

Edgar Filing: AT&T CORP - Form 11-K

AT&T CORP
Form 11-K
June 28, 2005

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 11-K

Annual Report Pursuant to Section 15(d) of the Securities
Exchange Act of 1934

(Mark One)

(x) ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For The Fiscal Year Ended December 31, 2004

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 1-1105

AT&T Corp.

A. Full title of the plan and the address of the plan, if
different from that of the issuer named below:

AT&T LONG TERM SAVINGS PLAN FOR MANAGEMENT EMPLOYEES

B. Name and issuer of the securities held pursuant to the
plan and the address of its principal executive office:

AT&T CORP.
ONE AT&T WAY
BEDMINSTER, NJ 07921

AT&T Long Term Savings Plan for Management Employees
Financial Statements and Supplemental Schedule
December 31, 2004 and 2003

AT&T Long Term Savings Plan for Management Employees
Index
December 31, 2004 and 2003

Page (s)

Edgar Filing: AT&T CORP - Form 11-K

Report of Independent Registered Public Accounting Firm.....1

Financial Statements

Statements of Net Assets Available for Benefits.....2

Statement of Changes in Net Assets Available for Benefits.....3

Notes to Financial Statements.....4-8

Supplemental Schedule

Schedule of Assets (Held at End of Year).....9

Report of Independent Registered Public Accounting Firm

To the Participants and Administrator of
AT&T Long Term Savings Plan for Management Employees

In our opinion, the accompanying statements of net assets available for benefits and the related statement of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of AT&T Long Term Savings Plan for Management Employees (the "Plan") at December 31, 2004 and 2003, and the changes in net assets available for benefits for the year ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule of Assets (Held at End of Year) as of December 31, 2004 is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing

Edgar Filing: AT&T CORP - Form 11-K

procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP
Florham Park, New Jersey

June 22, 2005

AT&T Long Term Savings Plan for Management Employees
Statements of Net Assets Available for Benefits
December 31, 2004 and 2003

(thousands of dollars)	2004	2003
Assets		
Investments, at fair value		
Investment in Master Trust	\$ 7,135,697	\$ 6,939,310
Participant loans receivable	79,700	84,017
	-----	-----
Total assets	7,215,397	7,023,327
	-----	-----
Liabilities		
Total liabilities	-	-
	-----	-----
Net assets available for benefits	\$ 7,215,397	\$ 7,023,327
	-----	-----

The accompanying notes are an integral part of these financial statements.

AT&T Long Term Savings Plan for Management Employees
Statement of Changes in Net Assets Available for Benefits
Year Ended December 31, 2004

(thousands of dollars)	Total
Net assets available for benefits, January 1, 2004	\$ 7,023,327

Edgar Filing: AT&T CORP - Form 11-K

Additions	
Additions to net assets attributed to	
Net income from investment in Master Trust	558,907
Interest on participant loans	3,633

	562,540

Contributions and transfers	
Employee contributions	227,681
Employing company contributions, net	94,411
Transfers of participants' balances from other plans, net	25,923

	348,015

Total additions	910,555

Deductions	
Distributions to participants	(718,485)

Total deductions	(718,485)

Net increase	192,070

Net assets available for benefits, December 31, 2004	\$ 7,215,397

The accompanying notes are an integral part of these financial statements.

AT&T Long Term Savings Plan for Management Employees
Notes to Financial Statements
December 31, 2004

1. Plan Description

The AT&T Long Term Savings Plan for Management Employees (the "Plan" or "LTSPME") is a defined contribution plan established by AT&T Corp. ("AT&T") to provide a convenient way for management employees (i.e., employees whose pay is at monthly or annual fixed rates and whose wages are not subject to automatic wage progression) of participating AT&T Companies to save on a regular and long-term basis. Effective January 1, 2004, the AT&T Savings Master Trust ("Master Trust") was established as the successor trust to the Group Trust. Effective as of the same date, State Street Bank and Trust Company was appointed as successor trustee to Fidelity Management Trust Company for the AT&T

Edgar Filing: AT&T CORP - Form 11-K

Savings Master Trust. The LTSPME participates in the Master Trust for the investment of the pooled assets of various funds. Each participating plan has an undivided interest in the Master Trust.

An eligible employee enters the Plan by authorizing a payroll allotment to invest his/her contributions in one or more of the twenty-six (26) different funds as set forth in the current Plan documents.

The Comcast Stock Fund was liquidated between March 18, 2004 and May 20, 2004. The proceeds from the sales were transferred into the AT&T Stable Value Fund. As of July 30, 2004, a participant who does not have, or maintain, a balance in the Fidelity Low-Priced Stock Fund, will not be able to invest in the Fidelity Low-Priced Stock Fund through the Plan. Shares of the Legg Mason Value Trust Investment option were converted from Financial Intermediary Class to Institutional Class as of 4:00 p.m. Eastern Time on September 30, 2004. Effective July 1, 2004, the Janus Overseas Fund and the Janus Worldwide Fund options in the Plan were closed to new contributions and exchanges in. A liquidation of assets in these two Janus funds began on October 8, 2004 and was completed on October 29, 2004. The proceeds from the sales were transferred into the AT&T Stable Value Fund in the Plan. Effective July 1, 2004, two new mutual fund investment options became available under the Plan. The American Funds Capital World Growth and Income Fund, Class R-5 and the Morgan Stanley Institutional Fund - International Equity Portfolio, Class A Shares are the two new mutual funds. On December 6, 2004, Fidelity implemented an enterprise-wide policy to monitor and address excessive short-term trading in Fidelity funds sold through retail or 401(k) plans for which they keep the records. This policy establishes standards for warning participants and suspending trading privileges, if necessary, in accordance with prospectus rules. Fidelity has offered to implement this policy for other mutual fund providers and subsequently T. Rowe Price and Legg Mason agreed to have their funds monitored by Fidelity.

Employee allotments of 2% to 16% of salary may be authorized. An employee may designate allotments as pre-tax allotments, as after-tax allotments or as a combination of pre-tax and after-tax allotments. All participant contributions and earnings thereon are immediately vested and not subject to forfeiture. Pre-tax contributions may be made up to the Internal Revenue Service limit of \$13,000 in 2004. When an employee contributes to the Plan, the employing company (AT&T or any AT&T subsidiary participating in the Plan) will contribute an amount equal to $66\frac{2}{3}\%$ of the first six percent (6%) of the employee's salary contributed. Employing company contributions are made in accordance with the participants' elected investment direction. A participant becomes 100 percent vested in the employing company contributions after three years of service.

Employees who are age 50 or older on or before December 31st may be eligible to make pre-tax contributions beyond the Internal Revenue Service pre-tax limit. The 2004 catch-up contribution limit set by the Internal Revenue Service is \$3,000. No company matching contribution is made on catch-up contributions.

Loans are available to all participants in an amount not less than \$1,000, up to a maximum of 50% of the participant's vested account balance or \$50,000 minus the participant's highest outstanding loan balance in the last twelve (12) months. Upon default, participants are considered to have received a distribution and are subject to income taxes on the distributed amount. Loan transactions are treated as a

Edgar Filing: AT&T CORP - Form 11-K

transfer to (from) the investment funds from (to) the Participant Loan Account. The term of the loan shall not exceed fifty-six (56) months. The loans are collateralized by the balance in the participant's account and bear interest at the prime rate on the last business day of the month preceding the month in which the loan was initiated. Interest rates are fixed for the term of the loan. Interest rates on participant loans outstanding at December 31, 2004 range from 4.0% to 9.5%. Principal and interest are paid through payroll deductions or participant-initiated payments.

When a participant terminates employment, a single distribution will be made of all vested amounts in the participant's account if the amount to be distributed is \$5,000 or less. However, if the amount to be distributed exceeds \$5,000, and the participant does not request the distribution, the participant's account shall remain in the Plan and may be withdrawn or distributed at the participant's request, or as minimum required distributions beginning when the participant attains 70-1/2, or upon the participant's death, whichever is earlier.

Participant forfeitures in 2004 were \$720,467. The total forfeited non-vested accounts as of December 31, 2004 is \$4,328,635. Forfeitures will be used to reduce future employer contributions and administrative expenses. During 2004, employer contributions were reduced by \$29,255 from forfeited non-vested accounts.

For a complete description of the Plan, participants should refer to the Plan Prospectus and Plan Summary Plan Description ("SPD"). The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA").

2. Accounting Policies

Basis of Accounting

The financial statements of the Plan are prepared under the accrual method of accounting.

Payments of Benefits

Benefits are recorded when paid.

Valuation of Investments

Income and assets of the Master Trust are allocated based on participant balances. The net asset value of the Master Trust is calculated by the Trustee. The Trustee determines the value of the underlying assets in the investment manager portfolios, taking into account the market values supplied by a generally accepted pricing or quotation service or quotations furnished by one or more reputable sources, such as securities brokers, dealers or investment bankers, mutual fund administrators, values of comparable property, appraisals or other relevant information. Investments in AT&T common shares and other securities listed on national stock exchanges are carried at fair value determined on the basis of the last published sales price per share on the last business day of the year. Securities traded in over-the-counter markets and government obligations are carried at fair value based on the last bid prices or closing prices on December 31, as listed in published sources if available or, if not available, from other sources considered reliable. Contracts with insurance companies and financial institutions, which are fully benefit responsive, are carried at contract value (representing contributions made under the contracts plus accumulated interest at the contract rates). All other investments are carried at the fair value at the close of business on December 31. Participant loans receivable are valued at cost which approximates fair value. Participant loans are

Edgar Filing: AT&T CORP - Form 11-K

assets of the Plan and are not part of the Master Trust.

Purchases and Sales of Investments

Purchases and sales of securities are recorded on the trade date.

Investment Income

Dividend income is recorded on the ex-dividend date. Interest income is accrued as earned.

Net Appreciation (Depreciation) in the Fair Value of Investments

The Plan presents in the statement of changes in net assets available for benefits the net appreciation (depreciation) in the fair value of investments, which consists of the realized gains (losses) and the change for the year in unrealized appreciation (depreciation) on those investments.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Risks and Uncertainties

Investments held by the Master Trust and Plan are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments could occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits.

3. Tax Status

The Internal Revenue Service ("IRS") has determined and informed AT&T by a letter dated March 28, 2005, that the Plan, restated effective January 1, 2001 with amendments through February 28, 2002, and related trust are qualified in accordance with applicable sections of the Internal Revenue Code ("IRC"). The Plan has been amended since February 28, 2002. However, the Plan Administrator believes that the Plan is qualified and is currently being operated in compliance with the applicable requirements of the IRC.

4. Concentrations of Investment Risk

At December 31, 2004, Plan participants' accounts that are invested in the Company stock option is exposed to market risk in the event of a significant decline in the value of AT&T Corp. stock.

5. Plan Termination

Although it has not expressed any intent to do so, AT&T has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, the Plan provides that the net assets are to be distributed to participating employees in amounts equal to their respective interest in such assets.

6. Plan Expenses

In general, fees paid for Plan administration, including recordkeeping (except for such services as are attributable to the participant loan

Edgar Filing: AT&T CORP - Form 11-K

program), are paid from the trust, unless those expenses are paid by the Company or participant(s). Fees for trustee services are paid out of trust assets. Expenses attributable to the management and investment of each of the investment options shall be charged against respective options.

7. Master Trust Investments

The Trust Investments presented as of December 31, 2004 are those held by State Street Bank and Trust Company, as Trustee, in the AT&T Savings Master Trust. The investments presented as of December 31, 2003 are those held by Fidelity Management Trust Company, as Trustee, in the Group Trust.

Type of Master Trust Investments	December 31	
(thousands of dollars)	2004	2003
Government Securities	\$ -	\$ 16,572
Short-term securities	40,201	10,189
Corporate bonds	1,205	6,127
Common stocks	1,009,660	1,567,644
Mutual funds	3,072,840	2,795,255
Commingled funds	1,381,388	1,294,002
Investment contracts		
Guaranteed Investment Contracts	276,552	344,575
Synthetic Investment Contracts		
Government Securities	348,836	625,298
Short-term securities	64,152	251,905
Corporate bonds	2,428,782	1,687,291
Derivatives	17	186
Other	(44,387)	(173,684)
Wrapper	(62,410)	(83,151)
Cash	5,650	2,862
Total Master Trust Investments	\$8,522,486	\$8,345,070

	December 31,	
Allocation of Master Trust Investments	2004	2003
AT&T Long Term Savings Plan for Management Employees	83.73%	83.15%
AT&T Long Term Savings and Security Plan	15.80	16.54
AT&T Retirement Savings and Profit Sharing Plan	0.39	0.22
AT&T of Puerto Rico, Inc. Long Term Savings Plan for Management Employees	0.07	0.08
AT&T of Puerto Rico, Inc. Long Term Savings and Security Plan	0.01	0.01
	100.00%	100.00%

Net appreciation in fair value of Master Trust investments December 31, 2004

Edgar Filing: AT&T CORP - Form 11-K

Corporate bonds	\$ 240
Common stocks	10,919
Mutual funds	252,157
Commingled funds	147,355

Total net appreciation in fair value of Master Trust investments	\$410,671

Investment income	
Interest	\$123,603
Dividends	109,440

	\$233,043

8. Litigation

AT&T is involved in a class action lawsuit brought by former employees on behalf of the LTSPME employees. The complaint alleges that the Company and various members of the AT&T Board of Directors breached their fiduciary duties to the Plan and the participants by permitting the Plan to purchase and hold shares of the AT&T Stock Fund, and misrepresented and failed to disclose material facts to the Plan and participants in connections with the management of the Plan assets. The parties have reached an agreement in principle and the settlement amount, if approved, will not be material to the Plan or the Company.

9. Related Party Transactions and Party-in-Interest

The Plan invests in common shares of AT&T Corp. stock, which qualifies as a related party transaction. At December 31, 2004, the total of these investments amounted to \$220,795,948 or approximately 3% of the Master Trust. At December 31, 2003, the total amounted to \$256,799,741 or approximately 3% of the Group Trust.

10. Subsequent Events

On January 31, 2005, SBC Communications and AT&T announced an agreement for SBC to acquire AT&T. Employees enrolled in the AT&T Savings Plans can continue to make contributions, choose investment direction and receive company matching contributions until the merger closes. Any decision on benefit plans after the close will be made by SBC, subject to any constraints provided by the merger agreement. Under the merger agreement, SBC has agreed that employees, for a period of time after the merger, will have compensation and benefit plans and programs that are no less favorable in the aggregate than they have at AT&T. This commitment will continue to the end of the plan year (December 31) following the first anniversary of the closing.

In March 2005, the automatic distribution threshold changed to \$1,000 from \$5,000.

AT&T Long Term Savings Plan for Management Employees
 Schedule of Assets (Held at End of Year)
 December 31, 2004

(thousands of dollars)

Name of Issuer and Title of Issue	Cost	Value
-----------------------------------	------	-------

Edgar Filing: AT&T CORP - Form 11-K

Participant Loans Receivable (4.0% - 9.5%)	\$ 79,700	\$ 79,700

Investment in Master Trust		\$7,135,697

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Savings Plan Committee has duly caused this annual report to be signed by the undersigned thereunto duly authorized.

AT&T LONG TERM SAVINGS PLAN
FOR MANAGEMENT EMPLOYEES

By Savings Plan Committee

/s/ Brian Byrnes

Brian Byrnes
Secretary of the Savings Plan Committee

Date: June 27, 2005

Exhibit Index

Exhibit No.

23 Consent of PricewaterhouseCoopers LLP