

AT&T INC.  
Form 10-Q  
November 06, 2015  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
(Mark One) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015

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.

Large accelerated filer [X]

Accelerated filer

[ ]

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Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes

No

At October 31, 2015, there were 6,152 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		Nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
	As	As	As	As
	Adjusted	Adjusted	Adjusted	Adjusted
Operating Revenues				
Service	\$35,625	\$29,790	\$94,128	\$89,122
Equipment	3,466	3,167	10,554	8,886
Total operating revenues	39,091	32,957	104,682	98,008
Operating Expenses				
Cost of services and sales				
Equipment	4,501	4,432	13,400	12,503
Broadcast, programming and operations	4,081	1,038	6,351	3,019
Other cost of services (exclusive of depreciation and amortization shown separately below)	9,214	8,866	27,604	26,167
Selling, general and administrative	9,107	8,475	24,535	24,932
Depreciation and amortization	6,265	4,539	15,539	13,706
Total operating expenses	33,168	27,350	87,429	80,327
Operating Income	5,923	5,607	17,253	17,681
Other Income (Expense)				
Interest expense	(1,146 )	(1,016 )	(2,977 )	(2,757 )
Equity in net income (loss) of affiliates	15	(2 )	48	188
Other (expense) income – net	(57 )	42	61	1,456
Total other income (expense)	(1,188 )	(976 )	(2,868 )	(1,113 )
Income Before Income Taxes	4,735	4,631	14,385	16,568
Income tax expense	1,657	1,444	4,784	5,914
Net Income	3,078	3,187	9,601	10,654
Less: Net Income Attributable to Noncontrolling Interest	(84 )	(57 )	(262 )	(213 )
Net Income Attributable to AT&T	\$2,994	\$3,130	\$9,339	\$10,441
Basic Earnings Per Share Attributable to AT&T	\$0.50	\$0.60	\$1.71	\$2.00
Diluted Earnings Per Share Attributable to AT&T	\$0.50	\$0.60	\$1.71	\$2.00
Weighted Average Number of Common Shares				
Outstanding – Basic (in millions)	5,924	5,198	5,447	5,208
Weighted Average Number of Common Shares				
Outstanding – with Dilution (in millions)	5,943	5,214	5,463	5,224
Dividends Declared Per Common Share	\$0.47	\$0.46	\$1.41	\$1.38

See Notes to Consolidated Financial Statements.

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AT&amp;T INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Dollars in millions

(Unaudited)

	Three months ended		Nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
	As Adjusted	As Adjusted	As Adjusted	As Adjusted
Net income	\$3,078	\$ 3,187	\$9,601	\$ 10,654
Other comprehensive income (loss), net of tax:				
Foreign Currency:				
Translation adjustment (includes \$(20), \$(1), \$(20) and \$0 attributable to noncontrolling interest), net of taxes of \$(535), \$(22), \$(638) and \$(17)	(1,039)	(35 )	(1,224)	(29 )
Reclassification adjustment included in net income, net of taxes of \$0, \$0, \$0 and \$224	-	-	-	416
Available-for-sale securities:				
Net unrealized gains (losses), net of taxes of \$(49), \$(15), \$(30) and \$19	(85 )	(29 )	(51 )	30
Reclassification adjustment included in net income, net of taxes of \$2, \$(1), \$(3) and \$(9)	3	(1 )	(6 )	(15 )
Cash flow hedges:				
Net unrealized gains (losses), net of taxes of \$(237), \$201, \$(479) and \$148	(441 )	370	(890 )	272
Reclassification adjustment included in net income, net of taxes of \$6, \$3, \$15 and \$14	11	8	28	29
Defined benefit postretirement plans:				
Amortization of net prior service credit included in net income, net of taxes of \$(131), \$(146), \$(393) and \$(435)	(215 )	(239 )	(644 )	(718 )
Reclassification adjustment included in net income, net of taxes \$0, \$0, \$0 and \$33	-	-	-	61
Other comprehensive income (loss)	(1,766)	74	(2,787)	46
Total comprehensive income	1,312	3,261	6,814	10,700
Less: Total comprehensive income attributable to noncontrolling interest	(64 )	(56 )	(242 )	(213 )
Total Comprehensive Income Attributable to AT&T	\$1,248	\$ 3,205	\$6,572	\$ 10,487

See Notes to Consolidated Financial Statements.

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AT&amp;T INC.

## CONSOLIDATED BALANCE SHEETS

Dollars in millions except per share amounts

	September 30, 2015	December 31, 2014
	(Unaudited)	As Adjusted
Assets		
Current Assets		
Cash and cash equivalents	\$ 6,202	\$8,603
Accounts receivable - net of allowances for doubtful accounts of \$656 and \$454	16,329	14,527
Prepaid expenses	1,166	831
Other current assets	11,254	9,802
Total current assets	34,951	33,763
Property, plant and equipment	302,194	282,295
Less: accumulated depreciation and amortization	(179,358 )	(169,397)
Property, Plant and Equipment – Net	122,836	112,898
Goodwill	105,966	69,692
Licenses	93,063	60,824
Customer Lists and Relationships - Net	19,608	812
Other Intangible Assets – Net	8,236	5,327
Investments in Equity Affiliates	1,744	250
Other Assets	13,585	13,659
Total Assets	\$ 399,989	\$297,225
Liabilities and Stockholders' Equity		
Current Liabilities		
Debt maturing within one year	\$ 7,535	\$6,056
Accounts payable and accrued liabilities	28,280	23,592
Advanced billing and customer deposits	4,640	4,105
Accrued taxes	4,591	1,136
Dividends payable	2,892	2,438
Total current liabilities	47,938	37,327
Long-Term Debt	119,395	76,011
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	53,044	38,549
Postemployment benefit obligation	36,396	37,079
Other noncurrent liabilities	20,427	17,989
Total deferred credits and other noncurrent liabilities	109,867	93,617
Stockholders' Equity		
Common stock (\$1 par value, 14,000,000,000 authorized at September 30, 2015 and December 31, 2014; issued 6,495,231,088 at September 30, 2015 and December 31, 2014)	6,495	6,495
Additional paid-in capital	89,717	91,108
Retained earnings	32,627	31,081
Treasury stock (342,990,428 at September 30, 2015 and 1,308,318,131 at December 31, 2014, at cost)	(12,309 )	(47,029 )
Accumulated other comprehensive income	5,294	8,061
Noncontrolling interest	965	554
Total stockholders' equity	122,789	90,270

Total Liabilities and Stockholders' Equity	\$ 399,989	\$ 297,225
See Notes to Consolidated Financial Statements.		

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

	Nine months ended September 30,	
	2015	2014
	As	
	Adjusted	
Operating Activities		
Net income	\$9,601	\$ 10,654
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,539	13,706
Undistributed earnings from investments in equity affiliates	(36 )	(45 )
Provision for uncollectible accounts	895	692
Deferred income tax expense	1,539	1,450
Net gain from sale of investments, net of impairments	(46 )	(1,374 )
Changes in operating assets and liabilities:		
Accounts receivable	453	(1,269 )
Other current assets	350	(840 )
Accounts payable and accrued liabilities	1,279	4,790
Retirement benefit funding	(595 )	(420 )
Other - net	(2,284 )	(1,751 )
Total adjustments	17,094	14,939
Net Cash Provided by Operating Activities	26,695	25,593
Investing Activities		
Construction and capital expenditures:		
Capital expenditures	(13,356)	(16,829 )
Interest during construction	(566 )	(178 )
Acquisitions, net of cash acquired	(30,694)	(2,053 )
Dispositions	79	6,074
Sales (purchases) of securities, net	1,490	(1,996 )
Return of advances to and investments in equity affiliates	-	3
Other	-	(1 )
Net Cash Used in Investing Activities	(43,047)	(14,980 )
Financing Activities		
Net change in short-term borrowings with original maturities of three months or less	(1 )	(16 )
Issuance of long-term debt	33,967	8,564
Repayment of long-term debt	(9,962 )	(10,376 )
Purchase of treasury stock	-	(1,617 )
Issuance of treasury stock (excluding acquisition of DIRECTV)	133	34
Dividends paid	(7,311 )	(7,170 )
Other	(2,875 )	(913 )
Net Cash Provided by (Used in) Financing Activities	13,951	(11,494 )
Net decrease in cash and cash equivalents	(2,401 )	(881 )
Cash and cash equivalents beginning of year	8,603	3,339
Cash and Cash Equivalents End of Period	\$6,202	\$ 2,458
Cash paid during the nine months ended September 30 for:		
Interest	\$3,462	\$ 3,351
Income taxes, net of refunds	\$873	\$ 1,337

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)

	September 30, 2015	
	Shares	Amount
		As Adjusted
Common Stock		
Balance at beginning of year	6,495	\$6,495
Issuance of stock	-	-
Balance at end of period	6,495	\$6,495
Additional Paid-In Capital		
Balance at beginning of year		\$91,108
Issuance of treasury stock		(1,593 )
Share-based payments		202
Balance at end of period		\$89,717
Retained Earnings		
Balance at beginning of year		\$31,081
Net income attributable to AT&T (\$1.71 per diluted share)		9,339
Dividends to stockholders (\$1.41 per share)		(7,793 )
Balance at end of period		\$32,627
Treasury Stock		
Balance at beginning of year	(1,308)	\$(47,029 )
Repurchase of common stock	(1 )	(10 )
Issuance of treasury stock	967	34,730
Balance at end of period	(342 )	\$(12,309 )
Accumulated Other Comprehensive Income Attributable to AT&T, net of tax		
Balance at beginning of year		\$8,061
Other comprehensive loss attributable to AT&T		(2,767 )
Balance at end of period		\$5,294
Noncontrolling Interest		
Balance at beginning of year		\$554
Net income attributable to noncontrolling interest		262
Distributions		(214 )
Acquisition of noncontrolling interests		383
Translation adjustments attributable to noncontrolling interest, net of taxes		(20 )
Balance at end of period		\$965
Total Stockholders' Equity at beginning of year		\$90,270
Total Stockholders' Equity at end of period		\$122,789
See Notes to Consolidated Financial Statements.		

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AT&T INC.  
SEPTEMBER 30, 2015

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." These consolidated financial statements include all adjustments that are necessary to present fairly the results for the presented interim periods, consisting of normal recurring accruals and other items. 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, 2014.

The consolidated financial statements include the accounts of the Company and our majority-owned subsidiaries and affiliates, including the results of DIRECTV for the 68-day period ended September 30, 2015. Our subsidiaries and affiliates operate in the communications and digital entertainment services industry, providing services and equipment that deliver voice, video and broadband services domestically and internationally.

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 investments accounted for using the equity method are included for periods ended within up to one month of our period end. We also recorded 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 and cumulative translation adjustments.

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, including our presentation of "Equipment" and "Broadcast, programming and operations" expenses separately from other cost of services in the consolidated statements of income.

Due to recent organizational changes and our July 24, 2015 acquisition of DIRECTV, effective for the quarter ended September 30, 2015, we are revising our operating segments to align with the new management structure and organizational responsibilities. We have revised our prior-period presentation to conform to our current reporting. (See Note 4)

**Customer Fulfillment Costs** In August 2015, with our acquisition of DIRECTV, we announced a change in accounting for customer set-up and installation costs. Historically we have followed an accounting policy of deferring customer set-up and installation costs only to the extent of deferred revenues recorded for upfront fees (e.g., activation charges), and to expense any costs that exceed deferred revenues. After discussing this change with the Securities and Exchange Commission, we changed our accounting to a preferable method of capitalizing these costs and amortizing them over the expected economic life of the customer relationship of approximately four years, subject to an assessment of the recoverability of such costs. This change in accounting principle impacts video, broadband Internet and wireline voice services and is considered preferable in that it provides an accurate reflection of assets (i.e., the contractual customer relationship obtained through the set-up and installation) generated by those specific business activities. Our new accounting method is more comparable with the accounting method used in the cable entertainment industry. With our acquisition of DIRECTV, changing to this accounting method will enhance comparability to other companies in the industry. This change in accounting does not have an impact on our wireless

results, due to the absence of these types of expenses in those business activities.

The cumulative effect of the change on Retained Earnings as of January 1, 2014, was an increase of approximately \$3,128 on our consolidated balance sheets. This change did not have an impact on cash provided by or used in operations for any period presented.

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AT&T INC.  
SEPTEMBER 30, 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Dollars in millions except per share amounts

The following tables present our results under our historical method and as adjusted to reflect the accounting change:

	Historical Accounting Method	As Adjusted	Effect of Change
For the three months ended September 30, 2015			
Other cost of services	\$ 9,290	\$9,214	\$(76 )
Income tax expense	1,628	1,657	29
Net Income	3,031	3,078	47
Net Income Attributable to AT&T	2,947	2,994	47
Basic Earnings per Share Attributable to AT&T	\$ 0.50	\$0.50	\$-
Diluted Earnings per Share Attributable to AT&T	0.50	0.50	-
At September 30, 2015 or for the nine months ended			
Other cost of services	\$ 27,842	\$27,604	\$(238 )
Income tax expense	4,694	4,784	90
Net Income	9,453	9,601	148
Net Income Attributable to AT&T	9,191	9,339	148
Basic Earnings per Share Attributable to AT&T	\$ 1.68	\$1.71	\$0.03
Diluted Earnings per Share Attributable to AT&T	1.68	1.71	0.03
Other current assets	\$ 9,579	\$11,254	\$1,675
Other Assets	10,671	13,585	2,914
Deferred income taxes	51,949	53,044	1,095
Retained earnings	29,133	32,627	3,494

	Historical Accounting Method	As Adjusted	Effect of Change
For the three months ended September 30, 2014			
Other cost of services	\$ 9,071	\$8,866	\$(205 )
Income tax expense	1,367	1,444	77
Net Income	3,059	3,187	128
Net Income Attributable to AT&T	3,002	3,130	128
Basic Earnings per Share Attributable to AT&T	\$ 0.58	\$0.60	\$ 0.02
Diluted Earnings per Share Attributable to AT&T	0.58	0.60	0.02
For the nine months ended September 30, 2014			
Other cost of services	\$ 26,552	\$26,167	\$(385 )
Income tax expense	5,769	5,914	145
Net Income	10,414	10,654	240

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Net Income Attributable to AT&T	10,201	10,441	240
Basic Earnings per Share Attributable to AT&T	\$ 1.96	\$ 2.00	\$ 0.04
Diluted Earnings per Share Attributable to AT&T	1.95	2.00	0.05

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AT&T INC.  
SEPTEMBER 30, 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Dollars in millions except per share amounts

	Historical Accounting Method	As Adjusted	Effect of Change
At December 31, 2014			
Other current assets	\$ 8,067	\$ 9,802	\$ 1,735
Other Assets	10,998	13,659	2,661
Accrued taxes	1,091	1,136	45
Deferred income taxes	37,544	38,549	1,005
Retained earnings	27,736	31,081	3,345

New Accounting Standards

**Revenue Recognition** 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. ASU 2014-09 becomes effective for annual reporting periods beginning after December 15, 2017, following the July 2015 approval of a one-year deferral of the effective date by the FASB. While we continue to evaluate the impact of the new standard on revenue and costs of acquisition as well as available adoption methods, the requirement to defer costs is not expected to have a significant impact on our operating results as a result of our policy change on fulfillment costs.

**Long-Term Debt and Debt Issuance Costs** In April 2015, the FASB issued ASU No. 2015-03, "Interest—Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs" (ASU 2015-03), which will result in the reclassification of debt issuance costs from "Other Assets" to inclusion as a reduction of our reportable "Long-Term Debt" balance on our consolidated balance sheets. Since ASU 2015-03 does not address deferred issuance costs for line-of-credit arrangements, the FASB issued ASU No. 2015-15, "Interest—Imputation of Interest: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements" (ASU 2015-15), in August 2015. ASU 2015-15 allows a company to defer debt issuance costs associated with line-of-credit arrangements, including arrangements with no outstanding borrowings, classify them as an asset, and amortize them over the term of the arrangements. ASU 2015-03 becomes effective January 1, 2016, subject to early adoption, and will require full retrospective application. We do not expect these new standards to have a material impact on our consolidated balance sheets.

**Business Combinations** In September 2015, the FASB issued ASU No 2015-16, "Business Combinations—Simplifying the Accounting for Measurement-Period Adjustments" (ASU 2015-16), which will result in the ability to recognize, in current-period earnings, any changes in provisional amounts during the measurement period after the closing of an acquisition, instead of retroactively accounting for these changes. ASU 2015-16 becomes effective January 1, 2016, subject to early adoption, and will require prospective application to adjustments to provisional amounts that occur after the effective date of ASU 2015-16. We are evaluating the impact of the new standard on our operating results.

AT&T INC.  
SEPTEMBER 30, 2015

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 and diluted earnings per share for the three and nine months ended September 30, 2015 and 2014, is shown in the table below:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Numerators				
Numerator for basic earnings per share:				
Net Income	\$3,078	\$3,187	\$9,601	\$10,654
Less: Net income attributable to noncontrolling interest	(84 )	(57 )	(262 )	(213 )
Net Income attributable to AT&T	2,994	3,130	9,339	10,441
Dilutive potential common shares:				
Share-based payment	3	2	9	9
Numerator for diluted earnings per share	\$2,997	\$3,132	\$9,348	\$10,450
Denominators (000,000)				
Denominator for basic earnings per share:				
Weighted average number of common shares outstanding	5,924	5,198	5,447	5,208
Dilutive potential common shares:				
Share-based payment (in shares)	19	16	16	16
Denominator for diluted earnings per share	5,943	5,214	5,463	5,224
Basic earnings per share attributable to AT&T	\$0.50	\$0.60	\$1.71	\$2.00
Diluted earnings per share attributable to AT&T	\$0.50	\$0.60	\$1.71	\$2.00

AT&T INC.  
SEPTEMBER 30, 2015

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) are presented below. All amounts are net of tax and exclude noncontrolling interest.

At  
September  
30, 2015 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, 2014	\$ (26)	\$ 499	\$ 741	\$ 6,847	\$ 8,061
Other comprehensive income (loss) before reclassifications	(1,204)	(51)	(890)	-	(2,145)
Amounts reclassified from accumulated OCI	<sup>1</sup> (6)	<sup>2</sup>	<sup>2</sup> 28	<sup>3</sup> (644)	<sup>4</sup> (622)
Net other comprehensive income (loss)	(1,210)	(57)	(862)	(644)	(2,767)
Balance as of	\$ (1,236)	\$ 442	\$ (121)	\$ 6,203	\$ 5,294

September  
30,  
2015

At  
September  
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 \$ (367) December 31, 2013	\$ 450	\$ 445	\$ 7,352	\$ 7,880
Other comprehensive income (29) (loss)	30	272	-	273
before reclassifications				
Amounts reclassified from OCI	<sup>1</sup> (15)	<sup>2</sup> 29	<sup>3</sup> (657)	<sup>4</sup> (227)
Net other comprehensive income (loss)	15	301	(657)	46
Balance as of \$ 20 September 30, 2014	\$ 465	\$ 746	\$ 6,695	\$ 7,926

<sup>1</sup> Translation (gain) loss reclassifications are included in Other income (expense) - net in the consolidated statements of income.

<sup>2</sup> (Gains) losses are included in Other income (expense) - net in the consolidated statements of income.

<sup>3</sup> (Gains) losses are included in Interest expense in the consolidated statements of income. See Note 6 for additional information.

<sup>4</sup> The amortization of prior service credits associated with postretirement benefits, net of amounts capitalized as part of construction labor, are included in Other cost of services and Selling, general and administrative in the consolidated statements of income (see Note 5). 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.  
SEPTEMBER 30, 2015

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 products and services to different customer segments over various technology platforms and/or in different geographies that are managed accordingly. Due to recent organizational changes and our July 24, 2015 acquisition of DIRECTV, effective for the quarter ended September 30, 2015, we are revising our operating segments to align with our new management structure and organizational responsibilities. We analyze our operating segments based on segment contribution, which consists of operating income, excluding acquisition-related costs and other significant items (as discussed below), and equity in net income of affiliates for investments managed within each operating segment. We have four reportable segments: (1) Business Solutions, (2) Entertainment and Internet Services, (3) Consumer Mobility and (4) International. We have revised our prior-period presentation to conform to our current reporting.

We also evaluate segment performance based on segment operating income before depreciation and amortization, which we refer to as EBITDA and/or EBITDA margin. For AT&T, EBITDA is defined as operating income before depreciation and amortization. We believe EBITDA to be a relevant and useful measurement to our investors as it is part of our internal management reporting and planning processes and it is an important metric that management uses to evaluate segment operating performance. EBITDA does not give effect to cash used for debt service requirements and thus does not reflect available funds for distributions, reinvestment or other discretionary uses.

The Business Solutions segment provides both wireless and wireline services to business customers and individual subscribers who purchase wireless services through employer-sponsored plans. We provide advanced IP-based services including Virtual Private Networks (VPN), Ethernet-related products and broadband (strategic business services) as well as traditional data and voice products. Services in this segment utilize our wireless and wired network and are marketed to provide a complete communications solution to our business customers.

The Entertainment and Internet Services segment provides video, Internet and voice communication services to residential customers located in the U.S. or in U.S. territories. Services utilize our copper and IP-based wired network and/or our satellite technology to provide video, high speed Internet and voice services.

The Consumer Mobility segment provides nationwide wireless service to consumers, wholesale and resale subscribers located in the U.S. or in U.S. territories. Services utilize our U.S. wireless network to provide voice and data services, including high-speed Internet, video entertainment and home monitoring services.

The International segment provides entertainment services in Latin America and wireless services in Mexico. Video entertainment services are provided primarily to residential customers using satellite technology. Wireless services utilize our regional and national networks in Mexico to provide consumer and business customers with wireless data and voice communication services. Our international subsidiaries transact in their local currency and operating results are converted to U.S. dollars using official exchange rates. The exchange rate used to report net monetary assets and operating results of our Venezuelan subsidiary is the Sistema Marginal de Divisas (SIMADI), which was 199.65 and 199.42 Venezuelan bolivars per U.S. dollar at July 24, 2015 and September 30, 2015, respectively. Our International segment is subject to foreign currency fluctuations.

In reconciling items to consolidated operating income, Corporate and Other includes: (1) operations that are not considered reportable segments and that are no longer integral to our operations or which we no longer actively market, and (2) 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.

Certain operating items are not allocated to our business segments:

Acquisition-related items include (1) operations and support items associated with the merger and integration of newly acquired businesses, and (2) the noncash amortization of intangible assets acquired in acquisitions.

Certain significant items include (1) noncash actuarial gains and losses from pension and other postretirement benefits, (2) employee separation charges associated with voluntary and/or strategic offers, (3) abandonment or impairments of assets and (4) other items for which the segments are not being evaluated.

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AT&T INC.  
SEPTEMBER 30, 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Dollars in millions except per share amounts

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 also not included in each segment's reportable results.

Our operating assets are shared by multiple segments and consist of our wireless and wired networks as well as an international satellite fleet. We manage our assets on a total company basis, not by operating segment, and therefore asset information and capital expenditures by operating segment are not presented. Depreciation is allocated based on network usage or asset utilization by segment.

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AT&T INC.  
SEPTEMBER 30, 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Dollars in millions except per share amounts

For the three months ended September 30, 2015

	Revenue	Operations and Support Expenses	EBITDA	Depreciation and Amortization	Operating Income (Loss)	Equity in Net Income (Loss) of Affiliates	Segment Contribution
Business Solutions	\$17,692	\$ 10,921	\$ 6,771	\$ 2,474	\$ 4,297	\$ -	\$ 4,297
Entertainment and Internet Services	10,858	8,450	2,408	1,389	1,019	2	1,021
Consumer Mobility	8,784	5,065	3,719	976	2,743	-	2,743
International	1,526	1,384	142	225	(83 )	(4 )	(87 )
Segment Total	38,860	25,820	13,040	5,064	7,976	(2 )	7,974
Corporate and Other	316	315	1	3	(2 )		
Acquisition-related items	(85 )	611	(696 )	1,198	(1,894 )		
Certain significant items	-	157	(157 )	-	(157 )		
AT&T Inc.	\$39,091	\$ 26,903	\$ 12,188	\$ 6,265	\$ 5,923		

For the nine months ended September 30, 2015

	Revenue	Operations and Support Expenses	EBITDA	Depreciation and Amortization	Operating Income (Loss)	Equity in Net Income (Loss) of Affiliates	Segment Contribution
Business Solutions	\$52,913	\$ 32,966	\$ 19,947	\$ 7,276	\$ 12,671	\$ -	\$ 12,671
Entertainment and Internet Services	22,300	18,222	4,078	3,519	559	(16 )	543
Consumer Mobility	26,317	15,808	10,509	2,912	7,597	-	7,597
International	2,253	2,131	122	346	(224 )	(4 )	(228 )
Segment Total	103,783	69,127	34,656	14,053	20,603	(20 )	20,583
Corporate and Other	984	785	199	47	152		
Acquisition-related items	(85 )	1,604	(1,689 )	1,439	(3,128 )		
Certain significant items	-	374	(374 )	-	(374 )		
AT&T Inc.	\$104,682	\$ 71,890	\$ 32,792	\$ 15,539	\$ 17,253		

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AT&T INC.  
SEPTEMBER 30, 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Dollars in millions except per share amounts

For the three months ended September 30, 2014

	Revenue	Operations and Support Expenses	EBITDA	Depreciation and Amortization	Operating Income (Loss)	Equity in Net Income of Affiliates	Segment Contribution
Business Solutions	\$ 17,487	\$ 11,295	\$ 6,192	\$ 2,331	\$ 3,861	\$ -	\$ 3,861
Entertainment and Internet Services	5,553	4,781	772	1,109	(337 )	-	(337 )
Consumer Mobility	9,208	5,731	3,477	950	2,527	(1 )	2,526
International	-	-	-	-	-	-	-
Segment Total	32,248	21,807	10,441	4,390	6,051	(1 )	6,050
Corporate and Other	709	791	(82 )	24	(106 )		
Acquisition-related items	-	213	(213 )	125	(338 )		
Certain significant items	-	-	-	-	-		
AT&T Inc.	\$ 32,957	\$ 22,811	\$ 10,146	\$ 4,539	\$ 5,607		

For the nine months ended September 30, 2014

	Revenue	Operations and Support Expenses	EBITDA	Depreciation and Amortization	Operating Income (Loss)	Equity in Net Income of Affiliates	Segment Contribution
Business Solutions	\$ 51,877	\$ 32,836	\$ 19,041	\$ 7,009	\$ 12,032	\$ -	\$ 12,032
Entertainment and Internet Services	16,640	14,182	2,458	3,396	(938 )	-	(938 )
Consumer Mobility	27,247	17,173	10,074	2,846	7,228	(1 )	7,227
International	-	-	-	-	-	153	153
Segment Total	95,764	64,191	31,573	13,251	18,322	152	18,474
Corporate and Other	2,244	2,027	217	77	140		
Acquisition-related items	-	403	(403 )	378	(781 )		
Certain significant items	-	-	-	-	-		
AT&T Inc.	\$ 98,008	\$ 66,621	\$ 31,387	\$ 13,706	\$ 17,681		

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AT&T INC.  
SEPTEMBER 30, 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Dollars in millions except per share amounts

The following table is a reconciliation of operating income (loss) to "Income Before Income Taxes" reported on our consolidated statements of income.

	Third Quarter		Nine-Month Period	
	2015	2014	2015	2014
Business Solutions	\$4,297	\$3,861	\$12,671	\$12,032
Entertainment and Internet Services	1,021	(337 )	543	(938 )
Consumer Mobility	2,743	2,526	7,597	7,227
International	(87 )	-	(228 )	153
Segment Contribution	7,974	6,050	20,583	18,474
Reconciling Items:				
Corporate and Other	(2 )	(106 )	152	140
Merger and integration charges	(696 )	(213 )	(1,689 )	(403 )
Amortization of intangibles acquired	(1,198)	(125 )	(1,439 )	(378 )
Employee separation charges	(122 )	-	(339 )	-
Other (expenses) credits	(35 )	-	(35 )	-
Less: segment equity in net (income) loss of affiliates	2	1	20	(152 )
AT&T Operating Income	5,923	5,607	17,253	17,681
Interest Expense	1,146	1,016	2,977	2,757
Equity in net income (loss) of affiliates	15	(2 )	48	188
Other income (expense) - Net	(57 )	42	61	1,456
Income Before Income Taxes	\$4,735	\$4,631	\$14,385	\$16,568

NOTE 5. PENSION AND POSTRETIREMENT BENEFITS

Substantially all of our employees are covered by one of our noncontributory pension plans. We also provide certain medical, dental, life insurance, and death benefits to certain retired employees under various plans and accrue actuarially determined postre