AT&T Inc. Financial Review 2012

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Selected Financial and Operating Data

Dollars in millions except per share amounts

At December 31 and for the year ended:	**2012**	2011	2010	2009	2008
Financial Data					
Operating revenues	**$127,434**	$126,723	$124,280	$122,513	$123,443
Operating expenses	**$114,437**	$117,505	$104,707	$101,513	$125,133
Operating income (loss)	**$ 12,997**	$ 9,218	$ 19,573	$ 21,000	$ (1,690)
Interest expense	**$ 3,444**	$ 3,535	$ 2,994	$ 3,368	$ 3,369
Equity in net income of affiliates	**$ 752**	$ 784	$ 762	$ 734	$ 819
Other income (expense) – net	**$ 134**	$ 249	$ 897	$ 152	$ (332)
Income tax expense (benefit)	**$ 2,900**	$ 2,532	$ (1,162)	$ 6,091	$ (2,210)
Net Income (Loss)	**$ 7,539**	$ 4,184	$ 20,179	$ 12,447	$ (2,364)
Less: Net Income Attributable to Noncontrolling Interest	**$ (275)**	$ (240)	$ (315)	$ (309)	$ (261)
Net Income (Loss) Attributable to AT&T	**$ 7,264**	$ 3,944	$ 19,864	$ 12,138	$ (2,625)
Earnings (Loss) Per Common Share:					
Net Income (Loss) Attributable to AT&T	**$ 1.25**	$ 0.66	$ 3.36	$ 2.06	$ (0.44)
Earnings (Loss) Per Common Share – Assuming Dilution:					
Net Income (Loss) Attributable to AT&T	**$ 1.25**	$ 0.66	$ 3.35	$ 2.05	$ (0.44)
Total assets[1]	**$272,315**	$270,442	$269,473	$268,312	$264,700
Long-term debt	**$ 66,358**	$ 61,300	$ 58,971	$ 64,720	$ 60,872
Total debt	**$ 69,844**	$ 64,753	$ 66,167	$ 72,081	$ 74,990
Construction and capital expenditures	**$ 19,728**	$ 20,272	$ 20,302	$ 17,294	$ 20,290
Dividends declared per common share	**$ 1.77**	$ 1.73	$ 1.69	$ 1.65	$ 1.61
Book value per common share	**$ 16.61**	$ 17.85	$ 18.94	$ 17.28	$ 16.35
Ratio of earnings to fixed charges[2]	**2.93**	2.21	4.52	4.42	—
Debt ratio	**43.0%**	38.0%	37.1%	41.4%	43.8%
Weighted-average common shares outstanding (000,000)	**5,801**	5,928	5,913	5,900	5,927
Weighted-average common shares outstanding with dilution (000,000)	**5,821**	5,950	5,938	5,924	5,958
End of period common shares outstanding (000,000)	**5,581**	5,927	5,911	5,902	5,893
Operating Data					
Wireless subscribers (000)[3]	**106,957**	103,247	95,536	85,120	77,009
In-region network access lines in service (000)	**31,887**	36,734	41,883	47,534	53,604
Broadband connections (000)[4]	**16,390**	16,427	16,309	15,789	15,077
Number of employees	**241,810**	256,420	266,590	282,720	302,660

[1]Prior-period amounts are restated to conform to current-period reporting methodology.
[2]Earnings were not sufficient to cover fixed charges in 2008. The deficit was $943.
[3]The number presented represents 100% of AT&T Mobility wireless subscribers.
[4]Broadband connections include in-region DSL lines, in-region U-verse High Speed Internet access, and satellite broadband.

Dollars in millions except per share amounts

For ease of reading, AT&T Inc. is referred to as "we," "AT&T" or the "Company" throughout this document, and the names of the particular subsidiaries and affiliates providing the services generally have been omitted. AT&T is a holding company whose subsidiaries and affiliates operate in the communications services industry in both the United States and internationally, providing wireless and wireline telecommunications services and equipment. You should read this discussion in conjunction with the consolidated financial statements and accompanying notes. A reference to a "Note" in this section refers to the accompanying Notes to Consolidated Financial Statements. In the tables throughout this section, percentage increases and decreases that are not considered meaningful are denoted with a dash.

RESULTS OF OPERATIONS

Consolidated Results Our financial results are summarized in the table below. We then discuss factors affecting our overall results for the past three years. These factors are discussed in more detail in our "Segment Results" section. We also discuss our expected revenue and expense trends for 2013 in the "Operating Environment and Trends of the Business" section.

				Percent Change	
	2012	2011	2010	**2012 vs. 2011**	2011 vs. 2010
Operating Revenues	**$127,434**	$126,723	$124,280	**0.6%**	2.0%
Operating expenses					
Cost of services and sales	**55,215**	54,836	50,257	**0.7**	9.1
Selling, general and administrative	**41,079**	41,382	34,986	**(0.7)**	18.3
Impairment of intangible assets	**—**	2,910	85	**—**	—
Depreciation and amortization	**18,143**	18,377	19,379	**(1.3)**	(5.2)
Total Operating Expenses	**114,437**	117,505	104,707	**(2.6)**	12.2
Operating Income	**12,997**	9,218	19,573	**41.0**	(52.9)
Interest expense	**3,444**	3,535	2,994	**(2.6)**	18.1
Equity in net income of affiliates	**752**	784	762	**(4.1)**	2.9
Other income (expense) – net	**134**	249	897	**(46.2)**	(72.2)
Income from continuing operations before income taxes	**10,439**	6,716	18,238	**55.4**	(63.2)
Income from continuing operations	**7,539**	4,184	19,400	**80.2**	(78.4)
Net Income Attributable to AT&T	**$ 7,264**	$ 3,944	$ 19,864	**84.2%**	(80.1)%

OVERVIEW

Operating income increased $3,779, or 41.0%, in 2012 and decreased $10,355, or 52.9%, in 2011. Our operating margin was 10.2% in 2012, compared to 7.3% in 2011 and 15.7% in 2010. Operating revenues and expenses for 2012 reflect only a partial year's results for our sold Advertising Solutions segment, as discussed below. Operating income for 2012 reflects continued growth in wireless service and equipment revenue driven mostly by data revenue growth and increased revenues from AT&T U-verse® (U-verse) services and strategic business services, partially offset by a decline in voice revenues and higher wireless handset subsidies and commissions. Our 2012 operating income also reflects a noncash charge of $9,994 from actuarial losses related to pension and postemployment benefit plans. Operating income for 2011 and 2010 included actuarial losses of $6,280 and $2,521, respectively. Operating income in 2011 also reflected charges of $4,181 related to our decision to terminate the acquisition of T-Mobile USA, Inc. (T-Mobile) and noncash charges of $2,910 related to impairments of directory intangible assets.

Operating revenues increased $711, or 0.6%, in 2012 and $2,443, or 2.0%, in 2011. The increases in 2012 and 2011 are primarily due to growth in wireless service and equipment revenues and higher wireline data revenues from U-verse and strategic business services. Growth in the wireless subscriber base and the increasing percentage of subscribers using smartphones also contributed to the revenue increase in 2011. These increases were partially offset by continued declines in wireline voice revenues for both years. The sale of our Advertising Solutions segment in May 2012 reduced revenues $2,244.

Revenue growth continues to be tempered by declines in our voice revenues. During 2012, total switched access lines decreased 13.2%. Customers disconnecting access lines switched to wireless, Voice over Internet Protocol (VoIP) and cable offerings for voice and data or terminated service permanently as businesses closed or consumers left residences. While we lose wireline voice revenues, we have the opportunity to increase wireless service and wireline data revenues should customers choose us as their wireless provider, and for customers with our U-verse service, as their VoIP provider.

Cost of services and sales expenses increased $379, or 0.7%, in 2012 and $4,579, or 9.1%, in 2011. The increase in 2012 resulted from increased wireline costs attributable to growth in U-verse subscribers, higher wireless handset costs related to strong smartphone sales and a higher actuarial loss on benefit plans. These increases were partially offset by lower traffic compensation costs and other nonemployee-related expenses. The sale of our Advertising Solutions segment reduced cost of services and sales expenses $787 in 2012.

Excluding the increase of $1,668 related to the actuarial loss, expense increases in 2011 were primarily due to higher wireless handset costs from strong smartphone sales, partially offset by lower financing-related costs associated with our pension and postretirement benefits (referred to as Pension/OPEB expenses) and other employee-related expenses.

Selling, general and administrative expenses decreased $303, or 0.7%, in 2012 and increased $6,396, or 18.3%, in 2011. The 2012 expense decrease was primarily due to $4,181 in 2011 expenses related to the termination of the T-Mobile merger, offset by a larger actuarial loss of $3,454 and higher wireless commissions and administrative costs. The sale of our Advertising Solutions segment reduced selling, general and administrative expenses $705 in 2012.

The 2011 expenses increased by $2,091 related to the actuarial loss, charges associated with the T-Mobile payment, and higher commissions paid on smartphone sales, slightly offset by lower severance accruals, Pension/OPEB financing costs and other employee-related charges.

Impairment of intangible assets In 2011, we recorded noncash charges for impairments in our Advertising Solutions segment, which consisted of a $2,745 goodwill impairment and a $165 impairment of a trade name. The 2010 impairment of $85 was for the impairment of a trade name.

Depreciation and amortization expense decreased $234, or 1.3%, in 2012 and $1,002, or 5.2%, in 2011 due to lower amortization of intangibles for customer lists related to acquisitions, offset by increased depreciation associated with ongoing capital spending for network upgrades and expansion. The sale of our Advertising Solutions segment reduced depreciation and amortization expense $280 in 2012.

Interest expense decreased $91, or 2.6%, in 2012 and increased $541, or 18.1%, in 2011. The decrease in interest expense for 2012 was primarily due to lower average interest rates and average debt balances, partially offset by a net charge of $176 related to call premiums paid and swap gains realized for early debt redemptions and debt exchange fees.

The increase in interest expense for 2011 was primarily due to lower interest capitalized on wireless spectrum that we used to support our Long Term Evolution (LTE) technology, partially offset by a decrease in our average debt balances.

Equity in net income of affiliates decreased $32, or 4.1%, in 2012 and increased $22, or 2.9%, in 2011. Decreased equity in net income of affiliates in 2012 was due to lower earnings from América Móvil, S.A. de C.V. (América Móvil), and increased expenses in our mobile payment joint venture with other wireless carriers, marketed as the Isis Mobile Wallet™ (ISIS). These decreases were partially offset by earnings from YP Holdings LLC (YP Holdings). The 2011 increase was due to improved results at América Móvil, partially offset by lower results from Télefonos de México, S.A. de C.V. (Telmex).

Other income (expense) – net We had other income of $134 in 2012, $249 in 2011 and $897 in 2010. Results for 2012 included interest and dividend income of $61, leveraged lease income of $55 and net gains on the sale of investments of $74. This income was partially offset by $57 of investment impairments.

Other income for 2011 included interest and dividend income of $73, leveraged lease income of $80 and net gains on the sale of investments of $97. Results for 2010 included a gain on the exchange of Telmex Internacional, S.A.B. de C.V. (Telmex Internacional) shares for América Móvil shares of $658, interest and dividend income of $71, leveraged lease income of $66, and net gains on the sale of investments of $197, partially offset by $98 of investment impairments.

Income tax expense increased $368 in 2012 and $3,694 in 2011. The 2012 increase is primarily due to an increase in income before income taxes. The 2011 increase is primarily due to the goodwill impairment, which was not deductible, and a settlement with the Internal Revenue Service related to a restructuring of our wireless operations, which lowered our 2010 income taxes by $8,300. Offsetting these year-over-year increases were decreases due to lower income before income taxes in 2011 and a $995 charge to income tax expense in 2010 to reflect the deferred tax impact of enacted U.S. healthcare legislation (see Note 10). Our effective tax rate was 27.8% in 2012, 37.7% in 2011 and (6.4)% in 2010.

Income from discontinued operations, net of tax In the third quarter of 2010, we sold our subsidiary Sterling Commerce Inc. (Sterling). Income from discontinued operations in 2010 was $779, including a gain of $769.

Segment Results

Our segments are strategic business units that offer different products and services over various technology platforms and are managed accordingly. Our operating segment results presented in Note 3 and discussed below for each segment follow our internal management reporting. We analyze our operating segments based on segment income before income taxes. We make our capital allocation decisions based on our strategic direction of the business, needs of the network (wireless or wireline) providing services and other assets needed to provide emerging services to our customers. Actuarial gains and losses from pension and other postemployment 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 percentage of our total segment income. Each segment's percentage of total segment operating revenue and income calculations is derived from our segment results table in Note 3, and may total more than 100 percent due to losses in one or more segments. At December 31, 2012, we had three reportable segments: (1) Wireless, (2) Wireline and (3) Other. Our operating results prior to May 9, 2012, also included Advertising Solutions, which was a reportable segment. On May 8, 2012, we completed the sale of our Advertising Solutions segment and received a 47 percent equity interest in the new entity YP Holdings (see Note 4).

The ***Wireless segment*** accounted for approximately 52% of our 2012 total segment operating revenues as compared to 50% in 2011 and 70% of our 2012 total segment income as compared to 96% in 2011. This segment uses our nationwide network to provide consumer and business customers with wireless voice and advanced data communications services. This segment includes our portion of the results from our mobile payment joint venture ISIS, which is accounted for as an equity investment.

The ***Wireline segment*** accounted for approximately 47% of our total segment operating revenues in both 2012 and 2011 and 30% of our 2012 total segment income as compared to 44% in 2011. This segment uses our regional, national and global network to provide consumer and business customers with landline voice and data communications services, U-verse high-speed broadband, video, voice services, and managed networking to business customers. Additionally, we receive commissions on sales of satellite television services offered through our agency arrangements. The Wireline segment results have been reclassified to exclude the operating results of the home monitoring business moved to our Other segment and to include the operating results of customer information services, which were previously reported in our Other segment's results.

The ***Advertising Solutions segment*** included our directory operations, which published Yellow and White Pages directories and sold directory advertising, Internet-based advertising and local search through May 8, 2012 (see Note 4).

The ***Other segment*** accounted for less than 1% of our 2012 and 2011 total segment operating revenues. Since segment operating expenses exceeded revenue in both years, a segment loss was incurred in both 2012 and 2011. This segment includes our portion of the results from our international equity investments, our 47 percent equity interest in 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. The Other segment results have been reclassified to exclude the operating results of customer information services, which are now reported in our Wireline segment's results.

The following sections discuss our operating results by segment. Operations and support expenses include bad debt expense; advertising costs; sales and marketing functions, including customer service centers; real estate costs, including maintenance and utilities on all buildings; credit and collection functions; and corporate support costs, such as finance, legal, human resources and external affairs. Pension and postretirement service costs, net of amounts capitalized as part of construction labor, are also included to the extent that they are associated with these employees. Our Wireless and Wireline segments also include certain network planning and engineering expenses, information technology, our repair technicians and repair services, and property taxes as operations and support expenses.

We discuss capital expenditures for each segment in "Liquidity and Capital Resources."

Wireless
Segment Results

				Percent Change	
	2012	2011	2010	**2012 vs. 2011**	2011 vs. 2010
Segment operating revenues					
Service	**$59,186**	$56,726	$53,510	**4.3%**	6.0%
Equipment	**7,577**	6,489	4,991	**16.8**	30.0
Total Segment Operating Revenues	**66,763**	63,215	58,501	**5.6**	8.1
Segment operating expenses					
Operations and support	**43,296**	41,282	36,185	**4.9**	14.1
Depreciation and amortization	**6,873**	6,329	6,498	**8.6**	(2.6)
Total Segment Operating Expenses	**50,169**	47,611	42,683	**5.4**	11.5
Segment Operating Income	**16,594**	15,604	15,818	**6.3**	(1.4)
Equity in Net Income (Loss) of Affiliates	**(62)**	(29)	9	**—**	—
Segment Income	**$16,532**	$15,575	$15,827	**6.1%**	(1.6)%

The following table highlights other key measures of performance for the Wireless segment:

	2012	2011	2010	**2012 vs. 2011**	2011 vs. 2010
Wireless Subscribers (000)[1]	**106,957**	103,247	95,536	**3.6%**	8.1%
Gross Subscriber Additions (000)[2]	**20,770**	23,869	22,879	**(13.0)**	4.3
Net Subscriber Additions (000)[2]	**3,764**	7,699	8,853	**(51.1)**	(13.0)
Total Churn[4]	**1.35%**	1.37%	1.31%	**(2) BP**	6 BP
Postpaid Subscribers (000)	**70,497**	69,309	68,041	**1.7%**	1.9%
Net Postpaid Subscriber Additions (000)[2]	**1,438**	1,429	2,153	**0.6**	(33.6)
Postpaid Churn[4]	**1.09%**	1.18%	1.09%	**(9) BP**	9 BP
Prepaid Subscribers (000)	**7,328**	7,225	6,524	**1.4%**	10.7%
Net Prepaid Subscriber Additions (000)[2]	**128**	674	952	**(81.0)**	(29.2)
Reseller Subscribers (000)	**14,875**	13,644	11,645	**9.0**	17.2
Net Reseller Subscriber Additions (000)[2]	**1,027**	1,874	1,140	**(45.2)**	64.4
Connected Device Subscribers (000)[3]	**14,257**	13,069	9,326	**9.1**	40.1
Net Connected Device Subscriber Additions (000)	**1,171**	3,722	4,608	**(68.5)%**	(19.2)%

[1]Represents 100% of AT&T Mobility wireless subscribers.
[2]Excludes merger and acquisition-related additions during the period.
[3]Includes data-centric devices such as eReaders, tablets, automobile monitoring systems, and fleet management.
[4]Calculated by dividing the aggregate number of wireless subscribers who canceled service during a period divided by the total number of wireless subscribers at the beginning of that period. The churn rate for the period is equal to the average of the churn rate for each month of that period.

Wireless Subscriber Relationships

As the wireless industry continues to mature, we believe that future wireless growth will increasingly depend on our ability to offer innovative services and devices and a wireless network that has sufficient spectrum and capacity to support these innovations and make them available to more subscribers. To attract and retain subscribers, we offer a broad handset line and a wide variety of service plans.

Our handset offerings include at least 16 smartphones (handsets with voice and data capabilities using an advanced operating system to better manage data and Internet access) from nine manufacturers. As technology evolves, rapid changes are occurring in the handset and device industry with the continual introduction of new models or significant revisions of existing models. We believe a broad offering of a wide variety of smartphones reduces dependence on any single operating system or manufacturer as these products continue to evolve in terms of technology and subscriber appeal. In 2012, we continued to see an increasing use of smartphones by our postpaid subscribers. Of our total postpaid subscriber base, 66.8% (or 47.1 million subscribers) use smartphones, up from 56.8% (or 39.4 million subscribers) a year earlier and 42.7% (or 29.1 million subscribers) two years ago. As is common in the industry, most of our subscribers' phones are designed to work only with our wireless technology, requiring subscribers who desire to move to a new carrier with a different technology to purchase a new device. From time to time, we offer and have offered attractive handsets on an exclusive basis. As these exclusivity arrangements expire, we expect to continue to offer such handsets (based on historical industry practice), and we believe our service plan offerings will help to retain our subscribers by providing incentives not to migrate to a different carrier. We do not expect exclusivity terminations to have a material impact on our Wireless segment income, consolidated operating margin or our cash flows from operations.

Our postpaid subscribers typically sign a two-year contract, which includes discounted handsets and early termination fees. As of December 31, 2012, about 90% of our postpaid smartphone subscribers are on FamilyTalk® plans (family plans), Mobile Share plans or business discount plans (discount plans), which provide for service on multiple devices at discounted rates, and such subscribers tend to have higher retention and lower churn rates. During the first quarter of 2011, we introduced our Mobile to Any Mobile feature, which enables our new and existing subscribers on these and other qualifying plans to make unlimited mobile calls to any mobile number in the United States, subject to certain conditions. We also offer data plans at different price levels (usage-based data plans) to attract a wide variety of subscribers and to differentiate us from our competitors. Our postpaid subscribers on data plans increased 11.4% year over year. A growing percentage of our postpaid smartphone subscribers are on usage-based data plans, with 67.4% (or 31.7 million subscribers) on these plans as of December 31, 2012, up from 56.0% (or 22.1 million subscribers) as of December 31, 2011, and 31.2% (or 9.1 million subscribers) as of December 31, 2010. More than 75% of subscribers on tiered data plans have chosen the higher-tiered plans. In August 2012, we launched new Mobile Share data plans (which allow postpaid subscribers to share data at discounted prices among devices covered by their plan), and sales results have been strong, with approximately 25% of Mobile Share subscribers choosing plans of 10 gigabytes or higher. Such offerings are intended to encourage existing subscribers to upgrade their current services and/or add connected devices, attract subscribers from other providers, and minimize subscriber churn.

As of December 31, 2012, 54.7% of our postpaid smartphone subscribers use a 4G-capable device (i.e., a device that would operate on our HSPA+ or LTE network). Due to substantial increases in the demand for wireless service in the United States, AT&T is facing significant spectrum and capacity constraints on its wireless network in certain markets. We expect such constraints to increase and expand to additional markets in the coming years. While we are continuing to invest significant capital in expanding our network capacity, our capacity constraints could affect the quality of existing voice and data services and our ability to launch new, advanced wireless broadband services, unless we are able to obtain more spectrum. Any long-term spectrum solution will require that the Federal Communications Commission (FCC) make new or existing spectrum available to the wireless industry to meet the expanding needs of our subscribers. We will continue to attempt to address spectrum and capacity constraints on a market-by-market basis.

Wireless Metrics

Subscriber Additions As of December 31, 2012, we served 107 million wireless subscribers, an increase of 3.6% from 2011. We continue to see a declining rate of growth in the industry's subscriber base compared to prior years, as reflected in a 13.0% decrease in gross subscriber additions (gross additions) in 2012 after a 4.3% increase in 2011. Gross additions in 2012 and 2011 reflected higher activations of postpaid smartphones and sales of tablets and other data-centric devices compared to prior years.

Lower net subscriber additions (net additions) in 2012 were primarily attributable to lower net connected device and reseller additions when compared to the prior year, which reflected higher churn rates for customers not using such devices (zero-revenue customers). Lower net prepaid additions in 2012 reflected a decrease in net prepaid tablet additions, as the introduction of our Mobile Share plans has accelerated a shift from prepaid to postpaid tablet subscribers. A relatively flat rate of growth in net postpaid additions in 2012 and decline in 2011 reflected slowing growth in the industry's subscriber base. Lower net postpaid additions in 2011, compared to 2010, also reflected higher postpaid churn attributable in part to integration efforts connected to a prior merger.

Average service revenue per user (ARPU) – Postpaid increased 1.9% in 2012 and 1.8% in 2011, driven by increases in data services ARPU of 13.9% in 2012 and 15.3% in 2011, reflecting greater use of smartphones and data-centric devices by our subscribers.

The growth in postpaid data services ARPU in 2012 and 2011 was partially offset by a 5.7% decrease in postpaid voice and other service ARPU in 2012 and a 5.3% decrease in 2011. Voice and other service ARPU declined due to lower access and airtime charges, triggered in part by postpaid subscribers on our discount plans, and lower roaming revenues.

ARPU – Total declined 1.6% in 2012 and 3.8% in 2011, reflecting growth in connected device, tablet and reseller subscribers. Connected devices and other data-centric devices, such as tablets, have lower-priced data-only plans compared with our postpaid smartphone plans, which have voice and data features. Accordingly, ARPU for these subscribers is typically lower compared to that generated from our smartphone subscribers on postpaid and other plans. Data services ARPU increased 11.1% in 2012 and 9.8% in 2011, reflecting increased smartphone and data-centric device use. We expect continued revenue growth from data services as more subscribers use smartphones and data-centric devices, and as we continue to expand our network. Voice and other service ARPU declined 9.7% in 2012 and 10.9% in 2011 due to voice access and usage trends and a shift toward a greater percentage of data-centric devices. We expect continued pressure on voice and other service ARPU.

Churn The effective management of subscriber churn is critical to our ability to maximize revenue growth and to maintain and improve margins. The total and postpaid churn rates were down slightly in 2012, reflecting popularity of our discount plans. Total and postpaid churn increased in 2011, reflecting integration efforts from a prior merger and higher connected device churn rates. Reseller subscribers have traditionally had the lowest churn rate among our wireless subscribers; however, in 2012, the disconnection of zero-revenue customers has caused our total churn rate to increase.

Operating Results

Segment operating income margin was 24.9% in 2012, compared to 24.7% in 2011 and 27.0% in 2010. Our Wireless segment operating income increased $990, or 6.3%, in 2012 and decreased $214, or 1.4%, in 2011. The operating income and margin increase in 2012 reflected continuing data revenue growth and operating efficiencies, partially offset by the high subsidies associated with growing smartphone sales. The margin decrease in 2011 reflected higher equipment and selling costs associated with higher smartphone sales and handset upgrades, partially offset by higher data revenues generated by our postpaid subscribers. While we subsidize the sales prices of various smartphones, we expect to recover that cost over time from increased usage of the devices, especially data usage by the subscriber.

Service revenues are comprised of local voice and data services, roaming, long distance and other revenue. Service revenues increased $2,460, or 4.3%, in 2012 and $3,216, or 6.0%, in 2011. The increases consisted of the following:

- Data service revenues increased $3,926, or 17.8%, in 2012 and $3,824, or 21.0%, in 2011. The increases were primarily due to the increased number of subscribers using smartphones and data-centric devices, such as eReaders, tablets, and mobile navigation devices. Data service revenues accounted for approximately 43.8% of our wireless service revenues in 2012, compared to 38.8% in 2011 and 34.0% in 2010.
- Voice and other service revenues decreased $1,466, or 4.2%, in 2012 and $608, or 1.7%, in 2011. While the number of wireless subscribers increased 3.6% in 2012, and 8.1% in 2011, these revenues continued to decline due to voice access and usage declines, as noted in the ARPU and subscriber relationships discussions above.

Equipment revenues increased $1,088, or 16.8%, in 2012 and $1,498, or 30.0%, in 2011. The increase in 2012 was primarily due to a year-over-year increase in smartphone sales as a percentage of total device sales to postpaid subscribers, partially offset by lower device upgrades. During the first quarter of 2012, we introduced an increase in the handset upgrade fee, which also contributed to the year-over-year increase in equipment revenues in 2012. The increase in 2011 was primarily due to the launch of a new iPhone model, which resulted in even higher iPhone sales and upgrades compared to the 2010 launch.

Operations and support expenses increased $2,014, or 4.9%, in 2012 and $5,097, or 14.1%, in 2011. The increase in 2012 was primarily due to the following:

- Commission expenses increased $636 due to a year-over-year increase in smartphone sales as a percentage of total device sales, partially offset by the overall decline in handset upgrade activity and total device sales.
- Selling expenses (other than commissions) and administrative expenses increased $532 due primarily to a $181 increase in information technology costs in conjunction with ongoing support systems development, $137 increase in employee-related costs, $99 increase in nonemployee-related costs, and $89 increase in bad debt expense, partially offset by a $57 decline in advertising costs.
- Equipment costs increased $501, reflecting sales of the more expensive smartphones, partially offset by the overall decline in upgrade activity and total device sales.
- Network system, interconnect, and long-distance costs increased $202 primarily due to higher network traffic, personnel-related network support costs and cell site related costs in conjunction with our network enhancement efforts and storm costs.
- Universal Service Fund (USF) fees increased $166 primarily due to USF rate increases. A majority of USF fees are recovered and reported as revenues.
- Handset insurance cost increased $141 due to claims on more expensive devices.

Partially offsetting these increases, incollect roaming fees decreased $115 primarily due to rate declines and lower roaming use associated with the integration of previously acquired subscribers into our network.

The increase in 2011 was primarily due to the following:

- Higher volumes of smartphone sales and handset upgrades, as well as handsets provided to former Alltel Wireless (Alltel) subscribers, increased equipment costs $2,816 and related commission expenses $1,079.
- Network system, interconnect, and long-distance costs increased $1,356 due to higher network traffic, higher recurring personnel-related network support costs in conjunction with our network enhancement efforts, and higher leasing costs.
- Selling expenses (other than commissions) increased $288 due to higher payroll and benefit costs and a $136 increase in bad debt expense, partially offset by lower advertising and costs associated with customer billing functions.

Partially offsetting these increases in 2011 were the following:

- Incollect roaming, handset insurance costs, and USF fees decreased $220 primarily due to lower usage and claims on less expensive devices, less the impact of a USF rate increase. A majority of USF fees are recovered and reported as revenues.
- Administrative expenses decreased $177 due to lower payroll, legal and operating tax costs, and a reclassification of shared information technology costs.

Depreciation and amortization expenses increased $544, or 8.6%, in 2012 and decreased $169, or 2.6%, in 2011. In 2012, depreciation expense increased $855, or 15.5%, primarily due to ongoing capital spending for network upgrades and expansion and the reclassification of shared information technology costs partially offset by certain network assets becoming fully depreciated. Amortization expense decreased $311, or 38.9%, primarily due to lower amortization of intangibles for customer lists related to acquisitions.

Amortization expense decreased $519, or 39.4%, in 2011 primarily due to lower amortization of intangibles for customer lists related to acquisitions. Depreciation expense increased $350, or 6.8%, in 2011 primarily due to ongoing capital spending for network upgrades and expansion and the reclassification of shared information technology costs partially offset by certain network assets becoming fully depreciated.

Equity in net income (loss) of affiliates for the Wireless segment includes expenses for ISIS, our mobile payment joint venture with Verizon and T-Mobile.

Wireline

Segment Results

				Percent Change	
	2012	2011	2010	**2012 vs. 2011**	2011 vs. 2010
Segment operating revenues					
Data	**$31,798**	$29,560	$27,512	**7.6%**	7.4%
Voice	**22,619**	25,126	28,332	**(10.0)**	(11.3)
Other	**5,150**	5,454	5,917	**(5.6)**	(7.8)
Total Segment Operating Revenues	**59,567**	60,140	61,761	**(1.0)**	(2.6)
Segment operating expenses					
Operations and support	**41,207**	41,360	41,879	**(0.4)**	(1.2)
Depreciation and amortization	**11,123**	11,615	12,372	**(4.2)**	(6.1)
Total Segment Operating Expenses	**52,330**	52,975	54,251	**(1.2)**	(2.4)
Segment Operating Income	**7,237**	7,165	7,510	**1.0**	(4.6)
Equity in Net Income of Affiliates	**(2)**	—	11	**—**	—
Segment Income	**$ 7,235**	$ 7,165	$ 7,521	**1.0%**	(4.7)%

Operating Results

Our Wireline segment operating income margin was 12.1% in 2012, compared to 11.9% in 2011 and 12.2% in 2010. Our Wireline segment operating income increased $72, or 1.0%, in 2012 and decreased $345, or 4.6%, in 2011. The increases in operating income and margins in 2012 reflect increases in data revenue growth and lower depreciation and amortization expense, partially offset by continued access line declines as our consumer and business customers either reduced usage or disconnected traditional landline services and switched to alternative technologies, such as wireless and VoIP. Our strategy is to offset these line losses by increasing non-access-line-related revenues from customer connections for data, video and U-verse voice. Additionally, we have the opportunity to increase Wireless segment revenues if customers choose us as their wireless provider.

Data revenues increased $2,238, or 7.6%, in 2012 and $2,048, or 7.4%, in 2011. Data revenues accounted for approximately 53% of wireline operating revenues in 2012, 49% in 2011 and 45% in 2010. Data revenues include IP, strategic business and traditional data services.

- IP data revenues (excluding strategic business services below) increased $2,023, or 15.0%, in 2012 and $1,863, or 16.0%, in 2011 primarily driven by higher U-verse penetration. In 2012 and 2011, U-verse video revenues increased $1,057 and $1,206, broadband high-speed Internet access revenue increased $605 and $365 and U-verse voice revenue increased $251 and $286, respectively. The increases in IP data revenues reflect continued growth in the customer base and migration from other traditional circuit-based services. New and existing U-verse customers are shifting from traditional landlines to our U-verse Voice and from DSL to our U-verse High Speed Internet access offerings. At December 31, 2012, more residential customers subscribed to our U-verse High Speed Internet services than our traditional DSL offering.
- Strategic business services, which include Ethernet, Virtual Private Networks (VPN), Hosting, IP Conferencing and application services, increased $753, or 13.5%, in 2012 and $854, or 18.1%, in 2011. These increases were driven by increased VPN revenues, which contributed additional revenues of $431 and $563 and Ethernet revenues, which increased by $286 and $218 in 2012 and 2011.
- Traditional data revenues, which include transport (excluding Ethernet) and packet-switched data services, decreased $538, or 5.1%, in 2012 and $669, or 6.0%, in 2011. These decreases were primarily due to lower demand as customers continue to shift to IP-based technology such as VPN, U-verse High Speed Internet access and managed Internet services. We expect these traditional services to continue to decline as a percentage of our overall data revenues.

Voice revenues decreased $2,507, or 10.0%, in 2012 and $3,206, or 11.3%, in 2011 primarily due to declining demand for traditional voice services by our consumer and business customers. Included in voice revenues are revenues from local voice, long distance (including international) and local wholesale services. Voice revenues do not include VoIP revenues, which are included in data revenues.

- Local voice revenues decreased $1,526, or 9.9%, in 2012 and $2,067, or 11.8%, in 2011. The decrease in 2012 and 2011 was driven primarily by a 13.2% and 12.3% decline in switched access lines. We expect our local voice revenue to continue to be negatively affected by competition from alternative technologies and continued declines in switched access lines.
- Long-distance revenues decreased $965, or 11.2%, in 2012 and $1,066, or 11.0%, in 2011. Lower demand for long-distance service from global businesses and consumer customers decreased revenues $799 in 2012 and $822 in 2011. Additionally, expected declines in the number of national mass-market customers decreased revenues $165 in 2012 and $235 in 2011.

Other operating revenues decreased $304, or 5.6%, in 2012 and $463, or 7.8%, in 2011. Major items included in other operating revenues are integration services and customer premises equipment, government-related services and outsourcing, which account for approximately 60% of total other revenue in the years reported.

Operations and support expenses decreased $153, or 0.4%, in 2012 and $519, or 1.2%, in 2011. Operations and support expenses consist of costs incurred to provide our products and services, including costs of operating and maintaining our networks and personnel costs, such as compensation and benefits.

The 2012 decrease was primarily due to lower employee-related expense of $470, reflecting ongoing workforce reduction initiatives, decreased traffic compensation expense of $281 and lower nonemployee-related expense of $172. These decreases were partially offset by increased cost of sales, primarily related to U-verse related expenses of $538 and increased USF fees of $254.

The 2011 decrease was primarily due to lower traffic compensation expense of $423, decreased employee-related expense of $401, reflecting ongoing workforce reduction initiatives, lower bad debt expense of $216 due to lower revenue from business customers and improvements in cash collections, and decreased USF fees of $71. These decreases were partially offset by increased cost of sales, primarily related to U-verse related expenses of $451 and increased contract services of $217.

Depreciation and amortization expenses decreased $492, or 4.2%, in 2012 and $757, or 6.1%, in 2011. Both decreases were primarily related to lower amortization of intangibles for customer lists associated with acquisitions.

Supplemental Information

Wireline Broadband, Telephone and Video Connections Summary Our broadband, switched access lines and other services provided by our local exchange telephone subsidiaries at December 31, 2012, 2011, and 2010 are shown below and trends are addressed throughout this segment discussion.

				Percent Change	
(in 000s)	**2012**	2011	2010	**2012 vs. 2011**	2011 vs. 2010
Total Wireline Broadband Connections[1,2]	**16,390**	16,427	16,309	**(0.2)%**	0.7%
U-verse video	**4,536**	3,791	2,987	**19.7**	26.9
Satellite service[3]	**1,600**	1,765	1,930	**(9.3)**	(8.5)
Video Connections	**6,136**	5,556	4,917	**10.4**	13.0
Total Retail Consumer Voice Connections[4]	**18,614**	21,232	24,195	**(12.3)**	(12.2)
Switched Access Lines					
Retail consumer	**15,709**	18,954	22,515	**(17.1)**	(15.8)
Retail business[5]	**14,274**	15,656	17,053	**(8.8)**	(8.2)
Retail Subtotal[5]	**29,983**	34,610	39,568	**(13.4)**	(12.5)
Wholesale Subtotal[5]	**1,854**	2,077	2,252	**(10.7)**	(7.8)
Total Switched Access Lines[6]	**31,887**	36,734	41,883	**(13.2)%**	(12.3)%

[1]Total wireline broadband connections include DSL, U-verse High Speed Internet and satellite broadband.
[2]Includes U-verse High Speed Internet connections of 7,716 at December 31, 2012, 5,223 at December 31, 2011, and 3,278 at December 31, 2010.
[3]Satellite service includes connections under our agency and resale agreements.
[4]Includes consumer U-verse VoIP connections of 2,905 at December 31, 2012, 2,278 at December 31, 2011, and 1,680 at December 31, 2010.
[5]Prior-period amounts restated to conform to current-period reporting methodology.
[6]Total switched access lines include access lines provided to private payphone service providers of 50 at December 31, 2012, 47 at December 31, 2011, and 63 at December 31, 2010.

Advertising Solutions
Segment Results

				Percent Change	
	2012	2011	2010	**2012 vs. 2011**	2011 vs. 2010
Total Segment Operating Revenues	**$1,049**	$ 3,293	$3,935	**(68.1)%**	(16.3)%
Segment operating expenses					
Operations and support	**773**	2,265	2,584	**(65.9)**	(12.3)
Impairment of intangible assets	**—**	2,910	—	**—**	—
Depreciation and amortization	**106**	386	497	**(72.5)**	(22.3)
Total Segment Operating Expenses	**879**	5,561	3,081	**(84.2)**	80.5
Segment Income (Loss)	**$ 170**	$(2,268)	$ 854	**—**	—

On May 8, 2012, we completed the sale of our Advertising Solutions segment to an affiliate of Cerberus Capital Management, L.P. Following the sale, we are no longer recording operating results for this segment. We hold a 47 percent interest in the new entity, YP Holdings.

Other
Segment Results

				Percent Change	
	2012	2011	2010	**2012 vs. 2011**	2011 vs. 2010
Total Segment Operating Revenues	**$ 55**	$ 75	$ 83	**(26.7)%**	(9.6)%
Total Segment Operating Expenses	**1,065**	5,078	2,171	**(79.0)**	—
Segment Operating Loss	**(1,010)**	(5,003)	(2,088)	**79.8**	—
Equity in Net Income of Affiliates	**816**	813	742	**0.4**	9.6
Segment Loss	**$ (194)**	$(4,190)	$(1,346)	**95.4%**	—

Dollars in millions except per share amounts

The Other segment includes our portion of the results from our international equity investments, our 47 percent equity interest in 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.

Segment operating revenues decreased $20, or 26.7%, in 2012 and $8, or 9.6%, in 2011. The decrease was primarily due to reduced revenues from leased equipment programs.

Segment operating expenses decreased $4,013, or 79.0%, in 2012 and increased $2,907 in 2011. The decrease in 2012 related to charges incurred in 2011 related to the termination of the T-Mobile acquisition. Increased operating expense in 2011 included $4,432 of charges related to T-Mobile, including $4,181 resulting from our termination of the acquisition, which were partially offset by lower severance charges, reduced Pension/OPEB financing costs and lower employee-related expenses.

Our Other segment also includes our equity investments in América Móvil and YP Holdings, the income from which we report as equity in net income of affiliates. Our earnings from foreign affiliates are sensitive to exchange-rate changes in the value of the respective local currencies. Our equity in net income of affiliates by major investment is listed below:

	2012	2011	2010
América Móvil	**$686**	$720	$560
YP Holdings	**130**	—	—
Telmex[1]	**—**	95	150
Telmex Internacional[2]	**—**	—	34
Other	**—**	(2)	(2)
Other Segment Equity in Net Income of Affiliates	**$816**	$813	$742

[1]Acquired by América Móvil in November 2011.
[2]Acquired by América Móvil in June 2010.

Equity in net income of affiliates increased $3, or 0.4%, in 2012 and $71, or 9.6%, for 2011. Increased equity in net income of affiliates in 2012 was due to earnings at YP Holdings, offset by lower results at América Móvil.

OPERATING ENVIRONMENT AND TRENDS OF THE BUSINESS

2013 Revenue Trends We expect our operating environment in 2013 to remain challenging as current economic conditions continue and competition remains strong. Despite these challenges, we expect our consolidated operating revenues in 2013 to grow, reflecting continuing growth in our wireless data and IP-related wireline data services, including U-verse. We expect our primary driver of growth to be wireless services, especially in sales of and increases in data usage on smartphones and emerging devices (such as tablets, eReaders and mobile navigation devices). We expect that all our major customer categories will continue to increase their use of Internet-based broadband/data services. We expect continuing declines in traditional access lines and in traditional telephone service revenues. Where available, our U-verse services have proved effective in stemming access line losses, and we expect to continue to expand our U-verse service offerings in 2013.

2013 Expense Trends We expect a stable consolidated operating income margin in 2013 with expanding wireless margins being offset by wireline margin pressure as a result of our IP broadband expansion project (see Project VIP in "Other Business Matters"). Expenses related to growth areas of our business, including wireless data, U-verse, and strategic business services, will apply some pressure to our operating income margin.

Market Conditions During 2012, the securities and fixed income markets and the banking system in general continued to stabilize. The ongoing weakness in the general economy has also affected our customer and supplier bases. We saw lower demand from our business customers. Some of our suppliers continue to experience increased financing and operating costs. These negative economic trends were partially offset by continued growth in our wireless data and IP-related services. While the economy may have stabilized, we do not expect a return to historical growth levels during 2013. Should the economy instead deteriorate further, we likely will experience further pressure on pricing and margins as we compete for both wireline and wireless customers who have less discretionary income. We also may experience difficulty purchasing equipment in a timely manner or maintaining and replacing equipment under warranty from our suppliers.

Included on our consolidated balance sheets are assets held by benefit plans for the payment of future benefits. During 2013, we are required to make contributions in the amount of approximately $300 to our pension plans. Our pension plans are subject to funding requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA). A weakness in the equity, fixed income and real asset markets could require us in future years to make contributions to the pension plans in order to maintain minimum funding requirements as established by ERISA. Investment returns on these assets depend largely on trends in the U.S. securities markets and the U.S. economy. In addition, our policy of recognizing actuarial gains and losses related to our pension and other postretirement plans in the period in which they arise subjects us to earnings volatility caused by changes in market conditions.

Changes in our discount rate, which are tied to changes in the bond market and changes in the performance of equity markets, may have significant impacts on the fair value of pension and other postretirement plans at the end of 2013 (see "Accounting Policies and Estimates").

OPERATING ENVIRONMENT OVERVIEW

AT&T subsidiaries operating within the United States are subject to federal and state regulatory authorities. AT&T subsidiaries operating outside the United States are subject to the jurisdiction of national and supranational regulatory authorities in the markets where service is provided, and regulation is generally limited to operational licensing authority for the provision of services to enterprise customers.

In the Telecommunications Act of 1996 (Telecom Act), Congress established a national policy framework intended to bring the benefits of competition and investment in advanced telecommunications facilities and services to all Americans by opening all telecommunications markets to competition and reducing or eliminating regulatory burdens that harm consumer welfare. However, since the Telecom Act was passed, the FCC and some state regulatory commissions have maintained or expanded certain regulatory requirements that were imposed decades ago on our traditional wireline subsidiaries when they operated as legal monopolies. We are pursuing, at both the state and federal levels, additional legislative and regulatory measures to reduce regulatory burdens that are no longer appropriate in a competitive telecommunications market and that inhibit our ability to compete more effectively and offer services wanted and needed by our customers, including initiatives to transition services from traditional networks to all IP-based networks. At the same time, we also seek to ensure that legacy regulations are not extended to broadband or wireless services, which are subject to vigorous competition.

In addition, states representing a majority of our local service access lines have adopted legislation that enables new video entrants to acquire a single statewide or state-approved franchise (as opposed to the need to acquire hundreds or even thousands of municipal-approved franchises) to offer competitive video services. We also are supporting efforts to update and improve regulatory treatment for retail services. Regulatory reform and passage of legislation is uncertain and depends on many factors.

We provide wireless services in robustly competitive markets, but those services are subject to substantial and increasing governmental regulation. Wireless communications providers must obtain licenses from the FCC to provide communications services at specified spectrum frequencies within specified geographic areas and must comply with the FCC rules and policies governing the use of the spectrum. The FCC has recognized that the explosive growth of bandwidth-intensive wireless data services requires the U.S. Government to make more spectrum available. In February 2012, Congress authorized the FCC to conduct an "incentive auction," to make available for wireless broadband use certain spectrum that is currently used by broadcast television licensees. The FCC has initiated a proceeding to establish rules that would govern this process. It also initiated a separate proceeding to review its policies governing mobile spectrum holdings and consider whether there should be limits on the amount of spectrum a wireless service provider may possess. We seek to ensure that we have the opportunity, through the incentive auction and otherwise, to obtain the spectrum we need to provide our customers with high-quality service. While wireless communications providers' prices and service offerings are generally not subject to state regulation, states sometimes attempt to regulate or legislate various aspects of wireless services, such as in the area of consumer protection.

Expected Growth Areas

We expect our wireless services and wireline IP-data products to remain the most significant growth portions of our business and have also discussed trends affecting the segments in which we report results for these products (see "Wireless Segment Results" and "Wireline Segment Results"). Over the next few years, we expect our growth to come from: (1) our wireless service and (2) data/broadband, through existing and new services. We expect that our previous acquisitions will enable us to strengthen the reach and sophistication of our network facilities, increase our large-business customer base and enhance the opportunity to market wireless services to that customer base. Whether, or the extent to which, growth in these areas will offset declines in other areas of our business is not known.

Wireless Wireless is our fastest-growing revenue stream and we expect to deliver continued revenue growth in the coming years. We are in a period of rapid growth in wireless data usage and believe that there are substantial opportunities available for next-generation converged services that combine wireless, broadband, voice and video. For example, we are preparing to launch our innovative home monitoring service (Digital Life), ISIS and other car-related security and entertainment services.

We cover most major metropolitan areas of the United States with our Universal Mobile Telecommunications System/High-Speed Downlink Packet Access (HSPA) and HSPA+ network technology, with HSPA+ providing 4G speeds when combined with our upgraded backhaul. At the end of 2012, over 90 percent of our data traffic was carried over this enhanced backhaul. Our network provides superior mobile broadband 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 network also relies on digital transmission technologies known as GSM, General Packet Radio Services and Enhanced Data rates for GSM Evolution (EDGE) for data communications. As of December 31, 2012, we served 107 million subscribers. We have also begun transitioning our network to next generation LTE technology and expect this network to cover approximately 300 million people in the United States and to be largely complete by the end of 2014. We continue to expand the number of locations, including airports and cafés, where customers can access broadband Internet connections using wireless fidelity (local radio frequency commonly referred to as Wi-Fi) technology.

As the wireless industry continues to mature, we believe that future wireless growth will increasingly depend on our ability to offer innovative data services and a wireless network that has sufficient spectrum and capacity to support these innovations and make them available to more subscribers. We are facing significant spectrum and capacity constraints on our wireless network in certain markets. We expect such constraints to increase and expand to additional markets in the coming years. While we are continuing to invest significant capital in expanding our network capacity, our capacity constraints could affect the quality of existing voice and data services and our ability to launch new, advanced wireless broadband services, unless we are able to obtain more spectrum. Any long-term spectrum solution will require that the FCC make new or existing spectrum available to the wireless industry to meet the expanding needs of our subscribers. We will continue to attempt to address spectrum and capacity constraints on a market-by-market basis. To that end, we signed nearly 50 deals to acquire spectrum during 2012 (some pending regulatory review). Much of the recently acquired spectrum came from an innovative solution in which we obtained FCC approval to use WCS spectrum for mobile broadband for the first time.

U-verse Services During 2012, we continued to expand our offerings of U-verse High Speed Internet and TV services. As of December 31, 2012, we are marketing U-verse services to approximately 24.5 million customer locations (locations eligible to receive U-verse service). As of December 31, 2012, we had 8.0 million total U-verse subscribers (high-speed Internet and video), including 7.7 million Internet and 4.5 million video subscribers (subscribers to both services are only counted once in the total). As part of Project VIP (see "Other Business Matters"), we plan to expand our U-verse services to approximately 8.5 million additional customer locations.

We believe that our U-verse TV service is 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. Certain municipalities have delayed our requests to offer this service or have refused us permission to use our existing or new right-of-ways to deploy or activate our U-verse-related equipment, services and products, resulting in litigation. Petitions have been filed at the FCC alleging that the manner in which we provision "public, educational and governmental" (PEG) programming over our U-verse TV service conflicts with federal law, and a lawsuit has been filed in a California state superior court raising similar allegations under California law. If 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, or if the FCC, state agencies or the courts were to rule that we must deliver PEG programming in a manner substantially different from the way we do today or in ways that are inconsistent with our current network architecture, it could have a material adverse effect on the cost and extent of our U-verse offerings.

REGULATORY DEVELOPMENTS

Set forth below is a summary of the most significant regulatory proceedings that directly affected our operations during 2012. Industry-wide regulatory developments are discussed above in Operating Environment Overview. While these issues may apply only to certain subsidiaries, the words "we," "AT&T" and "our" are used to simplify the discussion. The following discussions are intended as a condensed summary of the issues rather than as a comprehensive legal analysis and description of all of these specific issues.

International Regulation Our subsidiaries operating outside the United States are subject to the jurisdiction of regulatory authorities in the market where service is provided. Our licensing, compliance and advocacy initiatives in foreign countries primarily enable the provision of enterprise (i.e., large-business) services. AT&T is engaged in multiple efforts with foreign regulators to open markets to competition, reduce network costs and increase our scope of fully authorized network services and products.

Federal Regulation A summary of significant 2012 federal regulatory developments follows.

Intercarrier Compensation/Universal Service In October 2011, the FCC adopted an order fundamentally overhauling its high-cost universal service program, through which it disburses approximately $4,500 per year to carriers providing telephone service in high-cost areas, and its existing intercarrier compensation (ICC) rules, which govern payments between carriers for the exchange of traffic. The order adopts rules to address immediately certain practices that artificially increase ICC payments, as well as other practices to avoid such payments. The order also establishes a new ICC regime that will result in the elimination of virtually all terminating switched access charges and reciprocal compensation payments over a six-year transition. In the order, the FCC also repurposed its high-cost universal service program to encourage providers to deploy broadband facilities in unserved areas. To accomplish this goal, the FCC will transition support amounts disbursed through its existing high-cost program to its new Connect America Fund, which eventually will award targeted high-cost support amounts to providers through a competitive process. We support many aspects of the order and new rules. AT&T and other parties have filed appeals of the FCC's rules, which are pending in the Tenth Circuit Court of Appeals. Our appeal challenges only certain, narrow aspects of the order; AT&T intervened in support of the broad framework adopted by the order. We do not expect the FCC's rules to have a material impact on our operating results.

Transition to IP-Based Network In conjunction with Project VIP (see "Other Business Matters"), AT&T filed a petition with the FCC asking it to open a proceeding to facilitate the "telephone" industry's transition from traditional transmission platforms and services to all IP-based networks and services. Our petition asks the FCC to conduct trial runs of the transition to next-generation services, including the upgrading of traditional telephone facilities and offerings and their replacement with IP-based alternatives. The objective of the trials is to inform policymakers and other stakeholders regarding the technological and policy dimensions of the IP transition and, in the process, identify the regulatory reforms needed to promote consumer interests and preserve private incentives to upgrade America's broadband infrastructure. We expect to transition customers to an all IP-based network by 2020.

COMPETITION

Competition continues to increase for telecommunications and information services. Technological advances have expanded the types and uses of services and products available. In addition, lack of or a reduced level of regulation of comparable alternatives (e.g., cable, wireless and VoIP providers) has lowered costs for these alternative communications service providers. As a result, we face heightened competition as well as some new opportunities in significant portions of our business.

Wireless

We face substantial and increasing competition in all aspects of our wireless business. Under current FCC rules, multiple licensees, including six or more PCS licensees, two cellular licensees and one or more enhanced specialized mobile radio licensee may operate in each of our service areas, which results in the potential presence of multiple competitors. Our competitors include companies such as Verizon Wireless, Sprint Nextel Corp., T-Mobile, Metro PCS and Cricket, a larger number of regional providers of cellular, PCS and other wireless communications services and resellers of those services. In addition, we face competition from providers who offer voice, text messaging and other services as applications on data networks. More than 97 percent of the U.S. population lives in areas with at least three mobile telephone operators, and 90 percent of the population lives in areas with at least five competing carriers.

The FCC may develop rules to auction or otherwise make available additional spectrum to the wireless industry. The FCC has indicated it plans to conduct an auction in 2014 under which up to 120 MHz of UHF TV spectrum could be reallocated for mobile wireless use. In addition, the FCC is required by law to auction up to 65 MHz of additional wireless spectrum in 2015. The FCC has yet to develop the rules under which this spectrum might be available. We may experience significant competition from companies that provide similar services using other communications technologies and services. While some of these technologies and services are now operational, others are being developed or may be developed. We compete for customers based principally on service/device offerings, price, call quality, coverage area and customer service.

Wireline

Our wireline subsidiaries expect continued competitive pressure in 2013 from multiple providers, including wireless, cable and other VoIP providers, interexchange carriers and resellers. In addition, economic pressures are forcing customers to terminate their traditional local wireline service and use competitive wireless and Internet-based services, intensifying a pre-existing trend toward wireless and Internet use. In most markets, we compete, often on pricing of bundled services, with large cable companies, such as Comcast Corporation, Cox Communications Inc. and Time Warner Cable Inc., for local, high-speed Internet, video and voice services customers and other smaller telecommunications companies for both long-distance and local services customers.

Our wireline subsidiaries generally remain subject to regulation for wholesale services by state regulatory commissions for intrastate services and by the FCC for interstate services. Under the Telecom Act, companies seeking to interconnect to our wireline subsidiaries' networks and exchange local calls enter into interconnection agreements with us. Any unresolved issues in negotiating those agreements are subject to arbitration before the appropriate state commission. These agreements (whether fully agreed-upon or arbitrated) are then subject to review and approval by the appropriate state commission.

Our wireline subsidiaries operate under state-specific forms of regulation for retail services that were either legislatively enacted or authorized by the appropriate state regulatory commission. Most states deregulate the competitive services; impose price caps for some services where the prices for these services are not tied to the cost of providing the services or to rate-of-return requirements; or adopt a regulatory framework that incorporates deregulation and price caps. Some states may impose minimum customer service standards with required payments if we fail to meet the standards.

We continue to lose access lines due to competitors (e.g., wireless, cable and VoIP providers) who can provide comparable services at lower prices because they are not subject to traditional telephone industry regulation (or the extent of regulation is in dispute), utilize different technologies, or promote a different business model (such as advertising based) and consequently have lower cost structures. In response to these competitive pressures, for several years we have utilized a bundling strategy that rewards customers who consolidate their services (e.g., long-distance telephone, high-speed Internet, wireless and video) with us. We continue to focus on bundling wireline and wireless services, including combined packages of minutes and video service through our U-verse service and our relationships with satellite television providers. We will continue to develop innovative products that capitalize on our IP-based network (e.g., see Project VIP in "Other Business Matters").

Additionally, we provide local, domestic intrastate and interstate, international wholesale networking capacity, and switched services to other service providers, primarily large Internet Service Providers using the largest class of nationwide Internet networks (Internet backbone), wireless carriers, Competitive Local Exchange Carriers, regional phone Incumbent Local Exchange Carriers, cable companies and systems integrators. These services are subject to additional competitive pressures from the development of new technologies and the increased availability of domestic and international transmission capacity. The introduction of new products and service offerings and increasing satellite, wireless, fiber-optic and cable transmission capacity for services similar to those provided by us continues to provide competitive pressures. We face a number of international competitors, including Orange Business Services, British Telecom, SingTel and Verizon Communications Inc., as well as competition from a number of large systems integrators, such as HP Enterprise Services.

ACCOUNTING POLICIES AND STANDARDS

Critical Accounting Policies and Estimates Because of the size of the financial statement line items they relate to or the extent of judgment required by our management, some of our accounting policies and estimates have a more significant impact on our financial statements than others. The following policies are presented in the order in which the topics appear in our consolidated statements of income.

Allowance for Doubtful Accounts We maintain an allowance for doubtful accounts for estimated losses that result from the failure of our customers to make required payments. When determining the allowance, we consider the probability of recoverability based on past experience, taking into account current collection trends as well as general economic factors, including bankruptcy rates. Credit risks are assessed based on historical write-offs, net of recoveries, and an analysis of the aged accounts receivable balances with reserves generally increasing as the receivable ages. Accounts receivable may be fully reserved for when specific collection issues are known to exist, such as pending bankruptcy or catastrophes. The analysis of receivables is performed monthly, and the allowances for doubtful accounts are adjusted through expense accordingly. A 10% change in the amounts estimated to be uncollectible would result in a change in the provision for uncollectible accounts of approximately $112.

Pension and Postretirement Benefits Our actuarial estimates of retiree benefit expense and the associated significant weighted-average assumptions are discussed in Note 11. Our assumed discount rate of 4.30% at December 31, 2012, reflects the hypothetical rate at which the projected benefit obligations could be effectively settled or paid out to participants. We determined our discount rate based on a range of factors, including a yield curve composed of the rates of return on several hundred high-quality, fixed income corporate bonds available at the measurement date and the related expected duration for the obligations. These bonds were all rated at least Aa3 or AA- by one of the nationally recognized statistical rating organizations, denominated in U.S. dollars, and neither callable, convertible nor index linked. For the year ended December 31, 2012, we decreased our discount rate by 1.00%, resulting in an increase in our pension plan benefit obligation of $7,030 and an increase in our postretirement benefit obligation of $4,546. For the year ended December 31, 2011, we decreased our discount rate by 0.50%, resulting in an increase in our pension plan benefit obligation of $3,384 and an increase in our postretirement benefit obligation of $2,114.

Our expected long-term rate of return on plan assets assumption was 8.25% for the year ended December 31, 2012. In 2013, due to the continued uncertainty in the securities markets, the U.S. economy and the plans' asset mix, we have lowered our expected long-term rate of return on plan assets to 7.75%. Our expected return on plan assets is calculated using the actual fair value of plan assets. If all other factors were to remain unchanged, we expect that a 0.50% decrease in the actual long-term rate of return would cause 2013 combined pension and postretirement cost to increase $260, which under our accounting policy would be recognized in the current year as part of our fourth-quarter remeasurement of our retiree benefit plans.

We recognize actual gains and losses on pension and postretirement plan assets immediately in our operating results. These gains and losses are generally measured annually as of December 31 and accordingly will normally be recorded during the fourth quarter, unless an earlier remeasurement is required. Should actual experience differ from actuarial assumptions, the projected pension benefit obligation and net pension cost and accumulated postretirement benefit obligation and postretirement benefit cost would be affected in future years. Note 11 also discusses the effects of certain changes in assumptions related to medical trend rates on retiree healthcare costs.

Depreciation Our depreciation of assets, including use of composite group depreciation and estimates of useful lives, is described in Notes 1 and 5. We assign useful lives based on periodic studies of actual asset lives. Changes in those lives with significant impact on the financial statements must be disclosed, but no such changes have occurred in the three years ended December 31, 2012. However, if all other factors were to remain unchanged, we expect that a one-year increase in the useful lives of our plant in service would result in a decrease of approximately $2,479 in our 2012 depreciation expense and that a one-year decrease would result in an increase of approximately $3,648 in our 2012 depreciation expense.

Asset Valuations and Impairments We account for acquisitions completed after 2008 using the acquisition method. We allocate the purchase price to the assets acquired and liabilities assumed based on their estimated fair values. The estimated fair values of intangible assets acquired are based on the expected discounted cash flows of the identified customer relationships, patents, trade names and FCC licenses. In determining the future cash flows, we consider demand, competition and other economic factors.

Customer relationships, which are finite-lived intangible assets, are primarily amortized using the sum-of-the-months-digits method of amortization over the period in which those relationships are expected to contribute to our future cash flows. The sum-of-the-months-digits method is a process of allocation and reflects our belief that we expect greater revenue generation from these customer relationships during the earlier periods after acquisition. Amortization of other intangibles, including patents and certain trade names, is determined using the straight-line method of amortization over the expected remaining useful lives.

Goodwill, wireless FCC licenses, and other trade names are not amortized but tested annually for impairment. We conduct our impairment tests as of October 1. We test goodwill on a reporting unit basis, and our reporting units coincide with our segments, except for certain operations in our Other segment. If, due to changes in how we manage the business, we move a portion of a reporting unit to another reporting unit, we determine the amount of goodwill to reallocate to the new reporting unit based on the relative fair value of the portion of the business moved and the portion of the business remaining in the reporting unit. The goodwill impairment test is a two-step process. The first step involves determining the fair value of the reporting unit and comparing that measurement to the book value. If the fair value exceeds the book value, then no further testing is required. If the fair value is less than the book value (i.e., an indication of impairment exists), then we perform the second step.

In the second step, we determine the fair values of all of the assets and liabilities of the reporting unit, including those that may not be currently recorded. The difference between the sum of all of those fair values and the overall reporting unit's fair value is a new implied goodwill amount, which we compare to the recorded goodwill. If implied goodwill is less than the recorded goodwill, then we record an impairment of the recorded goodwill. The amount of this impairment may be more or less than the difference between the overall fair value and book value of the reporting unit. It may even be zero if the fair values of other assets are less than their book values.

As shown in Note 6, all of our goodwill resides in the Wireless and Wireline segments. For each of those segments, we assess their fair value using an income approach (also known as a discounted cash flow) and a market multiple approach. The income approach utilizes a 10-year cash flow projection with a perpetuity value discounted using an appropriate Weighted Average Cost of Capital (WACC) rate for each reporting unit. The market multiple approach uses a multiple of a company's Earnings Before Interest, Taxes, and Depreciation and Amortization expenses (EBITDA). We determined the multiples of the publicly traded companies whose services are comparable to those offered by the segment and then calculated a weighted-average of those multiples. Using those weighted averages, we then calculated fair values for each of those segments. In 2012, the calculated fair value of the reporting unit exceeded book value in all circumstances and no additional testing was necessary. In the event of a 10% drop in the fair values of the reporting units, the fair values would have still exceeded the book values of the reporting units and additional testing would still have not been necessary. As a result of our 2011 impairment test, we recorded a goodwill impairment charge in the Advertising Solutions segment due to declines in the value of our directory business and that industry (see Note 6). We also recorded a corresponding impairment to an indefinite-lived trade name used by the former Advertising Solutions segment.

Wireless FCC licenses are tested for impairment on an aggregate basis, consistent with the management of the business on a national scope. As in prior years, we performed our test of the fair values of FCC licenses using a discounted cash flow model (the Greenfield Approach). The Greenfield Approach assumes a company initially owns only the wireless FCC licenses, and then makes investments required to build an operation comparable to the one that currently utilizes the licenses. We utilized a 17-year discrete period to isolate cash flows attributable to the licenses, including modeling the hypothetical build-out. The projected cash flows are based on certain financial factors, including revenue growth rates, EBITDA margins and churn rates. For impairment testing purposes, we assumed wireless revenue growth to trend down from our 2012 growth rate of 5.6% to a long-term growth rate that reflects expected long-term inflation trends. We assumed our churn rates will decline in 2013 from our rate of 1.35% in 2012, in line with expected trends in the industry but at a rate comparable with industry-leading churn. EBITDA margins were assumed to continue to trend at least 40%.

This model then incorporates cash flow assumptions regarding investment in the network, development of distribution channels and the subscriber base, and other inputs for making the business operational. We based the assumptions, which underlie the development of the network, subscriber base and other critical inputs of the discounted cash flow model, on a combination of average marketplace participant data and our historical results, trends and business plans. We also used operating metrics such as capital investment per subscriber, acquisition costs per subscriber, minutes of use per subscriber, etc., to develop the projected cash flows. Since we included the cash flows associated with these other inputs in the annual cash flow projections, the present value of the unlevered free cash flows of the segment, after investment in the network, subscribers, etc., is attributable to the wireless FCC licenses. The terminal value of the segment, which incorporates an assumed sustainable growth rate, is also discounted and is likewise attributed to the licenses. We used a discount rate of 9%, based on the optimal long-term capital structure of a market participant and its associated cost of debt and equity, to calculate the present value of the projected cash flows. This discount rate is also consistent with rates we use to calculate the present value of the projected cash flows of licenses acquired from third parties.

If either the projected rate of long-term growth of cash flows or revenues declined by 1%, or if the discount rate increased by 1%, the fair values of the wireless FCC licenses, while less than currently projected, would still be higher than the book value of the licenses. The fair value of the licenses exceeded the book value by more than 25%.

We review customer relationships and other long-lived assets for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable over the remaining life of the asset or asset group. To determine that the asset is recoverable, we verify that the expected undiscounted future cash flows directly related to that asset exceed its book value.

We evaluate our investments to determine whether market declines are temporary and accordingly reflected in accumulated other comprehensive income, or other-than-temporary and recorded as an expense in other income (expense) in the consolidated income statements. This evaluation is based on the length of time and the severity of decline in the investment's value. In 2011 and 2010, we identified an other-than-temporary decline in the value of immaterial equity method investments and various cost investments.

Income Taxes Our estimates of income taxes and the significant items giving rise to the deferred assets and liabilities are shown in Note 10 and reflect our assessment of actual future taxes to be paid on items reflected in the financial statements, giving consideration to both timing and probability of these estimates. Actual income taxes could vary from these estimates due to future changes in income tax law or the final review of our tax returns by federal, state or foreign tax authorities.

We use our judgment to determine whether it is more likely than not that we will sustain positions that we have taken on tax returns and, if so, the amount of benefit to initially recognize within our financial statements. We regularly review our uncertain tax positions and adjust our unrecognized tax benefits (UTBs) in light of changes in facts and circumstances, such as changes in tax law, interactions with taxing authorities and developments in case law. These adjustments to our UTBs may affect our income tax expense. Settlement of uncertain tax positions may require use of our cash.

OTHER BUSINESS MATTERS

Retiree Phone Concession Litigation In May 2005, we were served with a purported class action in U.S. District Court, Western District of Texas (Stoffels v. SBC Communications Inc.), in which the plaintiffs, who are retirees of Pacific Bell Telephone Company, Southwestern Bell and Ameritech, contended that the cash reimbursement formerly paid to retirees living outside their company's local service area, for telephone service they purchased from another provider, was a "defined benefit plan" within the meaning of ERISA. In January 2011, the trial court entered a final judgment in our favor. Plaintiffs appealed the judgment to the Fifth Circuit Court of Appeals and in April 2012, the Fifth Circuit affirmed the lower court's judgment in our favor dismissing the case. In July 2012, Plaintiffs filed a petition for a writ of certiorari in the U.S. Supreme Court, which was denied in October 2012, thereby ending the litigation.

NSA Litigation Twenty-four lawsuits were filed alleging that we and other telecommunications carriers unlawfully provided assistance to the National Security Agency in connection with intelligence activities that were initiated following the events of September 11, 2001. In the first filed case, Hepting et al v. AT&T Corp., AT&T Inc. and Does 1-20, a purported class action filed in U.S. District Court in the Northern District of California, plaintiffs alleged that the defendants disclosed and are currently disclosing to the U.S. Government content and call records concerning communications to which Plaintiffs were a party. Plaintiffs sought damages, a declaratory judgment and injunctive relief for violations of the First and Fourth Amendments to the U.S. Constitution, the Foreign Intelligence Surveillance Act (FISA), the Electronic Communications Privacy Act and other federal and California statutes. We and the United States filed motions to dismiss the complaint. The court denied the motions, and we and the United States appealed. In August 2008, the U.S. Court of Appeals for the Ninth Circuit remanded the case to the district court without deciding the issue in light of the passage of the FISA Amendments Act, a provision of which addresses the allegations in these pending lawsuits (immunity provision). The immunity provision requires the pending lawsuits to be dismissed if the Attorney General certifies to the court either that the alleged assistance was undertaken by court order, certification, directive or written request or that the telecom entity did not provide the alleged assistance. In September 2008, the Attorney General filed his certification and asked the district court to dismiss all of the lawsuits pending against the AT&T Inc. telecommunications companies. The court granted the Government's motion to dismiss and entered final judgments in July 2009. In addition, a lawsuit seeking to enjoin the immunity provision's application on grounds that it is unconstitutional was filed. In March 2009, we and the Government filed motions to dismiss this lawsuit. The court granted the motion to dismiss and entered final judgment in July 2009. All cases brought against the AT&T entities have been dismissed. In August 2009, plaintiffs in all cases filed an appeal with the Ninth Circuit Court of Appeals. In December 2011, the Ninth Circuit Court of Appeals affirmed the dismissals in all cases. In March 2012, the Plaintiffs in all but three cases filed a petition for writ of certiorari with the U.S. Supreme Court. The plaintiffs in two of the three cases filed petitions for rehearing with the Ninth Circuit Court of Appeals, both of which were denied. The plaintiffs in the third case did not file a petition in either court. In October 2012, the U.S. Supreme Court denied the remaining plaintiffs' petition, thereby ending the litigation.

Universal Service Fees Litigation In October 2010, our wireless subsidiary was served with a purported class action in Circuit Court, Cole County, Missouri (MBA Surety Agency, Inc. v. AT&T Mobility, LLC), in which the plaintiffs contend that we violated the FCC's rules by collecting Universal Service Fees on certain services not subject to such fees, including Internet access service provided over wireless handsets commonly called "smartphones" and wireless data cards, as well as collecting certain other state and local fees. Plaintiffs define the class as all persons who from April 1, 2003, until the present had a contractual relationship with us for Internet access through a smartphone or a wireless data card. Plaintiffs seek an unspecified amount of damages as well as injunctive relief. In October 2012, the Circuit Court in St. Louis, Missouri, to which the case had been transferred, granted preliminary approval to a settlement in which we receive a complete release of claims from members of the settlement class. Under the settlement, our liability to the class and its counsel is capped at approximately $150, the amount that was collected from customers but not owed or remitted to the government. The court has scheduled a final fairness hearing in February 2013, at which time the Court will consider, among other things, whether the settlement should be finally approved.

Wage and Hour Litigation Two wage and hour cases were filed in federal court in December 2009 each asserting claims under the Fair Labor Standards Act (Luque et al. v. AT&T Corp. et al., U.S. District Court in the Northern District of California) (Lawson et al. v. BellSouth Telecommunications, Inc., U.S. District Court in the Northern District of Georgia). Luque also alleges violations of a California wage and hour law, which varies from the federal law. In each case, plaintiffs allege that certain groups of wireline supervisory managers were entitled to paid overtime and seek class action status as well as damages, attorneys' fees and/or penalties. Plaintiffs have been granted conditional collective action status for their federal claims and also are expected to seek class action status for their state law claims. We have contested the collective and class action treatment of the claims, the merits of the claims and the method of calculating damages for the claims. A jury verdict was entered in favor of the Company in October 2011 in the U.S. District Court in Connecticut on similar FLSA claims. In April 2012, we settled these cases, subject to court approval, on terms that will not have a material effect on our financial statements. In October 2012, the court granted preliminary approval of the settlement in Luque, and the final approval hearing is scheduled for April 5, 2013. The parties anticipate filing the Motion for Preliminary Approval in Lawson in the first quarter of 2013.

Project VIP In November 2012, we announced plans to significantly expand and enhance our wireless and wireline broadband networks to support future IP data growth and new services. As part of Project Velocity IP (VIP), we plan to expand our deployment of LTE wireless technology and deploy additional technology to further improve wireless spectrum efficiencies. To that end, we expect to cover at least 250 million people in the United States by year-end 2013 and approximately 300 million people in the United States by the end of 2014. In addition, we plan to expand our wireline IP broadband network to additional residential and small-business customer locations to cover approximately 75 percent of all such customer locations in our 22-state wireline service area by year-end 2015. This project is intended to support new revenue opportunities in four key areas: wireless, strategic network services, network managed ("cloud") services and security as well as continued growth in existing wireless, U-verse and IP-related business services. We expect capital expenditures in the $21,000 range for 2013, and 2014 and 2015 to each be approximately $22,000, and then decrease to pre-Project VIP levels.

Atlantic Tele-Network, Inc. Transaction On January 22, 2013, we announced an agreement to acquire Atlantic Tele-Network, Inc.'s (ATNI) U.S. retail wireless operations, operated under the Alltel brand, for $780 in cash. Under the terms of the agreement, we will acquire wireless properties, including licenses, network assets, retail stores and approximately 585,000 subscribers. The transaction is subject to review by the FCC and the Department of Justice (DOJ) and to other customary closing conditions and is expected to close in the second half of 2013.

Spectrum Acquisitions On January 24, 2013, we acquired NextWave Wireless Inc. (NextWave), which holds wireless licenses in the Wireless Communication Services (WCS) and Advanced Wireless Service (AWS) bands. We acquired all the equity and purchased a portion of the debt of NextWave for $600. Certain of NextWave's assets were distributed to the holders of its debt in redemption of the remainder of that debt. During January 2013, we have also closed approximately $400 of other wireless spectrum acquisitions from various companies.

On January 25, 2013, we announced an agreement to acquire spectrum in the 700 MHz B band from Verizon Wireless for $1,900 in cash and an assignment of AWS spectrum licenses in five markets. The 700 MHz licenses to be acquired by AT&T cover 42 million people in 18 states. The transaction is subject to review by the FCC and DOJ. We expect to close the transaction in the second half of 2013.

Labor Contracts As of January 31, 2013, we employed approximately 242,000 persons. Approximately 55 percent of our employees are represented by the Communications Workers of America (CWA), the International Brotherhood of Electrical Workers or other unions. Contracts covering approximately 77,000 (as of December 31, 2012) employees expired during 2012 and we have reached new contracts covering approximately 57,000 of those employees. Contracts covering wireline employees in California, Connecticut and Nevada expired in April 2012 and remain subject to negotiation. In addition, during 2012, we entered into a new national four-year contract covering only benefits with the approximately 40,000 employees in our mobility business; contracts covering wages and other non-benefit working terms for these mobility employees are structured on a regional basis and one regional contract for 20,000 employees expired during February 2013. Contracts covering approximately 30,000 non-mobility employees will expire during 2013, including approximately 20,000 wireline employees in our five-state Southwest region. On February 6, 2013, we announced a tentative agreement with the CWA covering the wireline employees in our Southwest region; this agreement is subject to ratification by these employees. After expiration of the current agreements, work stoppages or labor disruptions may occur in the absence of new contracts or other agreements being reached.

Environmental We are subject from time to time to judicial and administrative proceedings brought by various governmental authorities under federal, state or local environmental laws. We reference in our Forms 10-Q and 10-K certain environmental proceedings that could result in monetary sanctions (exclusive of interest and costs) of one hundred thousand dollars or more. However, we do not believe that any of those currently pending will have a material adverse effect on our results of operations.

LIQUIDITY AND CAPITAL RESOURCES

We had $4,868 in cash and cash equivalents available at December 31, 2012. Cash and cash equivalents included cash of $482 and money market funds and other cash equivalents of $4,386. Cash and cash equivalents increased $1,823 since December 31, 2011. During 2012, cash inflows were primarily provided by cash receipts from operations, a net increase in our long-term debt and cash received from the sale of our Advertising Solutions segment. These inflows were largely offset by cash used to meet the needs of the business, including but not limited to, payment of operating expenses, funding capital expenditures, dividends to stockholders, stock repurchases and the acquisition of wireless spectrum. We discuss many of these factors in detail below.

Cash Provided by or Used in Operating Activities

During 2012, cash provided by operating activities was $39,176, compared to $34,743 in 2011. Higher operating cash flows in 2012 are due to non-recurring payments made in the prior year, including a $3,000 merger breakup fee to Deutsche Telekom AG (Deutsche Telekom) and a contribution to our pension plan of $1,000, as well as improvements in inventory and working capital management during 2012.

During 2011, cash provided by operating activities was $34,743 compared to $35,222 in 2010. Our lower operating cash flows reflected the payment of $3,000 cash to Deutsche Telekom and a contribution to our pension plan of $1,000 partially offset by decreased tax payments of $3,506. Operating cash in 2011 was also positively affected by our decision to pay approximately $2,500 of retiree postretirement expenses from plan assets, as opposed to our prior-year election to pay these out of corporate funds.

Cash Used in or Provided by Investing Activities
During 2012, cash used in investing activities consisted primarily of:

- $19,465 in capital expenditures, excluding interest during construction.
- $263 in interest during construction.
- $691 purchase of spectrum licenses.

During 2012, cash provided by investing activities consisted primarily of:

- $740 from the sale of our Advertising Solutions segment.
- $65 from the sale of securities, net of investments.

Virtually all of our capital expenditures are spent on our wireless and wireline networks, our U-verse services and support systems for our communications services. Capital expenditures, excluding interest during construction, decreased $645 from 2011 and decreased $544 when including interest during construction. Capital spending in our Wireless segment, excluding capitalized interest during construction, represented 55% of our total spending and increased 10% in 2012. The Wireline segment, which includes U-verse services, represented 45% of the total capital expenditures, excluding interest during construction, and decreased 15% in 2012. Wireless expenditures were primarily used for network capacity expansion, integration and upgrades to our HSPA network and the deployment of LTE equipment.

We expect that our capital expenditures during 2013 will be in the $21,000 range. This amount may change if the regulatory environment becomes more unfavorable for investment. We expect increases in our Wireless segment and stable investments in our Wireline segment. The amount of capital investment is influenced by demand for services and products, continued growth and regulatory considerations.

Cash Used in or Provided by Financing Activities
We paid dividends of $10,241 in 2012, $10,172 in 2011, and $9,916 in 2010, primarily reflecting dividend rate increases and partially offset by the decline in shares outstanding due to our repurchases during 2012. In November 2012, our Board of Directors approved a 2.3% increase in the quarterly dividend from $0.44 to $0.45 per share. This follows a 2.3% dividend increase approved by our Board in December 2011. Dividends declared by our Board of Directors totaled $1.77 per share in 2012, $1.73 per share in 2011, and $1.69 per share in 2010. Our dividend policy considers the expectations and requirements of stockholders, internal requirements of AT&T and long-term growth opportunities. It is our intent to provide the financial flexibility to allow our Board of Directors to consider dividend growth and to recommend an increase in dividends to be paid in future periods. All dividends remain subject to declaration by our Board of Directors.

In 2012, in response to lower market interest rates, we undertook several activities related to our long-term debt. During 2012, we received net proceeds of $13,486 from the issuance of $13,569 in long-term debt with an average weighted maturity of approximately 12 years and an average interest rate of 2.54%. We redeemed $8,083 in borrowing, including $6,200 in early redemptions, with an average interest rate of 5.58%. Debt issued included:

- $1,000 of 0.875% global notes due 2015.
- $1,000 of 1.6% global notes due 2017.
- $1,000 of 3% global notes due 2022.
- £1,250 of 4.875% global notes due 2044 (equivalent to $1,979 when issued).
- $1,150 of 1.7% global notes due 2017.
- $850 of 3% global notes due 2022.
- €1,000 of 1.875% global notes due 2020 (equivalent to $1,290 when issued).
- $1,000 of 0.8% global notes due 2015.
- $1,500 of 1.4% global notes due 2017.
- $1,500 of 2.625% global notes due 2022.
- €1,000 of 3.55% global notes due 2032 (equivalent to $1,300 when issued).

During 2012, cash paid to redeem debt totaled $8,733 and consisted of $650 for a debt exchange and the following repayments:

- $1,835 in repayments of long-term debt with a weighted-average interest rate of 5.40%.
- $2,500 for the early redemption of the AT&T Inc. 4.95% global notes originally due in November 2013.
- $1,500 for the early redemption of the AT&T Inc. 6.7% notes originally due in November 2013.
- $1,200 for the early redemption of the AT&T Inc. 6.375% notes originally due in November 2056.
- $1,000 for the early redemption of the AT&T Inc. 4.85% global notes originally due in February 2014.
- $48 in repayments of capitalized leases.

During 2012, we completed a private debt exchange covering $4,099 of various notes with stated rates of 6.00% to 8.75% for $1,956 in new 4.3% AT&T Inc. global notes due 2042 and $3,044 in new 4.35% AT&T Inc. global notes due 2045 plus a $650 cash payment.

On February 12, 2013, we issued $1,000 of 0.900% global notes due 2016 and $1,250 of floating rate notes due in 2016. The floating rate for the note is based upon the three-month London Interbank Offered Rate (LIBOR), reset quarterly, plus 38.5 basis points.

At December 31, 2012, we had $3,486 of debt maturing within one year, substantially all of which was long-term debt maturities. Debt maturing within one year includes the following notes that may be put back to us by the holders:

- $1,000 of annual put reset securities issued by BellSouth Corporation that may be put back to us each April until maturity in 2021.
- An accreting zero-coupon note that may be redeemed each May until maturity in 2022. If the zero-coupon note (issued for principal of $500 in 2007) is held to maturity, the redemption amount will be $1,030.

In December 2010, our Board of Directors authorized the repurchase of up to 300 million shares of AT&T common stock. We began buying back stock under this program in the first quarter of 2012. In July 2012, the Board of Directors authorized the repurchase of an additional 300 million shares. As of December 31, 2012, we have repurchased 371 million shares totaling $12,752. During the fourth-quarter 2012, we completed the repurchase of shares authorized by the Board of Directors in December 2010 and continued to repurchase shares under the July 2012 authorization. We expect to continue repurchasing our common stock and plan to complete repurchases under the July 2012 authorization as early as mid-year.

We plan to fund our 2013 financing activities through a combination of cash from operations and debt issuances. The timing and mix of debt issuance will be guided by credit market conditions and interest rate trends. The emphasis of our financing activities will be the payment of dividends, subject to approval by our Board of Directors, the repayment of debt and share repurchases.

Credit Facilities

On December 11, 2012, we amended and extended for an additional one-year term our existing $5,000, four-year revolving credit agreement (Four-Year Agreement) with a syndicate of banks until December 2016. We also entered into a new $3,000, five-year revolving credit agreement (Five-Year Agreement), with a syndicate of banks, to replace our expiring 364-day revolving credit agreement. In the event advances are made under either agreement, those advances would be used for general corporate purposes. Advances are not conditioned on the absence of a material adverse change. All advances must be repaid no later than the date on which lenders are no longer obligated to make any advances under each agreement. Under each agreement, we can terminate, in whole or in part, amounts committed by the lenders in excess of any outstanding advances; however, we cannot reinstate any such terminated commitments. At December 31, 2012, we had no advances outstanding under either agreement and were in compliance with all covenants under each agreement.

Advances under both agreements would bear interest, at AT&T's option, either:

- at a variable annual rate equal to (1) the highest of: (a) the base (or prime) rate of the bank affiliate of Citibank, N.A. which is serving as administrative agent under the Agreement, (b) 0.50% per annum above the Federal funds rate, and (c) the LIBOR applicable to U.S. dollars for a period of one month plus 1.00% per annum, plus (2) an applicable margin, as set forth in the Agreement (Applicable Margin); or
- at a rate equal to: (i) the LIBOR for a period of one, two, three or six months, as applicable, plus (ii) the Applicable Margin.

The Applicable Margin for both agreements will equal 0.565% per annum if our unsecured long-term debt is rated at least A+ by Standard & Poor's (S&P) or Fitch, Inc. (Fitch) or A1 by Moody's Investors Service (Moody's). The Applicable Margin will be 0.680% per annum if our unsecured long-term debt ratings are A or A2 and will be 0.910% per annum in the event our unsecured long-term debt ratings are A- and A3 (or below). In the event that AT&T's unsecured long-term debt ratings are split by S&P, Moody's and Fitch, then the Applicable Margin will be determined by the highest of the three ratings, except that in the event the lowest of such ratings is more than one level below the highest of the ratings then the Applicable Margin will be determined based on the level that is one level above the lowest of such ratings.

Under each agreement AT&T will pay a facility fee of 0.060%, 0.070% or 0.090% per annum, depending on AT&T's credit rating, of the amount of lender commitments.

Both agreements contain a negative pledge covenant, which requires that, if at any time AT&T or a subsidiary pledges assets or otherwise permits a lien on its properties, advances under the agreement will be ratably secured, subject to specified exceptions. Both agreements also contain a financial ratio covenant that provides that AT&T will maintain, as of the last day of each fiscal quarter, a debt-to-EBITDA (earnings before interest, income taxes, depreciation and amortization, and other modifications described in the agreements) ratio of not more than 3.0 to 1, for the four quarters then ended.

Defaults under both agreements, which would permit the lenders to accelerate required repayment and which would increase the Applicable Margin by 2.00% per annum, include:

- We fail to pay principal or interest, or other amounts under the agreement beyond any grace period.
- We fail to pay when due other debt of $400 or more that results in acceleration of that debt (commonly referred to as cross-acceleration) or a creditor commences enforcement proceedings within a specified period after a money judgment of $400 or more has become final.
- A person acquires beneficial ownership of more than 50% of AT&T common shares or more than a majority of AT&T's directors change in any 24-month period other than as elected by the remaining directors (commonly referred to as a change in control).
- Material breaches of representations or warranties in the agreement.
- We fail to comply with the negative pledge or debt-to-EBITDA ratio covenants under the agreement.

- We fail to comply with other covenants under the agreement for a specified period after notice.
- We fail to make certain minimum funding payments under ERISA.
- Our bankruptcy or insolvency.

Both the Five-Year Agreement and the Four-Year Agreement contain provisions permitting subsidiaries to be added as additional borrowers, with or without a guarantee by AT&T Inc. The terms of the guarantee are set forth in the agreements.

Four-Year Agreement
The obligations of the lenders under the Four-Year Agreement to provide advances will terminate on December 11, 2016, unless prior to that date either: (i) AT&T and, if applicable, a Co-Borrower, reduces to $0 the commitments of the lenders under the Agreement or (ii) certain events of default occur. The Agreement also provides that AT&T and lenders representing more than 50% of the facility amount may agree to extend their commitments under the Four-Year Agreement for two additional one-year periods beyond the December 11, 2016, termination date, under certain circumstances. We also can request the lenders to further increase their commitments (i.e., raise the available credit) up to an additional $2,000 provided no event of default has occurred.

Five-Year Agreement
The obligations of the lenders under the Five-Year Agreement to provide advances will terminate on December 11, 2017, unless prior to that date either: (i) AT&T, and if applicable, a Co-Borrower, reduce to $0 the commitments of the lenders, or (ii) certain events of default occur. We and lenders representing more than 50% of the facility amount may agree to extend their commitments for two one-year periods beyond the December 11, 2017, termination date, under certain circumstances. We also can request the lenders to further increase their commitments (i.e., raise the available credit) up to an additional $2,000 provided no event of default has occurred.

Other
Our total capital consists of debt (long-term debt and debt maturing within one year) and stockholders' equity. Our capital structure does not include debt issued by América Móvil. At December 31, 2012, our debt ratio was 43.0%, compared to 38.0% at December 31, 2011, and 37.1% at December 31, 2010. The debt ratio is affected by the same factors that affect total capital, and reflects our recent debt issuances and stock repurchases. Total capital decreased $8,011 in 2012 compared to a decrease of $7,567 in 2011. The 2012 capital decrease was primarily due to the stock repurchases of $12,752, which increased our debt ratio in 2012.

A significant amount of our cash outflows are related to tax items and benefits paid for current and former employees. Total taxes incurred, collected and remitted by AT&T during 2012, 2011, and 2010 were $19,703, $19,224 and $24,614. These taxes include income, franchise, property, sales, excise, payroll, gross receipts and various other taxes and fees. Total health and welfare benefits provided to certain active and retired employees and their dependents totaled $5,300 in 2012, with $1,842 paid from plan assets. Of those benefits, $4,427 related to medical and prescription drug benefits. During 2012, we paid $5,729 of pension benefits out of plan assets.

In October 2012, we filed an application with the U.S. Department of Labor (DOL) for approval to contribute a preferred equity interest in our Mobility business to the trust used to pay pension benefits under plans sponsored by AT&T. The preferred interest does not have any voting rights, has a fair market value estimated at $9,500 and a liquidation value of $8,000 and is entitled to receive cumulative cash distributions of $560 per annum. So long as we make the distributions, we will have no limitations on our ability to declare a dividend or repurchase shares.

At December 31, 2012, the present value of AT&T's pension liabilities exceeded the fair value of trust assets by approximately $13,851. The preferred equity interest is estimated to be valued at $9,500 upon contribution and will significantly improve the funding for the plans, enhancing the strength of the trust for AT&T's employees and retirees. Prior to the contribution of the preferred interest, the estimated required contribution for 2013 is approximately $300. We will continue to work with the DOL to obtain approval before the end of 2013. If we receive DOL approval before the due date, including extensions, for our 2012 income tax return, we expect to deduct the contribution on our 2012 return. Our current income tax liability at December 31, 2012, reflects a deduction for the pension contribution.

CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENCIES

Current accounting standards require us to disclose our material obligations and commitments to making future payments under contracts, such as debt and lease agreements, and under contingent commitments, such as debt guarantees. We occasionally enter into third-party debt guarantees, but they are not, nor are they reasonably likely to become, material. We disclose our contractual long-term debt repayment obligations in Note 8 and our operating lease payments in Note 5. Our contractual obligations do not include expected pension and postretirement payments as we maintain pension funds and Voluntary Employee Beneficiary Association trusts to fully or partially fund these benefits (see Note 11). In the ordinary course of business, we routinely enter into commercial commitments for various aspects of our operations, such as plant additions and office supplies. However, we do not believe that the commitments will have a material effect on our financial condition, results of operations or cash flows.

Dollars in millions except per share amounts

Our contractual obligations as of December 31, 2012, are in the following table. The purchase obligations that follow are those for which we have guaranteed funds and will be funded with cash provided by operations or through incremental borrowings. The minimum commitment for certain obligations is based on termination penalties that could be paid to exit the contract. Since termination penalties would not be paid every year, such penalties are excluded from the table. Other long-term liabilities were included in the table based on the year of required payment or an estimate of the year of payment. Such estimate of payment is based on a review of past trends for these items, as well as a forecast of future activities. Certain items were excluded from the following table, as the year of payment is unknown and could not be reliably estimated since past trends were not deemed to be an indicator of future payment.

Substantially all of our purchase obligations are in our Wireline and Wireless segments. The table does not include the fair value of our interest rate swaps. Our capital lease obligations and bank borrowings have been excluded from the table due to the insignificant amounts of such obligations at December 31, 2012. Many of our other noncurrent liabilities have been excluded from the following table due to the uncertainty of the timing of payments, combined with the absence of historical trending to be used as a predictor of such payments. Additionally, certain other long-term liabilities have been excluded since settlement of such liabilities will not require the use of cash. However, we have included, in the following table, obligations that primarily relate to benefit funding due to the certainty of the timing of these future payments. Our other long-term liabilities are: deferred income taxes (see Note 10) of $28,491; postemployment benefit obligations of $41,392; and other noncurrent liabilities of $11,592, which included deferred lease revenue from our agreement with American Tower Corp. of $420 (see Note 14).

Contractual Obligations

	Payments Due By Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations[1]	$ 71,035	$ 3,475	$10,302	$ 9,680	$ 47,578
Interest payments on long-term debt	60,174	3,446	6,503	5,670	44,555
Operating lease obligations	24,065	2,706	5,102	4,502	11,755
Unrecognized tax benefits[2]	2,945	258	—	—	2,687
Purchase obligations[3]	9,560	3,744	3,890	1,469	457
Retirement benefit funding obligation[4]	300	300	—	—	—
Total Contractual Obligations	$168,079	$13,929	$25,797	$21,321	$107,032

[1]Represents principal or payoff amounts of notes and debentures at maturity or, for putable debt, the next put opportunity.
[2]The noncurrent portion of the UTBs is included in the "More than 5 Years" column, as we cannot reasonably estimate the timing or amounts of additional cash payments, if any, at this time. See Note 10 for additional information.
[3]We calculated the minimum obligation for certain agreements to purchase goods or services based on termination fees that can be paid to exit the contract. If we elect to exit these contracts, termination fees for all such contracts in the year of termination could be approximately $898 in 2013, $989 in the aggregate for 2014 and 2015, $467 in the aggregate for 2016 and 2017, and $352 in the aggregate thereafter. Certain termination fees are excluded from the above table, as the fees would not be paid every year and the timing of such payments, if any, is uncertain.
[4]Required contribution to our pension plans (see Note 11). Future required pension funding will be determined in accordance with ERISA regulations.

MARKET RISK

We are exposed to market risks primarily from changes in interest rates and foreign currency exchange rates. These risks, along with other business risks, impact our cost of capital. It is our policy to manage our debt structure and foreign exchange exposure in order to manage capital costs, control financial risks and maintain financial flexibility over the long term. In managing market risks, we employ derivatives according to documented policies and procedures, including interest rate swaps, interest rate locks, foreign currency exchange contracts and combined interest rate foreign currency contracts (cross-currency swaps). We do not use derivatives for trading or speculative purposes. We do not foresee significant changes in the strategies we use to manage market risk in the near future.

Interest Rate Risk

The majority of our financial instruments are medium- and long-term fixed-rate notes and debentures. Changes in interest rates can lead to significant fluctuations in the fair value of these instruments. The principal amounts by expected maturity, average interest rate and fair value of our liabilities that are exposed to interest rate risk are described in Notes 8 and 9. In managing interest expense, we control our mix of fixed and floating rate debt, principally through the use of interest rate swaps. We have established interest rate risk limits that we closely monitor by measuring interest rate sensitivities in our debt and interest rate derivatives portfolios.

All our foreign-denominated debt has been swapped from fixed-rate foreign currencies to fixed-rate U.S. dollars at issuance through cross-currency swaps, removing interest rate risk and foreign currency exchange risk associated with the underlying interest and principal payments. Likewise, periodically we enter into interest rate locks to partially hedge the risk of increases in the benchmark interest rate during the period leading up to the probable issuance of fixed-rate debt. We expect gains or losses in our cross-currency swaps and interest rate locks to offset the losses and gains in the financial instruments they hedge.

Following are our interest rate derivatives subject to material interest rate risk as of December 31, 2012. The interest rates illustrated below refer to the average rates we expect to pay based on current and implied forward rates and the average rates we expect to receive based on derivative contracts. The notional amount is the principal amount of the debt subject to the interest rate swap contracts. The fair value asset (liability) represents the amount we would receive (pay) if we had exited the contracts as of December 31, 2012.

	Maturity							
	2013	2014	2015	2016	2017	Thereafter	Total	Fair Value 12/31/2012
Interest Rate Derivatives								
Interest Rate Swaps:								
Receive Fixed/Pay Variable Notional								
Amount Maturing	$ —	$ 500	$1,500	$ —	$ —	$1,000	$3,000	$287
Weighted-Average Variable Rate Payable[1]	1.3%	1.3%	1.6%	2.5%	3.1%	3.5%		
Weighted-Average Fixed Rate Receivable	4.0%	3.9%	4.5%	5.6%	5.6%	5.6%		

[1]Interest payable based on current and implied forward rates for One, Three, or Six Month LIBOR plus a spread ranging between approximately 4 and 275 basis points.

Foreign Exchange Risk

We are exposed to foreign currency exchange risk through our foreign affiliates and equity investments in foreign companies. We do not hedge foreign currency translation risk in the net assets and income we report from these sources. However, we do hedge a large portion of the exchange risk involved in anticipation of highly probable foreign currency-denominated transactions and cash flow streams, such as those related to issuing foreign-denominated debt, receiving dividends from foreign investments, and other receipts and disbursements.

Through cross-currency swaps, all our foreign-denominated debt has been swapped from fixed-rate foreign currencies to fixed-rate U.S. dollars at issuance, removing interest rate risk and foreign currency exchange risk associated with the underlying interest and principal payments. We expect gains or losses in our cross-currency swaps to offset the losses and gains in the financial instruments they hedge.

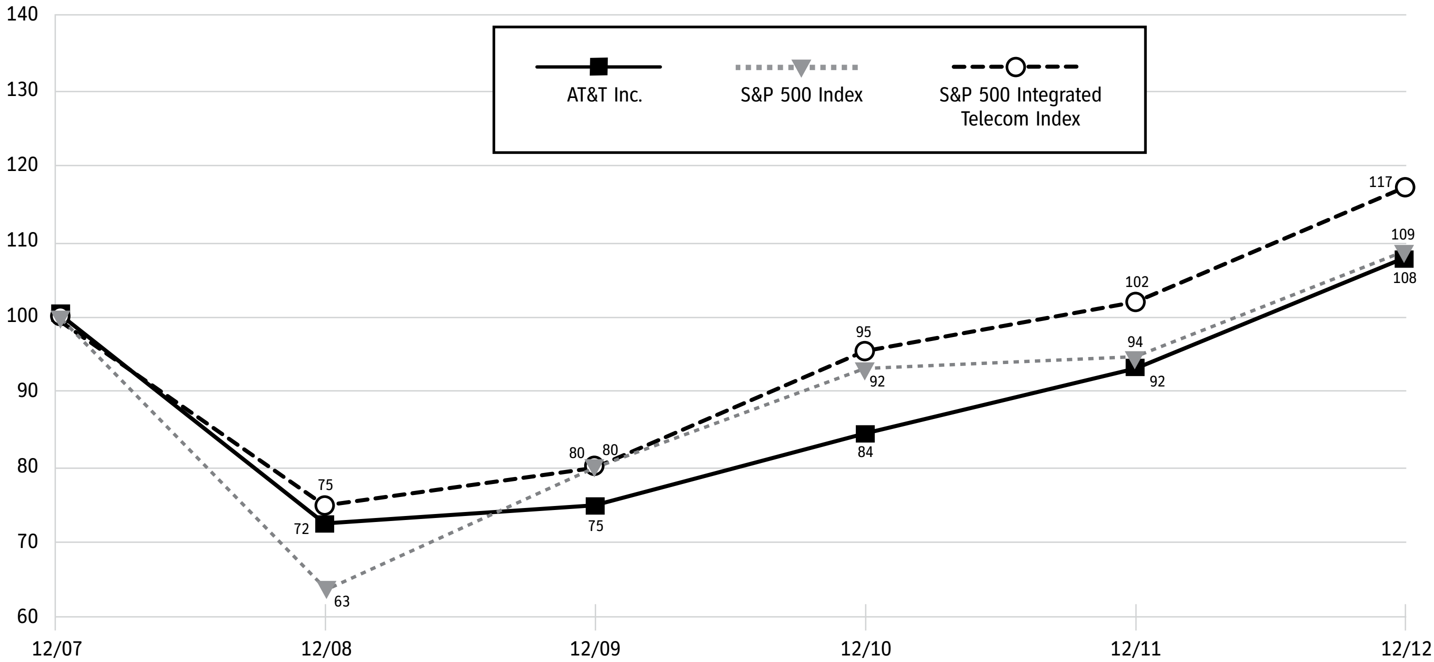
In anticipation of other foreign currency-denominated transactions, we often enter into foreign exchange forward contracts to provide currency at a fixed rate. Our policy is to measure the risk of adverse currency fluctuations by calculating the potential dollar losses resulting from changes in exchange rates that have a reasonable probability of occurring. We cover the exposure that results from changes that exceed acceptable amounts.

For the purpose of assessing specific risks, we use a sensitivity analysis to determine the effects that market risk exposures may have on the fair value of our financial instruments and results of operations. To perform the sensitivity analysis, we assess the risk of loss in fair values from the effect of a hypothetical 10% depreciation of the U.S. dollar against foreign currencies from the prevailing foreign currency exchange rates, assuming no change in interest rates. For foreign exchange forward contracts outstanding at December 31, 2012, the change in fair value was immaterial. Furthermore, because our foreign exchange contracts are entered into for hedging purposes, we believe that these losses would be largely offset by gains on the underlying transactions.

STOCK PERFORMANCE GRAPH

Comparison of Five Year Cumulative Total Return

AT&T Inc., S&P 500 Index, and S&P 500 Integrated Telecom Index



The comparison above assumes $100 invested on December 31, 2007, in AT&T common stock, Standard & Poor's 500 Index (S&P 500), and Standard & Poor's 500 Integrated Telecom Index (S&P 500 Integrated Telecom). Total return equals stock price appreciation plus reinvestment of dividends.

RISK FACTORS

In addition to the other information set forth in this document, including the matters contained under the caption "Cautionary Language Concerning Forward-Looking Statements," you should carefully read the matters described below. We believe that each of these matters could materially affect our business. We recognize that most of these factors are beyond our ability to control and therefore we cannot predict an outcome. Accordingly, we have organized them by first addressing general factors, then industry factors and, finally, items specifically applicable to us.

A worsening U.S. economy would magnify our customers' and suppliers' current financial difficulties and could materially adversely affect our business.

We provide services and products to consumers and large and small businesses in the United States and to larger businesses throughout the world. Current economic conditions in the United States have adversely affected our customers' demand for and ability to pay for existing services, especially local landline service, and their interest in purchasing new services. Our suppliers are also facing higher financing and operating costs. Should these current economic conditions worsen, we likely would experience both a decrease in revenues and an increase in certain expenses, including expenses relating to bad debt and equipment and software maintenance. We also may incur difficulties locating financially stable equipment and other suppliers, thereby affecting our ability to offer attractive new services. We are also likely to experience greater pressure on pricing and margins as we continue to compete for customers who would have even less discretionary income. While our largest business customers have been less affected by these adverse changes in the U.S. economy, if the continued adverse economic conditions in the United States, Europe and other foreign markets persist or worsen, those customers would likely be affected in a similar manner.

Adverse changes in medical costs and the U.S. securities markets and a further decline in interest rates could materially increase our benefit plan costs.

Our costs to provide current benefits and funding for future benefits are subject to increases, primarily due to continuing increases in medical and prescription drug costs, and can be affected by lower returns on funds held by our pension and other benefit plans, which are reflected in our financial statements for that year. Investment returns on these funds depend largely on trends in the U.S. securities markets and the U.S. economy. We have experienced historically low interest rates during the last several years and we expect these rates to continue at similarly low levels for the next several years; this has led to both lower investment returns on our plan assets and to higher funding obligations. It is also unclear how many provisions of the new national healthcare law will apply to us since many regulations implementing the law have not been finalized. In calculating the costs included on our financial statements of providing benefits under our plans, we have made certain assumptions regarding future investment returns, medical costs and interest rates. If actual investment returns, medical costs and interest rates are worse than those previously assumed, our costs will increase.

The Financial Accounting Standards Board (FASB) requires companies to recognize the funded status of defined benefit pension and postretirement plans as an asset or liability in our statement of financial position and to recognize changes in that funded status in the year in which the changes occur. We have elected to reflect the annual adjustments to the funded status in our consolidated statement of income. Therefore, an increase in our costs or adverse market conditions will have a negative effect on our operating results.

Adverse changes in global financial markets could limit our ability and our larger customers' ability to access capital or increase the cost of capital needed to fund business operations.

The continuing instability in the global financial markets has resulted in periodic volatility in the credit, currency, equity and fixed income markets. Volatility has limited, in some cases severely, companies' access to the credit markets, leading to higher borrowing costs for companies or, in some cases, the inability of these companies to fund their ongoing operations. As a result, our larger customers, who tend to be heavy users of our data and wireless services, may be forced to delay or reduce or be unable to finance purchases of our products and services and may delay payment or default on outstanding bills to us. In addition, we contract with large financial institutions to support our own treasury operations, including contracts to hedge our exposure on interest rates and foreign exchange and the funding of credit lines and other short-term debt obligations, including commercial paper. These financial institutions also face new capital-related and other regulations in the United States and Europe, as well as ongoing legal and financial issues concerning their loan portfolios, which may hamper their ability to provide credit or raise the cost of providing such credit. A company's cost of borrowing is also affected by evaluations given by various credit rating agencies and these agencies have been applying tighter credit standards when evaluating a company's debt levels and future growth prospects. While we have been successful in continuing to access the credit and fixed income markets when needed, adverse changes in the financial markets could render us either unable to access these markets or able to access these markets only at higher interest costs and with restrictive financial or other conditions, severely affecting our business operations.

Changes in available technology could increase competition and our capital costs.

The telecommunications industry has experienced rapid changes in the past several years. The development of wireless, cable and IP technologies has significantly increased the commercial viability of alternatives to traditional wireline telephone service and enhanced the capabilities of wireless networks. In order to remain competitive, we are deploying a more sophisticated wireline network and continue to deploy a more sophisticated wireless network, as well as research other new technologies. We expect our recently announced plans to significantly expand and enhance our wireless and wireline IP broadband networks will result in increased capital expenditures and increased debt levels as these plans are implemented. If the new technologies we have adopted or on which we have focused our research efforts fail to be cost-effective and accepted by customers, our ability to remain competitive could be materially adversely affected.

Changes to federal, state and foreign government regulations and decisions in regulatory proceedings could materially adversely affect us.

Our wireline subsidiaries are subject to significant federal and state regulation while many of our competitors are not. In addition, our subsidiaries and affiliates operating outside the United States are also subject to the jurisdiction of national and supranational regulatory authorities in the market where service is provided. Our wireless subsidiaries are regulated to varying degrees by the FCC and some state and local agencies. Adverse rulings by the FCC relating to broadband issues could impede our ability to manage our networks and recover costs and lessen incentives to invest in our networks. The development of new technologies, such as IP-based services, also has created or potentially could create conflicting regulation between the FCC and various state and local authorities, which may involve lengthy litigation to resolve and may result in outcomes unfavorable to us. In addition, increased public focus on potential global climate changes has led to proposals at state, federal and foreign government levels to increase regulation on various types of emissions, including those generated by vehicles and by facilities consuming large amounts of electricity. We do not expect these proposals to have a material adverse impact on our operating results, and they could create increased demand for communications services as companies seek to reduce emissions.

Continuing growth in our wireless services will depend on continuing access to adequate spectrum, deployment of new technology and offering attractive services to customers.
The wireless industry is undergoing rapid and significant technological changes and a dramatic increase in usage, in particular demand for and usage of data and other non-voice services. We must continually invest in our wireless network in order to continually improve our wireless service to meet this increasing demand and remain competitive. Improvements in our service depend on many factors, including continued access to and deployment of adequate spectrum. We must maintain and expand our network capacity and coverage as well as the associated wireline network needed to transport voice and data between cell sites. To this end, we have announced plans to accelerate our deployment of LTE wireless technology and deploy other technology advancements in order to further improve network quality and the efficient use of our spectrum.

Network service enhancements and product launches may not occur as scheduled or at the cost expected due to many factors, including delays in determining equipment and handset operating standards, supplier delays, increases in network equipment and handset component costs, regulatory permitting delays for tower sites or enhancements or labor-related delays. Deployment of new technology also may adversely affect the performance of the network for existing services. If the FCC does not fairly allocate sufficient spectrum to allow the wireless industry in general, and the Company in particular, to increase its capacity or if we cannot acquire needed spectrum or deploy the services customers desire on a timely basis without burdensome conditions or at adequate cost while maintaining network quality levels, then our ability to attract and retain customers, and therefore maintain and improve our operating margins, could be materially adversely affected.

Increasing competition for wireless customers could adversely affect our operating results.
We have multiple wireless competitors in each of our service areas and compete for customers based principally on service/device offerings, price, call quality, coverage area and customer service. In addition, we are facing growing competition from providers offering services using alternative wireless technologies and IP-based networks as well as traditional wireline networks. We expect market saturation to continue to cause the wireless industry's customer growth rate to moderate in comparison with historical growth rates, leading to increased competition for customers. We also expect that our customers' growing demand for data services will place constraints on our network capacity. This competition and our capacity issues will continue to put pressure on pricing and margins as companies compete for potential customers. Our ability to respond will depend, among other things, on continued improvement in network quality and customer service and effective marketing of attractive products and services, and cost management. These efforts will involve significant expenses and require strategic management decisions on, and timely implementation of, equipment choices, network deployment and management, and service offerings.

Increasing costs in our wireline operations could adversely affect wireline operating margins.
We expect our operating costs, including customer acquisition and retention costs will continue to put pressure on pricing, margins and customer retention levels. A number of our competitors that rely on alternative technologies (e.g., wireless, cable and VoIP) and business models (e.g., advertising-supported) are typically subject to less (or no) regulation than our wireline subsidiaries and therefore are able to operate with lower costs. These competitors also have cost advantages compared to us, due in part to operating on newer, more technically advanced and lower-cost networks and a nonunionized workforce, lower employee benefits and fewer retirees (as most of the competitors are relatively new companies). Over time these cost disparities could require us to evaluate the strategic worth of various wireline operations. To this end, we have begun initiatives at both the state and federal levels to obtain regulatory approvals, where needed, to transition services from our older copper-based network to an advanced IP-based network. If we do not obtain regulatory approvals for this transition or obtain approvals with onerous conditions attached, we could experience significant cost and competitive disadvantages.

The continued success of our U-verse services initiative will depend on the development of attractive and profitable broadband and video service offerings; the extent to which regulatory, franchise fees and build-out requirements apply to this initiative; the availability of content on reasonable terms and conditions, including price, and the availability and reliability of the various technologies required to provide such offerings.
Telecommunications technology has shifted from the traditional circuit- and wire-based technology to IP-based technology. IP-based technology can transport voice and data, as well as video, from both wired and wireless networks. IP-based networks also potentially cost less to operate than traditional networks. Our competitors, many of which are newer companies, are deploying this IP-based technology. In order to continue to offer attractive and competitively priced services, we have deployed a new

broadband network to offer IP-based voice, data and video services. Should regulatory requirements change, our deployment could be limited to only those geographical areas where regulation is not burdensome. In addition, should the delivery of services expected to be deployed on our network be delayed due to technological or regulatory constraints, performance of suppliers, or other reasons, or the cost of providing such services, including the availability and cost of content for our video offerings, becomes higher than expected, customers may decide to purchase services from our competitors, which would adversely affect our revenues and margins, and such effects could be material.

Unfavorable litigation or governmental investigation results could require us to pay significant amounts or lead to onerous operating procedures.

We are subject to a number of lawsuits both in the United States and in foreign countries, including, at any particular time, claims relating to antitrust; patent infringement; wage and hour; personal injury; and our advertising, sales and billing and collection practices. We also spend substantial resources complying with various government standards, which may entail related investigations. As we deploy newer technologies, especially in the wireless area, we also face current and potential litigation relating to alleged adverse health effects on customers or employees who use such technologies including, for example, wireless handsets. We may incur significant expenses defending such suits or government charges and may be required to pay amounts or otherwise change our operations in ways that could materially adversely affect our operations or financial results.

Equipment failures, natural disasters, computer hacking and terrorist acts may materially adversely affect our operations.

Major equipment failures or natural disasters, including severe weather, computer hacking, terrorist acts or other breaches of network or IT security that affect our wireline and wireless networks, including telephone switching offices, microwave links, third-party-owned local and long-distance networks on which we rely, our cell sites or other equipment, or our customer account support and information systems, could have a material adverse effect on our operations. While we have been subject to security breaches or cyber attacks, these did not result in a material adverse effect on our operations. Our inability to operate our wireline, wireless or customer-related support systems as a result of such events, even for a limited time period, could result in significant expenses, potential legal liability or a loss of customers or impair our ability to attract new customers, any of which could have a material adverse effect on our business, results of operations and financial condition.

A majority of our workforce is represented by labor unions. Absent the successful negotiation of agreements that either expired during 2012 or are scheduled to expire during 2013, we could experience lengthy work stoppages.

A majority of our employees are represented by labor unions as of year-end 2012. Labor contracts covering many of the employees either will expire during 2013 or expired during 2012 and remain subject to negotiation. We experienced a work stoppage in 2004 when the contracts involving our wireline employees expired, and we may experience additional work stoppages in 2013. A work stoppage could adversely affect our business operations, including a loss of revenue and strained relationships with customers, and we cannot predict the length of any such strike. We cannot predict the new contract provisions or the impact of any new contract on our financial condition.

CAUTIONARY LANGUAGE CONCERNING FORWARD-LOOKING STATEMENTS

Information set forth in this report contains forward-looking statements that are subject to risks and uncertainties, and actual results could differ materially. Many of these factors are discussed in more detail in the "Risk Factors" section. We claim the protection of the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995.

The following factors could cause our future results to differ materially from those expressed in the forward-looking statements:

- Adverse economic and/or capital access changes in the markets served by us or in countries in which we have significant investments, including the impact on customer demand and our ability and our suppliers' ability to access financial markets at favorable rates.
- Changes in available technology and the effects of such changes, including product substitutions and deployment costs.
- Increases in our benefit plans' costs, including increases due to adverse changes in the United States and foreign securities markets, resulting in worse-than-assumed investment returns and discount rates and adverse medical cost trends and unfavorable healthcare legislation, regulations or related court decisions.
- The final outcome of FCC and other federal agency proceedings and reopenings of such proceedings and judicial reviews, if any, of such proceedings, including issues relating to access charges, intercarrier compensation, interconnection obligations, transitioning from legacy technologies to IP-based infrastructure, universal service, broadband deployment, E911 services, competition, net neutrality, unbundled loop and transport elements, availability of new spectrum from the FCC on fair and balanced terms, wireless license awards and renewals and wireless services, including data roaming agreements and spectrum allocation, and the sunset of the traditional copper-based network services and regulatory obligations.
- The final outcome of regulatory proceedings in the states in which we operate and reopenings of such proceedings and judicial reviews, if any, of such proceedings, including proceedings relating to Interconnection terms, access charges, universal service, unbundled network elements and resale and wholesale rates; broadband deployment including our U-verse services; net neutrality; performance measurement plans; service standards; and intercarrier and other traffic compensation.
- Enactment of additional state, federal and/or foreign regulatory and tax laws and regulations pertaining to our subsidiaries and foreign investments, including laws and regulations that reduce our incentive to invest in our networks, resulting in lower revenue growth and/or higher operating costs.
- Our ability to absorb revenue losses caused by increasing competition, including offerings that use alternative technologies (e.g., cable, wireless and VoIP) and our ability to maintain capital expenditures.
- The extent of competition and the resulting pressure on customer and access line totals and wireline and wireless operating margins.
- Our ability to develop attractive and profitable product/service offerings to offset increasing competition in our wireless and wireline markets.
- The ability of our competitors to offer product/service offerings at lower prices due to lower cost structures and regulatory and legislative actions adverse to us, including state regulatory proceedings relating to unbundled network elements and nonregulation of comparable alternative technologies (e.g., VoIP).
- The development of attractive and profitable U-verse service offerings; the extent to which regulatory, franchise fees and build-out requirements apply to this initiative; and the availability, cost and/or reliability of the various technologies and/or content required to provide such offerings.
- Our continued ability to attract and offer a diverse portfolio of wireless devices, some on an exclusive basis.
- The availability and cost of additional wireless spectrum and regulations and conditions relating to spectrum use, licensing, obtaining additional spectrum, technical standards and deployment and usage, including network management rules.
- Our ability to manage growth in wireless data services, including network quality and acquisition of adequate spectrum at reasonable costs and terms.
- The outcome of pending, threatened or potential litigation, including patent and product safety claims by or against third parties.
- The impact on our networks and business from major equipment failures; security breaches related to the network or customer information; our inability to obtain handsets, equipment/software or have handsets, equipment/software serviced in a timely and cost-effective manner from suppliers; or severe weather conditions, natural disasters, pandemics, energy shortages, wars or terrorist attacks.
- The issuance by the Financial Accounting Standards Board or other accounting oversight bodies of new accounting standards or changes to existing standards.
- The issuance by the Internal Revenue Service and/or state tax authorities of new tax regulations or changes to existing standards and actions by federal, state or local tax agencies and judicial authorities with respect to applying applicable tax laws and regulations and the resolution of disputes with any taxing jurisdictions.
- Our ability to adequately fund our wireless operations, including payment for additional spectrum network upgrades and technological advancements.
- Changes in our corporate strategies, such as changing network requirements or acquisitions and dispositions, which may require significant amounts of cash or stock, to respond to competition and regulatory, legislative and technological developments.
- The uncertainty surrounding further congressional action to address spending reductions and negotiations over the debt ceiling, which may result in a significant reduction in government spending and reluctance of businesses and consumers to spend in general and on our products and services specifically, due to this fiscal uncertainty.

Readers are cautioned that other factors discussed in this report, although not enumerated here, also could materially affect our future earnings.

Consolidated Statements of Income

Dollars in millions except per share amounts

	2012	2011	2010
Operating Revenues			
Wireless service	**$ 59,186**	$ 56,726	$ 53,510
Data	**31,798**	29,560	27,512
Voice	**22,619**	25,126	28,332
Directory	**1,049**	3,293	3,935
Other	**12,782**	12,018	10,991
Total operating revenues	**127,434**	126,723	124,280
Operating Expenses			
Cost of services and sales (exclusive of depreciation and amortization shown separately below)	**55,215**	54,836	50,257
Selling, general and administrative	**41,079**	41,382	34,986
Impairment of intangible assets	**—**	2,910	85
Depreciation and amortization	**18,143**	18,377	19,379
Total operating expenses	**114,437**	117,505	104,707
Operating Income	**12,997**	9,218	19,573
Other Income (Expense)			
Interest expense	**(3,444)**	(3,535)	(2,994)
Equity in net income of affiliates	**752**	784	762
Other income (expense) – net	**134**	249	897
Total other income (expense)	**(2,558)**	(2,502)	(1,335)
Income from Continuing Operations Before Income Taxes	**10,439**	6,716	18,238
Income tax (benefit) expense	**2,900**	2,532	(1,162)
Income from Continuing Operations	**7,539**	4,184	19,400
Income from Discontinued Operations, net of tax	**—**	—	779
Net Income	**7,539**	4,184	20,179
Less: Net Income Attributable to Noncontrolling Interest	**(275)**	(240)	(315)
Net Income Attributable to AT&T	**$ 7,264**	$ 3,944	$ 19,864
Basic Earnings Per Share from Continuing Operations Attributable to AT&T	**$ 1.25**	$ 0.66	$ 3.23
Basic Earnings Per Share from Discontinued Operations Attributable to AT&T	**—**	—	0.13
Basic Earnings Per Share Attributable to AT&T	**$ 1.25**	$ 0.66	$ 3.36
Diluted Earnings Per Share from Continuing Operations Attributable to AT&T	**$ 1.25**	$ 0.66	$ 3.22
Diluted Earnings Per Share from Discontinued Operations Attributable to AT&T	**—**	—	0.13
Diluted Earnings Per Share Attributable to AT&T	**$ 1.25**	$ 0.66	$ 3.35

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Comprehensive Income

Dollars in millions

	2012	2011	2010
Net income	**$7,539**	$4,184	$20,179
Other comprehensive income, net of tax:			
Foreign currency translation adjustments (includes $0, $(1) and $3 attributable to noncontrolling interest), net of taxes of $48, $66 and $146	**87**	122	274
Net unrealized gains (losses) on available-for-sale securities:			
Unrealized gains (losses), net of taxes of $64, $(21), and $(12)	**118**	(41)	(22)
Reclassification adjustment realized in net income, net of taxes of $(36), $(29) and $7	**(68)**	(54)	14
Net unrealized gains (losses) on cash flow hedges:			
Unrealized gains (losses), net of taxes of $154, $(140) and $(182)	**283**	(256)	(334)
Reclassification adjustment included in net income, net of taxes of $15, $8 and $7	**28**	15	12
Defined benefit postretirement plans:			
Net actuarial loss from equity method investees arising during period, net of taxes of $(32), $0 and $0	**(53)**	—	—
Net prior service credit arising during period, net of taxes of $1,378, $699 and $298	**2,249**	1,140	487
Amortization of net prior service credit included in net income, net of taxes of $(361), $(282) and $(243)	**(588)**	(460)	(396)
Other	**—**	1	2
Other comprehensive income	**2,056**	467	37
Total comprehensive income	**9,595**	4,651	20,216
Less: Total comprehensive income attributable to noncontrolling interest	**(275)**	(239)	(318)
Total Comprehensive Income Attributable to AT&T	**$9,320**	$4,412	$19,898

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Balance Sheets

Dollars in millions except per share amounts

	December 31,	
	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	**$ 4,868**	$ 3,045
Accounts receivable – net of allowances for doubtful accounts of $547 and $878	**12,657**	13,231
Prepaid expenses	**1,035**	1,102
Deferred income taxes	**1,036**	1,470
Other current assets	**3,110**	4,137
Total current assets	**22,706**	22,985
Property, Plant and Equipment – Net	**109,767**	107,087
Goodwill	**69,773**	70,842
Licenses	**52,352**	51,374
Customer Lists and Relationships – Net	**1,391**	2,757
Other Intangible Assets – Net	**5,032**	5,212
Investments in and Advances to Equity Affiliates	**4,581**	3,718
Other Assets	**6,713**	6,467
Total Assets	**$272,315**	$270,442
Liabilities and Stockholders' Equity		
Current Liabilities		
Debt maturing within one year	**$ 3,486**	$ 3,453
Accounts payable and accrued liabilities	**20,911**	19,956
Advanced billing and customer deposits	**3,808**	3,872
Accrued taxes	**1,026**	1,003
Dividends payable	**2,556**	2,608
Total current liabilities	**31,787**	30,892
Long-Term Debt	**66,358**	61,300
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**28,491**	25,748
Postemployment benefit obligation	**41,392**	34,011
Other noncurrent liabilities	**11,592**	12,694
Total deferred credits and other noncurrent liabilities	**81,475**	72,453
Stockholders' Equity		
Common stock ($1 par value, 14,000,000,000 authorized at December 31, 2012 and 2011: issued 6,495,231,088 at December 31, 2012 and 2011)	**6,495**	6,495
Additional paid-in capital	**91,038**	91,156
Retained earnings	**22,481**	25,453
Treasury stock (913,836,325 at December 31, 2012 and 568,719,202 at December 31, 2011, at cost)	**(32,888)**	(20,750)
Accumulated other comprehensive income	**5,236**	3,180
Noncontrolling interest	**333**	263
Total stockholders' equity	**92,695**	105,797
Total Liabilities and Stockholders' Equity	**$272,315**	$270,442

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

Dollars in millions

	2012	2011	2010
Operating Activities			
Net income	**$ 7,539**	$ 4,184	$ 20,179
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**18,143**	18,377	19,379
Undistributed earnings from investments in equity affiliates	**(615)**	(623)	(603)
Provision for uncollectible accounts	**1,117**	1,136	1,334
Deferred income tax expense and noncurrent unrecognized tax benefits	**1,285**	2,937	(3,280)
Net (gain) loss from sale of investments, net of impairments	**(19)**	(89)	(802)
Impairment of intangible assets	**—**	2,910	85
Actuarial loss on pension and postretirement benefits	**9,994**	6,280	2,521
Income from discontinued operations	**—**	—	(779)
Changes in operating assets and liabilities:			
Accounts receivable	**(1,365)**	(1,164)	(101)
Other current assets	**1,017**	(397)	(185)
Accounts payable and accrued liabilities	**1,798**	(341)	(1,230)
Retirement benefit funding	**—**	(1,000)	—
Other – net	**282**	2,533	(1,296)
Total adjustments	**31,637**	30,559	15,043
Net Cash Provided by Operating Activities	**39,176**	34,743	35,222
Investing Activities			
Construction and capital expenditures:			
Capital expenditures	**(19,465)**	(20,110)	(19,530)
Interest during construction	**(263)**	(162)	(772)
Acquisitions, net of cash acquired	**(828)**	(2,368)	(2,906)
Dispositions	**812**	1,301	1,830
Sales (purchases) of securities, net	**65**	62	(100)
Other	**(1)**	27	29
Net Cash Used in Investing Activities	**(19,680)**	(21,250)	(21,449)
Financing Activities			
Net change in short-term borrowings with original maturities of three months or less	**1**	(1,625)	1,592
Issuance of long-term debt	**13,486**	7,936	2,235
Repayment of long-term debt	**(8,733)**	(7,574)	(9,294)
Purchase of treasury stock	**(12,752)**	—	—
Issuance of treasury stock	**477**	237	50
Dividends paid	**(10,241)**	(10,172)	(9,916)
Other	**89**	(451)	(516)
Net Cash Used in Financing Activities	**(17,673)**	(11,649)	(15,849)
Net increase (decrease) in cash and cash equivalents	**1,823**	1,844	(2,076)
Cash and cash equivalents beginning of year	**3,045**	1,201	3,277
Cash and Cash Equivalents End of Year	**$ 4,868**	$ 3,045	$ 1,201

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

Dollars and shares in millions except per share amounts

	2012		2011		2010	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Common Stock						
Balance at beginning of year	**6,495**	**$ 6,495**	6,495	$ 6,495	6,495	$ 6,495
Issuance of stock	**—**	**—**	—	—	—	—
Balance at end of year	**6,495**	**$ 6,495**	6,495	$ 6,495	6,495	$ 6,495
Additional Paid-In Capital						
Balance at beginning of year		**$ 91,156**		$ 91,731		$ 91,707
Issuance of treasury stock		**120**		132		159
Share-based payments		**(78)**		(118)		(130)
Share of equity method investee capital transactions		**(160)**		(290)		—
Change related to acquisition of interests held by noncontrolling owners		—		(299)		(5)
Balance at end of year		**$ 91,038**		$ 91,156		$ 91,731
Retained Earnings						
Balance at beginning of year		**$ 25,453**		$ 31,792		$ 21,944
Net income attributable to AT&T ($1.25, $0.66 and $3.35 per diluted share)		**7,264**		3,944		19,864
Dividends to stockholders ($1.77, $1.73 and $1.69 per share)		**(10,196)**		(10,244)		(9,985)
Other		**(40)**		(39)		(31)
Balance at end of year		**$ 22,481**		$ 25,453		$ 31,792
Treasury Stock						
Balance at beginning of year	**(568)**	**$ (20,750)**	(584)	$ (21,083)	(593)	$ (21,260)
Repurchase of common stock	**(371)**	**(12,752)**	—	—	—	—
Issuance of treasury stock	**25**	**614**	16	333	9	177
Balance at end of year	**(914)**	**$ (32,888)**	(568)	$ (20,750)	(584)	$ (21,083)
Accumulated Other Comprehensive Income Attributable to AT&T, net of tax:						
Balance at beginning of year		**$ 3,180**		$ 2,712		$ 2,678
Other comprehensive income attributable to AT&T		**2,056**		468		34
Balance at end of year		**$ 5,236**		$ 3,180		$ 2,712
Noncontrolling Interest:						
Balance at beginning of year		**$ 263**		$ 303		$ 425
Net income attributable to noncontrolling interest		**275**		240		315
Distributions		**(205)**		(220)		(278)
Acquisition of interests held by noncontrolling owners		**—**		(59)		(162)
Translation adjustments attributable to noncontrolling interest, net of taxes		**—**		(1)		3
Balance at end of year		**$ 333**		$ 263		$ 303
Total Stockholders' Equity at beginning of year		**$105,797**		$111,950		$101,989
Total Stockholders' Equity at end of year		**$ 92,695**		$105,797		$111,950

The accompanying notes are an integral part of the consolidated financial statements.