

AT&T INC.
Form 10-K
February 27, 2008

FORM 10-K

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

(Mark One)

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

For the fiscal year ended December 31, 2007

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

175 E. Houston, San Antonio, Texas 78205-2233
Telephone Number 210-821-4105

Securities registered pursuant to Section 12(b) of the Act: (See attached Schedule A)

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

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 "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12-b2 of the Exchange Act.

Large accelerated filer [X] Accelerated filer []
Non-accelerated filer [] Smaller reporting company []
(Do not check if a 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 [X]

Based on the closing price of \$41.50 per share on June 29, 2007, the aggregate market value of our voting and non-voting common stock held by non-affiliates was \$253.4 billion.

At January 31, 2008, common shares outstanding were 6,035,725,446.

DOCUMENTS INCORPORATED BY REFERENCE

- (1) Portions of AT&T Inc.'s Annual Report to Stockholders for the fiscal year ended December 31, 2007 (Parts I and II).
 - (2) Portions of AT&T Inc.'s Notice of 2008 Annual Meeting and Proxy Statement dated on or about March 11, 2008 to be filed within the period permitted under General Instruction G(3) (Parts III and IV).
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SCHEDULE A

Securities Registered Pursuant To Section 12(b) Of The Act:

Title of each class	Name of each exchange on which registered
Common Shares (Par Value \$1.00 Per Share)	New York Stock Exchange
6.375% Forty-Nine Year AT&T Inc. Senior Notes, Due February 12, 2056	New York Stock Exchange

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AT&T Inc.

PART I

ITEM 1. BUSINESS

GENERAL

AT&T Inc. (“AT&T,” “we” or the “Company”) is a holding company incorporated under the laws of the State of Delaware in 1983 and has its principal executive offices at 175 E. Houston, San Antonio, Texas 78205-2233 (telephone number 210-821-4105). We maintain an Internet website at www.att.com. (This website address is for information only and is not intended to be an active link or to incorporate any website information into this document.) We make available, free of charge, on our website our annual report on Form 10-K, our quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). We also make available on that website, and in print, if any stockholder or other person so requests, our code of business conduct and ethics entitled “Code of Ethics” applicable to all employees and Directors, our “Corporate Governance Guidelines,” and the charters for all committees of our Board of Directors, including the Audit, Human Resources and Corporate Governance and Nominating. Any changes to our Code of Ethics or waiver of our Code of Ethics for senior financial officers, executive officers or Directors will be posted on that website.

History

AT&T, formerly known as SBC Communications Inc. (SBC), was formed as one of several regional holding companies created to hold AT&T Corp.’s (ATTC) local telephone companies. On January 1, 1984, we were spun-off from ATTC pursuant to an anti-trust consent decree, becoming an independent publicly traded telecommunications services provider. At formation, we primarily operated in five southwestern states. Our subsidiaries merged with Pacific Telesis Group in 1997, Southern New England Telecommunications Corporation in 1998 and Ameritech Corporation in 1999, thereby expanding our wireline operations as the incumbent local exchange carrier (ILEC) into a total of 13 states. In November 2005, one of our subsidiaries merged with ATTC, creating one of the world’s leading telecommunications providers. In connection with the merger, we changed the name of our company from “SBC Communications Inc.” to “AT&T Inc.” In December 2006, one of our subsidiaries merged with BellSouth Corporation (BellSouth) making us the ILEC in an additional nine states. With the BellSouth acquisition, we thereby acquired BellSouth’s 40 percent economic interest in AT&T Mobility LLC (AT&T Mobility), formerly Cingular Wireless LLC, and BellSouth’s 34 percent economic interest in YELLOWPAGES.COM (YPC), resulting in 100 percent ownership of AT&T Mobility and YPC. Our services and products are marketed under the AT&T brand name, including alliances such as AT&T Yahoo! and AT&T | DISH Network. In 2007, we rebranded our wireless operations from Cingular to AT&T.

Scope

We rank among the leading providers of telecommunications services in the United States and the world. We offer our services and products to consumers in the U.S. and services and products to businesses and other providers of telecommunications services worldwide.

The services and products that we offer vary by market, and include: wireless communications, local exchange services, long-distance services, data/broadband and Internet services, video services, telecommunications equipment, managed networking, wholesale services and directory advertising and publishing. We group our operating subsidiaries as follows, corresponding to our operating segments for financial reporting purposes:

- wireless subsidiaries provide both wireless voice and data communications services across the U.S. and, through roaming agreements, in a substantial number of foreign countries,

- wireline subsidiaries provide primarily landline telecommunications and video services to residential customers in 22 states and to business and governmental customers, throughout the U.S. and internationally,
 - advertising & publishing subsidiaries provide services related to directory advertising and publishing,
 - other subsidiaries provide results from Sterling Commerce, Inc. (Sterling), all corporate and other operations.

Our traditional wireline local exchange subsidiaries operate in 22 states: Alabama, Arkansas, California, Connecticut, Illinois, Indiana, Florida, Georgia, Kentucky, Louisiana, Kansas, Michigan, Mississippi, Missouri, Nevada, North Carolina, Ohio, Oklahoma, South Carolina, Tennessee, Texas and Wisconsin (22-state area). Our wireline local exchange services offered are provided through regulated subsidiaries which operate within authorized regions subject to regulation by each state in which they operate and by the Federal Communications Commission (FCC). Wireless service providers are regulated by the FCC. Additional information relating to regulation is contained under the heading "Government Regulation" below and in the 2007 AT&T Annual Report to Stockholders under the heading "Operating Environment and Trends of the Business," and is incorporated herein by reference pursuant to General Instruction G(2).

AT&T Inc.

With the expansion of our company through acquisitions and the resulting ownership consolidation of AT&T Mobility, and with continuing advances in technology, we plan to offer new services that combine our traditional wireline and wireless services, thereby making our customers' lives more convenient and productive and fostering competition and further innovation in the communications and entertainment industry. In 2008, we plan to focus on the areas discussed below.

Wireless

AT&T Mobility began operations in October 2000 as a joint venture between us and BellSouth and, in 2004, acquired AT&T Wireless Services, Inc. Upon our acquisition of BellSouth, AT&T Mobility became a wholly-owned subsidiary.

Our Universal Mobile Telecommunications System/ High-Speed Downlink Packet Access third generation (3G) network technology covers most major metropolitan areas of the U.S. This technology provides superior speeds for data and video services, as well as operating efficiencies, using the same spectrum and infrastructure for voice and data on an IP-based platform. Our wireless networks also rely on digital transmission technologies known as Global System for Mobile Communication, General Packet Radio Services and Enhanced Data Rates for GSM Evolution for data communications. As of December 31, 2007, we served approximately 70.1 million customers and are the leading provider of mobile wireless voice and data communications services in the U.S.

As the wireless industry continues to mature, we believe that future wireless growth will become increasingly dependent on our ability to offer innovative services that will encourage existing customers to upgrade their services and will attract customers from other providers as well as our ability to minimize turnover of our existing customer base (customer churn). We intend to accomplish these goals by continuing to expand our network coverage, improve our network quality and offer a broad array of products and services, including exclusive devices such as the Apple iPhone and free mobile-to-mobile calling among our wireless customers. The effective management of customer churn is critical to our ability to maximize revenue growth and to maintain and improve our operating margins.

Business Customers

As we continue to integrate the operations of BellSouth and ATTC, we expect to continue to strengthen the reach and sophistication of our network facilities and our ability to offer a variety of communications services, both wireless and wireline, to large businesses and wholesale customers worldwide. We expect to offer similar services to small- and medium-businesses and to increase the attractiveness of our services to governmental customers. We also expect to extend our wholesale business offerings to other service products and systems integration services.

Data/Broadband

As the communications industry continues to move toward internet-based technologies that are capable of blending traditional wireline and wireless services, we plan to offer services to take advantage of these new and more sophisticated technologies. In particular, we intend to continue to focus on deploying our AT&T U-verse sm high-speed broadband and TV services and on developing internet protocol-based services that allow customers to unite their home or business wireline services with their wireless service.

U-verse Services We are continuing to expand our deployment of our U-verse services. As of December 31, 2007, we have passed approximately 8 million living units (constructed housing units as well as platted housing lots) and are marketing the services to almost 50 percent of those units. Our deployment strategy is to enter each market on a limited basis in order to ensure that all operating and back-office systems are functioning successfully and then expand within each market as we continue to monitor these systems. In these market expansions, we expect to continue to use contracted outside labor in addition to our employees as installers; our rate of expansion will be slowed if we cannot hire and train an adequate number of qualified contractors and technicians to keep pace with

customer demand or if we cannot obtain all required local permits in a timely fashion. We also continue to work with our vendors on improving, in a timely manner, the requisite hardware and software technology. Our deployment plans could be delayed if we do not receive required equipment and software on schedule. See our “Liquidity” discussion for an update on our U-verse capital spending.

We believe that our U-verse TV service is subject to federal oversight as a “video service” under the Federal Communications Act. However, some cable providers and municipalities have claimed that certain IP services should be treated as a traditional cable service and therefore subject to the applicable state and local cable regulation. If the courts having jurisdiction where we have significant deployments of our U-verse services were to decide that federal, state and/or local cable regulation were applicable to our U-verse services, it could have a material adverse effect on the cost, timing and extent of our deployment plans.

AT&T Inc.

Additional information about our U-verse services is included in our “Operating Environment and Trends of the Business” section under the heading “Expected Growth Areas” on pages 38 through 39 of the 2007 AT&T Annual Report to Stockholders and is incorporated herein by reference pursuant to General Instruction G(2).

Voice over Internet Protocol VoIP is generally used to describe the transmission of voice using Internet-Protocol-based technology rather than a traditional wire and switch-based telephone network. A company using this technology often can provide voice services at a lower cost because this technology uses bandwidth more efficiently than a traditional network and because this technology has not been subject to traditional telephone industry regulation. While the development of VoIP has resulted in increased competition for our wireline voice services, it also presents growth opportunities for us to develop new products for our customers.

BUSINESS OPERATIONS

Operating Segments

Our segments are strategic business units that offer different products and services and are managed accordingly. We analyze our various operating segments based on segment income. Interest expense, interest income 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 the calculation of each segment’s percentage of our total segment income. We have four reportable segments: (1) wireless; (2) wireline; (3) advertising & publishing; and (4) other.

Additional information about our segments, including financial information, is included under the heading “Segment Results” on pages 29 through 37 and in Note 4 of the 2007 AT&T Annual Report to Stockholders and is incorporated herein by reference pursuant to General Instruction G(2).

Wireless

Wireless consists of our subsidiary, AT&T Mobility, which operates as a wireless provider to both business and consumer customers. Our wireless segment provided approximately 35% of 2007 total segment operating revenues and 32% of our 2007 total segment income. At December 31, 2007, we had more than 70 million wireless subscribers.

Services and Products

We offer a comprehensive range of high-quality nationwide wireless voice communications services in a variety of pricing plans, including postpaid and prepaid service plans. Our voice offerings are tailored to meet the communications needs of targeted customer segments, including youth, family, active professionals, small businesses, government and major national corporate accounts.

Service – Our voice service is generally offered on a contract basis for one or two year periods, referred to as postpaid. Under the terms of these contracts, service is billed and provided on a monthly basis according to the applicable rate plan chosen. Our wireless services include basic local wireless communications service, long-distance service and roaming services. Roaming services enable our subscribers to utilize other carriers’ networks when they are “roaming” outside our network footprint. We also charge fees to other carriers for providing roaming services to their customers when their customers utilize our network. Additionally, we offer prepaid service to meet the demands of distinct consumer segments, such as the youth market, families and small business customers, who prefer to control usage or pay in advance.

Wireless data revenues continue to be a growing area of our business, representing an increasing share of our overall subscriber revenue. We are experiencing solid growth from both consumer and enterprise wireless data services. We continue to upgrade our network and coordinate with equipment manufacturers and applications developers in order to

further capitalize on the continued growth in the demand for wireless data services. At December 31, 2007 we were the leading provider of wireless data in the U.S. wireless industry based on subscribers.

Equipment – We sell a wide variety of handsets and personal computer wireless data cards manufactured by various suppliers for use with our voice and data services. We also sell accessories, such as carrying cases, hands-free devices, batteries, battery chargers and other items, to consumers, as well as to agents and other third-party distributors for resale. Like other wireless service providers, we often provide postpaid contract subscribers substantial equipment subsidies to initiate or upgrade service.

Additional information on our wireless segment is contained in the 2007 AT&T Annual Report to Stockholders in the “Operating Environment Overview” section under the heading “Expected Growth Areas,” “Wireless” beginning on page 38 and is incorporated herein by reference pursuant to General Instruction G(2).

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Wireline

Wireline consists of our subsidiaries that operate as both retail and wholesale sellers of communication services domestically and internationally. Our wireline segment provided approximately 59% of 2007 segment operating revenues and 55% of our 2007 total segment income. At December 31, 2007, our wireline subsidiaries served approximately 35 million retail consumer lines, 23 million retail business lines and 4 million wholesale lines, for a total of approximately 62 million access lines.

Services and Products

We divide our wireline services into three product-based categories: voice, data and other.

Voice – Voice includes traditional local and long-distance service provided to retail customers and wholesale access to our network and individual network elements provided to competitors. Voice also includes calling features, fees to maintain wire located inside customer premises and other miscellaneous voice products. We also have a number of integrated voice and data services, such as integrated network connections, that provide customers the ability to integrate access for their voice and data services, the data component of which is included in the data category. Additionally, voice revenues do not include any of our VoIP revenues, which are included in data revenues.

Long distance consists of traditional long distance and international long distance for customers that select us as their primary long-distance carrier. Long distance also includes services provided by calling card, 1-800 services and conference calling. These services are used in a wide variety of business applications, including sales, reservation centers or customer service centers. We also provide wholesale switched access service to other service providers.

Calling features are enhanced telephone services available to retail customers such as Caller ID, Call Waiting and voice mail. Customers that subscribe to these services can have the number and/or name of callers displayed on their phone, be signaled that additional calls are incoming, and send and receive voice messages. These services are not regulated by the FCC and are generally more profitable than basic local phone service.

Data - Data includes traditional products, such as switched and dedicated transport, Internet access and network integration, and data equipment sales. Additionally, data products include high-speed connections such as private lines, packet, dedicated Internet and enterprise networking services, as well as products such as DSL/broadband, dial-up Internet access and WiFi (local radio frequency commonly known as wireless fidelity). We also provide businesses voice applications over IP-based networks (i.e., Enhanced Virtual Private Networks or “EVPN”). Over the past several years, we have built out our new multi protocol label switching/asynchronous transfer mode, or MPLS/ATM network, to supplement, and eventually replace, our other extensive global data networks. These products allow us to provide highly complex global data networks.

Private line uses high-capacity digital circuits to transmit from point-to-point in multiple configurations and allows customers to create internal data networks and to access external data networks.

Switched Transport services transmit data using switching equipment to transfer the data between multiple lines before reaching its destination. **Dedicated Transport** services use a single direct line to transmit data between destinations. **Integrated Services Digital Network (ISDN)**, **Dedicated Frame Relay**, **broadband digital subscriber lines (DSL)**, **Digital Services and Synchronous Optical Network (SONET)** are examples of **Dedicated Transport** services. ISDN transmits voice, video and data over a single line in support of a wide range of applications, including Internet access. **Frame Relay** is a routing technology that breaks a data signal into individual pieces of data to travel at high speeds and then recombines the data prior to arriving at its destination. **DSL** is a digital modem technology that converts existing twisted-pair telephone lines into access paths for multimedia and high-speed data communications to the Internet or private networks. DSL allows customers to simultaneously make a phone call and access information

via the Internet or an office local area network. Digital Services use dedicated digital circuits to transmit digital data at various high rates of speed. SONET provides customer access to our backbone network at various high speeds.

Network integration services include installation of business data systems, local area networking and other data networking offerings. Internet access services include a wide range of products for residences and businesses, varying by market. Internet services offered include basic dial-up access service, dedicated access, web hosting, e-mail and high-speed access services.

Packet services consist of data networks using packet switching and transmission technologies, including Frame Relay, asynchronous transfer mode (ATM) and IP connectivity services. Packet services enable customers to transmit large volumes of data economically and securely and are used for local area network interconnection, remote site, point of sale and branch office communications. Frame relay, including IP-enabled frame relay and ATM Services are widely deployed as private data networks. High speed packet services, including IP-enabled frame relay service, are used extensively by enterprise (large business) customers.

AT&T Inc.

Dedicated Internet services are designed to meet the needs of all types of commercial and governmental enterprises, including small and medium sized businesses. Our managed Internet services provide customers with dedicated high speed access to the Internet managed by us.

Enterprise networking services provide comprehensive support from network design, implementation and installation to ongoing network operations and management for networks of varying scales, including local area networks, wide area networks, and virtual private networks. These services include applications such as e-mail, order entry systems, employee directories, human resource transactions and other database applications.

We also provide local, interstate and international wholesale networking capacity to other service providers. We offer a combination of high volume transmission capacity and conventional dedicated line services on a regional, national and international basis to wireless carriers, interchange carriers, Internet service providers (ISPs) and facility-based and switchless resellers. Our wholesale customers are primarily large ISPs, wireless carriers, competitive local exchange carriers, regional phone companies, interexchange carriers, cable companies and systems integrators. We also have sold dedicated network capacity through infeasible rights-of-use agreements under which capacity is furnished for contract terms as long as 25 years.

Other - Other includes managed web hosting, application management, security service, integration services, customer premises equipment, outsourcing, directory and operator assistance services, government-related services, our U-verse and satellite video services.

Our managed web-hosting services for businesses provide network, server and security infrastructure as well as built-in data storage and include application performance management, database management, hardware and operating system management. Our hosting services also provide customers with secure access to detailed reporting information about their infrastructure and applications. Security services include business continuity and disaster recovery services as well as premise and network based security products.

Customer premises equipment and other equipment sales range from single-line and cordless telephones to sophisticated digital PBX systems. PBX is a private telephone switching system, typically used by businesses and usually located on a customer's premises, which provides intra-premise telephone services as well as access to our network.

Advertising & Publishing

Advertising & Publishing includes our directory operations, which publish Yellow and White Pages directories and sell directory and Internet-based advertising. The advertising & publishing segment provided approximately 5% of total segment operating revenues and 9% of our 2007 total segment income. Our directory subsidiaries operate primarily in our 22-state area.

Other

Our other segment includes operations from Sterling, our business integration software and services subsidiary, payphones, corporate and other operations. The other segment provided approximately 1% of total segment operating revenues and 4% of our 2007 total segment income.

Sterling provides "multi-enterprise collaboration" services to businesses in various industries, including retail, financial services, manufacturing, healthcare and telecom. In recent years, Sterling has completed a number of acquisitions in order to provide end-to-end order fulfillment for customers.

AT&T Inc.

MAJOR CLASSES OF SERVICE

The following table sets forth the percentage of consolidated total reported operating revenues by any class of service that accounted for 10% or more of our consolidated total operating revenues in any of the last three fiscal years.

	Percentage of Total Consolidated Operating Revenues		
	2007	2006	2005
Wireless Segment			
Wireless service	33%	-%	-%
Wireline Segment			
Voice	35%	53%	55%
Data	20%	29%	25%

Prior to our December 2006 acquisition of BellSouth, our wireless segment revenues were reported in equity in net income of affiliates in our consolidated financial statements due to our equity accounting for the joint venture. We accounted for our 60 percent economic interest in AT&T Mobility under the equity method of accounting since we shared control equally with our 40 percent economic partner in the joint venture. We held equal voting rights and representation on the board of directors that controlled AT&T Mobility. Accordingly, our consolidated results included wireless results in the "Equity in Net Income of Affiliates" line. We did not report wireless revenues in our consolidated financial statements. However, when analyzing our segment results, we evaluated wireless results on a stand-alone basis. The table below shows the effect on our other classes of services (shown in the above table) if we include 100% of AT&T Mobility's revenues added to our total segment operating revenues.

	Percentage of Total Segment Operating Revenues (including 100% of AT&T Mobility)
2007	