable to AT&T	\$3,700	\$3,584
Basic Earnings Per Share Attributable to AT&T	\$0.67	\$0.60
Diluted Earnings Per Share Attributable to AT&T	\$0.67	\$0.60
Weighted Average Number of Common Shares Outstanding – Basic (in millions)	5,513	5,918
Weighted Average Number of Common Shares Outstanding – with Dilution (in millions)	5,530	5,940
Dividends Declared Per Common Share	\$0.45	\$0.44

See Notes to Consolidated Financial Statements.

AT&amp;T INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Dollars in millions

(Unaudited)

	Three months ended March 31,	
	2013	2012
Net income	\$3,773	\$3,652
Other comprehensive income, net of tax:		
Foreign currency translation adjustments (includes \$0 and \$1 attributable to noncontrolling interest), net of taxes of \$62 and \$131	121	243
Available-for-sale securities:		
Net unrealized gains (losses), net of taxes of \$40 and \$54	75	101
Reclassification adjustment included in net income, net of taxes of \$(4) and \$(3)	(7 )	(6 )
Cash flow hedges:		
Net unrealized gains (losses), net of taxes of \$49 and \$0	90	-
Reclassification adjustment included in net income, net of taxes of \$4 and \$3	7	6
Defined benefit postretirement plans:		
Amortization of net prior service credit included in net income, net of taxes of \$(109) and \$(84)	(178 )	(137 )
Other comprehensive income	108	207
Total comprehensive income	3,881	3,859
Less: Total comprehensive income attributable to noncontrolling interest	(73 )	(69 )
Total Comprehensive Income Attributable to AT&T	\$3,808	\$3,790

See Notes to Consolidated Financial Statements.

## AT&amp;T INC.

## CONSOLIDATED BALANCE SHEETS

Dollars in millions except per share amounts

	March 31, 2013 (Unaudited)	December 31, 2012
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$3,875	\$4,868
Accounts receivable - net of allowances for doubtful accounts of \$547 and \$547	12,100	12,657
Prepaid expenses	1,021	1,035
Deferred income taxes	980	1,036
Other current assets	2,396	3,110
Total current assets	20,372	22,706
Property, plant and equipment	274,035	270,907
Less: accumulated depreciation and amortization	(164,333 )	(161,140 )
Property, Plant and Equipment – Net	109,702	109,767
Goodwill	69,772	69,773
Licenses	53,507	52,352
Customer Lists and Relationships – Net	1,190	1,391
Other Intangible Assets – Net	5,022	5,032
Investments in and Advances to Equity Affiliates	4,998	4,581
Other Assets	6,431	6,713
Total Assets	\$270,994	\$272,315
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Debt maturing within one year	\$3,446	\$3,486
Accounts payable and accrued liabilities	17,523	20,494
Advanced billing and customer deposits	4,167	4,225
Accrued taxes	2,210	1,026
Dividends payable	2,440	2,556
Total current liabilities	29,786	31,787
Long-Term Debt	70,686	66,358
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes	28,918	28,491
Postemployment benefit obligation	41,663	41,392
Other noncurrent liabilities	11,603	11,592
Total deferred credits and other noncurrent liabilities	82,184	81,475
<b>Stockholders' Equity</b>		
Common stock (\$1 par value, 14,000,000,000 authorized at March 31, 2013 and December 31, 2012; issued 6,495,231,088 at March 31, 2013 and December 31, 2012)	6,495	6,495
Additional paid-in capital	90,940	91,038
Retained earnings	23,787	22,481
Treasury stock (1,072,424,764 at March 31, 2013 and 913,836,325 at December 31, 2012, at cost)	(38,568 )	(32,888 )
Accumulated other comprehensive income	5,344	5,236
Noncontrolling interest	340	333

Total stockholders' equity	88,338	92,695
Total Liabilities and Stockholders' Equity	\$ 270,994	\$ 272,315
See Notes to Consolidated Financial Statements.		

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

	Three months ended March 31,	
	2013	2012
Operating Activities		
Net income	\$3,773	\$3,652
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,529	4,560
Undistributed earnings from investments in equity affiliates	(185 )	(223 )
Provision for uncollectible accounts	262	328
Deferred income tax expense and noncurrent unrecognized tax benefits	509	337
Net (gain) loss from sale of investments, net of impairments	(11 )	(9 )
Changes in operating assets and liabilities:		
Accounts receivable	295	73
Other current assets	864	1,120
Accounts payable and accrued liabilities	(1,675 )	(1,655 )
Other - net	(162 )	(338 )
Total adjustments	4,426	4,193
Net Cash Provided by Operating Activities	8,199	7,845
Investing Activities		
Construction and capital expenditures:		
Capital expenditures	(4,252 )	(4,261 )
Interest during construction	(66 )	(65 )
Acquisitions, net of cash acquired	(1,045 )	(433 )
Dispositions	5	16
Sales (purchases) of securities, net	-	5
Other	1	1
Net Cash Used in Investing Activities	(5,357 )	(4,737 )
Financing Activities		
Net change in short-term borrowings with original maturities of three months or less	274	-
Issuance of other short-term borrowings	1,474	-
Issuance of long-term debt	4,875	2,986
Repayment of long-term debt	(1,791 )	(2,204 )
Purchase of treasury stock	(5,911 )	(2,066 )
Issuance of treasury stock	56	218
Dividends paid	(2,502 )	(2,606 )
Other	(310 )	(130 )
Net Cash Used in Financing Activities	(3,835 )	(3,802 )
Net decrease in cash and cash equivalents	(993 )	(694 )
Cash and cash equivalents beginning of year	4,868	3,045
Cash and Cash Equivalents End of Period	\$3,875	\$2,351
Cash paid during the three months ended March 31 for:		
Interest	\$1,081	\$1,224

Income taxes, net of refunds	\$(1,114	)	\$(712	)
See Notes to Consolidated Financial Statements.				

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AT&amp;T INC.

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Dollars and shares in millions except per share amounts

(Unaudited)

	March 31, 2013		Amount
	Shares		
<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		\$	91,038
Issuance of treasury stock			(10 )
Share-based payments			(88 )
Balance at end of period		\$	90,940
<b>Retained Earnings</b>			
Balance at beginning of year		\$	22,481
Net income attributable to AT&T (\$0.67 per diluted share)			3,700
Dividends to stockholders (\$0.45 per share)			(2,440 )
Other			46
Balance at end of period		\$	23,787
<b>Treasury Stock</b>			
Balance at beginning of year	(914 )	\$	(32,888 )
Repurchase of common stock	(168 )		(5,911 )
Issuance of treasury stock	10		231
Balance at end of period	(1,072 )	\$	(38,568 )
<b>Accumulated Other Comprehensive Income</b>			
Attributable to AT&T, net of tax:			
Balance at beginning of year		\$	5,236
Other comprehensive income attributable to AT&T			108
Balance at end of period		\$	5,344
<b>Noncontrolling Interest:</b>			
Balance at beginning of year		\$	333
Net income attributable to noncontrolling interest			73
Distributions			(66 )
Balance at end of period		\$	340
Total Stockholders' Equity at beginning of year		\$	92,695
Total Stockholders' Equity at end of period		\$	88,338
See Notes to Consolidated Financial Statements.			



AT&T INC.  
MARCH 31, 2013

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, 2012.

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 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 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. 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.

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 quarter of 2013, we repurchased 168 million shares for \$5,911 under a repurchase authorization that was approved by our Board of Directors in July 2012. At March 31, 2013, we had 61 million shares remaining under that authorization. In March 2013, our Board of Directors authorized the repurchase of up to an additional 300 million shares of our common stock. The plan has no expiration date.

AT&T INC.  
MARCH 31, 2013

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 per share for net income attributable to AT&T for the three months ended March 31, 2013 and 2012, is shown in the table below:

	Three months ended March 31,	
	2013	2012
Numerators		
Numerator for basic earnings per share:		
Net income	\$ 3,773	\$ 3,652
Net income attributable to noncontrolling interest	(73)	(68)
Net income attributable to AT&T	3,700	3,584
Dilutive potential common shares:		
Other share-based payment	4	3
Numerator for diluted earnings per share	\$ 3,704	\$ 3,587
Denominators (000,000)		
Denominator for basic earnings per share:		
Weighted average number of common shares outstanding	5,513	5,918
Dilutive potential common shares:		
Share-based payment	17	22
Denominator for diluted earnings per share	5,530	5,940
Basic earnings per share attributable to AT&T	\$ 0.67	\$ 0.60
Diluted earnings per share attributable to AT&T	\$ 0.67	\$ 0.60

At March 31, 2013 and 2012, we had issued and outstanding options to purchase approximately 15 million and 28 million shares of AT&T common stock. For the quarter ended March 31, 2013 and 2012, the exercise prices of 4 million and 5 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 March 31, 2013 and 2012, the exercise prices of 11 million and 22 million vested stock options were below market price.

AT&T INC.  
MARCH 31, 2013

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 of other comprehensive income (OCI) included in accumulated OCI for the three months ended March 31, 2013, are presented below. All amounts are net of tax and exclude noncontrolling interest.

At March 31, 2013 and for the period ended:

	Foreign Currency Translation Adjustment	Net Unrealized Gain (Loss) on Available- for-Sale Securities	Net Unrealized Gains (Losses) on Cash Flow Hedges	Defined Benefit Postretirement Plans	Accumulated Other Comprehensive Income
Balance as of January 1, 2013	\$ (284)	\$ 272	\$ (110)	\$ 5,358	\$ 5,236
Other comprehensive income before reclassifications	121	75	90	-	286
Amounts reclassified from accumulated OCI	-	(7) 1	7 2	(178) 3	(178)
Net other comprehensive income (loss)	121	68	97	(178)	108
Balance as of March 31, 2013	\$ (163)	\$ 340	\$ (13)	\$ 5,180	\$ 5,344

- 1 Pre-tax gains of \$11 are included in Other income (expense) - net in the consolidated income statement. (Gains) losses are included in interest expense on the consolidated income statement. See Note 6 for additional information.
- 2
- 3 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 on the consolidated income statement. See Note 5 for additional information.

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 allocation decisions based on our strategic direction of the business, needs of the network (wireless or wireline) providing services and other assets needed 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 three reportable segments: (1) Wireless, (2) Wireline and (3) Other. Our operating results prior to May 9, 2012, also included our Advertising Solutions segment, which was subsequently sold.

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 payment joint venture marketed as the Isis Mobile Wallet™ (ISIS), 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 broadband, video 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 Other segment includes our portion of the results from our international equity investments, our 47 percent equity interest in YP Holdings LLC (YP Holdings), and costs to support corporate-driven activities and 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 costs and expected return on plan assets for our pension and postretirement benefit plans.

AT&T INC.  
MARCH 31, 2013

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 March 31,  
2013:

	Wireless	Wireline	Advertising Solutions	Other	Consolidations	Consolidated Results
Data	\$5,125	\$8,162	\$-	\$-	\$ -	\$ 13,287
Voice, text and other	9,937	5,306	-	-	-	15,243
Equipment and other	1,629	1,187	-	10	-	2,826
Total segment operating revenues	16,691	14,655	-	10	-	31,356
Operations and support expenses	10,180	10,335	-	372	-	20,887
Depreciation and amortization expenses	1,835	2,688	-	6	-	4,529
Total segment operating expenses	12,015	13,023	-	378	-	25,416
Segment operating income (loss)	4,676	1,632	-	(368 )	-	5,940
Interest expense	-	-	-	-	827	827
Equity in net income (loss) of affiliates	(18 )	1	-	202	-	185
Other income (expense) – net	-	-	-	-	32	32
Segment income (loss) before income taxes	\$4,658	\$1,633	\$-	\$(166 )	\$ (795 )	\$ 5,330

For the three months ended March 31,  
2012:

	Wireless	Wireline	Advertising Solutions	Other	Consolidations	Consolidated Results
Data	\$4,235	\$7,800	\$-	\$-	\$ -	\$ 12,035
Voice, text and other	10,331	5,892	-	-	-	16,223
Equipment and other	1,570	1,237	744	13	-	3,564
Total segment operating revenues	16,136	14,929	744	13	-	31,822
Operations and support expenses	9,978	10,402	547	234	-	21,161
Depreciation and amortization expenses	1,666	2,808	77	9	-	4,560
Total segment operating expenses	11,644	13,210	624	243	-	25,721
Segment operating income (loss)	4,492	1,719	120	(230 )	-	