NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation Throughout this document, AT&T Inc. is referred to as "AT&T," "we" or the "Company." The consolidated financial statements include the accounts of the Company and our majority-owned subsidiaries and affiliates, including the results of DIRECTV and wireless properties in Mexico for the period from acquisition through December 31, 2015. Our subsidiaries and affiliates operate in the communications and digital entertainment services industry, providing services and equipment that deliver voice, video and broadband services domestically and internationally.

All significant intercompany transactions are eliminated in the consolidation process. Investments in less than majority-owned subsidiaries and partnerships where we have significant influence are accounted for under the equity method. Earnings from certain investments accounted for using the equity method are included for periods ended within up to one quarter of our period end. We also recorded our proportionate share of our equity method investees' other comprehensive income (OCI) items, including actuarial gains and losses on pension and other postretirement benefit obligations and cumulative translation adjustments.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, including estimates of probable losses and expenses. Actual results could differ from those estimates. Certain amounts have been reclassified to conform to the current period's presentation, including our presentation of "Equipment" and "Broadcast, programming and operations" costs separately from other cost of services in the consolidated statements of income.

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

The cumulative effect of the change on Retained Earnings as of January 1, 2013, was an increase of approximately $2,959 on our consolidated balance sheet. This change did not have an impact on cash provided by or used in operations for any period presented.

New Accounting Standards

Long-Term Debt and Debt Issuance Costs In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, "Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs" (ASU 2015-03), which resulted in the reclassification of debt issuance costs from "Other Assets" to inclusion as a reduction of our reportable "Long-Term Debt" balance on our consolidated balance sheets. Since ASU 2015-03 does not address deferred issuance costs for line-of-credit arrangements, the FASB issued ASU No. 2015-15, "Interest – Imputation of Interest: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements" (ASU 2015-15), in August 2015. ASU 2015-15 allows a company to defer debt issuance costs associated with line-of-credit arrangements, including arrangements with no outstanding borrowings, classify them as an asset, and amortize them over the term of the arrangements. We elected to adopt ASU 2015-03 early, with full retrospective application as required by the guidance, and ASU 2015-15, which was effective immediately. These standards did not have a material impact on our consolidated balance sheets and had no impact on our cash flows provided by or used in operations for any period presented.

Business Combinations In September 2015, the FASB issued ASU No. 2015-16, "Business Combinations – Simplifying the Accounting for Measurement-Period Adjustments" (ASU 2015-16), which results in the ability to recognize, in current period earnings, any changes in provisional amounts during the measurement period after the closing of an acquisition, instead of restating prior periods for these changes. We elected to adopt ASU 2015-16 early, which had no impact on our consolidated balance sheet as of December 31, 2015, or our consolidated operating results and cash flows for the year ended.

Deferred Income Taxes and Liabilities In November 2015, the FASB issued ASU No. 2015-17, "Income Taxes (Topic 740) – Balance Sheet Classification of Deferred Taxes" (ASU 2015-17), which requires companies report their deferred tax liabilities and deferred tax assets, together as a single noncurrent item on their classified balance sheets. We elected to adopt ASU 2015-17 early, and applied it retrospectively as allowed by the standard. Our adoption of ASU 2015-17 did not have a material impact on our consolidated balance sheets and had no impact on our cash provided by or used in operations for any period presented.

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

	Historical Accounting Method	Effect of Voluntary Change	Effect of Adoption of New ASUs	As Adjusted
At December 31, 2015 or for the year ended				
Other cost of services	$ 36,038	$ (256)	$ —	**$ 35,782**
Income tax expense	6,908	97	—	**7,005**
Net Income	13,528	159	—	**13,687**
Net Income Attributable to AT&T	13,186	159	—	**13,345**
Basic Earnings per Share Attributable to AT&T	$ 2.34	$ 0.03	$ —	**$ 2.37**
Diluted Earnings per Share Attributable to AT&T	2.34	0.03	—	**2.37**
Other current assets	$ 12,225	$1,588	$(546)[2]	**$ 13,267**
Other Assets	12,605	3,064	(323)[1]	**15,346**
Long-term debt	118,838	—	(323)[1]	**118,515**
Deferred income taxes	55,580	1,147	(546)[2]	**56,181**
Total Assets	398,889	4,652	(869)[1,2]	**402,672**
Total Liabilities	278,754	1,147	(869)[1,2]	**279,032**
Retained earnings	$ 30,166	$3,505	$ —	**$ 33,671**

[1] Impact of ASU 2015-03.
[2] Impact of ASU 2015-17.

	Historical Accounting Method	Effect of Voluntary Change	Effect of Adoption of New ASUs	As Adjusted
At December 31, 2014 or for the year ended				
Other cost of services	$ 37,590	$ (466)	$ —	$ 37,124
Other income (expense) – net	1,652	(71)	—	1,581
Income tax expense	3,442	177	—	3,619
Net Income	6,518	218	—	6,736
Net Income Attributable to AT&T	6,224	218	—	6,442
Basic Earnings per Share Attributable to AT&T	$ 1.19	$ 0.05	$ —	$ 1.24
Diluted Earnings per Share Attributable to AT&T	1.19	0.05	—	1.24
Other current assets	$ 8,067	$1,735	$(157)[2]	$ 9,645
Other Assets	10,998	2,661	(234)[1]	13,425
Long-term debt	76,011	—	(233)[1]	75,778
Deferred income taxes	37,544	1,005	(113)[2]	38,436
Total Assets	292,829	4,396	(391)[1,2]	296,834
Total Liabilities	205,905	1,050	(391)[1,2]	206,564
Retained earnings	$ 27,736	$3,345	$ —	$ 31,081

[1] Impact of ASU 2015-03.
[2] Impact of ASU 2015-17.

	Historical Accounting Method	Effect of Voluntary Change	Effect of Adoption of New ASUs	As Adjusted
At December 31, 2013 or for the year ended				
Other cost of services	$ 31,512	$ (273)	$ —	$ 31,239
Income tax expense	9,224	104	—	9,328
Net Income	18,553	169	—	18,722
Net Income Attributable to AT&T	18,249	169	—	18,418
Basic Earnings per Share Attributable to AT&T	$ 3.39	$ 0.03	$ —	$ 3.42
Diluted Earnings per Share Attributable to AT&T	3.39	0.03	—	3.42
Other current assets	$ 5,979	$1,725	$(159)[2]	$ 7,545
Other Assets	8,278	2,269	(199)[1]	10,348
Long-term debt	69,290	—	(199)[1]	69,091
Deferred income taxes	36,308	859	(152)[2]	37,015
Total Assets	277,787	3,994	(358)[1,2]	281,423
Total Liabilities	186,305	866	(358)[1,2]	186,813
Retained earnings	$ 31,141	$3,128	$ —	$ 34,269

[1] Impact of ASU 2015-03.
[2] Impact of ASU 2015-17.

Revenue Recognition In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (ASU 2014-09) and has since modified the standard with ASU 2015-14, “Deferral of the Effective Date.” These standards replace existing revenue recognition rules with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. ASU 2014-09 becomes effective for annual reporting periods beginning after December 15, 2017, at which point we plan to adopt the standard. Upon initial evaluation, we believe the key changes in the standard that impact our revenue recognition relate to the allocation of contract revenues between various services and equipment, and the timing in which those revenues are recognized. We are still in the process of determining the impact on the timing of revenue recognition and the allocation of revenue to products and segments.

ASU 2014-09 also specifies that all incremental costs of obtaining and direct costs of fulfilling our contracts with customers should be deferred and recognized over the contract period or expected customer life. In the third quarter of 2015, we changed our accounting policy for the costs of fulfilling contracts with customers to defer all recoverable costs while not changing our approach to acquisition costs. We believe, as a result of our accounting policy change for fulfillment costs, that the requirement to defer such costs in the new standard will not result in a significant change to our results. The requirement to defer contract acquisition costs however, will result in the recognition of a deferred charge on our balance sheets, but as the industry continues to undergo changes in how devices and services are sold to customers with impacts on the resulting commissions paid to our internal and external salesforces, we cannot currently estimate impact of this change.

The FASB allows two adoption methods under ASU 2014-09. Under one method, a company will apply the rules to contracts in all reporting periods presented, subject to certain allowable exceptions. Under the other method, a company will apply the rules to all contracts existing as of January 1, 2018, recognizing in beginning retained earnings an adjustment for the cumulative effect of the change and provide additional disclosures comparing results to previous rules. While we continue to evaluate the impact of the new standard and available adoption methods, we believe the standard will require us to implement new revenue accounting systems and processes, which will significantly change our internal controls over revenue recognition. In addition, the implementation of the new systems and processes will impact our considerations of which adoption methods we intend to use.

Financial Instruments In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities” (ASU 2016-01), which will require us to record changes in the fair value of our equity investments, except for those accounted for under the equity method, in net income instead of in accumulated other comprehensive income. ASU 2016-01 will become effective for fiscal years and interim periods beginning after December 15, 2017, and with the exception of certain disclosure requirements, is not subject to early adoption.

Income Taxes We provide deferred income taxes for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the computed tax basis of those assets and liabilities. We provide valuation allowances against the deferred tax assets (included, together with our deferred income tax assets, as part of our reportable net deferred income tax liabilities on our consolidated balance sheets), for which the realization is uncertain. We review these items regularly in light of changes in federal and state tax laws and changes in our business.

Cash and Cash Equivalents Cash and cash equivalents include all highly liquid investments with original maturities of three months or less. The carrying amounts approximate fair value. At December 31, 2015, we held \$2,117 in cash and \$3,004 in money market funds and other cash equivalents.

Revenue Recognition Revenues derived from wireless, fixed telephone, data and video services are recognized when services are provided. This is based upon either usage (e.g., minutes of traffic/bytes of data processed), period of time (e.g., monthly service fees) or other established fee schedules. Our service revenues are billed either in advance, arrears or are prepaid.

We record revenue reductions for estimated future adjustments to customer accounts, other than bad debt expense, at the time revenue is recognized based on historical experience. Service revenues include billings to our customers for various regulatory fees imposed on us by governmental authorities. We report revenues from transactions between us and our customers net of taxes the government authorities require us to collect from our customers in our consolidated statements of income. Cash incentives given to customers are recorded as a reduction of revenue. Revenues related to nonrefundable, upfront service activation and setup fees are deferred and recognized over the associated service contract period or customer life. Revenue recognized from contracts that bundle services and equipment is limited to the lesser of the amount allocated based on the relative selling price of the equipment and service already delivered or the amount paid and owed by the customer for the equipment and service already delivered. We record the sale of equipment to customers when we no longer have any requirements to perform, when title is passed and when the products are accepted by customers. We record the sale of equipment and services to customers as gross revenue when we are the principal in the arrangement and net of the associated costs incurred when we are not considered the principal in the arrangement.

We offer to our customers the option to purchase certain wireless devices in installments over a period of up to 30 months, with the right to trade in the original equipment for a new device, after having paid a specified number of installments, and have the remaining unpaid balance satisfied. For customers that elect these installment payment programs, we recognize revenue for the entire amount of the customer receivable, net of the fair value of the trade-in right guarantee and imputed interest. See Note 15 for additional information, including the sales of our equipment installment receivables.

Allowance for Doubtful Accounts We record expense to maintain an allowance for doubtful accounts for estimated losses that result from the failure or inability of our customers to make required payments deemed collectable from the customer when the service was provided or product was delivered. When determining the allowance, we consider the probability of recoverability of accounts receivable 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, as well as an analysis of the aged accounts receivable balances with allowances 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.

Inventory Inventories, which are included in "Other current assets" on our consolidated balance sheets, were $4,033 at December 31, 2015, and $1,933 at December 31, 2014. Wireless devices and accessories, which are valued at the lower of cost or market (determined using current replacement cost), were $3,733 at December 31, 2015, and $1,858 at December 31, 2014.

Property, Plant and Equipment Property, plant and equipment is stated at cost, except for assets acquired using acquisition accounting, which are initially recorded at fair value (see Note 6). The cost of additions and substantial improvements to property, plant and equipment is capitalized, and includes internal compensation costs for these projects; however, noncash actuarial gains or losses included in compensation costs are excluded from amounts reported as "capital expenditures." The cost of maintenance and repairs of property, plant and equipment is charged to operating expenses. Property, plant and equipment costs are depreciated using straight-line methods over their estimated economic lives. Certain subsidiaries follow composite group depreciation methodology. Accordingly, when a portion of their depreciable property, plant and equipment is retired in the ordinary course of business, the gross book value is reclassified to accumulated depreciation, and no gain or loss is recognized on the disposition of these assets.

Property, plant and equipment is reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. We recognize an impairment loss when the carrying amount of a long-lived asset is not recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset.

The liability for the fair value of an asset retirement obligation is recorded in the period in which it is incurred if a reasonable estimate of fair value can be made. In periods subsequent to initial measurement, we recognize period-to-period changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate. The increase in the carrying value of the associated long-lived asset is depreciated over the corresponding estimated economic life.

Software Costs We capitalize certain costs incurred in connection with developing or obtaining internal-use software. Capitalized software costs are included in "Property, Plant and Equipment" on our consolidated balance sheets. In addition, there is certain network software that allows the equipment to provide the features and functions unique to the AT&T network, which we include in the cost of the equipment categories for financial reporting purposes.

We amortize our capitalized software costs over a three-year to five-year period, reflecting the estimated period during which these assets will remain in service, which also aligns with the estimated useful lives used in the industry.

Goodwill and Other Intangible Assets AT&T has five major classes of intangible assets: goodwill, licenses, which include Federal Communications Commission (FCC), other wireless licenses and orbital slots, other indefinite-lived intangible assets, primarily made up of the AT&T and DIRECTV International trade names including SKY, customer lists and various other finite-lived intangible assets (see Note 7).

Goodwill represents the excess of consideration paid over the fair value of net assets acquired in business combinations. FCC and wireless licenses (wireless licenses) provide us with the exclusive right to utilize certain radio frequency spectrum to provide wireless communications services. While wireless licenses are issued for a fixed period of time (generally 10 years), renewals of wireless licenses have occurred routinely and at nominal cost. Moreover, we have determined that there are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful lives of our wireless licenses. Orbital slots represent the space in which we operate the broadcast satellites that support our digital video entertainment service offerings. Similar to our wireless licenses, there are no factors that limit the useful lives of our orbital slots. We acquired the rights to the AT&T and other brand names in previous acquisitions. We have the effective ability to retain these exclusive rights permanently at a nominal cost.

Goodwill, licenses and other indefinite-lived intangible assets are not amortized but are tested at least annually for impairment. The testing is performed on the value as of October 1 each year, and compares the book value of the assets to their fair value. Goodwill is tested by comparing the book value of each reporting unit, deemed to be our principal operating segments or one level below them (Business Solutions, Entertainment Group, Consumer Mobility, and Mexico Wireless, Brazil and PanAmericana in the International segment), to the fair value of those reporting units calculated using a discounted cash flow approach as well as a market multiple approach. Licenses are tested for impairment on an aggregate basis, consistent with our use of the licenses on a national scope using a discounted cash flow approach. We also corroborated the value of wireless licenses with a market approach as the AWS-3 auction provided market price information for national wireless licenses. Brand names are tested by comparing the book value to a fair value calculated using a discounted cash flow approach on a presumed royalty rate derived from the revenues related to the brand name.

Intangible assets that have finite useful lives are amortized over their useful lives (see Note 7). Customer lists and relationships are amortized using primarily 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 remaining finite-lived intangible assets are generally amortized using the straight-line method.

Broadcast Programming and Other Costs We recognize the costs of television programming distribution rights when we distribute the related programming. We recognize the costs of television programming rights to distribute live sporting events to expense using the straight-line method over the course of the season or tournament, which approximates the pattern of usage.

Advertising Costs We expense advertising costs for products and services or for promoting our corporate image as we incur them (see Note 18).

Traffic Compensation Expense We use various estimates and assumptions to determine the amount of traffic compensation expense recognized during any reporting period. Switched traffic compensation costs are accrued utilizing estimated rates and volumes by product, formulated from historical data and adjusted for known rate changes. Such estimates are adjusted monthly to reflect newly available information, such as rate changes and new contractual agreements. Bills reflecting actual incurred information are generally not received within three months subsequent to the end of the reporting period, at which point a final adjustment is made to the accrued switched traffic compensation expense. Dedicated traffic compensation costs are estimated based on the number of circuits and the average projected circuit costs.

Foreign Currency Translation We are exposed to foreign currency exchange risk through our foreign affiliates and equity investments in foreign companies. Our foreign subsidiaries and foreign investments generally report their earnings in their local currencies. We translate their foreign assets and liabilities at exchange rates in effect at the balance sheet dates. We translate their revenues and expenses using average rates during the year. The resulting foreign currency translation adjustments are recorded as a separate component of accumulated other comprehensive income (accumulated OCI) in the accompanying consolidated balance sheets (see Note 3). Operations in countries with highly inflationary economies consider the U.S. dollar as the functional currency.

We do not hedge foreign currency translation risk in the net assets and income we report from these sources. However, we do hedge a portion of the foreign currency exchange risk involved in anticipation of highly probable foreign currency-denominated transactions, which we explain further in our discussion of our methods of managing our foreign currency risk (see Note 10).

Pension and Other Postretirement Benefits See Note 12 for a comprehensive discussion of our pension and postretirement benefit expense, including a discussion of the actuarial assumptions, our policy for recognizing the associated gains and losses and our method used to estimate service and interest cost components.

NOTE 2. EARNINGS PER SHARE

A reconciliation of the numerators and denominators of basic earnings per share and diluted earnings per share is shown in the table below:

Year Ended December 31,	**2015**	2014	2013
Numerators			
Numerator for basic earnings per share:			
Net income	**$13,687**	$6,736	$18,722
Less: Net income attributable to noncontrolling interest	**(342)**	(294)	(304)
Net income attributable to AT&T	**13,345**	6,442	18,418
Dilutive potential common shares:			
Share-based payment	**13**	13	13
Numerator for diluted earnings per share	**$13,358**	$6,455	$18,431
Denominators (000,000)			
Denominator for basic earnings per share:			
Weighted-average number of common shares outstanding	**5,628**	5,205	5,368
Dilutive potential common shares:			
Share-based payment (in shares)	**18**	16	17
Denominator for diluted earnings per share	**5,646**	5,221	5,385
Basic earnings per share attributable to AT&T	**$ 2.37**	$ 1.24	$ 3.42
Diluted earnings per share attributable to AT&T	**$ 2.37**	$ 1.24	$ 3.42

Dollars in millions except per share amounts

NOTE 3. OTHER COMPREHENSIVE INCOME

Changes in the balances of each component included in accumulated OCI are presented below. All amounts are net of tax and exclude noncontrolling interest.

Following our 2015 acquisitions of DIRECTV and wireless businesses in Mexico, we have additional foreign operations that are exposed to fluctuations in the exchange rates used to convert operations, assets and liabilities into U.S. dollars. Since the dates of acquisition, when compared to the U.S. dollar, the Brazilian real exchange rate has depreciated 15.2%, the Argentinian peso exchange rate has depreciated 29.1% and Mexican peso exchange rate has depreciated 13.1%. For the year ended December 31, 2014, the amounts reclassified from accumulated OCI include amounts realized upon the sale of our investment in América Móvil, S.A. de C.V. (América Móvil) (see Note 5).

At December 31, 2015, 2014 and 2013 and for the years ended	Foreign Currency Translation Adjustment	Net Unrealized Gains (Losses) on Available-for-Sale Securities	Net Unrealized Gains (Losses) on Cash Flow Hedges	Defined Benefit Postretirement Plans	Accumulated Other Comprehensive Income
Balance as of December 31, 2012	$ (284)	$ 271	$(110)	$ 5,358	$ 5,235
Other comprehensive income (loss) before reclassifications	(138)	258	525	2,765	3,410
Amounts reclassified from accumulated OCI	55[1]	(79)[2]	30[3]	(771)[4]	(765)
Net other comprehensive income (loss)	(83)	179	555	1,994	2,645
Balance as of December 31, 2013	(367)	450	445	7,352	7,880
Other comprehensive income (loss) before reclassifications	(75)	65	260	428	678
Amounts reclassified from accumulated OCI	416[1]	(16)[2]	36[3]	(933)[4]	(497)
Net other comprehensive income (loss)	341	49	296	(505)	181
Balance as of December 31, 2014	(26)	499	741	6,847	8,061
Other comprehensive income (loss) before reclassifications	(1,172)	—	(763)	45	(1,890)
Amounts reclassified from accumulated OCI	—[1]	(15)[2]	38[3]	(860)[4]	(837)
Net other comprehensive income (loss)	(1,172)	(15)	(725)	(815)	(2,727)
Balance as of December 31, 2015	**$(1,198)**	**$484**	**$ 16**	**$6,032**	**$5,334**

[1] Translation (gain) loss reclassifications are included in Other income (expense) – net in the consolidated statements of income.
[2] (Gains) losses are included in Other income (expense) – net in the consolidated statements of income.
[3] (Gains) losses are included in interest expense in the consolidated statements of income. See Note 10 for additional information.
[4] The amortization of prior service credits associated with postretirement benefits, net of amounts capitalized as part of construction labor, are included in Cost of services and sales and Selling, general and administrative in the consolidated statements of income (see Note 12). Actuarial loss reclassifications related to our equity method investees are included in Other income (expense) – net in the consolidated statements of income.

NOTE 4. SEGMENT INFORMATION

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

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

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

The *Entertainment Group segment* provides video, Internet and voice communication services to residential customers located in the U.S. or in U.S. territories. We utilize our copper and IP-based (referred to as "wired" or "wireline") wired network and/or our satellite technology.

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

The *International segment* provides entertainment services in Latin America and wireless services in Mexico. Video entertainment services are provided to primarily residential customers using satellite technology. We utilize our regional and national networks in Mexico to provide consumer and business customers with wireless data and voice communication services. Our international subsidiaries conduct business in their local currency and operating results are converted to U.S. dollars using official exchange rates.

In reconciling items to consolidated operating income and income before income taxes, *Corporate and Other* includes: (1) operations that are not considered reportable segments and that are no longer integral to our operations or which we no longer actively market, and (2) impacts of corporate-wide decisions for which the individual operating segments are not being evaluated, including interest costs and expected return on plan assets for our pension and postretirement benefit plans.

Certain operating items are not allocated to our business segments:

- *Acquisition-related items* include (1) operations and support items associated with the merger and integration of newly acquired businesses, and (2) the noncash amortization of intangible assets acquired in acquisitions.
- *Certain significant items* include (1) noncash actuarial gains and losses from pension and other postretirement benefits, (2) employee separation charges associated with voluntary and/or strategic offers, (3) losses resulting from abandonment or impairment of assets and (4) other items for which the segments are not being evaluated.

Interest expense and other income (expense) – net, are managed only on a total company basis and are, accordingly, reflected only in consolidated results. Therefore, these items are also not included in each segment's reportable results.

Our operating assets are utilized by multiple segments and consist of our wireless and wired networks as well as an international satellite fleet. We manage our assets to provide for the most efficient, effective and integrated service to our customers, not by operating segment, and therefore asset information and capital expenditures by segment are not presented. Depreciation is allocated based on network usage or asset utilization by segment.

For the year ended December 31, 2015

	Revenue	Operations and Support Expenses	EBITDA	Depreciation and Amortization	Operating Income (Loss)	Equity in Net Income (Loss) of Affiliates	Segment Contribution
Business Solutions	**$ 71,127**	**$ 44,946**	**$26,181**	**$ 9,789**	**$16,392**	**$—**	**$16,392**
Entertainment Group	**35,294**	**28,345**	**6,949**	**4,945**	**2,004**	**(4)**	**2,000**
Consumer Mobility	**35,066**	**21,477**	**13,589**	**3,851**	**9,738**	**—**	**9,738**
International	**4,102**	**3,930**	**172**	**655**	**(483)**	**(5)**	**(488)**
Segment Total	**145,589**	**98,698**	**46,891**	**19,240**	**27,651**	**$(9)**	**$27,642**
Corporate and Other	**1,297**	**1,057**	**240**	**64**	**176**		
Acquisition-related items	**(85)**	**1,987**	**(2,072)**	**2,712**	**(4,784)**		
Certain significant items	**—**	**(1,742)**	**1,742**	**—**	**1,742**		
AT&T Inc.	**$146,801**	**$100,000**	**$46,801**	**$22,016**	**$24,785**		

Dollars in millions except per share amounts

For the year ended December 31, 2014	Revenue	Operations and Support Expenses	EBITDA	Depreciation and Amortization	Operating Income (Loss)	Equity in Net Income (Loss) of Affiliates	Segment Contribution
Business Solutions	$ 70,606	$ 45,826	$24,780	$ 9,355	$ 15,425	$ —	$15,425
Entertainment Group	22,233	18,992	3,241	4,473	(1,232)	(2)	(1,234)
Consumer Mobility	36,769	23,891	12,878	3,827	9,051	(1)	9,050
International	—	—	—	—	—	153	153
Segment Total	129,608	88,709	40,899	17,655	23,244	$150	$23,394
Corporate and Other	2,839	2,471	368	105	263		
Acquisition-related items	—	785	(785)	487	(1,272)		
Certain significant items	—	9,997	(9,997)	26	(10,023)		
AT&T Inc.	$132,447	$101,962	$30,485	$18,273	$ 12,212		

For the year ended December 31, 2013	Revenue	Operations and Support Expenses	EBITDA	Depreciation and Amortization	Operating Income (Loss)	Equity in Net Income (Loss) of Affiliates	Segment Contribution
Business Solutions	$ 67,647	$43,442	$24,205	$ 8,965	$15,240	$ —	$15,240
Entertainment Group	21,542	17,943	3,599	4,815	(1,216)	—	(1,216)
Consumer Mobility	36,243	22,545	13,698	3,683	10,015	—	10,015
International	—	—	—	—	—	532	532
Segment Total	125,432	83,930	41,502	17,463	24,039	$532	$24,571
Corporate and Other	3,320	2,987	333	274	59		
Acquisition-related items	—	—	—	658	(658)		
Certain significant items	—	(7,312)	7,312	—	7,312		
AT&T Inc.	$128,752	$79,605	$49,147	$18,395	$30,752		

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

	2015	2014	2013
Business Solutions	**$16,392**	$15,425	$15,240
Entertainment Group	**2,000**	(1,234)	(1,216)
Consumer Mobility	**9,738**	9,050	10,015
International	**(488)**	153	532
Segment Operating Income	**27,642**	23,394	24,571
Reconciling Items:			
Corporate and Other	**176**	263	59
Merger and integration charges	**(2,072)**	(785)	—
Amortization of intangibles acquired	**(2,712)**	(487)	(658)
Actuarial gain (loss)	**2,152**	(7,869)	7,584
Employee separation charges	**(375)**	—	(501)
Other (expenses) credits	**(35)**	—	229
Asset abandonments and impairments	**—**	(2,154)	—
Segment equity in net income (loss) of affiliates	**9**	(150)	(532)
AT&T Operating Income	**24,785**	12,212	30,752
Interest expense	**4,120**	3,613	3,940
Equity in net income of affiliates	**79**	175	642
Other income (expense) – net	**(52)**	1,581	596
Income Before Income Taxes	**$20,692**	$10,355	$28,050

The following table sets forth revenues earned from subscribers located in different geographic areas. Property is grouped by its physical location.

	2015		2014		2013	
	Revenues	Net Property, Plant & Equipment	Revenues	Net Property, Plant & Equipment	Revenues	Net Property, Plant & Equipment
United States	**$140,234**	**$118,515**	$129,772	$112,092	$126,212	$110,090
Latin American						
Brazil	**1,224**	**1,384**	142	33	136	41
Other	**1,157**	**1,530**	99	67	92	72
Mexico	**2,046**	**2,369**	94	20	90	24
Other	**2,140**	**652**	2,340	686	2,222	741
Total	**$146,801**	**$124,450**	$132,447	$112,898	$128,752	$110,968

NOTE 5. ACQUISITIONS, DISPOSITIONS AND OTHER ADJUSTMENTS

Acquisitions

DIRECTV On July 24, 2015, we completed our acquisition of DIRECTV, a leading provider of digital television entertainment services in both the United States and Latin America. The acquisition represents an opportunity for us to integrate a unique and complementary set of assets and achieve substantial cost synergies over time, as well as generate revenue from pay television in Latin America. Our distribution scale will enable us to offer consumers bundles including video, high-speed broadband and mobile services, using all the sales channels of both companies. We believe the combined company will be a content distribution leader across mobile, video and broadband platforms.

Under the merger agreement, each share of DIRECTV stock was exchanged for $28.50 cash plus 1.892 shares of our common stock. After adjustment for shares issued to trusts consolidated by AT&T, share-based payment arrangements and fractional shares, which were settled in cash, AT&T issued 954,407,524 shares to DIRECTV shareholders, giving them an approximate 16% stake in the combined company, based on common shares outstanding. Based on our $34.29 per share closing stock price on July 24, 2015, the aggregate value of consideration paid to DIRECTV shareholders was $47,409, including $32,727 of AT&T stock and $14,378 in cash, $299 for share-based payment arrangements and $5 for DIRECTV shares previously purchased on the open market by trusts consolidated by AT&T.

Our 2015 operating results include the results from DIRECTV following the acquisition date. The fair values of the assets acquired and liabilities assumed were preliminarily determined using the income, cost and market approaches. The fair value measurements were primarily based on significant inputs that are not observable in the market and are considered Level 3 under the Fair Value Measurement and Disclosure framework, other than long-term debt assumed in the acquisition (see Note 10). The income approach was primarily used to value the intangible assets, consisting primarily of acquired customer relationships, orbital slots and trade names.

The income approach estimates fair value for an asset based on the present value of cash flows projected to be generated by the asset. Projected cash flows are discounted at a required rate of return that reflects the relative risk of achieving the cash flows and the time value of money. The cost approach, which estimates value by determining the current cost of replacing an asset with another of equivalent economic utility, was used primarily for plant, property and equipment. The cost to replace a given asset reflects the estimated reproduction or replacement cost for the property, less an allowance for loss in value due to depreciation. Our December 31, 2015 consolidated balance sheet includes the assets and liabilities of DIRECTV, which have been measured at fair value.

The following table summarizes the preliminary estimated fair values of the DIRECTV assets acquired and liabilities assumed and related deferred income taxes as of the acquisition date.

Assets acquired	
Cash	$ 4,797
Accounts receivable	2,011
All other current assets	1,535
Property, plant and equipment (including satellites)	9,301
Intangible assets not subject to amortization	
Orbital slots	11,946
Trade name	1,382
Intangible assets subject to amortization	
Customer lists and relationships	19,505
Trade name	2,905
Other	457
Investments and other assets	2,360
Goodwill	34,427
Total assets acquired	90,626
Liabilities assumed	
Current liabilities, excluding current portion of long-term debt	5,693
Long-term debt	20,585
Other noncurrent liabilities	16,585
Total liabilities assumed	42,863
Net assets acquired	47,763
Noncontrolling interest	(354)
Aggregate value of consideration paid	$47,409

Dollars in millions except per share amounts

These estimates are preliminary in nature and subject to adjustments, which could be material. Any necessary adjustments will be finalized within one year from the date of acquisition. Substantially all the receivables acquired are expected to be collectable. We have not identified any material unrecorded pre-acquisition contingencies where the related asset, liability or impairment is probable and the amount can be reasonably estimated. Goodwill is calculated as the difference between the acquisition date fair value of the consideration transferred and the fair value of the net assets acquired, and represents the future economic benefits that we expect to achieve as a result of acquisition. Prior to the finalization of the purchase price allocation, if information becomes available that would indicate it is probable that such events had occurred and the amounts can be reasonably estimated, such items will be included in the final purchase price allocation and may change goodwill. Purchased goodwill is not expected to be deductible for tax purposes. The goodwill was allocated to our Entertainment Group and International segments.

For the 160-day period ended December 31, 2015, our consolidated statement of income included $14,561 of revenues and $(46) of operating income, which included $2,254 of intangible amortization from DIRECTV, and its affiliates. The following unaudited pro forma consolidated results of operations assume that the acquisition of DIRECTV was completed as of January 1, 2014.

	(Unaudited) Year Ended December 31,	
	2015	2014
Total operating revenues[1]	**$165,694**	$165,595
Net Income Attributable to AT&T	**12,683**	6,412
Basic Earnings Per Share Attributable to AT&T	**$ 2.06**	$ 1.04
Diluted Earnings Per Share Attributable to AT&T	**$ 2.06**	$ 1.04

[1] Reflects revenue declines resulting from our fourth-quarter 2014 sale of our Connecticut wireline operations.

Nonrecurring adjustments included in the pro forma results above consist of the following: At June 30, 2015, due to the continued economic uncertainty and lack of liquidity in all three of the official currency exchange mechanisms in Venezuela, DIRECTV changed the exchange rate used to measure its Venezuelan subsidiary's monetary assets and liabilities into U.S. dollars from Sistema Complementario de Administración de Divisas (SICAD) to Sistema Marginal de Divisas (SIMADI). The significant change in exchange rates also required the reevaluation of the recoverability of fixed and intangible assets and inventory, which resulted in an impairment charge of $1,060 recorded in DIRECTV's consolidated statement of operations for the six-month period ended June 30, 2015. Prior to DIRECTV's June 30, 2015 change to the SIMADI exchange rate, operating results for the six months ended June 30, 2015 were measured using the SICAD exchange rate which resulted in revenues in Venezuela of approximately $500 and operating profit before depreciation and amortization of approximately $180. Pro forma data may not be indicative of the results that would have been obtained had these events occurred at the beginning of the perids presented, nor is it intended to be a projection of future results.

Nextel Mexico On April 30, 2015, we completed our acquisition of the subsidiaries of NII Holdings Inc., operating its wireless business in Mexico, for $1,875, including approximately $427 of net debt and other adjustments. The subsidiaries offered service under the name Nextel Mexico.

The preliminary values of assets acquired were: $383 in licenses, $1,293 in property, plant and equipment, $111 in customer lists and $112 of goodwill. The goodwill was allocated to our International segment.

GSF Telecom On January 16, 2015, we acquired Mexican wireless company GSF Telecom Holdings, S.A.P.I. de C.V. (GSF Telecom) for $2,500, including net debt of approximately $700. GSF Telecom offered service under both the Iusacell and Unefon brand names in Mexico.

The preliminary values of assets acquired were: $673 in licenses, $715 in property, plant and equipment, $374 in customer lists, $26 in trade names and $972 of goodwill. The goodwill was allocated to our International segment.

AWS-3 Auction In January 2015, we submitted winning bids for 251 Advanced Wireless Service (AWS) spectrum licenses in the AWS-3 Auction (FCC Auction 97) for $18,189. We provided the Federal Communications Commission (FCC) an initial down payment of $921 in October 2014 and paid the remaining $17,268 in the first quarter of 2015.

Spectrum Acquisitions During 2015, we acquired $489 of wireless spectrum, not including the AWS auction. During 2014, we acquired $1,263 of wireless spectrum, not including Leap Wireless International, Inc. (Leap) discussed below.

Leap In March 2014, we acquired Leap, a provider of prepaid wireless service, for $15.00 per outstanding share of Leap's common stock, or $1,248 (excluding Leap's cash on hand), plus one nontransferable contingent value right (CVR) per share. The CVR will entitle each Leap stockholder to a pro rata share of the net proceeds of the future sale of the Chicago 700 MHz A-band FCC license held by Leap.

The values of assets acquired under the terms of the agreement were: $3,000 in licenses, $510 in property, plant and equipment, $520 of customer lists, $340 for trade names and $248 of goodwill. The goodwill was allocated to our Consumer Mobility segment. The estimated fair value of debt associated with the acquisition of Leap was $3,889, all of which was redeemed or matured by July 31, 2014.

Dispositions

Connecticut Wireline On October 24, 2014, we sold our incumbent local exchange operations in Connecticut for $2,018 and recorded a pre-tax gain of $76, which is included in "Other income (expense) – net," on our consolidated statements of income. In conjunction with the sale, we allocated $743 of goodwill from our former Wireline reporting unit. Because the book value of the goodwill did not have a corresponding tax basis, the resulting net income impact of the sale was a loss of $360.

América Móvil In 2014, we sold our remaining stake in América Móvil for approximately $5,885 and recorded a pre-tax gain of $1,330, which is included in "Other income (expense) – net," on our consolidated statements of income. In 2013, we sold a portion of our shares in América Móvil for approximately $1,179. América Móvil was accounted for as an equity method investment.

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is summarized as follows at December 31:

	Lives (years)	2015	2014
Land	—	**$ 1,638**	$ 1,567
Buildings and improvements	2-44	**33,784**	32,204
Central office equipment[1]	3-10	**93,643**	89,857
Cable, wiring and conduit	15-50	**75,784**	72,766
Satellites	12-15	**2,088**	—
Other equipment	2-23	**81,972**	74,244
Software	3-5	**11,347**	8,604
Under construction	—	**5,971**	3,053
		306,227	282,295
Accumulated depreciation and amortization		**181,777**	169,397
Property, plant and equipment – net		**$124,450**	$112,898

[1] Includes certain network software.

Our depreciation expense was $19,289 in 2015, $17,773 in 2014 and $17,722 in 2013. Depreciation expense included amortization of software totaling $1,660 in 2015, $1,504 in 2014 and $2,142 in 2013.

We periodically assess our network assets for impairment, and our analyses have indicated no impairment. During 2014, due to declining customer demand for our legacy voice and data products and the migration of our networks to next generation technologies, we decided to abandon in place specific copper network assets classified as cable, wiring and conduit. These abandoned assets had a gross book value of approximately $7,141, with accumulated depreciation of $5,021. In 2014, we recorded a $2,120 noncash charge for this abandonment, which is included in "Abandonment of network assets" on our consolidated statements of income.

Certain facilities and equipment used in operations are leased under operating or capital leases. Rental expenses under operating leases were $5,025 for 2015, $4,345 for 2014 and $3,683 for 2013. At December 31, 2015, the future minimum rental payments under noncancelable operating leases for the years 2016 through 2020 were $3,775, $3,551, $3,257, $3,003 and $2,771, with $12,488 due thereafter. Certain real estate operating leases contain renewal options that may be exercised. Capital leases are not significant.

NOTE 7. GOODWILL AND OTHER INTANGIBLE ASSETS

As part of our organizational realignment discussed in Note 4, the goodwill from the previous Wireless segment was allocated to the Business Solutions and Consumer Mobility segments and the goodwill from the previous Wireline segment was allocated to the Business Solutions and Entertainment Group segments. The allocations were based on the relative fair value of the portions of the previous Wireless and Wireline segments which were moved into the new Business Solutions, Entertainment Group and Consumer Mobility segments.

The following table sets forth the changes in the carrying amounts of goodwill by segment, which is the same as reporting unit for Business Solutions, Entertainment Group and Consumer Mobility. The International segment has three reporting units: Mexico Wireless, Brazil and PanAmericana.

	Wireless	Wireline	Business Solutions	Entertainment Group	Consumer Mobility	International	Total
Balance as of December 31, 2013	$ 36,106	$ 33,167	$ —	$ —	$ —	$ —	$ 69,273
Goodwill acquired	367	—	—	—	—	—	367
Other	(4)	56	—	—	—	—	52
Balance as of December 31, 2014	36,469	33,223	—	—	—	—	69,692
Goodwill acquired	6	—	—	30,839	—	4,672	35,517
Foreign currency translation adjustments	—	—	—	—	—	(638)	(638)
Allocation of goodwill	(36,471)	(33,226)	45,351	7,834	16,512	—	—
Other	(4)	3	—	—	—	(2)	(3)
Balance as of December 31, 2015	**$ —**	**$ —**	**$45,351**	**$38,673**	**$16,512**	**$4,032**	**$104,568**

Dollars in millions except per share amounts

The majority of our goodwill acquired during 2015 related to our acquisitions of DIRECTV, Nextel Mexico and GSF Telecom. The allocation of goodwill represents goodwill previously assigned to our Wireless and Wireline segments. Other changes to our goodwill in 2015 include foreign currency translation adjustments and the final valuation of Leap. The majority of our goodwill acquired during 2014 related to our acquisition of Leap. Other changes to our goodwill during 2014 include adjustments to the amount of goodwill moved to held for sale in 2013 related to the sale of our Connecticut wireline operations. (See Note 5)

Our other intangible assets are summarized as follows:

	December 31, 2015			December 31, 2014		
Other Intangible Assets	Gross Carrying Amount	Currency Translation Adjustment	Accumulated Amortization	Gross Carrying Amount	Currency Translation Adjustment	Accumulated Amortization
Amortized intangible assets:						
Customer lists and relationships:						
Wireless acquisitions	**$ 1,055**	**$ —**	**$ 679**	$ 1,082	$ —	$ 550
BellSouth Corporation	**4,450**	**—**	**4,347**	5,825	—	5,559
DIRECTV	**19,505**	**(294)**	**1,807**	—	—	—
AT&T Corp.	**33**	**—**	**23**	56	—	42
Mexican wireless	**485**	**(60)**	**110**	—	—	—
Subtotal	**25,528**	**(354)**	**6,966**	6,963	—	6,151
Trade name	**2,905**	**—**	**424**	—	—	—
Other	**686**	**—**	**195**	275	—	189
Total	**$29,119**	**$(354)**	**$7,585**	$ 7,238	$ —	$6,340
Indefinite-lived intangible assets not subject to amortization:						
Licenses						
Wireless licenses	**$81,147**			$60,824		
Orbital slots	**11,946**			—		
Trade names	**6,437**			5,241		
Total	**$99,530**			$66,065		

Wireless license additions in 2015 were primarily related to FCC Auction 97, with the remainder originating from our Mexico business acquisitions and various spectrum license purchases. The increase in orbital slots and trade names was primarily due to the DIRECTV acquisition. (See Note 5)

We review indefinite-lived intangible assets for impairment annually (see Note 1). Licenses include wireless licenses that provide us with the exclusive right to utilize certain radio frequency spectrum to provide wireless communications services, similar licenses in Mexico and orbital slots representing the space in which we operate the broadcast satellites that support our digital video entertainment service offerings.

Amortized intangible assets are definite-life assets, and as such, we record amortization expense based on a method that most appropriately reflects our expected cash flows from these assets, over a weighted-average of 8.6 years (9.2 years for customer lists and relationships and 4.2 years for amortizing trade names and other). Amortization expense for definite-life intangible assets was $2,728 for the year ended December 31, 2015, $500 for the year ended December 31, 2014 and $672 for the year ended December 31, 2013. Amortization expense is estimated to be $5,207 in 2016, $4,623 in 2017, $3,580 in 2018, $2,521 in 2019, and $2,041 in 2020.

In 2015, we wrote off approximately $1,483 of fully amortized intangible assets (primarily customer lists). In 2014, we wrote off approximately $2,850 of fully amortized intangible assets (primarily customer lists). We review other amortizing intangible 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.

NOTE 8. EQUITY METHOD INVESTMENTS

Investments in partnerships, joint ventures and less than majority-owned subsidiaries in which we have significant influence are accounted for under the equity method.

In the third quarter of 2015, we acquired DIRECTV (see Note 5), which included various equity method investments. The earnings from these investments, subsequent to the acquisition date, are included in the 2015 activity in the table below, as well as our consolidated statement of income for 2015.

Our investments in equity affiliates at December 31, 2015 primarily include our interests in SKY Mexico, Game Show Network, Otter Media Holdings, YP Holdings LLC (YP Holdings), MLB Network and NW Sports Net.

SKY Mexico We hold a 41.0% interest in SKY Mexico, which was acquired as part of DIRECTV. SKY Mexico is a leading pay-TV provider in Mexico.

Game Show Network (GSN) We hold a 42.0% interest in GSN, which was also a part of the acquisition of DIRECTV. GSN is a television network dedicated to game-related programming and Internet interactive game playing.

Otter Media Holdings We hold a 43.4% interest in Otter Media Holdings, a venture between The Chernin Group and AT&T that is focused on acquiring, investing in and launching over-the-top subscription video services.

YP Holdings We hold a 47.0% interest in YP Holdings, an online advertising company and directory publisher.

MLB Network We hold a 16.7% interest in MLB Network, which offers broadcasts dedicated to Major League Baseball and was acquired with DIRECTV.

NW Sports Net We hold a 29.0% interest in NW Sports Net, a regional sports network acquired as part of DIRECTV.

The following table is a reconciliation of our investments in equity affiliates as presented on our consolidated balance sheets:

	2015	2014
Beginning of year	**$ 250**	$ 3,860
Additional investments	**77**	226
DIRECTV investments acquired	**1,232**	—
Equity in net income of affiliates	**79**	175
Dividends and distributions received	**(30)**	(148)
Sale of América Móvil shares	**—**	(3,817)
Other adjustments	**(2)**	(46)
End of year	**$1,606**	$ 250

Undistributed earnings from equity affiliates were $162 and $88 at December 31, 2015 and 2014.

NOTE 9. DEBT

Long-term debt of AT&T and its subsidiaries, including interest rates and maturities, is summarized as follows at December 31:

		2015	2014
Notes and debentures[1]			
Interest Rates	Maturities[2]		
0.49% – 2.99%	2015 – 2022	**$ 34,265**	$ 22,127
3.00% – 4.99%	2015 – 2046	**54,678**	31,516
5.00% – 6.99%	2015 – 2095	**31,140**	23,260
7.00% – 9.50%	2015 – 2097	**5,805**	6,153
Other		**15**	—
Fair value of interest rate swaps recorded in debt		**109**	125
		126,012	83,181
Unamortized (discount) premium – net		**(842)**	(1,549)
Unamortized issuance costs		**(323)**	(233)
Total notes and debentures		**124,847**	81,399
Capitalized leases		**884**	430
Other		**416**	—
Total long-term debt, including current maturities		**126,147**	81,829
Current maturities of long-term debt		**(7,632)**	(6,051)
Total long-term debt		**$118,515**	$ 75,778

[1] Includes credit agreement borrowings.
[2] Maturities assume putable debt is redeemed by the holders at the next opportunity.

On July 24, 2015, we added $20,585 in long-term debt, including capital leases, related to our acquisition of DIRECTV. DIRECTV's debt included both fixed and floating-rate coupons with a weighted average rate of approximately 4.6% (ranging from 1.75% to 9.50%) and had maturities ranging from 2015 to 2042. Included in our "Total notes and debentures" balance in the table above was the face value of acquired debt from DIRECTV of $17,050, which had a carrying amount of $17,787 at December 31, 2015.

Included in the table above at December 31, 2015, was approximately $738, representing the remaining excess of the fair value over the recorded value of debt in connection with the acquisition of DIRECTV, all of which was included in our "Unamortized (discount) premium – net." The excess is amortized over the remaining lives of the underlying debt obligations.

We had outstanding Euro, British pound sterling, Canadian dollar, Swiss franc and Brazilian real denominated debt of approximately $26,221 and $24,568 at December 31, 2015 and 2014. The weighted-average interest rate of our entire long-term debt portfolio, including the impact of derivatives, decreased from 4.2% at December 31, 2014 to 4.0% at December 31, 2015.

Other debt includes financing arrangements we have in Mexico for the construction of wireless network facilities that totaled $416, at December 31, 2015.

Dollars in millions except per share amounts

Current maturities of long-term debt include debt that may be put back to us by the holders in 2016. We have $1,000 of annual put reset securities that may be put each April until maturity in 2021. If the holders do not require us to repurchase the securities, the interest rate will be reset based on current market conditions. Likewise, we have 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.

Debt maturing within one year consisted of the following at December 31:

	2015	2014
Current maturities of long-term debt	**$7,632**	$6,051
Bank borrowings[1]	**4**	5
Total	**$7,636**	$6,056

[1] Outstanding balance of short-term credit facility of a foreign subsidiary.

Financing Activities

During 2015, we issued $33,969 in long-term debt in various markets, with an average weighted maturity of approximately 12 years and a weighted average coupon of 2.7%. We redeemed $10,042 in borrowings of various notes with stated rates of 0.80% to 9.10%.

During 2015 we completed the following long-term debt issuances:

- February 2015 issuance of $2,619 of 4.600% global notes due 2045.
- March 2015 borrowings under a variable rate term loan facility due 2018, variable rate term loan facility due 2020 and variable rate 18-month credit agreement due 2016, together totaling $11,155.
- March 2015 issuance of €1,250 of 1.300% global notes due 2023 and €1,250 of 2.450% global notes due 2035 (together, equivalent to $2,844, when issued).
- May 2015 issuance of $3,000 of 2.450% global notes due 2020; $2,750 of 3.000% global notes due 2022; $5,000 of 3.400% global notes due 2025; $2,500 of 4.500% global notes due 2035; $3,500 of 4.750% global notes due 2046; and $750 floating rate global notes due 2020. The floating rate for the note is based upon the three-month London Interbank Offered Rate (LIBOR), reset quarterly, plus 93 basis points.

On February 9, 2016, we completed the following long-term debt issuances:

- $1,250 of 2.800% global notes due 2021.
- $1,500 of 3.600% global notes due 2023.
- $1,750 of 4.125% global notes due 2026.
- $1,500 of 5.650% global notes due 2047.

As of December 31, 2015 and 2014, we were in compliance with all covenants and conditions of instruments governing our debt. Substantially all of our outstanding long-term debt is unsecured. Maturities of outstanding long-term notes and debentures, as of December 31, 2015, and the corresponding weighted-average interest rate scheduled for repayment are as follows:

	2016	2017	2018	2019	2020	There-after
Debt repayments[1]	$7,383	$7,789	$13,058	$7,863	$9,459	$83,891
Weighted-average interest rate	2.8%	2.3%	3.5%	3.9%	3.2%	4.8%

[1] Debt repayments assume putable debt is redeemed by the holders at the next opportunity.

Credit Facilities

On December 11, 2015, we entered into a five-year, $12,000 credit agreement (the "Revolving Credit Agreement") with Citibank, N.A. (Citibank), as administrative agent, replacing our $5,000 credit agreement that would have expired in December 2018. At the same time, AT&T and the lenders terminated their obligations under the existing revolving $3,000 credit agreement with Citibank that would have expired in December 2017.

In January 2015, we entered into a $9,155 credit agreement (the "Syndicated Credit Agreement") containing (i) a $6,286 term loan facility (the "Tranche A Facility") and (ii) a $2,869 term loan facility (the "Tranche B Facility"), with certain investment and commercial banks and Mizuho Bank, Ltd. ("Mizuho"), as administrative agent. We also entered into a $2,000 18-month credit agreement (the "18-Month Credit Agreement") with Mizuho as initial lender and agent. On December 11, 2015, AT&T amended the Syndicated Credit Agreement and the 18-Month Credit Agreement to, among other things, revise the financial covenant to match the financial covenant in the Revolving Credit Agreement.

Revolving Credit Agreement

In the event advances are made under the Revolving Credit 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 the 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. We also may request that the total amount of the lender's commitments be increased by an integral multiple of $25 effective on a date that is at least 90 days prior to the scheduled termination date then in effect, provided that no event of default has occurred and in no event shall the total amount of the lender's commitments at any time exceed $14,000. At December 31, 2015, we had no advances outstanding under the Revolving Credit Agreement and we have complied will all covenants.

The obligations of the lenders to provide advances will terminate on December 11, 2020, unless prior to that date either: (i) AT&T reduces 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, 2020, termination date, under certain circumstances.

Advances under the Revolving Credit Agreement would bear interest, at AT&T's option, either:

- at a variable annual rate equal to (1) the highest of: (a) the base 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 Revolving Credit Agreement ("Applicable Margin for Base Advances"); or
- at a rate equal to: (i) LIBOR for a period of one, two, three or six months, as applicable, plus (ii) the Applicable Margin ("Applicable Margin for Eurocurrency Rate Advances").

The Applicable Margin for Eurocurrency Rate Advances will equal 0.680%, 0.910%, 1.025%, or 1.125% per annum, depending on AT&T's credit rating. The Applicable Margin for Base Rate Advances will be equal to the greater of 0.00% and the relevant Applicable Margin for Eurocurrency Rate Advances minus 1.00% per annum depending on AT&T's credit rating.

We will pay a facility fee of 0.070%, 0.090%, 0.100% or 0.125% per annum, depending on AT&T's credit rating, of the amount of lender commitments.

The Revolving Credit Agreement contains covenants that are customary for an issuer with an investment grade senior debt credit rating, as well as a net debt-to-EBITDA (earnings before interest, taxes, depreciation and amortization, and other modifications described in the Revolving Credit Agreement) financial ratio covenant that AT&T will maintain, as of the last day of each fiscal quarter, a ratio of not more than 3.5-to-1.

The Syndicated Credit Agreement

In March 2015, AT&T borrowed all amounts available under the Tranche A Facility and the Tranche B Facility. Amounts borrowed under the Tranche A Facility will be due on March 2, 2018. Amounts borrowed under the Tranche B Facility will be subject to amortization from March 2, 2018, with 25 percent of the aggregate principal amount thereof being payable prior to March 2, 2020, and all remaining principal amount due on March 2, 2020.

Advances bear interest at a rate equal to: (i) the LIBOR for deposits in dollars (adjusted upwards to reflect any bank reserve costs) for a period of three or six months, as applicable, plus (ii) the Applicable Margin (each such Advance, a Eurodollar Rate Advance). The Applicable Margin under the Tranche A Facility will equal 1.000%, 1.125% or 1.250% per annum depending on AT&T's credit rating. The Applicable Margin under the Tranche B Facility will equal 1.125%, 1.250% or 1.375% per annum, depending on AT&T's credit rating.

The Syndicated Credit Agreement contains covenants that are customary for an issuer with an investment grade senior debt credit rating. Among other things, the Syndicated Credit Agreement requires us to maintain a net debt-to-EBITDA (earnings before interest, income taxes, depreciation and amortization, and other modifications described in the Syndicated Credit Agreement) ratio of not more than 3.5-to-1, as of the last day of each fiscal quarter.

Events of default are customary for an agreement of this nature and result in the acceleration or permit the lenders to accelerate, as applicable, required payment and which would increase the Applicable Margin by 2.00% per annum.

The 18-Month Credit Agreement

In March 2015, AT&T borrowed all amounts available under the 18-Month Credit Agreement. Amounts borrowed under the 18-Month Credit Agreement will be due and payable on September 2, 2016. In September 2015, we partially repaid the amount borrowed.

Advances bear interest at a rate equal to: (i) the LIBOR for deposits in dollars (adjusted upwards to reflect any bank reserve costs) for a period of one, two, three or six months, as applicable, plus (ii) the Applicable Margin (each such Advance, a Eurodollar Rate Advance). The Applicable Margin will equal 0.800%, 0.900% or 1.000% per annum, depending on AT&T's credit rating. In the event that AT&T's unsecured senior long-term debt ratings are split by S&P, Moody's and Fitch, then the Applicable Margin will be determined by the highest rating, unless the lowest of such ratings is more than one level below the highest of such ratings, in which case the pricing will be the rating that is one level above the lowest of such ratings.

The 18-Month Credit Agreement contains affirmative and negative covenants and events of default equivalent to those contained in the Syndicated Credit Agreement.

Dollars in millions except per share amounts

NOTE 10. FAIR VALUE MEASUREMENTS AND DISCLOSURE

The Fair Value Measurement and Disclosure framework provides a three-tiered fair value hierarchy that gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that we have the ability to access.
Level 2	Inputs to the valuation methodology include: • Quoted prices for similar assets and liabilities in active markets. • Quoted prices for identical or similar assets or liabilities in inactive markets. • Inputs other than quoted market prices that are observable for the asset or liability. • Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement. • Fair value is often based on developed models in which there are few, if any, external observations.

The fair value measurements level of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation methodologies described above may produce a fair value calculation that may not be indicative of future net realizable value or reflective of future fair values. We believe our valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used since December 31, 2014.

Long-Term Debt and Other Financial Instruments

The carrying amounts and estimated fair values of our long-term debt, including current maturities and other financial instruments, are summarized as follows:

	December 31, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Notes and debentures[1]	**$124,847**	**$128,993**	$81,399	$90,367
Bank borrowings	**4**	**4**	5	5
Investment securities	**2,704**	**2,704**	2,735	2,735

[1] Includes credit agreement borrowings.

The carrying value of debt with an original maturity of less than one year approximates fair value. The fair value measurements used for notes and debentures are considered Level 2 and are determined using various methods, including quoted prices for identical or similar securities in both active and inactive markets.

Following is the fair value leveling for available-for-sale securities and derivatives as of December 31, 2015, and December 31, 2014:

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Available-for-Sale Securities				
Domestic equities	**$ 1,132**	**$ —**	**$ —**	**$ 1,132**
International equities	**569**	**—**	**—**	**569**
Fixed income bonds	**—**	**680**	**—**	**680**
Asset Derivatives[1]				
Interest rate swaps	**—**	**136**	**—**	**136**
Cross-currency swaps	**—**	**556**	**—**	**556**
Foreign exchange contracts	**—**	**3**	**—**	**3**
Liability Derivatives[1]				
Cross-currency swaps	**—**	**(3,466)**	**—**	**(3,466)**

[1] Derivatives designated as hedging instruments are reflected as "Other assets," "Other noncurrent liabilities" and, for a portion of interest rate swaps, "Other current assets" in our consolidated balance sheets.

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Available-for-Sale Securities				
Domestic equities	$ 1,160	$ —	$ —	$ 1,160
International equities	553	—	—	553
Fixed income bonds	—	836	—	836
Asset Derivatives[1]				
Interest rate swaps	—	157	—	157
Cross-currency swaps	—	1,243	—	1,243
Interest rate locks	—	5	—	5
Liability Derivatives[1]				
Cross-currency swaps	—	(1,506)	—	(1,506)
Interest rate locks	—	(133)	—	(133)

[1] Derivatives designated as hedging instruments are reflected as "Other assets," "Other noncurrent liabilities" and, for a portion of interest rate swaps, "Other current assets" in our consolidated balance sheets.

Investment Securities

Our investment securities include equities, fixed income bonds and other securities. A substantial portion of the fair values of our available-for-sale securities was estimated based on quoted market prices. Investments in securities not traded on a national securities exchange are valued using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Realized gains and losses on securities are included in "Other income (expense) – net" in the consolidated statements of income using the specific identification method. Unrealized gains and losses, net of tax, on available-for-sale securities are recorded in accumulated OCI. Unrealized losses that are considered other than temporary are recorded in "Other income (expense) – net" with the corresponding reduction to the carrying basis of the investment. Fixed income investments of $95 have maturities of less than one year, $320 within one to three years, $52 within three to five years, and $213 for five or more years.

Our cash equivalents (money market securities), short-term investments (certificate and time deposits) and customer deposits are recorded at amortized cost, and the respective carrying amounts approximate fair values. Short-term investments and customer deposits are recorded in "Other current assets" and our investment securities are recorded in "Other assets" on the consolidated balance sheets.

Derivative Financial Instruments

We employ derivatives to manage certain market risks, primarily interest rate risk and foreign currency exchange risk. This includes the use of interest rate swaps, interest rate locks, foreign exchange forward contracts and combined interest rate foreign exchange contracts (cross-currency swaps). We do not use derivatives for trading or speculative purposes. We record derivatives on our consolidated balance sheets at fair value that is derived from observable market data, including yield curves and foreign exchange rates (all of our derivatives are Level 2). Cash flows associated with derivative instruments are presented in the same category on the consolidated statements of cash flows as the item being hedged.

The majority of our derivatives are designated either as a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), or as a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge).

Fair Value Hedging We designate our fixed-to-floating interest rate swaps as fair value hedges. The purpose of these swaps is to manage interest rate risk by managing our mix of fixed-rate and floating-rate debt. These swaps involve the receipt of fixed-rate amounts for floating interest rate payments over the life of the swaps without exchange of the underlying principal amount. Accrued and realized gains or losses from interest rate swaps impact interest expense in the consolidated statements of income. Unrealized gains on interest rate swaps are recorded at fair market value as assets, and unrealized losses on interest rate swaps are recorded at fair market value as liabilities. Changes in the fair values of the interest rate swaps are exactly offset by changes in the fair value of the underlying debt. Gains or losses realized upon early termination of our fair value hedges are recognized in interest expense. In the years ended December 31, 2015, and December 31, 2014, no ineffectiveness was measured on interest rate swaps designated as fair value hedges.

Cash Flow Hedging We designate our cross-currency swaps as cash flow hedges. We have entered into multiple cross-currency swaps to hedge our exposure to variability in expected future cash flows that are attributable to foreign currency risk generated from the issuance of our Euro, British pound sterling, Canadian dollar and Swiss Franc denominated debt. These agreements include initial and final exchanges of principal from fixed foreign denominations to fixed U.S. denominated amounts, to be exchanged at a specified rate, usually determined by the market spot rate upon issuance. They also include an interest rate swap of a fixed or floating foreign-denominated rate to a fixed U.S. denominated interest rate.

Dollars in millions except per share amounts

Unrealized gains on derivatives designated as cash flow hedges are recorded at fair value as assets, and unrealized losses on derivatives designated as cash flow hedges are recorded at fair value as liabilities, both for the period they are outstanding. For derivative instruments designated as cash flow hedges, the effective portion is reported as a component of accumulated OCI until reclassified into interest expense in the same period the hedged transaction affects earnings. The gain or loss on the ineffective portion is recognized as "Other income (expense) – net" in the consolidated statements of income in each period. We evaluate the effectiveness of our cross-currency swaps each quarter. In the years ended December 31, 2015, and December 31, 2014, no ineffectiveness was measured on cross-currency swaps designated as cash flow hedges.

Periodically, we enter into and designate interest rate locks to partially hedge the risk of changes in interest payments attributable to increases in the benchmark interest rate during the period leading up to the probable issuance of fixed-rate debt. We designate our interest rate locks as cash flow hedges. Gains and losses when we settle our interest rate locks are amortized into income over the life of the related debt, except where a material amount is deemed to be ineffective, which would be immediately reclassified to "Other income (expense) – net" in the consolidated statements of income. In the years ended December 31, 2015, and December 31, 2014, no ineffectiveness was measured on interest rate locks. Over the next 12 months, we expect to reclassify $59 from accumulated OCI to interest expense due to the amortization of net losses on historical interest rate locks.

We hedge a portion of the exchange risk involved in anticipation of highly probable foreign currency-denominated transactions. In anticipation of these transactions, we often enter into foreign exchange contracts to provide currency at a fixed rate. Gains and losses at the time we settle or take delivery on our designated foreign exchange contracts are amortized into income in the same period the hedged transaction affects earnings, except where an amount is deemed to be ineffective, which would be immediately reclassified to "Other income (expense) – net" in the consolidated statements of income. In the years ended December 31, 2015, and December 31, 2014, no ineffectiveness was measured on foreign exchange contracts designated as cash flow hedges.

Collateral and Credit-Risk Contingency We have entered into agreements with our derivative counterparties establishing collateral thresholds based on respective credit ratings and netting agreements. At December 31, 2015, we had posted collateral of $2,343 (a deposit asset) and held collateral of $124 (a receipt liability). Under the agreements, if our credit rating had been downgraded one rating level by Fitch Ratings, before the final collateral exchange in December, we would have been required to post additional collateral of $105. If DIRECTV Holdings LLC's credit rating had been downgraded below BBB- (S&P) and below Baa3 (Moody's) we would owe an additional $163. At December 31, 2014, we had posted collateral of $530 (a deposit asset) and held collateral of $599 (a receipt liability). We do not offset the fair value of collateral, whether the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) exists, against the fair value of the derivative instruments.

Following is the notional amount of our outstanding derivative positions:

	2015	2014
Interest rate swaps	**$ 7,050**	$ 6,550
Cross-currency swaps	**29,642**	26,505
Interest rate locks	**—**	6,750
Foreign exchange contracts	**100**	—
Total	**$36,792**	$39,805

Following is the related hedged items affecting our financial position and performance:

Effect of Derivatives on the Consolidated Statements of Income

Fair Value Hedging Relationships For the years ended December 31,	**2015**	2014	2013
Interest rate swaps (Interest expense):			
Gain (Loss) on interest rate swaps	**$(16)**	$(29)	$(113)
Gain (Loss) on long-term debt	**16**	29	113

In addition, the net swap settlements that accrued and settled in the periods above were included in interest expense.

Cash Flow Hedging Relationships For the year ended December 31,	**2015**	2014	2013
Cross-currency swaps:			
Gain (Loss) recognized in accumulated OCI	**$ (813)**	$ 528	$ 813
Interest rate locks:			
Gain (Loss) recognized in accumulated OCI	**(361)**	(128)	—
Interest income (expense) reclassified from accumulated OCI into income	**(58)**	(44)	(46)
Foreign exchange contracts:			
Gain (Loss) recognized in accumulated OCI	**—**	—	(2)

NOTE 11. INCOME TAXES

Significant components of our deferred tax liabilities (assets) are as follows at December 31:

	2015	2014
Depreciation and amortization	**$ 59,879**	$ 47,082
Intangibles (nonamortizable)	**6,920**	1,874
Employee benefits	**(10,517)**	(11,679)
Deferred fulfillment costs	**2,172**	2,035
Net operating loss and other carryforwards	**(4,029)**	(2,126)
Other – net	**(1,478)**	68
Subtotal	**52,947**	37,254
Deferred tax assets valuation allowance	**2,141**	1,182
Net deferred tax liabilities	**$ 55,088**	$ 38,436
Noncurrent deferred tax liabilities	**$ 56,181**	$ 38,436
Less: Noncurrent deferred tax assets	**(1,093)**	—
Net deferred tax liabilities	**$ 55,088**	$ 38,436

At December 31, 2015, we had combined net operating loss carryforwards (tax effected) for federal income tax purposes of $106, state of $851 and foreign of $1,676, expiring through 2031. Additionally, we had federal credit carryforwards of $134 and state credit carryforwards of $1,262, expiring primarily through 2035. The increase in our net operating loss carryforwards was primarily due to our acquisitions of GSF Telecom, Nextel Mexico and DIRECTV.

We recognize a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion, or all, of a deferred tax asset will not be realized. Our valuation allowances at December 31, 2015 and 2014 related primarily to state and foreign net operating losses and state credit carryforwards. The increase in our valuation allowance was primarily due to our 2015 acquisitions.

We recognize the financial statement effects of a tax return position when it is more likely than not, based on the technical merits, that the position will ultimately be sustained. For tax positions that meet this recognition threshold, we apply our judgment, taking into account applicable tax laws, our experience in managing tax audits and relevant GAAP, to determine the amount of tax benefits to recognize in our financial statements. For each position, the difference between the benefit realized on our tax return and the benefit reflected in our financial statements is recorded on our consolidated balance sheets as an unrecognized tax benefit (UTB). We update our UTBs at each financial statement date to reflect the impacts of audit settlements and other resolutions of audit issues, the expiration of statutes of limitation, developments in tax law and ongoing discussions with taxing authorities.

A reconciliation of the change in our UTB balance from January 1 to December 31 for 2015 and 2014 is as follows:

Federal, State and Foreign Tax	2015	2014
Balance at beginning of year	**$ 4,465**	$ 4,227
Increases for tax positions related to the current year	**1,333**	470
Increases for tax positions related to prior years	**660**	484
Decreases for tax positions related to prior years	**(396)**	(657)
Lapse of statute of limitations	**(16)**	(38)
Settlements	**10**	(21)
Current year acquisitions	**864**	—
Foreign currency effects	**(22)**	—
Balance at end of year	**6,898**	4,465
Accrued interest and penalties	**1,138**	973
Gross unrecognized income tax benefits	**8,036**	5,438
Less: Deferred federal and state income tax benefits	**(582)**	(434)
Less: Tax attributable to timing items included above	**(3,460)**	(2,400)
Less: UTBs included above that relate to acquisitions that would impact goodwill if recognized during the measurement period	**(842)**	—
Total UTB that, if recognized, would impact the effective income tax rate as of the end of the year	**$ 3,152**	$ 2,604

Periodically we make deposits to taxing jurisdictions which reduce our UTB balance but are not included in the reconciliation above. The amount of deposits that reduced our UTB balance was $3,027 at December 31, 2015, and $2,258 at December 31, 2014.

Accrued interest and penalties included in UTBs were $1,138 as of December 31, 2015, and $973 as of December 31, 2014. We record interest and penalties related to federal, state and foreign UTBs in income tax expense. The net interest and penalty expense (benefit) included in income tax expense was $83 for 2015, $(64) for 2014, and $35 for 2013.

We file income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions. As a large taxpayer, our income tax returns are regularly audited by the Internal Revenue Service (IRS) and other taxing authorities. The IRS has completed field examinations of our tax returns through 2010. All audit periods prior to 2003 are closed for federal examination purposes. Contested issues from our 2003 through 2010 returns are at various stages of resolution with the IRS Appeals Division; we are unable to estimate the impact the resolution of these issues may have on our UTBs.

Dollars in millions except per share amounts

The components of income tax (benefit) expense are as follows:

	2015	2014	2013
Federal:			
Current	**$2,496**	$1,610	$3,044
Deferred	**3,828**	2,060	5,783
	6,324	3,670	8,827
State and local:			
Current	**72**	(102)	(132)
Deferred	**671**	(73)	596
	743	(175)	464
Foreign:			
Current	**320**	163	71
Deferred	**(382)**	(39)	(34)
	(62)	124	37
Total	**$7,005**	$3,619	$9,328

"Income Before Income Taxes" in the Consolidated Statements of Income included the following components for the years ended December 31:

	2015	2014	2013
U.S. income before income taxes	**$21,519**	$10,244	$27,903
Foreign income (loss) before income taxes	**(827)**	111	147
Total	**$20,692**	$10,355	$28,050

A reconciliation of income tax expense (benefit) and the amount computed by applying the statutory federal income tax rate (35%) to income from continuing operations before income taxes is as follows:

	2015	2014	2013
Taxes computed at federal statutory rate	**$7,242**	$3,624	$9,818
Increases (decreases) in income taxes resulting from:			
State and local income taxes – net of federal income tax benefit	**483**	(113)	302
Connecticut wireline sale	**—**	350	—
Loss of foreign tax credits in connection with América Móvil sale	**—**	386	—
Other – net	**(720)**	(628)	(792)
Total	**$7,005**	$3,619	$9,328
Effective Tax Rate	**33.9%**	34.9%	33.3%

NOTE 12. PENSION AND POSTRETIREMENT BENEFITS

Pension Benefits and Postretirement Benefits

Substantially all of our U.S. employees are covered by one of our noncontributory pension plans. The majority of our newly hired employees, longer-service management and some nonmanagement employees participate in cash balance pension programs that include annual or monthly credits based on salary as well as an interest credit. Other longer-service management employees participate in pension programs that have a traditional pension formula (i.e., a stated percentage of employees' adjusted career income). Other longer-service nonmanagement employees' pension benefits are generally calculated using one of two formulas: a flat dollar amount applied to years of service according to job classification or a cash balance plan with negotiated annual pension band credits as well as interest credits. Most nonmanagement employees can elect to receive their pension benefits in either a lump sum payment or an annuity. Effective January 1, 2015, the pension plan was amended so that new management hires are no longer eligible for the plan.

We also provide a variety of medical, dental and life insurance benefits to certain retired employees under various plans and accrue actuarially determined postretirement benefit costs as active employees earn these benefits.

We acquired DIRECTV on July 24, 2015. DIRECTV sponsors a noncontributory defined benefit pension plan, which provides benefits to most employees based on either years of service and final average salary, or eligible compensation while employed by DIRECTV. DIRECTV also maintains (1) a postretirement benefit plan for those retirees eligible to participate in health care and life insurance benefits generally until they reach age 65 and (2) an unfunded nonqualified pension plan for certain eligible employees. We have recorded the fair value of the DIRECTV plans using assumptions and accounting policies consistent with those disclosed by AT&T. Upon acquisition, the excess of projected benefit obligation over the plan assets was recognized as a liability and previously existing deferred actuarial gains and losses and unrecognized service costs or benefits were eliminated.

In December 2014, we announced an opportunity for certain management employees who are retirement eligible as of March 31, 2015 to elect an enhanced, full lump sum payment option of their accrued pension if they retire on or before March 31, 2015. The lump sum value totaled approximately $1,200 which was distributed in 2015. We recorded special termination benefits of $149 as a result of the offer.

In October 2013, we offered an opportunity for certain retirement-eligible employees to elect a full lump sum payment of their accrued pension if they retired as of December 30, 2013. The lump sum value was calculated using the August 2012 discount rates for some pension programs and was equal to the cash balance amount for the management new hire pension program. The lump sum value totaled approximately $2,700, which was distributed in 2014. We recorded special termination benefits of $15 in 2014 and $250 in 2013 as a result of this offer.

In October 2013, as part of our 2014 annual benefits enrollment process, we also communicated an amendment to our Medicare-eligible retirees that, beginning in 2015, AT&T would provide access to retiree health insurance coverage that supplements government-sponsored Medicare through a private insurance marketplace. The plan was further amended in 2014 to include access to dental benefits through the private insurance marketplace. This new approach allowed retirees to choose insurance with the terms, cost and coverage that best fit their needs, while still receiving financial support as determined by AT&T. Future changes in support, if any, will be based on a number of factors such as business conditions, government actions, marketplace changes and the general consumer inflation rate.

In the fourth quarter of 2014, we changed the method we use to estimate the service and interest components of net periodic benefit cost for pension (as of October 1, 2014) and other postretirement benefits (as of December 31, 2014). This change did not affect the measurement of our total benefit obligations or our annual net periodic benefit cost as the change in service and interest costs was completely offset in the actuarial (gain) loss reported. This change compared to the previous method resulted in a decrease of $150 in the service and interest components for pension cost in the fourth quarter of 2014. For the year ended December 31, 2015, the change resulted in an incremental decrease of $740 in service and interest components for pension and postretirement costs. Prior to the fourth quarter of 2014, we estimated these service and interest cost components utilizing a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. We have elected to utilize a full yield curve approach in the estimation of these components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. We have made this change to provide a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates. We have accounted for this change as a change in accounting estimate that is inseparable from a change in accounting principle and accordingly have accounted for it prospectively.

Obligations and Funded Status

For defined benefit pension plans, the benefit obligation is the "projected benefit obligation," the actuarial present value, as of our December 31 measurement date, of all benefits attributed by the pension benefit formula to employee service rendered to that date. The amount of benefit to be paid depends on a number of future events incorporated into the pension benefit formula, including estimates of the average life of employees/survivors and average years of service rendered. It is measured based on assumptions concerning future interest rates and future employee compensation levels.

For postretirement benefit plans, the benefit obligation is the "accumulated postretirement benefit obligation," the actuarial present value as of a date of all future benefits attributed under the terms of the postretirement benefit plan to employee service rendered to the valuation date.

The following table presents this reconciliation and shows the change in the projected benefit obligation for the years ended December 31:

	Pension Benefits		Postretirement Benefits	
	2015	2014	**2015**	2014
Benefit obligation at beginning of year	**$59,543**	$56,560	**$30,709**	$30,285
Service cost – benefits earned during the period	**1,212**	1,134	**222**	233
Interest cost on projected benefit obligation	**1,902**	2,470	**967**	1,458
Amendments	**(8)**	(73)	**(74)**	(617)
Actuarial (gain) loss	**(3,079)**	6,269	**(1,988)**	1,822
Special termination benefits	**149**	17	**—**	—
Benefits paid	**(4,681)**	(6,543)	**(1,958)**	(2,298)
DIRECTV acquisition	**470**	—	**20**	—
Transfer for sale of Connecticut wireline operations	**(42)**	(293)	**—**	(174)
Plan transfers	**(2)**	2	**—**	—
Benefit obligation at end of year	**$55,464**	$59,543	**$27,898**	$30,709

The following table presents the change in the value of plan assets for the years ended December 31 and the plans' funded status at December 31:

	Pension Benefits		Postretirement Benefits	
	2015	2014	**2015**	2014
Fair value of plan assets at beginning of year	**$ 45,163**	$ 47,238	**$ 7,846**	$ 8,960
Actual return on plan assets	**604**	4,213	**64**	384
Benefits paid[1]	**(4,681)**	(6,543)	**(1,239)**	(1,498)
Contributions	**735**	562	**—**	—
DIRECTV acquisition	**418**	—	**—**	—
Transfer for sale of Connecticut wireline operations	**(42)**	(308)	**—**	—
Plan transfers and other	**(2)**	1	**—**	—
Fair value of plan assets at end of year[3]	**42,195**	45,163	**6,671**	7,846
Unfunded status at end of year[2]	**$(13,269)**	$(14,380)	**$(21,227)**	$(22,863)

[1] At our discretion, certain postretirement benefits may be paid from AT&T cash accounts, which does not reduce Voluntary Employee Benefit Association (VEBA) assets. Future benefit payments may be made from VEBA trusts and thus reduce those asset balances.
[2] Funded status is not indicative of our ability to pay ongoing pension benefits or of our obligation to fund retirement trusts. Required pension funding is determined in accordance with the Employee Retirement Income Security Act of 1974, as amended (ERISA) regulations.
[3] Net assets available for benefits were $50,909 at December 31, 2015 and $54,184 at December 31, 2014 and include the preferred equity interest in AT&T Mobility II LLC discussed below, which was valued at $8,714 and $9,021, respectively.

Dollars in millions except per share amounts

In July 2014, the U.S. Department of Labor published in the Federal Register their final retroactive approval of our September 9, 2013 voluntary contribution of a preferred equity interest in AT&T Mobility II LLC, the primary holding company for our wireless business, to the trust used to pay pension benefits under our qualified pension plans. The preferred equity interest had a value of $9,104 on the contribution date and was valued at $8,714 at December 31, 2015. The trust is entitled to receive cumulative cash distributions of $560 per annum, which will be distributed quarterly in equal amounts and will be accounted for as contributions. We distributed $560 to the trust during 2015. So long as we make the distributions, we will have no limitations on our ability to declare a dividend, or repurchase shares. This preferred equity interest is a plan asset under ERISA and is recognized as such in the plan's separate financial statements. However, because the preferred equity interest is not unconditionally transferable to an unrelated party (see Note 14), it is not reflected in plan assets in our consolidated financial statements and instead has been eliminated in consolidation. At the time of the contribution of the preferred equity interest, we made an additional cash contribution of $175 and have agreed to annual cash contributions of $175 no later than the due date for our federal income tax return for each of 2014, 2015 and 2016. We made such a contribution of $175 in 2015. These contributions combined with our existing pension assets are in excess of 90% of the pension obligation at December 31, 2015.

As noted above, this preferred equity interest represents a plan asset of our pension trust, which is recognized in the separate financial statements of our pension plan as a qualified plan asset for funding purposes. The following table presents a reconciliation of our pension plan assets recognized in the consolidated financial statements of the Company with the net assets available for benefits included in the separate financial statements of the pension plan at December 31:

	2015	2014
Plan assets recognized in the consolidated financial statements	**$42,195**	$45,163
Preferred equity interest in Mobility	**8,714**	9,021
Net assets available for benefits	**$50,909**	$54,184

Amounts recognized on our consolidated balance sheets at December 31 are listed below:

	Pension Benefits		Postretirement Benefits	
	2015	2014	**2015**	2014
Current portion of employee benefit obligation[1]	**$ —**	$ —	**$ (1,766)**	$ (1,842)
Employee benefit obligation[2]	**(13,269)**	(14,380)	**(19,461)**	(21,021)
Net amount recognized	**$(13,269)**	$(14,380)	**$(21,227)**	$(22,863)

[1] Included in "Accounts payable and accrued liabilities."
[2] Included in "Postemployment benefit obligation."

The accumulated benefit obligation for our pension plans represents the actuarial present value of benefits based on employee service and compensation as of a certain date and does not include an assumption about future compensation levels. The accumulated benefit obligation for our pension plans was $54,007 at December 31, 2015, and $57,949 at December 31, 2014.

Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive Income

Periodic Benefit Costs

Our combined net pension and postretirement (credit) cost recognized in our consolidated statements of income was $(2,821), $7,232 and $(7,390) for the years ended December 31, 2015, 2014 and 2013. A portion of pension and postretirement benefit costs is capitalized as part of the benefit load on internal construction and capital expenditures, providing a small reduction in the net expense recorded. The following table presents the components of net periodic benefit cost:

	Pension Benefits			Postretirement Benefits		
	2015	2014	2013	**2015**	2014	2013
Service cost – benefits earned during the period	**$ 1,212**	$ 1,134	$ 1,321	**$ 222**	$ 233	$ 352
Interest cost on projected benefit obligation	**1,902**	2,470	2,429	**967**	1,458	1,532
Expected return on assets	**(3,317)**	(3,380)	(3,312)	**(421)**	(653)	(706)
Amortization of prior service credit	**(103)**	(94)	(94)	**(1,278)**	(1,448)	(1,161)
Actuarial (gain) loss	**(373)**	5,419	(5,013)	**(1,632)**	2,093	(2,738)
Net pension and postretirement (credit) cost	**$ (679)**	$ 5,549	$(4,669)	**$(2,142)**	$ 1,683	$(2,721)

Other Changes in Benefit Obligations Recognized in Other Comprehensive Income

The following table presents the after-tax changes in benefit obligations recognized in OCI and the after-tax prior service credits that were amortized from OCI into net periodic benefit costs:

	Pension Benefits			Postretirement Benefits		
	2015	2014	2013	**2015**	2014	2013
Balance at beginning of year	**$575**	$583	$641	**$6,257**	$6,812	$4,766
Prior service (cost) credit	**1**	45	—	**45**	383	2,765
Amortization of prior service credit	**(64)**	(58)	(58)	**(792)**	(898)	(719)
Reclassification to income of prior service credit	**—**	5	—	**—**	(40)	—
Total recognized in other comprehensive (income) loss	**(63)**	(8)	(58)	**(747)**	(555)	2,046
Balance at end of year	**$512**	$575	$583	**$5,510**	$6,257	$6,812

The estimated prior service credits that will be amortized from accumulated OCI into net periodic benefit cost over the next fiscal year are $103 ($64 net of tax) for pension and $1,277 ($792 net of tax) for postretirement benefits.

Assumptions

In determining the projected benefit obligation and the net pension and postretirement benefit cost, we used the following significant weighted-average assumptions:

	Pension Benefits			Postretirement Benefits		
	2015	2014	2013	**2015**	2014	2013
Weighted-average discount rate for determining projected benefit obligation at December 31	**4.60%**	4.30%	5.00%	**4.50%**	4.20%	5.00%
Discount rate in effect for determining service cost	**4.60%**	5.00%	4.30%	**4.60%**	5.00%	4.30%
Discount rate in effect for determining interest cost[1]	**3.30%**	4.60%	4.30%	**3.30%**	5.00%	4.30%
Long-term rate of return on plan assets	**7.75%**	7.75%	7.75%	**5.75%**	7.75%	7.75%
Composite rate of compensation increase for determining projected benefit obligation	**3.10%**	3.00%	3.00%	**3.10%**	3.00%	3.00%
Composite rate of compensation increase for determining net pension cost (benefit)	**3.00%**	3.00%	3.00%	**3.00%**	3.00%	3.00%

[1] Weighted-average discount rate of 5.00% in effect for pension costs from January 1, 2014 through September 30, 2014. Discount rates in effect of 4.90% for service cost and 3.50% for interest cost from October 1, 2014 through December 31, 2014. A discount rate of 5.00% was used for postretirement costs for the year ended December 31, 2014.

We recognize gains and losses on pension and postretirement plan assets and obligations immediately in our operating results. These gains and losses are measured annually as of December 31 and accordingly will be recorded during the fourth quarter, unless earlier remeasurements are required.

Discount Rate Our assumed weighted-average discount rate for pension and postretirement benefits of 4.60% and 4.50% respectively, at December 31, 2015, reflects the hypothetical rate at which the projected benefit obligation 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 corresponding to the related expected durations of future cash outflows. 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, 2015, when compared to the year ended December 31, 2014, we increased our pension discount rate by 0.30%, resulting in a decrease in our pension plan benefit obligation of $1,977 and increased our postretirement discount rate 0.30%, resulting in a decrease in our postretirement benefit obligation of $854. For the year ended December 31, 2014, we decreased our pension discount rate by 0.70%, resulting in an increase in our pension plan benefit obligation of $4,854 and decreased our postretirement discount rates by 0.80%, resulting in an increase in our postretirement benefit obligation of $2,786.

We utilize a full yield curve approach in the estimation of the service and interest components of net periodic benefit costs for pension and other postretirement benefits. Under this approach, we apply discounting using individual spot rates from a yield curve composed of the rates of return on several hundred high-quality, fixed income corporate bonds available at the measurement date. These spot rates align to each of the projected benefit obligations and service cost cash flows. The service cost component relates to the active participants in the plan, so the relevant cash flows on which to apply the yield curve are considerably longer in duration on average than the total projected benefit obligation cash flows, which also include benefit payments to retirees. Interest cost is computed by multiplying each spot rate by the corresponding discounted projected benefit obligation cash flows. The full yield curve approach reduces any actuarial gains and losses based upon interest rate expectations (e.g., built-in gains in interest cost in an upward sloping yield curve scenario), or gains and losses merely resulting from the timing and magnitude of cash outflows associated with our benefit obligations. Neither the annual measurement of our total benefit obligations nor annual net benefit cost is affected by the full yield curve approach. For our pension benefits, the single effective interest rate used for periodic service and interest costs during 2015 are 4.60% and 3.30%, respectively. For our postretirement benefits, the single effective interest rate used for periodic service and interest costs during 2015 are 4.60% and 3.30%.

Dollars in millions except per share amounts

Expected Long-Term Rate of Return Our expected long-term rate of return on pension plan assets is 7.75% for 2016 and 2015. Our expected long-term rate of return on postretirement plan assets is 5.75% for 2016 and 2015. Our long-term rates of return reflect the average rate of earnings expected on the funds invested, or to be invested, to provide for the benefits included in the projected benefit obligations. In setting the long-term assumed rate of return, management considers capital markets future expectations and the asset mix of the plans' investments. Actual long-term return can, in relatively stable markets, also serve as a factor in determining future expectations. We consider many factors that include, but are not limited to, historical returns on plan assets, current market information on long-term returns (e.g., long-term bond rates) and current and target asset allocations between asset categories. The target asset allocation is determined based on consultations with external investment advisers. If all other factors were to remain unchanged, we expect that a 0.50% decrease in the expected long-term rate of return would cause 2016 combined pension and postretirement cost to increase $232. However, any differences in the rate and actual returns will be included with the actuarial gain or loss recorded in the fourth quarter when our plans are remeasured.

Composite Rate of Compensation Increase Our expected composite rate of compensation increase cost of 3.10% in 2015 and 3.00% in 2014 reflects the long-term average rate of salary increases.

Mortality Tables At December 31, 2015 we updated our assumed mortality rates to reflect our best estimate of future mortality, which decreased our pension obligation by $859 and decreased our postretirement obligations by $274. At December 31, 2014 we updated our assumed mortality rates, which increased our pension obligation by $1,442 and increased our postretirement obligations by $53.

Healthcare Cost Trend Our healthcare cost trend assumptions are developed based on historical cost data, the near-term outlook and an assessment of likely long-term trends. Due to historical experience, updated expectations of healthcare industry inflation and recent prescription drug cost experience, our 2016 assumed annual healthcare prescription drug cost trend for non-Medicare eligible participants will increase to 6.25%, trending to our ultimate trend rate of 4.50% in 2023 and for Medicare-eligible participants will remain at an assumed annual and ultimate trend rate of 4.50%. This change in assumption increased our obligation by $23. In 2015 our assumed annual healthcare prescription drug cost trend rate for non-Medicare eligible participants was 6.00%, trending to our ultimate trend rate of 4.50% in 2021. Medicare-eligible retirees who receive access to retiree health insurance coverage through a private insurance marketplace are not subject to assumed healthcare trend. In addition to the healthcare cost trend in 2015, we assumed an annual 2.50% growth in administrative expenses and an annual 3.00% growth in dental claims.

A one percentage-point change in the assumed combined medical and dental cost trend rate would have the following effects:

	One Percentage-Point Increase	One Percentage-Point Decrease
Increase (decrease) in total of service and interest cost components	$ 58	$ (51)
Increase (decrease) in accumulated postretirement benefit obligation	660	(590)

Plan Assets

Plan assets consist primarily of private and public equity, government and corporate bonds, and real assets (real estate and natural resources). The asset allocations of the pension plans are maintained to meet ERISA requirements. Any plan contributions, as determined by ERISA regulations, are made to a pension trust for the benefit of plan participants. As part of our voluntary contribution of the Mobility preferred equity interest, we will contribute $735 of cash distributions during 2016. We do not have additional significant required contributions to our pension plans for 2016.

We maintain VEBA trusts to partially fund postretirement benefits; however, there are no ERISA or regulatory requirements that these postretirement benefit plans be funded annually.

The principal investment objectives are to ensure the availability of funds to pay pension and postretirement benefits as they become due under a broad range of future economic scenarios, to maximize long-term investment return with an acceptable level of risk based on our pension and postretirement obligations, and to be broadly diversified across and within the capital markets to insulate asset values against adverse experience in any one market. Each asset class has broadly diversified characteristics. Substantial biases toward any particular investing style or type of security are sought to be avoided by managing the aggregation of all accounts with portfolio benchmarks. Asset and benefit obligation forecasting studies are conducted periodically, generally every two to three years, or when significant changes have occurred in market conditions, benefits, participant demographics or funded status. Decisions regarding investment policy are made with an understanding of the effect of asset allocation on funded status, future contributions and projected expenses. The current asset allocation policy and risk level for the pension plan and VEBA assets is based on studies completed and approved during 2013 and 2015, respectively, and is reflected in the table below.

The plans' weighted-average asset targets and actual allocations as a percentage of plan assets, including the notional exposure of future contracts by asset categories at December 31, are as follows:

	Pension Assets			Postretirement (VEBA) Assets		
	Target	**2015**	2014	Target	**2015**	2014
Equity securities:						
Domestic	20% – 30%	**22%**	23%	21% – 31%	**26%**	29%
International	10% – 20%	**15**	14	9% – 19%	**14**	20
Fixed income securities	35% – 45%	**40**	38	29% – 39%	**34**	29
Real assets	6% – 16%	**10**	11	0% – 6%	**1**	1
Private equity	4% – 14%	**12**	12	0% – 7%	**2**	3
Other	0% – 5%	**1**	2	17% – 27%	**23**	18
Total		**100%**	100%		**100%**	100%

At December 31, 2015, AT&T securities represented less than 0.5% of assets held by our pension plans and 6% of assets (primarily common stock) held by our VEBA trusts included in these financial statements.

Investment Valuation

Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See "Fair Value Measurements" for further discussion.

Investments in securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the year. If no sale was reported on that date, they are valued at the last reported bid price. Investments in securities not traded on a national securities exchange are valued using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Shares of registered investment companies are valued based on quoted market prices, which represent the net asset value of shares held at year-end. Over-the-counter (OTC) securities are valued at the bid price or the average of the bid and asked price on the last business day of the year from published sources where available and, if not available, from other sources considered reliable. Depending on the types and contractual terms of OTC derivatives, fair value is measured using valuation techniques, such as the Black-Scholes option pricing model, simulation models or a combination of various models.

Common/collective trust funds, pooled separate accounts and other commingled (103-12) investment entities are valued at quoted redemption values that represent the net asset values of units held at year-end which management has determined approximates fair value.

Alternative investments, including investments in private equity, real estate, natural resources (included in real assets), mezzanine and distressed debt (included in partnerships/joint ventures), limited partnership interests, certain fixed income securities and hedge funds do not have readily available market values. These estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed, and such differences could be material. Alternative investments not having an established market are valued at fair value as determined by the investment managers. Private equity, mezzanine and distressed investments are often valued initially by the investment managers based upon cost. Thereafter, investment managers may use available market data to determine adjustments to carrying value based upon observations of the trading multiples of public companies considered comparable to the private companies being valued. Such market data used to determine adjustments to accounts for cash flows and company-specified issues include current operating performance and future expectations of the investments, changes in market outlook, and the third-party financing environment. Private equity partnership holdings may also include publicly held equity investments in liquid markets that are marked-to-market at quoted public values, subject to adjustments for large positions held. Real estate and natural resource direct investments are valued either at amounts based upon appraisal reports prepared by independent third-party appraisers or at amounts as determined by internal appraisals performed by the investment manager, which are reasonable as determined by the review of an external valuation consultant. Fixed income securities valuation is based upon pricing provided by an external pricing service when such pricing is available. In the event a security is too thinly traded or narrowly held to be priced by such a pricing service, or the price furnished by such external pricing services is deemed inaccurate, the managers will then solicit broker/dealer quotes (spreads or prices). In cases where such quotes are available, fair value will be determined based solely upon such quotes provided. Managers will typically use a pricing matrix for determining fair value in cases where an approved pricing service or a broker/dealer is unable to provide a fair valuation for specific fixed-rate securities such as many private placements. New fixed-rate securities will be initially valued at cost at the time of purchase. Thereafter, each bond will be assigned a spread from a pricing matrix that will be added to current Treasury rates. The pricing matrix derives spreads for each bond based on external market data, including the current credit rating for the bonds, credit spreads to Treasuries for each credit rating, sector add-ons or credits, issue-specific add-ons or credits as well as call or other options.

Dollars in millions except per share amounts

Purchases and sales of securities are recorded as of the trade date. Realized gains and losses on sales of securities are determined on the basis of average cost. Interest income is recognized on the accrual basis. Dividend income is recognized on the ex-dividend date.

Non-interest bearing cash and overdrafts are valued at cost, which approximates fair value.

Fair Value Measurements

See Note 10 for a discussion of fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The following tables set forth by level, within the fair value hierarchy, the pension and postretirement assets and liabilities at fair value as of December 31, 2015:

Pension Assets and Liabilities at Fair Value as of December 31, 2015	Level 1	Level 2	Level 3	Total
Non-interest bearing cash	$ 160	$ —	$ —	$ 160
Interest bearing cash	—	25	—	25
Foreign currency contracts	—	25	—	25
Equity securities:				
Domestic equities	8,315	4	—	8,319
International equities	4,287	—	—	4,287
Fixed income securities:				
Asset-backed securities	—	403	1	404
Mortgage-backed securities	—	792	—	792
Collateralized mortgage-backed securities	—	278	—	278
Collateralized mortgage obligations/REMICS	—	345	—	345
Corporate and other fixed income instruments and funds	65	8,274	373	8,712
Government and municipal bonds	75	4,495	-	4,570
Private equity funds	—	—	4,926	4,926
Real estate and real assets	—	—	4,357	4,357
Commingled funds	—	5,522	2	5,524
Securities lending collateral	512	3,538	—	4,050
Receivable for variation margin	13	—	—	13
Assets at fair value	13,427	23,701	9,659	46,787
Investments sold short and other liabilities at fair value	(824)	(12)	—	(836)
Total plan net assets at fair value	$12,603	$23,689	$9,659	$ 45,951
Other assets (liabilities)[1]				(3,756)
Total Plan Net Assets				**$42,195**

[1] Other assets (liabilities) include amounts receivable, accounts payable and net adjustment for securities lending payable.

Postretirement Assets and Liabilities at Fair Value as of December 31, 2015	Level 1	Level 2	Level 3	Total
Non-interest bearing cash	$ 2	$ —	$ —	$ 2
Interest bearing cash	220	1,292	—	1,512
Foreign currencies	4	—	—	4
Equity securities:				
Domestic equities	1,187	—	—	1,187
International equities	869	—	—	869
Fixed income securities:				
Asset-backed securities	—	35	2	37
Collateralized mortgage-backed securities	—	120	13	133
Collateralized mortgage obligations	—	45	—	45
Corporate and other fixed income instruments and funds	—	389	—	389
Government and municipal bonds	—	617	—	617
Commingled funds	—	1,681	1	1,682
Private equity assets	—	—	155	155
Real assets	—	—	81	81
Securities lending collateral	6	189	—	195
Futures Contracts	1	—	—	1
Total plan net assets at fair value	$2,289	$4,368	$252	$ 6,909
Other assets (liabilities)[1]				(238)
Total Plan Net Assets				**$6,671**

[1] Other assets (liabilities) include amounts receivable, accounts payable and net adjustment for securities lending payable.

The tables below set forth a summary of changes in the fair value of the Level 3 pension and postretirement assets for the year ended December 31, 2015:

Pension Assets	Equities	Fixed Income Funds	Private Equity Funds	Real Estate and Real Assets	Total
Balance at beginning of year	$ —	$ 444	$ 5,399	$ 4,845	$10,688
Realized gains (losses)	(1)	29	426	416	870
Unrealized gains (losses)	1	(16)	132	(114)	3
Transfers in	—	—	—	19	19
Transfers out	—	—	(19)	—	(19)
Purchases	—	29	436	474	939
Sales	—	(110)	(1,448)	(1,283)	(2,841)
Balance at end of year	**$ —**	**$376**	**$4,926**	**$4,357**	**$ 9,659**

Postretirement Assets	Fixed Income Funds	Private Equity Funds	Real Assets	Total
Balance at beginning of year	$ 3	$ 218	$ 96	$ 317
Realized gains (losses)	—	(16)	(2)	(18)
Unrealized gains (losses)	—	24	(1)	23
Transfers in	15	—	25	40
Transfers out	(1)	—	(25)	(26)
Purchases	—	30	1	31
Sales	(1)	(101)	(13)	(115)
Balance at end of year	**$16**	**$155**	**$81**	**$252**

The following tables set forth by level, within the fair value hierarchy, the pension and postretirement assets and liabilities at fair value as of December 31, 2014:

Pension Assets and Liabilities at Fair Value as of December 31, 2014	Level 1	Level 2	Level 3	Total
Non-interest bearing cash	$ 45	$ —	$ —	$ 45
Interest bearing cash	—	127	—	127
Foreign currency contracts	—	25	—	25
Equity securities:				
Domestic equities	8,613	74	—	8,687
International equities	4,805	171	—	4,976
Fixed income securities:				
Asset-backed securities	—	610	1	611
Mortgage-backed securities	—	1,741	—	1,741
Collateralized mortgage-backed securities	—	418	—	418
Collateralized mortgage obligations/REMICS	—	531	—	531
Corporate and other fixed income instruments and funds	97	7,210	441	7,748
Government and municipal bonds	145	4,876	—	5,021
Private equity funds	—	—	5,399	5,399
Real estate and real assets	—	—	4,845	4,845
Commingled funds	—	5,823	2	5,825
Securities lending collateral	310	3,140	—	3,450
Receivable for variation margin	6	—	—	6
Purchased options	1	—	—	1
Assets at fair value	14,022	24,746	10,688	49,456
Investments sold short and other liabilities at fair value	(650)	(260)	—	(910)
Total plan net assets at fair value	$13,372	$24,486	$10,688	$48,546
Other assets (liabilities)[1]				(3,383)
Total Plan Net Assets				$45,163

[1] Other assets (liabilities) include amounts receivable, accounts payable and net adjustment for securities lending payable.

Dollars in millions except per share amounts

Postretirement Assets and Liabilities at Fair Value as of December 31, 2014	Level 1	Level 2	Level 3	Total
Interest bearing cash	$ 278	$1,198	$ —	$1,476
Equity securities:				
Domestic equities	1,606	—	—	1,606
International equities	1,405	—	—	1,405
Fixed income securities:				
Asset-backed securities	—	46	—	46
Collateralized mortgage-backed securities	—	113	—	113
Collateralized mortgage obligations	—	50	1	51
Corporate and other fixed income instruments and funds	—	397	—	397
Government and municipal bonds	—	614	1	615
Commingled funds	—	1,960	1	1,961
Private equity assets	—	—	218	218
Real assets	—	—	96	96
Securities lending collateral	—	173	—	173
Total plan net assets at fair value	$3,289	$4,551	$317	$8,157
Other assets (liabilities)[1]				(311)
Total Plan Net Assets				$7,846

[1] Other assets (liabilities) include amounts receivable, accounts payable and net adjustment for securities lending payable.

The tables below set forth a summary of changes in the fair value of the Level 3 pension and postretirement assets for the year ended December 31, 2014:

Pension Assets	Equities	Fixed Income Funds	Private Equity Funds	Real Estate and Real Assets	Total
Balance at beginning of year	$ —	$ 547	$ 5,724	$ 5,194	$11,465
Realized gains (losses)	—	41	696	806	1,543
Unrealized gains (losses)	—	(1)	(76)	(246)	(323)
Transfers in	—	—	—	22	22
Transfers out	—	(3)	(22)	—	(25)
Purchases	1	55	531	678	1,265
Sales	(1)	(195)	(1,454)	(1,609)	(3,259)
Balance at end of year	$ —	$ 444	$ 5,399	$ 4,845	$10,688

Postretirement Assets	Fixed Income Funds	Private Equity Funds	Real Assets	Total
Balance at beginning of year	$ 26	$ 309	$111	$ 446
Realized gains (losses)	—	45	(3)	42
Unrealized gains (losses)	1	(29)	11	(17)
Transfers out	(1)	—	—	(1)
Purchases	—	6	—	6
Sales	(23)	(113)	(23)	(159)
Balance at end of year	$ 3	$ 218	$ 96	$ 317

Estimated Future Benefit Payments

Expected benefit payments are estimated using the same assumptions used in determining our benefit obligation at December 31, 2015. Because benefit payments will depend on future employment and compensation levels, average years employed, average life spans, and payment elections, among other factors, changes in any of these factors could significantly affect these expected amounts. The following table provides expected benefit payments under our pension and postretirement plans:

	Pension Benefits	Postretirement Benefits
2016	$ 4,705	$2,024
2017	4,424	1,995
2018	4,294	1,973
2019	4,198	1,939
2020	4,155	1,894
Years 2021 – 2025	19,886	8,884

Supplemental Retirement Plans

We also provide certain senior- and middle-management employees with nonqualified, unfunded supplemental retirement and savings plans. While these plans are unfunded, we have assets in a designated nonbankruptcy remote trust that are independently managed and used to provide for these benefits. These plans include supplemental pension benefits as well as compensation-deferral plans, some of which include a corresponding match by us based on a percentage of the compensation deferral.

We use the same significant assumptions for the composite rate of compensation increase in determining our projected benefit obligation and the net pension and postemployment benefit cost. Our discount rates of 4.4% at December 31, 2015 and 4.1% at December 31, 2014 were calculated using the same methodologies used in calculating the discount rate for our qualified pension and postretirement benefit plans. The following tables provide the plans' benefit obligations and fair value of assets at December 31 and the components of the supplemental retirement pension benefit cost. The net amounts are recorded as "Other noncurrent liabilities" on our consolidated balance sheets.

The following table provides information for our supplemental retirement plans with accumulated benefit obligations in excess of plan assets at December 31:

	2015	2014
Projected benefit obligation	**$(2,444)**	$(2,458)
Accumulated benefit obligation	**(2,372)**	(2,410)
Fair value of plan assets	**—**	—

The following tables present the components of net periodic benefit cost and other changes in plan assets and benefit obligations recognized in OCI:

Net Periodic Benefit Cost	**2015**	2014	2013
Service cost – benefits earned during the period	**$ 9**	$ 7	$ 9
Interest cost on projected benefit obligation	**77**	109	101
Amortization of prior service cost (credit)	**1**	(1)	—
Actuarial (gain) loss	**(36)**	243	(106)
Net supplemental retirement pension cost	**$ 51**	$358	$ 4

Other Changes Recognized in Other Comprehensive Income	**2015**	2014	2013
Prior service (cost) credit	**$(1)**	$(11)	$(1)
Amortization of prior service cost (credit)	**1**	(1)	—
Total recognized in other comprehensive (income) loss (net of tax)	**$—**	$(12)	$(1)

The estimated prior service credit for our supplemental retirement plan benefits that will be amortized from accumulated OCI into net periodic benefit cost over the next fiscal year is $1.

Deferred compensation expense was $122 in 2015, $121 in 2014 and $122 in 2013. Our deferred compensation liability, included in "Other noncurrent liabilities," was $1,221 at December 31, 2015, and $1,156 at December 31, 2014.

Contributory Savings Plans

We maintain contributory savings plans that cover substantially all employees. Under the savings plans, we match in cash or company stock a stated percentage of eligible employee contributions, subject to a specified ceiling. There are no debt-financed shares held by the Employee Stock Ownership Plans, allocated or unallocated.

Our match of employee contributions to the savings plans is fulfilled with purchases of our stock on the open market or company cash. Benefit cost is based on the cost of shares or units allocated to participating employees' accounts and was $653, $654 and $654 for the years ended December 31, 2015, 2014 and 2013.

NOTE 13. SHARE-BASED PAYMENTS

Under our various plans, senior and other management employees and nonemployee directors have received nonvested stock and stock units. In conjunction with the acquisition of DIRECTV, restricted stock units issued under DIRECTV plans were converted to AT&T shares. The shares will vest over a period of one to four years in accordance with the terms of those plans. We do not intend to issue any additional grants under the DIRECTV plans. Any future grants will be made under the AT&T plans.

We grant performance stock units, which are nonvested stock units, based upon our stock price at the date of grant and award them in the form of AT&T common stock and cash at the end of a three-year period, subject to the achievement of certain performance goals. We treat the cash portion of these awards as a liability. We grant forfeitable restricted stock and stock units, which are valued at the market price of our common stock at the date of grant and vest typically over a two- to ten-year period. We also grant other nonvested stock units and award them in cash at the end of a three-year period, subject to the achievement of certain market based conditions. As of December 31, 2015, we were authorized to issue up to approximately 109 million shares of common stock (in addition to shares that may be issued upon exercise of outstanding options or upon vesting of performance stock units or other nonvested stock units) to officers, employees and directors pursuant to these various plans.

We account for our share-based payment arrangements based on the fair value of the awards on their respective grant date, which may affect our ability to fully realize the value shown on our consolidated balance sheets of deferred tax assets associated with compensation expense. We record a valuation allowance when our future taxable income is not expected to be sufficient to recover the asset. Accordingly, there can be no assurance that the current stock price of our common shares will rise to levels sufficient to realize the entire tax benefit currently reflected on our consolidated balance sheets. However, to the extent we generate excess tax benefits (i.e., that additional tax benefits in excess of the deferred taxes associated with compensation expense previously recognized) the potential future impact on income would be reduced.

The compensation cost recognized for those plans was included in operating expenses in our consolidated statements of income, as reflected in the table below. The total income tax benefit recognized in the consolidated statements of income for share-based payment arrangements was $172 for 2015, compared to $122 for 2014 and $175 for 2013.

	2015	2014	2013
Performance stock units	**$299**	$226	$381
Restricted stock and stock units	**147**	93	80
Other nonvested stock units	**5**	(1)	(3)
Total	**$451**	$318	$458

A summary of the status of our nonvested stock units as of December 31, 2015, and changes during the year then ended is presented as follows (shares in millions):

Nonvested Stock Units	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2015	26	$ 33.52
Granted	14	33.98
Issued in DIRECTV acquisition	11	34.29
Vested	(13)	33.86
Forfeited	(2)	34.07
Nonvested at December 31, 2015	**36**	**$33.78**

As of December 31, 2015, there was $563 of total unrecognized compensation cost related to nonvested share-based payment arrangements granted. That cost is expected to be recognized over a weighted-average period of 2.15 years. The total fair value of shares vested during the year was $450 for 2015, compared to $327 for 2014 and $336 for 2013.

It is our policy to satisfy share option exercises using our treasury stock. Cash received from stock option exercises was $46 for 2015, $43 for 2014 and $135 for 2013.

NOTE 14. STOCKHOLDERS' EQUITY

Stock Repurchase Program From time to time, we repurchase shares of common stock for distribution through our employee benefit plans or in connection with certain acquisitions. In July 2012, our Board of Directors authorized the repurchase of 300 million shares and we completed that program in May 2013. In March 2013, our Board of Directors approved a second authorization to repurchase 300 million shares, under which we repurchased shares during 2014. In March 2014, our Board of Directors approved a third authorization to repurchase up to 300 million shares of our common stock. For the year ended December 31, 2015, we had repurchased approximately 8 million shares for distribution through our employee benefit plans totaling $269 under these authorizations. For the year ended December 31, 2014, we had repurchased approximately 48 million shares totaling $1,617 under these authorizations.

To implement these authorizations, we used open market repurchase programs, relying on Rule 10b5-1 of the Securities Exchange Act of 1934 where feasible.

Authorized Shares There are 14 billion authorized common shares of AT&T stock and 10 million authorized preferred shares of AT&T stock. As of December 31, 2015 and 2014, no preferred shares were outstanding.

Dividend Declarations In December 2015, the Company declared an increase in its quarterly dividend to $0.48 per share of common stock. In December 2014, the Company declared an increase in its quarterly dividend to $0.47 per share of common stock.

Treasury Stock As part of the acquisition of DIRECTV, we issued 954,407,524 shares to DIRECTV shareholders, which reduced our treasury stock balance by $34,328.

Preferred Equity Interest The preferred equity interest discussed in Note 12 is not transferable by the trust except through its put and call features, and therefore has been eliminated in consolidation. After a period of five years from the contribution or, if earlier, the date upon which the pension plan trust is fully funded as determined under GAAP, AT&T has a right to purchase from the pension plan trust some or all of the preferred equity interest at the greater of their fair market value or minimum liquidation value plus any unpaid cumulative dividends. In addition, AT&T will have the right to purchase the preferred equity interest in the event AT&T's ownership of Mobility is less than 50% or there is a transaction that results in the transfer of 50% or more of the pension plan trust's assets to an entity not under common control with AT&T (collectively, a change of control). The pension plan trust has the right to require AT&T to purchase the preferred equity interest at the greater of their fair market value or minimum liquidation value plus any unpaid cumulative dividends, and in installments, as specified in the contribution agreement upon the occurrence of any of the following: (1) at any time if the ratio of debt to total capitalization of Mobility exceeds that of AT&T, (2) the date on which AT&T Inc. is rated below investment grade for two consecutive calendar quarters, (3) upon a change of control if AT&T does not exercise its purchase option, or (4) at any time after a seven-year period from the contribution date. In the event AT&T elects or is required to purchase the preferred equity interest, AT&T may elect to settle the purchase price in cash or shares of AT&T common stock or a combination thereof. Because the preferred equity interest was not considered outstanding for accounting purposes at year-end, it did not affect the calculation of earnings per share.

NOTE 15. SALES OF EQUIPMENT INSTALLMENT RECEIVABLES

We offer our customers the option to purchase certain wireless devices in installments over a period of up to 30 months, with the right to trade in the original equipment for a new device within a set period and have the remaining unpaid balance satisfied. As of December 31, 2015 and December 31, 2014, gross equipment installment receivables of $5,719 and $4,265 were included on our consolidated balance sheets, of which $3,239 and $2,514 are notes receivable that are included in "Accounts receivable – net."

In 2014, we entered into the first of a series of uncommitted agreements pertaining to the sale of equipment installment receivables and related security with Citibank and various other relationship banks as purchasers (collectively, the Purchasers). Under these agreements, we transferred the receivables to the Purchasers for cash and additional consideration upon settlement of the receivables, referred to as the deferred purchase price. Under the terms of the arrangements, we continue to bill and collect on behalf of our customers for the receivables sold. To date, we have collected and remitted approximately $4,520 (net of fees), of which $580 was returned as deferred purchase price.

The following table sets forth a summary of equipment installment receivables sold during 2015 and 2014:

	2015	2014
Gross receivables sold	**$7,436**	$4,707
Net receivables sold[1]	**6,704**	4,126
Cash proceeds received	**4,439**	2,528
Deferred purchase price recorded	**2,266**	1,629

[1] Receivables net of allowance, imputed interest and trade-in right guarantees.

The deferred purchase price was initially recorded at estimated fair value, which was based on remaining installment payments expected to be collected, adjusted by the expected timing and value of device trade-ins, and is subsequently carried at the lower of cost or net realizable value. The estimated value of the device trade-ins considers prices offered to us by independent third parties that contemplate changes in value after the launch of a device model. The fair value measurements used are considered Level 3 under the Fair Value Measurement and Disclosure framework (see Note 10).

During 2015, we repurchased installment receivables previously sold to the Purchasers, with a fair value of $685. These transactions reduced our current deferred purchase price receivable by $534, resulting in a gain of $151 in 2015. This gain is included in "Selling, general and administrative" in the consolidated statements of income.

At December 31, 2015, our deferred purchase price receivable was $2,961, of which $1,772 is included in "Other current assets" on our consolidated balance sheets, with the remainder in "Other Assets." At December 31, 2014, our deferred purchase price receivable was $1,606, which is included in "Other Assets." Our maximum exposure to loss as a result of selling these equipment installment receivables is limited to the amount of our deferred purchase price at any point in time.

The sales of equipment installment receivables did not have a material impact on our consolidated statements of income or to "Total Assets" reported on our consolidated balance sheets. We reflect the cash flows related to the arrangement as operating activities in our consolidated statements of cash flows because the cash received from the Purchasers upon both the sale of the receivables and the collection of the deferred purchase price is not subject to significant interest rate risk.

NOTE 16. TOWER TRANSACTION

On December 16, 2013, we closed our transaction with Crown Castle International Corp. (Crown Castle) in which Crown Castle gained the exclusive rights to lease and operate 9,048 wireless towers and purchased 627 of our wireless towers for $4,827 in cash. The leases have various terms with an average length of approximately 28 years. As the leases expire, Crown Castle will have fixed price purchase options for these towers totaling approximately $4,200, based on their estimated fair market values at the end of the lease terms. We sublease space on the towers from Crown Castle for an initial term of 10 years at current market rates, subject to optional renewals in the future.

We determined our continuing involvement with the tower assets prevented us from achieving sale-leaseback accounting for the transaction, and we accounted for the cash proceeds from Crown Castle as a financing obligation on our consolidated balance sheets. We record interest on the financing obligation using the effective interest method at a rate of approximately 3.9%. The financing obligation is increased by interest expense and estimated future net cash flows generated and retained by Crown Castle from operation of the tower sites, and reduced by our contractual payments. We continue to include the tower assets in Property, plant and equipment in our consolidated balance sheets and depreciate them accordingly. At December 31, 2015 and 2014, the tower assets had a balance of $960 and $999, respectively. Our depreciation expense for these assets was $39 for 2015, and $39 for 2014. The impact of the transaction on our operating results for the year ended December 31, 2013 was not material.

Dollars in millions except per share amounts

Payments made to Crown Castle under this arrangement were $225 for 2015. At December 31, 2015, the future minimum payments under the sublease arrangement are $230 for 2016, $234 for 2017, $239 for 2018, $244 for 2019, $248 for 2020, and $2,304 thereafter.

NOTE 17. CONTINGENT LIABILITIES

We are party to numerous lawsuits, regulatory proceedings and other matters arising in the ordinary course of business. In evaluating these matters on an ongoing basis, we take into account amounts already accrued on the balance sheet. In our opinion, although the outcomes of these proceedings are uncertain, they should not have a material adverse effect on our financial position, results of operations or cash flows.

We have contractual obligations to purchase certain goods or services from various other parties. Our purchase obligations are expected to be approximately $22,929 in 2016, $9,437 in total for 2017 and 2018, $6,159 in total for 2019 and 2020 and $10,174 in total for years thereafter.

See Note 10 for a discussion of collateral and credit-risk contingencies.

NOTE 18. ADDITIONAL FINANCIAL INFORMATION

	December 31,	
Consolidated Balance Sheets	**2015**	2014
Customer fulfillment costs (included in Other current assets)	**$ 2,923**	$ 2,720
Accounts payable and accrued liabilities:		
Accounts payable	**$21,047**	$14,984
Accrued payroll and commissions	**2,629**	1,967
Current portion of employee benefit obligation	**1,766**	1,842
Accrued interest	**1,974**	1,597
Other	**2,956**	3,202
Total accounts payable and accrued liabilities	**$30,372**	$23,592

Consolidated Statements of Income	**2015**	2014	2013
Advertising expense	**$3,632**	$3,272	$3,268
Interest expense incurred	**$4,917**	$3,847	$4,224
Capitalized interest	**(797)**	(234)	(284)
Total interest expense	**$4,120**	$3,613	$3,940

Consolidated Statements of Cash Flows	**2015**	2014	2013
Cash paid during the year for:			
Interest	**$4,822**	$4,099	$4,302
Income taxes, net of refunds	**1,851**	1,532	1,985

No customer accounted for more than 10% of consolidated revenues in 2015, 2014 or 2013.

Labor Contracts As of January 31, 2016, we employed approximately 281,000 persons. Approximately 45 percent of our employees are represented by the Communications Workers of America, the International Brotherhood of Electrical Workers or other unions. Four-year contracts covering approximately 24,000 traditional wireline employees in our Southeast region were ratified on December 4, 2015. Contracts covering approximately 9,000 mobility employees in the Southwest region and nearly 16,000 traditional wireline employees in our West region will expire in 2016. After expiration of the current agreements, work stoppages or labor disruptions may occur in the absence of new contracts or other agreements being reached. A separate contract covering only benefits with approximately 40,000 employees in our mobility business expires in 2016, though there is a no strike/no lock-out clause. Contracts covering wages and other non-benefit working terms for these mobility employees are structured on a regional basis.

NOTE 19. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following tables represent our quarterly financial results:

	2015 Calendar Quarter				
	First[1]	Second[1]	Third	Fourth[2]	Annual
Total Operating Revenues	$32,576	$33,015	$39,091	$42,119	$146,801
Operating Income	5,557	5,773	5,923	7,532	24,785
Net Income	3,339	3,184	3,078	4,086	13,687
Net Income Attributable to AT&T	3,263	3,082	2,994	4,006	13,345
Basic Earnings Per Share Attributable to AT&T[3]	$ 0.63	$ 0.59	$ 0.50	$ 0.65	$ 2.37
Diluted Earnings Per Share Attributable to AT&T[3]	$ 0.63	$ 0.59	$ 0.50	$ 0.65	$ 2.37
Stock Price					
High	$ 35.07	$ 36.45	$ 35.93	$ 34.99	
Low	32.41	32.37	30.97	32.17	
Close	32.65	35.52	32.58	34.41	

[1] Amounts have been adjusted for the voluntary change in accounting policy (Note 1).
[2] Includes an actuarial gain on pension and postretirement benefit plans (Note 12).
[3] Quarterly earnings per share impacts may not add to full-year earnings per share impacts due to the difference in weighted-average common shares for the quarters versus the weighted-average common shares for the year.

	2014 Calendar Quarter				
	First[1]	Second[1]	Third[1]	Fourth[1,2]	Annual
Total Operating Revenues	$32,476	$32,575	$32,957	$34,439	$132,447
Operating Income (Loss)	6,335	5,739	5,607	(5,469)	12,212
Net Income (Loss)	3,770	3,697	3,187	(3,918)	6,736
Net Income (Loss) Attributable to AT&T	3,688	3,623	3,130	(3,999)	6,442
Basic Earnings (Loss) Per Share Attributable to AT&T[3]	$ 0.71	$ 0.70	$ 0.60	$ (0.77)	$ 1.24
Diluted Earnings (Loss) Per Share Attributable to AT&T[3]	$ 0.70	$ 0.69	$ 0.60	$ (0.77)	$ 1.24
Stock Price					
High	$ 35.50	$ 36.86	$ 37.48	$ 36.16	
Low	31.74	34.32	34.17	32.07	
Close	35.07	35.36	35.24	33.59	

[1] Amounts have been adjusted for the voluntary change in accounting policy (Note 1).
[2] Includes an actuarial loss on pension and postretirement benefit plans (Note 12) and asset abandonment charges (Note 6).
[3] Quarterly earnings per share impacts may not add to full-year earnings per share impacts due to the difference in weighted-average common shares for the quarters versus the weighted-average common shares for the year.

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles. The integrity and objectivity of the data in these financial statements, including estimates and judgments relating to matters not concluded by year end, are the responsibility of management, as is all other information included in the Annual Report, unless otherwise indicated.

The financial statements of AT&T Inc. (AT&T) have been audited by Ernst & Young LLP, Independent Registered Public Accounting Firm. Management has made available to Ernst & Young LLP all of AT&T's financial records and related data, as well as the minutes of stockholders' and directors' meetings. Furthermore, management believes that all representations made to Ernst & Young LLP during its audit were valid and appropriate.

Management maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed by AT&T is recorded, processed, summarized, accumulated and communicated to its management, including its principal executive and principal financial officers, to allow timely decisions regarding required disclosure, and reported within the time periods specified by the Securities and Exchange Commission's rules and forms.

Management also seeks to ensure the objectivity and integrity of its financial data by the careful selection of its managers, by organizational arrangements that provide an appropriate division of responsibility and by communication programs aimed at ensuring that its policies, standards and managerial authorities are understood throughout the organization.

The Audit Committee of the Board of Directors meets periodically with management, the internal auditors and the independent auditors to review the manner in which they are performing their respective responsibilities and to discuss auditing, internal accounting controls and financial reporting matters. Both the internal auditors and the independent auditors periodically meet alone with the Audit Committee and have access to the Audit Committee at any time.

Assessment of Internal Control

The management of AT&T is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) or 15d-15(f) under the Securities Exchange Act of 1934. AT&T's internal control system was designed to provide reasonable assurance to the company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

AT&T management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2015. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework* (2013 framework). We have excluded from the scope of our assessment of internal control over financial reporting the operations and related assets of DIRECTV and Mexico wireless operations (Mexico), which we acquired in 2015. At December 31, 2015 and for the period from acquisition through December 31, 2015, total assets and operating revenues subject to DIRECTV's internal control over financial reporting represented 20.3% and 9.9% of AT&T's consolidated total assets and total revenues as of and for the year ended December 31, 2015. At December 31, 2015 and for the period from acquisition through December 31, 2015, total assets and operating revenues subject to Mexico's internal control over financial reporting represented 1.6% and 1.3% of AT&T's consolidated total assets and total revenues as of and for the year ended December 31, 2015. Based on its assessment, AT&T management believes that, as of December 31, 2015, the company's internal control over financial reporting is effective based on those criteria.

Ernst & Young LLP, the independent registered public accounting firm that audited the financial statements included in this Annual Report, has issued an attestation report on the company's internal control over financial reporting.

Randall Stephenson
Chairman of the Board,
Chief Executive Officer and President

John J. Stephens
Senior Executive Vice President and
Chief Financial Officer

Report of Independent Registered Accounting Firm

The Board of Directors and Stockholders of AT&T Inc.

We have audited the accompanying consolidated balance sheets of AT&T Inc. (the Company) as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

As described in Note 1 to the consolidated financial statements, the Company has elected to change its method of accounting for customer set-up and installation costs for its video, broadband Internet and wireline voice services in 2015.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 18, 2016 expressed an unqualified opinion thereon.

Ernst & Young LLP

Dallas, Texas
February 18, 2016

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of AT&T Inc.

We have audited AT&T Inc.'s (the Company) internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Report of Management, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of its DIRECTV and Mexico wireless businesses, which are included in the December 31, 2015 consolidated financial statements of the Company. DIRECTV constituted 20.3% of total assets and 9.9% of total revenues for the year then ended. The Mexico wireless businesses constituted 1.6% of total assets and 1.3% of total revenues for the year then ended. Our audit of internal control over financial reporting of the Company did not include an evaluation of the internal control over financial reporting of DIRECTV or the Mexico wireless businesses.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015 and our report dated February 18, 2016 expressed an unqualified opinion thereon.

Ernst & Young LLP

Dallas, Texas
February 18, 2016

AT&T Inc. Board of Directors

Randall L. Stephenson, 55 [4]

Chairman of the Board,
 Chief Executive Officer and President
AT&T Inc.
Dallas, Texas
Director since 2005
Background: Telecommunications

Joyce M. Roché, 68 [3,4,5]

Lead Director
Author and Retired President
 and Chief Executive Officer
Girls Incorporated
Director since 1998
Southern New England Telecommunications
 Director 1997–1998
Background: Marketing

Samuel A. Di Piazza, Jr, 65 [1]

Retired Global Chief Executive Officer
PricewaterhouseCoopers International
 Limited
Director since July 2015
DIRECTV Director 2010-2015
Background: Public accounting

Richard W. Fisher, 66 [2]

Former President and
 Chief Executive Officer
Federal Reserve Bank
 of Dallas
Director since June 2015
Background: Finance, trade, regulatory

Scott T. Ford, 53 [2,4,5]

Member and Chief Executive Officer
Westrock Group, LLC
Director since 2012
Background: Telecommunications

Glenn H. Hutchins, 60 [2,6]

Co-Founder
Silver Lake
Director since 2014
Background: Technology,
 public policy

William E. Kennard, 59 [3,6]

Former U.S. Ambassador to the
 European Union
Former Chairman of the Federal
 Communications Commission
Director since 2014
Background: Law, telecommunications,
 public policy

Jon C. Madonna*, 72 [1,3,4]

Retired Chairman and
 Chief Executive Officer
KPMG
Director since 2005
AT&T Corp. Director 2002–2005
Background: Public accounting

Michael B. McCallister, 63 [1,6]

Retired Chairman of the Board
 and Chief Executive Officer
Humana Inc.
Director since 2013
Background: Health care

John B. McCoy*, 72 [3,4,5]

Retired Chairman and
 Chief Executive Officer
Bank One Corporation
Director since 1999
Ameritech Director 1991–1999
Background: Banking

Beth E. Mooney, 61 [2,6]

Chairman and Chief Executive Officer
KeyCorp
Director since 2013
Background: Banking

Matthew K. Rose, 56 [3,5]

Chairman of the Board
 and Chief Executive Officer
Burlington Northern Santa Fe, LLC
Director since 2010
Background: Freight transport

Cynthia B. Taylor, 54 [1,6]

President and Chief Executive Officer
Oil States International, Inc.
Director since 2013
Background: Public accounting,
 oil and gas

Laura D'Andrea Tyson, Ph.D., 68 [1,4,6]

Professor of Business Administration
 and Economics
Haas School of Business at the
 University of California, Berkeley
Director since 1999
Ameritech Director 1997–1999
Background: Economics, education,
 public policy

Committees of the Board:
(1) Audit
(2) Corporate Development and Finance
(3) Corporate Governance and Nominating
(4) Executive
(5) Human Resources
(6) Public Policy and Corporate Reputation

(Information is provided
as of February 18, 2016.)

*Retiring April 29, 2016

Executive Officers of AT&T Inc. and Its Affiliates

Randall Stephenson, 55
Chairman, Chief Executive Officer
and President

Ralph de la Vega, 64
Vice Chairman, AT&T Inc.
and Chief Executive Officer,
AT&T Business Solutions
and AT&T International, LLC

Lori Lee, 50
Senior Executive Vice President
and Global Marketing Officer

John Stankey, 53
Chief Executive Officer-
AT&T Entertainment Group,
AT&T Services, Inc.

Bill Blase Jr., 60
Senior Executive Vice President-
Human Resources

John Donovan, 55
Chief Strategy Officer
and Group President-
AT&T Technology and Operations

David McAtee II, 47
Senior Executive Vice President
and General Counsel

John Stephens, 56
Senior Executive Vice President
and Chief Financial Officer

Jim Cicconi, 63
Senior Executive Vice President-
External and Legislative Affairs,
AT&T Services, Inc.

David Huntley, 57
Chief Compliance Officer

(Information is provided
as of February 18, 2016.)