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 have been prepared pursuant to Regulation S-X and other applicable rules of the Securities and Exchange Commission. The consolidated financial statements include the accounts of the Company and our majority-owned subsidiaries and affiliates. Our subsidiaries and affiliates operate in the communications services industry both domestically and internationally, providing wireless and wireline communications services and equipment, managed networking, wholesale services, and advertising solutions.

All significant intercompany transactions are eliminated in the consolidation process. Investments in partnerships and less-than-majority-owned subsidiaries where we have significant influence are accounted for under the equity method. Earnings from certain foreign equity investments accounted for using the equity method are included for periods ended within up to one month of our year-end (see Note 7).

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. We have reclassified certain amounts in prior-period financial statements to conform to the current period's presentation.

Recent Accounting Standards

Accounting Standards Codification In June 2009, the Financial Accounting Standards Board (FASB) issued standards that established the FASB Accounting Standards Codification (ASC or Codification) as the source of authoritative GAAP by the FASB for nongovernmental entities. The ASC supersedes all non-SEC accounting and reporting standards that existed at the ASC's effective date. The FASB uses Accounting Standards Updates (ASU) to amend the ASC. We refer to ASUs throughout our interim and annual reports where deemed relevant and make general references to pre-Codification standards (e.g., GAAP standards for acquisitions). These standards were effective for interim and annual periods ending after September 15, 2009 (i.e., the quarterly period ended September 30, 2009, for us).

Subsequent Events In May 2009, the FASB issued a standard that established general standards of accounting for and disclosing events that occur after the balance sheet date but before financial statements are issued or are available for issuance. They were effective for interim and annual periods ending after June 15, 2009 (i.e., the quarterly period ended June 30, 2009, for us). In preparing the accompanying audited consolidated financial statements, we have reviewed all known events that have occurred after December 31, 2009, and through February 25, 2010, the filing date of our Annual Report on Form 10-K, for inclusion in the financial statements and footnotes.

Noncontrolling Interests Reporting In December 2007, the FASB issued a standard that requires noncontrolling interests held by parties other than the parent in subsidiaries to be clearly identified, labeled, and presented in the consolidated balance sheets within stockholders' equity, but separate from the parent's equity. For us, the new standard became effective January 1, 2009, with restatement of prior financial statements. Instead of including noncontrolling interest in Other income (expense) – net in our consolidated statements of income, we disclose three measures of net income: net income, net income attributable to noncontrolling interest, and net income attributable to AT&T, and our operating cash flows in our consolidated statements of cash flows reflect net income. Furthermore, we continue to base our basic and diluted earnings per share calculations on net income attributable to AT&T.

In January 2010, the FASB issued guidance that amends accounting and disclosure requirements for a decrease in ownership in a business under existing GAAP standards for consolidations. It also clarifies the types of businesses that are in the scope of these consolidations. As required by this guidance, we retroactively applied the amendments as of January 1, 2009, which did not have a material impact on our financial statements or footnote disclosures.

Fair Value Measurements and Disclosures In April 2009, the FASB issued staff positions that require enhanced disclosures, including interim disclosures, on financial instruments, determination of fair value in turbulent markets, and recognition and presentation of other-than-temporary impairments. These staff positions were effective for interim and annual reporting periods beginning in our second quarter of 2009. They increased our interim disclosures but have not had a material impact on our financial position or results of operations.

In August 2009, the FASB issued "Measuring Liabilities at Fair Value" (ASU 2009-05), which amends existing GAAP for fair value measurement guidance by clarifying the fair value measurement requirements for liabilities that lack a quoted price in an active market. Per the Codification, a valuation technique based on a quoted market price for the identical or similar liability when traded as an asset or another valuation technique (e.g., an income or market approach) that is consistent with the underlying principles of GAAP for fair value measurements would be appropriate. ASU 2009-05 also clarifies that a reporting entity is not required to add or adjust valuation inputs to compensate for transfer restrictions on in-scope liabilities. ASU 2009-05 was effective August 2009, the issuance date, and has not had a material impact on our financial position or results of operations.

In September 2009, the FASB issued "Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)" (ASU 2009-12), which provides guidance for an investor on using the net asset value per share provided by an investee to estimate the fair value of an alternative investment when the fair value for the primary investment is not readily determinable. It affects certain

investments that are required or permitted by GAAP to be measured or disclosed at fair value on a recurring or nonrecurring basis. It requires disclosures by major category of investment about certain attributes (e.g., applicable redemption restrictions, unfunded commitments to the issuer of the investments, and the investment strategies of that issuer). ASU 2009-12 was effective for interim and annual periods ending on or after December 15, 2009 (i.e., the year ended December 31, 2009, for us). See Note 11 for the impact of our adoption of ASU 2009-12.

In January 2010, the FASB issued "Fair Value Measurements and Disclosures—Improving Disclosures about Fair Value Measurements" (ASU 2010-06), which requires new disclosures and reasons for transfers of financial assets and liabilities between Levels 1 and 2. ASU 2010-06 also clarifies that fair value measurement disclosures are required for each class of financial asset and liability, which may be a subset of a caption in the consolidated balance sheets, and those disclosures should include a discussion of inputs and valuation techniques. It further clarifies that the reconciliation of Level 3 measurements should separately present purchases, sales, issuances, and settlements instead of netting these changes. With respect to matters other than Level 3 measurements, ASU 2010-06 is effective for fiscal years and interim periods beginning on or after December 15, 2009 (i.e., the quarter ending March 31, 2010, for us). New guidance related to Level 3 measurements is effective for fiscal years and interim periods beginning on or after December 15, 2010 (i.e., the quarter ending March 31, 2011, for us). We are currently evaluating the impact of ASU 2010-06 on our disclosures.

See Note 9 for fair value measurements and disclosures for our investment securities and derivatives.

Derivative Instruments and Hedging Activities Disclosures In March 2008, the FASB amended the disclosure requirements for derivative instruments and hedging activities. The new guidance requires enhanced disclosures about an entity's derivative and hedging activities to improve the transparency of financial reporting. We adopted the new guidance as of January 1, 2009, which increased our quarterly and annual disclosures but did not have an impact on our financial position and results of operations. See Note 9 for a comprehensive discussion of our derivatives and hedging activities, including the underlying risks that we are managing as a company, and the new disclosure requirements under GAAP.

Pension and Other Postretirement Benefits In December 2008, the FASB issued a staff position that amended an employer's disclosure requirements for pensions and other postretirement benefits. The new guidance replaced the requirement to disclose the percentage of fair value of total plan assets with a requirement to disclose the fair value of each major asset category. It also amended GAAP standards for fair value measurements to clarify that defined benefit pension or other postretirement plan assets were not subject to other prevailing GAAP standards for fair value disclosures. We adopted the new guidance for the year ended December 31, 2009. This guidance significantly increased the amount of annual disclosures for plan assets in our annual report, and it will increase our future interim disclosures in that regard (see Note 11).

Business Combinations In December 2007, the FASB amended GAAP for acquisitions, requiring that costs incurred to effect the acquisition (i.e., acquisition-related costs) be recognized separately from the acquisition. Under prior guidance, restructuring costs that the acquirer expected but was not obligated to incur, which included changes to benefit plans, were recognized as if they were a liability assumed at the acquisition date. Amended GAAP for acquisitions requires the acquirer to recognize those costs separately from the business combination. We adopted the new guidance as of January 1, 2009, and applied it to acquisitions consummated after 2008, including the Centennial Communications, Corp. (Centennial) acquisition, as discussed in Note 2.

Equity Method Investments Accounting In November 2008, the Emerging Issues Task Force (EITF) reached a consensus on new clarification guidance regarding the application of the equity method. It states equity method investments should be recognized using a cost accumulation model. It also requires that equity method investments as a whole be assessed for other-than-temporary impairment in accordance with existing GAAP for equity method investments. The new guidance was effective, on a prospective basis, for initial or additional equity method investments transactions and subsequent impairments recognized in interim and annual periods that began on or after December 15, 2008 (i.e., as of January 1, 2009, for us). The new guidance did not have a material impact on our financial position or results of operations.

Revenue Arrangements with Multiple Deliverables In October 2009, the FASB issued "Multiple-Deliverable Revenue Arrangements" (ASU 2009-13), which addresses how revenues should be allocated among all products and services included in our sales arrangements. It establishes a selling price hierarchy for determining the selling price of each product or service, with vendor-specific objective evidence (VSOE) at the highest level, third-party evidence of VSOE at the intermediate level, and a best estimate at the lowest level. It replaces "fair value" with "selling price" in revenue allocation guidance, eliminates the residual method as an acceptable allocation method, and requires the use of the relative selling price method as the basis for allocation. It also significantly expands the disclosure requirements for such arrangements, including, potentially, certain qualitative disclosures. ASU 2009-13 will be effective prospectively for sales entered into or materially modified in fiscal years beginning on or after June 15, 2010 (i.e., the year beginning January 1, 2011, for us). The FASB permits early adoption of ASU 2009-13, applied retrospectively, to the beginning of the year of adoption. We are currently evaluating the impact on our financial position and results of operations.

Software In October 2009, the FASB issued "Certain Revenue Arrangements That Include Software Elements" (ASU 2009-14), which clarifies the guidance for allocating and measuring revenue, including how to identify software that is out of the scope. ASU 2009-14 amends accounting and reporting guidance for revenue arrangements involving both tangible products and software that is "more than incidental to the tangible product as a whole." That type of software and hardware will be outside of the scope of software revenue guidance, and the hardware components will also be outside of the scope of software revenue guidance and may result in more revenue recognized at the time of the hardware sale. Additional disclosures will discuss allocation of revenue to products and services in our sales arrangements and the significant judgments applied in the revenue allocation method, including impacts on the timing and amount of revenue recognition. ASU 2009-14 will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010 (i.e., the year beginning January 1, 2011, for us). ASU 2009-14 has the same effective date, including early adoption provisions, as ASU 2009-13. Companies must adopt ASU 2009-14 and ASU 2009-13 at the same time. We are currently evaluating the impact on our financial position and results of operations.

Valuation and Other Adjustments Included in the current liabilities reported on our consolidated balance sheets are acquisition-related accruals established prior to 2009. The liabilities include accruals for severance, lease terminations and equipment removal costs associated with our acquisitions of AT&T Corp. (ATTC), BellSouth Corporation (BellSouth), and Dobson Communications Corporation (Dobson). Following is a summary of the accruals recorded at December 31, 2008, cash payments made during 2009, and the adjustments thereto:

	12/31/08 Balance	Cash Payments	Adjustments and Accruals	**12/31/09 Balance**
Severance accruals paid from:				
Company funds	$140	$(108)	$ (26)	**$ 6**
Pension and postemployment benefit plans	103	(5)	—	**98**
Lease terminations[1]	387	(53)	(122)	**212**
Equipment removal and other related costs	88	(38)	(27)	**23**
Total	$718	$(204)	$(175)	**$339**

[1]Adjustments and accruals include a $106 reversal of BellSouth lease termination costs, with an offset to goodwill.

Employee Separations In accordance with GAAP, we established obligations for expected termination benefits provided under existing plans to former or inactive employees after employment but before retirement. These benefits include severance payments, workers' compensation, disability, medical continuation coverage, and other benefits. At December 31, 2009, we had severance accruals of $676 and at December 31, 2008, we had severance accruals of $752.

Split-Dollar Life Insurance In 2007, the EITF ratified the consensus on new guidance related to the accounting for endorsement split-dollar life insurance arrangements and collateral assignment split-dollar life insurance arrangements. The new guidance covers split-dollar life insurance arrangements (where the company owns and controls the policy) and provides that an employer should recognize a liability for future benefits in accordance with GAAP standards for an employer's accounting for postretirement benefits other than pensions. The new guidance became effective for fiscal years that began after December 15, 2007 (i.e., as of January 1, 2008, for us), and we recorded additional postretirement liabilities of $101 and a decrease, net of taxes, to retained earnings of $63.

Income Taxes We adopted GAAP standards for income taxes, as amended, as of January 1, 2007. With our adoption of those amended standards, 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 (per the amended standards). Under the amended standards, the tax basis of assets and liabilities are based on amounts that meet the recognition threshold and are measured pursuant to the measurement requirement in those standards. To the extent allowed by GAAP, we provide valuation allowances against the deferred tax assets 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.

We report, on a net basis, taxes imposed by governmental authorities on revenue-producing transactions between us and our customers in our consolidated statements of income.

Cash Equivalents Cash and cash equivalents include all highly-liquid investments with original maturities of three months or less, and the carrying amounts approximate fair value. At December 31, 2009, we held $437 in cash and $3,365 in money market funds and other cash equivalents.

Investment Securities See Note 9 for disclosures related to our investment securities, including available-for-sale securities.

Revenue Recognition Revenues derived from wireless, local telephone, long-distance, data and video services are recognized when services are provided. This is based upon either usage (e.g., minutes of traffic processed), period of time (e.g., monthly service fees) or other established fee schedules.

Our wireless service revenues are billed either in advance, arrears or are prepaid. Our wireless Rollover® rate plans include a feature whereby unused anytime minutes do not expire each month but rather are available, under certain conditions, for future use for a period not to exceed one year from the date of purchase. Using historical subscriber usage patterns, we defer these revenues based on an estimate of the portion of unused minutes expected to be utilized prior to expiration.

We record an estimated revenue reduction for future adjustments to customer accounts, other than a provision for doubtful accounts, at the time revenue is recognized based on historical experience. Service revenues also include billings to our customers for various regulatory fees imposed on us by governmental authorities. Cash incentives given to customers are recorded as a reduction of revenue. When required as part of providing service, revenues and associated expenses related to nonrefundable, upfront service activation and setup fees are deferred and recognized over the associated service contract period or customer life (for wireless). If no service contract exists, those fees are recognized over the average customer relationship period. Associated expenses are deferred only to the extent of such deferred revenue. For contracts that involve the bundling of services, revenue is allocated to the services based on their relative fair value. We record the sale of equipment to customers as gross revenue when we are the primary obligor in the arrangement, when title is passed and when the products are accepted by customers. For agreements involving the resale of third-party services in which we are not considered the primary obligor of the arrangement, we record the revenue net of the associated costs incurred. For contracts in which we provide customers with an indefeasible right to use network capacity, we recognize revenue ratably over the stated life of the agreement.

We recognize revenues and expenses related to publishing directories on the amortization method, which recognizes revenues and expenses ratably over the life of the directory title, typically 12 months.

Traffic Compensation Expense We use various estimates and assumptions to determine the amount of traffic compensation expenses recognized during any reporting period. Switched traffic compensation costs are accrued utilizing estimated rates by product, formulated from historical data and adjusted for known rate changes and volume levels. 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 until three to nine 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. These costs are adjusted to reflect actual expenses over the three months following the end of the reporting period as bills are received.

Allowance for Doubtful Accounts We maintain an allowance for doubtful accounts for estimated losses that result from the failure or inability of our customers to make required payments. 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. The analysis of receivables is performed monthly, and the allowances are adjusted accordingly.

Inventory Inventories, which are included in "Other current assets" on our consolidated balance sheets, were $885 at December 31, 2009, and $862 at December 31, 2008. Wireless handsets and accessories, which are valued at the lower of cost or market value (determined using current replacement cost) were $790 as of December 31, 2009, and $749 as of December 31, 2008. The remainder of our inventory includes new and reusable supplies and network equipment of our local telephone operations, which are stated principally at average original cost, except that specific costs are used in the case of large individual items. Inventories of our other subsidiaries are stated at the lower of cost or market.

Property, Plant and Equipment Property, plant and equipment is stated at cost, except for assets acquired using acquisition accounting, which are recorded at fair value (see Note 2). The cost of additions and substantial improvements to property, plant and equipment is capitalized. The cost of maintenance and repairs of property, plant and equipment is charged to operating expenses. Property, plant and equipment is 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 — no gain or loss is recognized on the disposition of this plant.

Property, plant and equipment is reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss shall be recognized only if the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. 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 fair value of a liability for 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, period-to-period changes in the liability for an asset retirement obligation resulting from the passage of time and revisions to either the timing or the

amount of the original estimate of undiscounted cash flows are recognized. The increase in the carrying value of the associated long-lived asset is depreciated over the corresponding estimated economic life.

Software Costs It is our policy to 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 and are primarily amortized over a three-year period. Software costs that do not meet capitalization criteria are expensed immediately.

Goodwill and Other Intangible Assets Goodwill represents the excess of consideration paid over the fair value of net assets acquired in business combinations. Goodwill and other indefinite-lived intangible assets are not amortized but are tested at least annually for impairment. We have completed our annual goodwill impairment testing for 2009, which did not result in an impairment.

Intangible assets that have finite useful lives are amortized over their useful lives, a weighted-average of 8.1 years. Customer relationships are amortized using primarily the sum-of-the-months-digits method of amortization over the expected period in which those relationships are expected to contribute to our future cash flows based in such a way as to allocate it as equitably as possible to periods during which we expect to benefit from those relationships.

A significant portion of intangible assets in our Wireless segment are Federal Communications Commission (FCC) licenses that provide us with the exclusive right to utilize certain radio frequency spectrum to provide wireless communications services. While FCC licenses are issued for a fixed time (generally 10 years), renewals of FCC 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 FCC licenses, and therefore the FCC licenses are indefinite-lived intangible assets under the GAAP standards for goodwill and other intangible assets.

In accordance with GAAP, we test wireless FCC licenses for impairment on an aggregate basis, consistent with the management of the business on a national scope. During the fourth quarter of 2009, we completed the annual impairment tests for indefinite-lived wireless FCC licenses. These annual impairment tests resulted in no material impairment of indefinite-lived wireless FCC licenses. We recorded an immaterial $18 impairment to wireline licenses we no longer plan to use.

Advertising Costs Advertising costs for advertising products and services or for promoting our corporate image are expensed as incurred.

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 our share of their foreign assets and liabilities at exchange rates in effect at the balance sheet dates. We translate our share of 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 in the accompanying consolidated balance sheets. We do not hedge foreign currency translation risk in the net assets and income we report from these sources. However, we do hedge a large portion of the 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 9).

NOTE 2. ACQUISITIONS, DISPOSITIONS, AND OTHER ADJUSTMENTS

Acquisitions

Centennial In November 2009, we acquired the assets of Centennial, a regional provider of wireless and wired communications services with approximately 865,000 customers as of December 31, 2009. Total consideration of $2,961 included $955 in cash for the redemption of Centennial's outstanding common stock and liquidation of outstanding stock options and $2,006 for our acquisition of Centennial's outstanding debt (including liabilities related to assets subject to sale, as discussed below), of which we repaid $1,957 after closing in 2009. The preliminary fair value measurement of Centennial's net assets at the acquisition date resulted in the recognition of $1,276 of goodwill, $647 of spectrum licenses, and $273 of customer lists and other intangible assets for the Wireless segment. The Wireline segment added $339 of goodwill and $174 of customer lists and other intangible assets from the acquisition. The acquisition of Centennial impacted our Wireless and Wireline segments, and we have included Centennial's operations in our consolidated results since the acquisition date. As the value of certain assets and liabilities are preliminary in nature, they are subject to adjustment as additional information is obtained about the facts and circumstances that existed at the acquisition date. When the valuation is final, any changes to the preliminary valuation of acquired assets and liabilities could result in adjustments to identified intangibles and goodwill. See Notes 6 and 8 for additional information regarding the impact of the Centennial acquisition on our goodwill and other intangibles and our long-term debt repayment for 2009.

Wireless Properties Transactions In May 2009, we announced a definitive agreement to acquire certain wireless assets from Verizon Wireless (VZ) for approximately $2,350 in cash. The assets primarily represent former Alltel Wireless assets. We will acquire wireless properties, including licenses and network assets, serving approximately 1.5 million subscribers in 79 service areas across 18 states. In October 2009, the Department of Justice (DOJ) cleared our acquisition of Centennial, subject to the DOJ's condition that we divest Centennial's operations in eight service areas in Louisiana and Mississippi. We are in the process of

finalizing definitive agreements and seeking regulatory approvals to sell all eight Centennial service areas ultimately identified in that ruling. We anticipate we will close the sales during the first half of 2010. As of December 31, 2009, the fair value of the assets subject to the sale, net of related liabilities, was $282. These net assets include property, plant and equipment, spectrum licenses, customer lists and other intangible assets, and working capital, which are not deemed material for isolated presentation as assets held for sale and liabilities related to assets held for sale in our consolidated balance sheet as of December 31, 2009, and we included these net assets in our Other current assets balance.

Dobson In November 2007, we acquired Dobson for approximately $2,500. Under the purchase method of accounting, the transaction was valued, for accounting purposes, at $2,580. Our December 31, 2007 consolidated balance sheet included the preliminary valuation of the fair value of Dobson's assets and liabilities, including goodwill of $2,623, FCC licenses of $2,230, customer lists of $517 and other intangible assets totaling $8 associated with this transaction. Final adjustments to the preliminary valuation included an increase to goodwill of $990, a decrease in licenses of $781 and a decrease in customer lists of $12. The resulting balances are $3,613 for goodwill, $1,449 for licenses and $505 for customer lists. Adjustments were primarily related to changes in the valuation of certain licenses and an increase in the estimate of relative obsolescence of property, plant and equipment resulting in a decrease in value and shorter average remaining economic life, and an adjustment to the value of the markets included in the divestiture order by the FCC. Pursuant to the order, we exchanged certain properties, spectrum and $355 in cash for other licenses and properties. Deferred tax adjustments are associated with the above mentioned items. Dobson marketed wireless services under the Cellular One brand and had provided roaming services to AT&T subsidiaries since 1990. Dobson had 1.7 million subscribers across 17 states. Dobson's operations were incorporated into our wireless operations following the date of acquisition.

Other Acquisitions During 2009, we acquired a provider of mobile application solutions and a security consulting business for a combined $50 before closing costs. The fair value of the acquired businesses' net assets resulted in the recognition of $41 of goodwill and $3 in customer lists and other intangible assets.

During 2008, we acquired Easterbrooke Cellular Corporation, Windstream Wireless, Wayport Inc. and the remaining 64% of Edge Wireless for a combined $663, recording $449 in goodwill. The acquisitions of these companies are designed to expand our wireless and Wi-Fi coverage area.

During 2007, we acquired Interwise®, a global provider of voice, Web and video conferencing services to businesses, for $122 and Ingenio®, a provider of Pay Per Call® technology for directory and local search business, for $195, net of cash. We recorded $304 of goodwill related to these acquisitions.

Dispositions

In 2009, we sold a professional services business for $174 and eliminated $113 of goodwill.

In April 2008, we sold to Local Insight Regatta Holdings, Inc., the parent company of Local Insight Yellow Pages, the Independent Line of Business segment of the L.M. Berry Company for $230.

In May 2007, we sold to Clearwire Corporation (Clearwire), a national provider of wireless broadband Internet access, education broadband service spectrum and broadband radio service spectrum valued at $300. Sale of this spectrum was required as a condition to the approval of our acquisition of BellSouth.

Other Adjustments

As ATTC and BellSouth stock options that were converted at the time of the respective acquisitions are exercised, the tax effect on those options may further reduce goodwill. During 2008, we recorded $1 in related goodwill reductions for ATTC and $9 for BellSouth.

NOTE 3. EARNINGS PER SHARE

A reconciliation of the numerators and denominators of basic earnings per share and diluted earnings per share for income from continuing operations for the years ended December 31, 2009, 2008 and 2007, are shown in the table below:

Year Ended December 31,	**2009**	2008	2007
Numerators			
Numerator for basic earnings per share:			
Net income attributable to AT&T	**$12,535**	$12,867	$11,951
Dilutive potential common shares:			
Other share-based payment	**10**	9	8
Numerator for diluted earnings per share	**$12,545**	$12,876	$11,959
Denominators (000,000)			
Denominator for basic earnings per share:			
Weighted-average number of common shares outstanding	**5,900**	5,927	6,127
Dilutive potential common shares:			
Stock options	**3**	9	24
Other share-based payment	**21**	22	19
Denominator for diluted earnings per share	**5,924**	5,958	6,170
Basic earnings per share	**$ 2.12**	$ 2.17	$ 1.95
Diluted earnings per share	**$ 2.12**	$ 2.16	$ 1.94

At December 31, 2009, 2008 and 2007, we had issued and outstanding options to purchase approximately 178 million, 204 million and 231 million shares of AT&T common stock. The exercise prices of options to purchase a weighted-average of 163 million, 144 million and 93 million shares in 2009, 2008, and 2007 were above the average market price of AT&T stock. Accordingly, we did not include these amounts in determining the dilutive potential common shares for the respective periods. At December 31, 2009, the exercise price of 19 million share options was below market price.

NOTE 4. SEGMENT INFORMATION

Our segments are strategic business units that offer different products and services over various technology platforms and are managed accordingly. Our operating segment results presented in Note 4 and discussed below for each segment follow our internal management reporting. We analyze our various operating segments based on segment income before income taxes. Interest expense and other income (expense) – net are managed only on a total company basis and are, accordingly, reflected only in consolidated results. Therefore, these items are not included in the calculation of each segment's percentage of our consolidated results. The customers and long-lived assets of our reportable segments are predominantly in the United States.
We have four reportable segments: (1) Wireless, (2) Wireline, (3) Advertising Solutions and (4) Other.

The Wireless segment uses our nationwide network to provide consumer and business customers with wireless voice and advanced data communications services.

The Wireline segment uses our regional, national and global network to provide consumer and business customers with landline voice and data communications services, AT&T U-verse℠ TV, high-speed broadband and voice services (U-verse) and managed networking to business customers. Additionally, we offer satellite television services through our agency arrangements.

The Advertising Solutions segment includes our directory operations, which publish Yellow and White Pages directories and sell directory advertising and Internet-based advertising and local search. This segment includes the results of YELLOWPAGES.COM, LLC (YPC), which was a joint venture with BellSouth prior to the December 29, 2006 acquisition and is now a wholly-owned subsidiary of AT&T. For segment reporting disclosure, we have carried forward the deferred revenue and deferred cost balances for BellSouth at the acquisition date in order to reflect how the segment is managed. This is different for consolidated reporting purposes where BellSouth deferred revenue and expenses from directories published during the 12-month period ending with the December 29, 2006 acquisition date, are not recognized and therefore were not included in the opening balance sheet. For management reporting purposes, we continue to amortize these balances over the life of the directory. Thus, our Advertising Solutions segment results in 2007 include revenue of $964 and expenses of $308, related to directories published in the Southeast region during 2006, prior to our acquisition of BellSouth. These amounts are eliminated in the consolidation and elimination column in the following reconciliation.

The Other segment includes results from Sterling Commerce, Inc. (Sterling), customer information services and all corporate and other operations. This segment includes our portion of the results from our international equity investments. Also included in the Other segment are impacts of corporate-wide decisions for which the individual operating segments are not being evaluated.

In the following tables, we show how our segment results are reconciled to our consolidated results reported in accordance with GAAP. The Wireless, Wireline, Advertising Solutions and Other columns represent the segment results of each such operating segment. The consolidation and elimination column adds in those line items that we manage on a consolidated basis only: interest expense and other income (expense) – net. This column also eliminates any intercompany transactions included in each segment's results as well as the Advertising Solutions revenue and expense in 2007 related to directories published in the Southeast region during 2006, mentioned previously. In the Segment assets line item, we have eliminated the value of our investments in our fully consolidated subsidiaries and the intercompany financing assets as these have no impact to the segments' operations.

Segment results, including a reconciliation to AT&T consolidated results, for 2009, 2008 and 2007 are as follows:

At December 31, 2009 or for the year ended	Wireless	Wireline	Advertising Solutions	Other	Consolidation and Elimination	Consolidated Results
Revenues from external customers	**$ 53,504**	**$ 63,331**	**$4,724**	**$ 1,459**	**$ —**	**$123,018**
Intersegment revenues	**93**	**2,339**	**85**	**272**	**(2,789)**	**—**
Total segment operating revenues	**53,597**	**65,670**	**4,809**	**1,731**	**(2,789)**	**123,018**
Operations and support expenses	**34,561**	**44,646**	**2,922**	**2,471**	**(2,788)**	**81,812**
Depreciation and amortization expenses	**5,765**	**13,093**	**649**	**207**	**—**	**19,714**
Total segment operating expenses	**40,326**	**57,739**	**3,571**	**2,678**	**(2,788)**	**101,526**
Segment operating income	**13,271**	**7,931**	**1,238**	**(947)**	**(1)**	**21,492**
Interest expense	**—**	**—**	**—**	**—**	**3,379**	**3,379**
Equity in net income of affiliates	**9**	**18**	**—**	**706**	**1**	**734**
Other income (expense) – net	**—**	**—**	**—**	**—**	**152**	**152**
Segment income before income taxes	**$ 13,280**	**$ 7,949**	**$1,238**	**$ (241)**	**$ (3,227)**	**$ 18,999**
Segment assets	**$115,282**	**$163,028**	**$9,782**	**$13,567**	**$(32,907)**	**$268,752**
Investment in equity method investees	**4**	**—**	**—**	**2,917**	**—**	**2,921**
Expenditures for additions to long-lived assets	**5,921**	**11,166**	**22**	**226**	**—**	**17,335**

At December 31, 2008 or for the year ended	Wireless	Wireline	Advertising Solutions	Other	Consolidation and Elimination	Consolidated Results
Revenues from external customers	$ 49,174	$ 67,669	$ 5,417	$1,768	$ —	$124,028
Intersegment revenues	161	2,186	85	274	(2,706)	—
Total segment operating revenues	49,335	69,855	5,502	2,042	(2,706)	124,028
Operations and support expenses	32,481	45,440	2,998	2,868	(2,705)	81,082
Depreciation and amortization expenses	5,770	13,206	789	118	—	19,883
Total segment operating expenses	38,251	58,646	3,787	2,986	(2,705)	100,965
Segment operating income	11,084	11,209	1,715	(944)	(1)	23,063
Interest expense	—	—	—	—	3,390	3,390
Equity in net income of affiliates	6	19	—	794	—	819
Other income (expense) – net	—	—	—	—	(328)	(328)
Segment income before income taxes	$ 11,090	$ 11,228	$ 1,715	$ (150)	$ (3,719)	$ 20,164
Segment assets	$112,146	$157,501	$11,038	$8,769	$(24,209)	$265,245
Investment in equity method investees	2	—	—	2,330	—	2,332
Expenditures for additions to long-lived assets	5,869	14,129	20	317	—	20,335

At December 31, 2007 or for the year ended	Wireless	Wireline	Advertising Solutions	Other	Consolidation and Elimination	Consolidated Results
Revenues from external customers	$ 42,574	$ 69,571	$ 5,771	$1,976	$ (964)	$118,928
Intersegment revenues	110	2,012	80	253	(2,455)	—
Total segment operating revenues	42,684	71,583	5,851	2,229	(3,419)	118,928
Operations and support expenses	28,585	46,177	3,066	1,882	(2,763)	76,947
Depreciation and amortization expenses	7,079	13,416	924	158	—	21,577
Total segment operating expenses	35,664	59,593	3,990	2,040	(2,763)	98,524
Segment operating income	7,020	11,990	1,861	189	(656)	20,404
Interest expense	—	—	—	—	3,507	3,507
Equity in net income of affiliates	16	31	—	645	—	692
Other income (expense) – net	—	—	—	—	810	810
Segment income before income taxes	$ 7,036	$ 12,021	$ 1,861	$ 834	$(3,353)	$ 18,399
Segment assets	$103,559	$158,338	$13,103	$2,859	$(2,215)	$275,644
Investment in equity method investees	13	—	—	2,257	—	2,270
Expenditures for additions to long-lived assets	3,840	13,767	25	256	—	17,888

NOTE 5. PROPERTY, PLANT AND EQUIPMENT

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

	Lives (years)	2009	2008
Land	—	**$ 1,724**	$ 1,730
Buildings	35-45	**24,271**	23,372
Central office equipment	3-10	**78,314**	75,054
Cable, wiring and conduit	10-50	**74,325**	72,109
Other equipment	5-15	**39,918**	34,434
Software	3-5	**8,841**	8,348
Under construction	—	**3,159**	3,532
		230,552	218,579
Accumulated depreciation and amortization		**130,459**	119,491
Property, plant and equipment – net		**$100,093**	$ 99,088

Our depreciation expense was $15,959 in 2009, $15,313 in 2008 and $15,625 in 2007.

Certain facilities and equipment used in operations are leased under operating or capital leases. Rental expenses under operating leases were $2,889 for 2009, $2,733 for 2008 and $2,566 for 2007. At December 31, 2009, the future minimum rental payments under non-cancelable operating leases for the years 2010 through 2014 were $2,429, $2,276, $2,057, $1,859 and $1,707, with $10,230 due thereafter. Certain real estate operating leases contain renewal options that may be exercised. Capital leases are not significant.

American Tower Corp. Agreement

In August 2000, we reached an agreement with American Tower Corp. (American Tower) under which we granted American Tower the exclusive rights to lease space on a number of our communications towers. In exchange, we received a combination of cash and equity instruments as complete prepayment of rent with the closing of each leasing agreement. The value of the prepayments was recorded as deferred revenue and recognized in income as revenue over the life of the leases. The balance of deferred revenue was $509 in 2009, $539 in 2008 and $569 in 2007.

NOTE 6. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amounts of goodwill, by segment, for the years ended December 31, 2009 and 2008, are as follows:

	Wireless	Wireline	Advertising Solutions	Other	Total
Balance as of January 1, 2008	$ 32,713	$ 31,301	$ 5,788	$ 911	$ 70,713
Goodwill acquired	264	185	—	—	449
Goodwill adjustments for prior-year acquisitions and tax adjustments	990	(95)	(26)	—	869
Other	(116)	(10)	(68)	(8)	(202)
Balance as of December 31, 2008	33,851	31,381	5,694	903	71,829
Goodwill acquired	1,276	344	36	—	1,656
Other	(90)	(117)	1	(20)	(226)
Balance as of December 31, 2009	**$35,037**	**$31,608**	**$5,731**	**$883**	**$73,259**

Goodwill and wireless FCC licenses are not amortized but tested annually as of October 1 for impairment as required by GAAP. The carrying amounts of goodwill, by segment (which is the same as reporting unit for Wireless, Wireline and Advertising Solutions), at December 31, 2009 were Wireless $35,037; Wireline $31,608; Advertising Solutions $5,731; and Other $883 and at December 31, 2008 were Wireless $33,851; Wireline $31,381; Advertising Solutions $5,694; and Other $903. Within the Other segment, goodwill associated with our Sterling operations was $477 for 2009 and 2008. Additionally, FCC licenses are tested for impairment on an aggregate basis, consistent with the management of the business on a national scope. These annual impairment tests resulted in no impairment of indefinite-lived goodwill or wireless FCC licenses in 2009 and 2008. Goodwill in the Other segment as of January 1, 2008, is net of a $1,791 impairment that was recognized in a prior period. We review other long-lived assets for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable over the remaining life of the asset or asset group.

Goodwill acquired relates primarily to the acquisition of Centennial and a provider of mobile application solutions (see Note 2). Changes to goodwill include adjustments totaling $90 related to wireless liabilities in connection with a business combination and disposition of a wireline entity for $117 in 2009.

Our other intangible assets are summarized as follows:

Other Intangible Assets	December 31, 2009 Gross Carrying Amount	December 31, 2009 Accumulated Amortization	December 31, 2008 Gross Carrying Amount	December 31, 2008 Accumulated Amortization
Amortized intangible assets:				
Customer lists and relationships:				
AT&T Mobility	**$ 5,804**	**$ 3,097**	$10,429	$ 6,409
BellSouth	**9,215**	**5,597**	9,215	4,062
ATTC	**3,134**	**2,377**	3,100	2,038
Other	**926**	**588**	788	441
Subtotal	**19,079**	**11,659**	23,532	12,950
Other	**1,176**	**767**	1,724	1,130
Total	**$20,255**	**$12,426**	$25,256	$14,080
Indefinite-life intangible assets not subject to amortization:				
Licenses	**$48,759**		$47,306	
Trade name	**5,235**		5,230	
Total	**$53,994**		$52,536	

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 with a weighted-average amortization period of 8.1 years (8.0 years for customer lists and relationships and 9.6 years for other). Amortization expense for definite-life intangible assets was $3,755 for the year ended December 31, 2009, $4,570 for the year ended December 31, 2008, and $5,952 for the year ended December 31, 2007. Amortization expense is estimated to be $2,977 in 2010, $1,994 in 2011, $1,315 in 2012, $730 in 2013 and $346 in 2014. In 2009, Mobility wrote off $4,889 in fully amortized intangible assets (primarily customer lists).

Licenses include wireless FCC licenses of $48,650 at December 31, 2009, and $47,267 at December 31, 2008, that provide us with the exclusive right to utilize certain radio frequency spectrum to provide wireless communications services. While FCC licenses are issued for a fixed time, renewals of FCC 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 FCC licenses and therefore we treat the FCC licenses as indefinite-lived intangible assets. In 2009, we recorded an immaterial $18 impairment to wireline licenses we no longer plan to use.

NOTE 7. 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.

Our investments in equity affiliates include primarily international investments. As of December 31, 2009, our investments in equity affiliates included a 9.8% interest in Télefonos de México, S.A. de C.V. (Telmex), Mexico's national telecommunications company, and an 8.8% interest in América Móvil S.A. de C.V. (América Móvil), primarily a wireless provider in Mexico with telecommunications investments in the United States and Latin America. In 2007, Telmex's Board of Directors and shareholders approved a strategic initiative to split off its Latin American businesses and its Mexican yellow pages business to a new holding company, Telmex Internacional, S.A.B. de C.V. (Telmex Internacional).
Our investment in Telmex Internacional is 9.9%. We are a member of a consortium that holds all of the class AA shares of Telmex stock, representing voting control of the company. Another member of the consortium, Carso Global Telecom, S.A. de C.V. (CGT), has the right to appoint a majority of the directors of Telmex. We also are a member of a consortium that holds all of the class AA shares of América Móvil stock, representing voting control of the company. Another member of the consortium has the right to appoint a majority of the directors of América Móvil. On January 13, 2010, América Móvil announced that its Board of Directors had authorized it to submit an offer for 100% of the equity of CGT, a holding company that owns 59.4% of Telmex and 60.7% of Telmex Internacional, in exchange for América Móvil shares; and an offer for Telmex Internacional shares not owned by CGT, to be purchased for cash or to be exchanged for América Móvil shares, at the election of the shareholders.

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

	2009	2008
Beginning of year	**$2,332**	$2,270
Additional investments	**44**	—
Equity in net income of affiliates	**734**	819
Dividends received	**(317)**	(164)
Currency translation adjustments	**125**	(574)
Other adjustments	**3**	(19)
End of year	**$2,921**	$2,332

Undistributed earnings from equity affiliates were $3,408 and $2,989 at December 31, 2009 and 2008. The currency translation adjustment for 2009 and 2008 reflects the effect of exchange rate fluctuations on our investments in Telmex, Telmex Internacional and América Móvil.

The fair value of our investment in Telmex, based on the equivalent value of Telmex L shares at December 31, 2009, was $1,492. The fair value of our investment in América Móvil, based on the equivalent value of América Móvil L shares at December 31, 2009, was $6,741. The fair value of our investment in Telmex Internacional, based on the equivalent value of Telmex Internacional L shares at December 31, 2009, was $1,597.

NOTE 8. DEBT

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

		2009	2008
Notes and debentures			
Interest Rates	Maturities[1]		
0.35% – 2.99%	2009 – 2010	**$ 3,500**	$ 1,500
3.00% – 4.99%	2009 – 2014	**5,853**	10,577
5.00% – 6.99%	2009 – 2095	**41,331**	37,613
7.00% – 9.10%	2009 – 2097	**19,069**	18,007
Other		**136**	138
Fair value of interest rate swaps recorded in debt		**310**	527
		70,199	68,362
Unamortized premium, net of discount		**1,612**	1,846
Total notes and debentures		**71,811**	70,208
Capitalized leases		**237**	167
Total long-term debt, including current maturities		**72,048**	70,375
Current maturities of long-term debt		**(7,328)**	(9,503)
Total long-term debt		**$64,720**	$60,872

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

Current maturities of long-term debt include debt that may be put back to us by the holders in 2010.

We have $1,000 of annual put reset securities issued by BellSouth that can 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, excluding May 2011, 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 consists of the following at December 31:

	2009	2008
Commercial paper	**$ —**	$ 4,575
Current maturities of long-term debt	**7,328**	9,503
Bank borrowings[1]	**33**	41
Total	**$7,361**	$14,119

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

During 2009, we received net proceeds of $8,161 from the issuance of $8,228 in long-term debt. Debt proceeds were used for general corporate purposes, including the repayment of maturing debt. Long-term debt issuances consisted of:

- $1,000 of 4.85% global notes due in 2014.
- $2,250 of 5.80% global notes due in 2019.
- $2,250 of 6.55% global notes due in 2039.
- £750 of 5.875% global notes due in 2017 (equivalent to $1,107 when issued).
- £1,100 of 7.0% global notes due in 2040 (equivalent to $1,621 when issued).

During 2009, debt repayments totaled $13,236 and consisted of:

- $8,633 in repayments of long-term debt (includes repayment of $1,957 for Centennial debt).
- $4,583 in repayments of commercial paper and short-term bank borrowings.
- $20 in repayments of other debt.

As of December 31, 2009 and 2008, we were in compliance with all covenants and conditions of instruments governing our debt. Substantially all of our outstanding long-term debt is unsecured. Excluding capitalized leases, the aggregate principal amounts of long-term debt and the corresponding weighted-average interest rate scheduled for repayment are as follows:

	2010	2011	2012	2013	2014	Thereafter
Debt repayments[1]	$7,328	$7,536	$4,836	$5,825	$4,789	$39,707
Weighted-average interest rate	3.4%	7.1%	6.6%	5.6%	5.1%	6.6%

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

Credit Facility We have a five-year credit agreement with a syndicate of investment and commercial banks. In June 2009, one of the participating banks, Lehman Brothers Bank, Inc., which had declared bankruptcy, terminated its lending commitment of $535 and withdrew from the agreement. As a result of this termination, the outstanding commitments under the agreement were reduced from a total of $10,000 to $9,465. We still have the right to increase commitments up to an additional $2,535 provided no event of default under the credit agreement has occurred. The current agreement will expire in July 2011. We also have the right to terminate, in whole or in part, amounts committed by the lenders under this agreement in excess of any outstanding advances; however, any such terminated commitments may not be reinstated. Advances under this agreement may be used for general corporate purposes, including support of commercial paper borrowings and other short-term borrowings. There is no material adverse change provision governing the drawdown of advances under this credit agreement. This agreement contains a negative pledge covenant, which requires that, if at any time we or a subsidiary pledges assets or otherwise permits a lien on its properties, advances under this agreement will be ratably secured, subject to specified exceptions. We must maintain a debt-to-EBITDA (earnings before interest, income taxes, depreciation and amortization, and other modifications described in the agreement) financial ratio covenant of not more than three-to-one as of the last day of each fiscal quarter for the four quarters then ended. We comply with all covenants under the agreement. At December 31, 2009, we had no borrowings outstanding under this agreement.

Defaults under the agreement, which would permit the lenders to accelerate required payment, include nonpayment of principal or interest beyond any applicable grace period; failure by AT&T or any subsidiary to pay when due other debt above a threshold amount that results in acceleration of that debt (commonly referred to as "cross-acceleration") or commencement by a creditor of enforcement proceedings within a specified period after a monetary judgment above a threshold amount has become final; acquisition by any person of beneficial ownership of more than 50% of AT&T common shares or a change of more than a majority of AT&T's directors in any 24-month period other than as elected by the remaining directors (commonly referred to as a "change-in-control"); material breaches of representations in the agreement; failure to comply with the negative pledge or debt-to-EBITDA ratio covenants described above; failure to comply with other covenants for a specified period after notice; failure by AT&T or certain affiliates to make certain minimum funding payments under Employee Retirement Income Security Act of 1974, as amended (ERISA); and specified events of bankruptcy or insolvency.

NOTE 9. FAIR VALUE MEASUREMENTS AND DISCLOSURE

GAAP standards require disclosures for financial assets and liabilities that are remeasured at fair value at least annually. GAAP standards establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The Fair Value Measurement and Disclosure framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the 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 under Fair Value Measurement and Disclosure are described below:

LEVEL 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that AT&T has 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. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
LEVEL 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement. • Fair value is often based on internally developed models in which there are few, if any, external observations.

The asset's or liability's fair value measurement level with the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to 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 net realizable value or reflective of future fair values. AT&T believes its 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 at December 31, 2009 and 2008. See Note 11 for disclosures relating to pension and other postemployment benefits.

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 at December 31:

	2009		2008	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Notes and debentures	**$71,811**	**$75,212**	$70,208	$70,955
Commercial paper	**—**	**—**	4,575	4,575
Bank borrowings	**33**	**33**	41	41
Available-for-sale securities	**1,885**	**1,885**	1,632	1,632

The fair values of our notes and debentures were estimated based on quoted market prices, where available, or on the net present value method of expected future cash flows using current interest rates. The carrying value of debt with an original maturity of less than one year approximates market value.

Investment Securities

Our investment securities consist of available-for-sale instruments which include $1,574 of equities, $226 in government fixed income bonds and $85 of other securities. Substantially all of our available-for-sale securities are Level 1 and Level 2. Realized gains and losses on these 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 other comprehensive income (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.

At the end of the first quarter of 2009 and at the end of 2008, we concluded that the severity in the decline in market values of these assets had led to an other-than-temporary impairment, writing them down $102 in 2009 and $332 in 2008, and recording the amount in Other Income (Expense).

Our short-term investments, other short-term and long-term held-to-maturity investments (including money market securities) and customer deposits are recorded at amortized cost, and the respective carrying amounts approximate fair values.

Our investment securities maturing within one year are recorded in "Other current assets," and instruments with maturities of more than one year 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 (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 as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), or 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). Only a portion of our foreign exchange forward contracts are not designated to receive hedge accounting.

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 on 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. We record changes in the fair value of the swaps, along with the changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. Changes in the fair value of the interest rate swaps offset changes in the fair value of the fixed-rate notes payable they hedge due to changes in the designated benchmark interest rate and are recognized in interest expense, though they net to zero. Realized gains or losses upon early termination of our fair value hedges would be recognized in interest expense.

Cash Flow Hedging 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 in income from continuing operations in each current period.

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- and British pound sterling-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, which was determined by the market spot rate upon issuance. They also include an interest rate swap of a fixed foreign-denominated rate to a fixed U.S.-denominated interest rate. We evaluate the effectiveness of our cross-currency swaps each quarter. In the year ended December 31, 2009, no material ineffectiveness was measured.

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 income. In the year ended December 31, 2009, no material ineffectiveness was measured. Over the next 12 months, we expect to reclassify $21 from accumulated OCI to interest expense due to the amortization of net losses on historical interest rate locks. Our unutilized interest rate locks carry mandatory early terminations, the latest occurring in April 2012.

We hedge a large 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. Some of these instruments are designated as cash flow hedges while others remain non-designated, largely based on size and duration. Gains and losses at the time we settle or take delivery on our designated foreign exchange contracts are amortized into income over the next few months as the hedged funds are spent by our foreign subsidiaries, except where a material amount is deemed to be ineffective, which would be immediately reclassified to income. In the year ended December 31, 2009, no material ineffectiveness was measured.

Non-designated and Discontinued Hedging Instruments Changes in the fair value of non-designated derivatives are recorded in other income (expense) – net, along with the change in fair value of the underlying asset or liability, as applicable. When hedge accounting is discontinued, the derivative is adjusted for changes in fair value through other income (expense) – net. For fair value hedges, the swap asset or liability and the underlying hedged liability or asset will no longer be adjusted for changes in fair value, and the net adjustment to the hedged item at that time will be amortized into earnings over the remaining life of the hedged item. For cash flow hedges, gains and losses that were in accumulated OCI as a component of stockholders' equity in connection with hedged assets or liabilities or forecasted transactions will be recognized in other income (expense) – net, in the same period the hedged item affects earnings.

Collateral and Credit-Risk Contingency We have entered into agreements with most of our derivative counterparties, establishing collateral thresholds based on respective credit ratings and netting agreements. At December 31, 2009, we held $222 of counterparty collateral (a receipt liability). Under the agreements, if our credit rating had been downgraded one rating level, we still would not have been required to post collateral (a deposit asset). 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), against the fair value of the derivative instruments.

Following is the notional amount of our outstanding derivative positions:

	December 31, 2009
Interest rate swaps	**$ 9,000**
Cross-currency swaps	**7,502**
Interest rate locks	**3,600**
Foreign exchange contracts	**293**
Total	**$20,395**

Following are our derivative instruments and their related hedged items affecting our financial position and performance:

Fair Value of Derivatives in the Consolidated Balance Sheet
Derivatives designated as hedging instruments and reflected as other assets, other liabilities and, for a portion of interest rate swaps, accounts receivable.

Asset Derivatives	December 31, 2009
Interest rate swaps	**$ 399**
Cross-currency swaps	**635**
Interest rate locks	**150**
Foreign exchange contracts	**2**
Total	**$1,186**

Liability Derivatives	December 31, 2009
Cross-currency swaps	**$ (390)**
Interest rate locks	**(6)**
Foreign exchange contracts	**(7)**
Total	**$ (403)**

The balance of the unrealized derivative gain (loss) in accumulated OCI was $142 at December 31, 2009, and $(483) at December 31, 2008.

Effect of Derivatives on the Consolidated Statement of Income

Fair Value Hedging Relationships	Year ended December 31, 2009
Interest rate swaps (Interest expense):	
Gain (Loss) on interest rate swaps	**$(216)**
Gain (Loss) on long-term debt	**216**

In addition, the net swap settlements that accrued and settled in the year ended December 31, 2009, were also reported as reductions of interest expense.

Cash Flow Hedging Relationships	Year ended December 31, 2009
Cross-currency swaps:	
Gain (Loss) recognized in accumulated OCI	**$738**
Other income (expense) reclassified from accumulated OCI into income	**—**
Interest rate locks:	
Gain (Loss) recognized in accumulated OCI	**203**
Interest income (expense) reclassified from accumulated OCI into income	**(23)**
Foreign exchange contracts:	
Gain (Loss) recognized in accumulated OCI	**(2)**
Other income (expense) reclassified from accumulated OCI into income	**—**

Non-designated Hedging Instruments	
Foreign exchange contracts (Other income)	**$ (1)**

NOTE 10. INCOME TAXES

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

	2009	2008
Depreciation and amortization	**$ 18,796**	$ 18,269
Intangibles (nonamortizable)	**1,990**	1,990
Employee benefits	**(14,220)**	(14,825)
Net operating loss and other carryforwards	**(1,846)**	(2,220)
Investment in wireless partnership	**18,646**	16,028
Other – net	**(2,019)**	(2,250)
Subtotal	**21,347**	16,992
Deferred tax assets valuation allowance	**1,182**	1,190
Net deferred tax liabilities	**$ 22,529**	$ 18,182
Net long-term deferred tax liabilities	**$ 23,803**	$ 19,196
Less: Net current deferred tax assets	**(1,274)**	(1,014)
Net deferred tax liabilities	**$ 22,529**	$ 18,182

At December 31, 2009, we had combined net operating and capital loss carryforwards (tax effected) for federal income tax purposes of $362 and for state and foreign income tax purposes of $1,125, expiring through 2028. Additionally, we had federal credit carryforwards of $66 and state credit carryforwards of $293, expiring primarily through 2026.

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, 2008 and 2009, relate primarily to state net operating loss carryforwards.

As required by GAAP, 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 balance sheet as an unrecognized tax benefit (UTB). We update our unrecognized tax benefits at each financial statement date to reflect the impacts of audit settlements and other resolution of audit issues, 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, 2009 to December 31, 2009, and January 1, 2008 to December 31, 2008, is as follows:

Federal, State and Foreign Tax	2009	2008
Balance at beginning of year	**$ 6,190**	$ 5,901
Increases for tax positions related to the current year	**982**	811
Increases for tax positions related to prior years	**877**	715
Decreases for tax positions related to prior years	**(1,984)**	(1,237)
Settlements	**(81)**	—
Balance at end of year	**5,984**	6,190
Accrued interest and penalties	**1,539**	1,802
Gross unrecognized income tax benefits	**7,523**	7,992
Less: Deferred federal and state income tax benefits	**(892)**	(998)
Less: Tax attributable to timing items included above	**(2,542)**	(3,371)
Total UTB that, if recognized, would impact the effective income tax rate as of the end of the year	**$ 4,089**	$ 3,623

During 2009 and 2008, we made net deposits totaling $1,151 and $191 to several taxing jurisdictions. These deposits are not included in the reconciliation above but reduce our unrecognized tax benefits balance. Net of these deposits and a $1,000 deposit made in 2007, our unrecognized tax benefits balance at December 31, 2009, was $5,181, of which $4,882 was included in "Other noncurrent liabilities" and $299 was included in "Accrued taxes" on our consolidated balance sheets. Our unrecognized tax benefits balance at December 31, 2008, was $6,801, of which $5,042 was included in "Other noncurrent liabilities" and $1,759 was included in "Accrued taxes" on our consolidated balance sheets.

We record interest and penalties related to federal, state and foreign unrecognized tax benefits in income tax expense. Accrued interest and penalties included in unrecognized tax benefits were $1,539 as of December 31, 2009, and $1,802 as of December 31, 2008. Interest and penalties included in our consolidated statements of income were $(215) for 2009, $152 for 2008, and $303 for 2007.

The Company and our subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. Our income tax returns are regularly audited and reviewed by the IRS as well as by state and foreign taxing authorities.

The IRS has completed field examinations of AT&T's tax returns through 2005, and all audit periods prior to 1998 are closed for federal purposes. We were unable to reach agreement with the IRS regarding treatment of Universal Service Fund receipts on our 1998 and 1999 tax returns and, as a result, we filed a refund suit in U.S. District Court (District Court). In July 2009, the District Court granted the Government's motion for summary judgment and entered final judgment for the Government. We appealed the final judgment to the U.S. Court of Appeals for the Fifth Circuit. We are engaged with the IRS Appeals Division (Appeals) in settling our 2000 – 2002 returns and expect to reach a resolution of most issues in early 2010. We do not expect the resolution to have a material impact on our unrecognized tax benefits. In early 2009, the IRS completed its field examination of our 2003 – 2005 income tax returns and issued its final Revenue Agent's Report (RAR). This RAR assessed additional taxes related primarily to the timing of certain deductions related to our network assets. We made a deposit of $650 to reduce the accrual of interest while we continue to work with Appeals to resolve the contested issues. The IRS began its examination of our 2006 – 2008 income tax returns in 2009. During 2010, we expect to reach an accelerated resolution with the IRS for depreciation and amortization deductions claimed on our 2008 return related to a restructuring of our wireless operations. At this time, we are unable to estimate the impact of a resolution on our unrecognized tax benefits. The IRS has completed the examination of all acquired entity tax returns through 2003 (ATTC and AT&T Mobility through 2005) and, with the exception of BellSouth, all years through 2001 are closed. We expect the IRS to complete its examination of the BellSouth 2004 – 2005 income tax returns during 2010.

The components of income tax expense are as follows:

	2009	2008	2007
Federal:			
Current	**$2,852**	$1,160	$5,872
Deferred – net	**2,194**	5,163	(413)
	5,046	6,323	5,459
State, local and foreign:			
Current	**1,200**	(13)	621
Deferred – net	**(90)**	726	173
	1,110	713	794
Total	**$6,156**	$7,036	$6,253

A reconciliation of income tax expense and the amount computed by applying the statutory federal income tax rate (35%) to income before income taxes, income from discontinued operations, extraordinary items and cumulative effect of accounting changes is as follows:

	2009	2008	2007
Taxes computed at federal statutory rate	**$ 6,649**	$7,057	$6,440
Increases (decreases) in income taxes resulting from:			
State and local income taxes – net of federal income tax benefit	**559**	497	549
Other – net	**(1,052)**	(518)	(737)
Total	**$ 6,156**	$7,036	$6,252
Effective Tax Rate	**32.4%**	34.9%	34.0%

NOTE 11. PENSION AND POSTRETIREMENT BENEFITS

Pension Benefits and Postretirement Benefits

Substantially all of our U.S. employees are covered by one of our noncontributory pension and death benefit plans. Many of our management employees participate in pension plans that have a traditional pension formula (i.e., a stated percentage of employees' adjusted career income) and a frozen cash balance or defined lump sum formula. In 2005, the management pension plan for those employees was amended to freeze benefit accruals previously earned under a cash balance formula. Each employee's existing cash balance continues to earn interest at a variable annual rate. After this change, those management employees, at retirement, may elect to receive the portion of their pension benefit derived under the cash balance or defined lump sum as a lump sum or an annuity. The remaining pension benefit, if any, will be paid as an annuity if its value exceeds a stated monthly amount. Management employees of former ATTC, BellSouth, AT&T Mobility and new hires after 2006 participate in cash balance pension plans. Nonmanagement employees' pension benefits are generally calculated using one of two formulas: benefits are based on a flat dollar amount per year according to job classification or are calculated under a cash balance plan that is based on an initial cash balance amount and a negotiated annual pension band and interest credits. Most nonmanagement employees can elect to receive their pension benefits in either a lump sum payment or an annuity.

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.

On December 31, 2009, the AT&T Pension Plan and the Cingular Wireless Pension Plan were merged into the AT&T Puerto Rico Pension Benefit Plan. At November 1, 2008, BellSouth pension plans and U.S. Domestic ATTC bargained employees were merged into the AT&T Pension Benefit Plan. At December 31, 2007, defined benefit pension plans formerly sponsored by Ameritech Publishing Ventures and AT&T Mobility were merged in the AT&T Pension Benefit Plan.

During 2009, union contracts covering 120,000 collectively bargained wireline employees expired. As of January 31, 2010, 86,000 employees covered by these expired collectively bargained wireline contracts have ratified new labor contracts. In the absence of an effective contract, the union is entitled to call a work stoppage.

For approximately 60,000 employees covered by these ratified agreements, the agreements provide for a three-year term and, for the vast majority of those covered employees, a 3 percent wage increase in years one and two, a wage increase in year three of 2.75 percent, and pension band increases of 2 percent for each year of the agreement. For both wage and pension band increases, there is a potential cost-of-living increase based on the Consumer Price Index for the third year. These agreements also provide for continued health care coverage with reasonable cost sharing.

For the remaining approximately 26,000 employees, the agreement provides for a four-year term with provisions substantially similar to the provisions of the ratified agreements discussed above, with a wage increase in year four of 2.75 percent and a potential cost-of-living increase in year four instead of in year three.

On February 8, 2010, the Company and the CWA announced a tentative agreement covering approximately 30,000 core wireline employees in the nine-state former BellSouth region, subject to ratification by those covered employees. The tentative agreement provides for a three-year term and, for the vast majority of those covered employees, a 3 percent wage increase in years one and two, a wage increase in year three of 2.75 percent, and pension band increases of 2 percent for each year of the agreement. These agreements also provide for continued health care coverage with reasonable cost sharing.

In August 2009, retirees were informed of medical and drug coverage changes. In addition, we adopted changes to our pension plans consistent with the Pension Protection Act of 2006 (PPA). Because of these modifications, our amortization of prior service (benefit) cost also changed, reducing costs by $128 in the third quarter of 2009. In the fourth quarter of 2009, our pension and postretirement costs have decreased, which is consistent with reductions that began in August 2009. These modifications will decrease costs in 2010.

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 valuations 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	
	2009	2008	**2009**	2008
Benefit obligation at beginning of year	**$50,822**	$53,522	**$37,531**	$40,385
Service cost – benefits earned during the period	**1,070**	1,173	**334**	429
Interest cost on projected benefit obligation	**3,355**	3,319	**2,434**	2,550
Amendments	**(685)**	(15)	**(3,115)**	(4)
Actuarial loss (gain)	**2,439**	(1,450)	**1,402**	(3,406)
Special termination benefits	**118**	70	**9**	5
Settlements	**—**	—	**—**	—
Benefits paid	**(6,269)**	(5,795)	**(2,370)**	(2,548)
Other	**—**	(2)	**—**	120
Benefit obligation at end of year	**$50,850**	$50,822	**$36,225**	$37,531

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	
	2009	2008	**2009**	2008
Fair value of plan assets at beginning of year	**$46,828**	$ 70,810	**$ 10,175**	$ 16,999
Actual return on plan assets	**6,312**	(18,190)	**1,991**	(4,688)
Benefits paid[1]	**(6,269)**	(5,795)	**(823)**	(2,301)
Contributions	**2**	—	**195**	165
Other	**—**	3	**(25)**	—
Fair value of plan assets at end of year	**46,873**	46,828	**11,513**	10,175
Funded (unfunded) status at end of year[2]	**$ (3,977)**	$ (3,994)	**$(24,712)**	$(27,356)

[1]At our discretion, certain postretirement benefits are paid from AT&T cash accounts and do not reduce Voluntary Employee Beneficiary 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 Employee Retirement Income Security Act (ERISA) regulations.

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

	Pension Benefits		Postretirement Benefits	
	2009	2008	**2009**	2008
Current portion of employee benefit obligation[1]	**$ —**	$ —	**$ (2,021)**	$ (729)
Employee benefit obligation[2]	**(3,977)**	(3,994)	**(22,691)**	(26,627)
Net amount recognized	**$(3,977)**	$(3,994)	**$(24,712)**	$(27,356)

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

Amounts included in our accumulated other comprehensive income that have not yet been recognized in net periodic benefit cost at December 31 are listed below:

	Pension Benefits		Postretirement Benefits	
	2009	2008	**2009**	2008
Net loss	**$23,041**	$23,004	**$ 3,991**	$ 3,695
Prior service cost (credit)	**(181)**	562	**(4,644)**	(1,999)
Total	**$22,860**	$23,566	**$ (653)**	$ 1,696

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 $49,122 at December 31, 2009, and $48,618 at December 31, 2008.

Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive Income
Our combined net pension and postretirement cost recognized in our consolidated statements of income was $1,921, $324 and $1,078 for the years ended December 31, 2009, 2008 and 2007.

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

Net Periodic Benefit Cost

	Pension Benefits			Postretirement Benefits		
	2009	2008	2007	**2009**	2008	2007
Service cost – benefits earned during the period	**$ 1,070**	$ 1,173	$ 1,257	**$ 334**	$ 429	$ 511
Interest cost on projected benefit obligation	**3,355**	3,319	3,220	**2,434**	2,550	2,588
Expected return on plan assets	**(4,561)**	(5,602)	(5,468)	**(955)**	(1,327)	(1,348)
Amortization of prior service cost (credit) and transition asset	**58**	133	142	**(469)**	(360)	(359)
Recognized actuarial (gain) loss	**656**	10	241	**(1)**	(1)	294
Net pension and postretirement cost (benefit)[1]	**$ 578**	$ (967)	$ (608)	**$1,343**	$ 1,291	$ 1,686

[1]During 2009, 2008 and 2007, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 reduced postretirement benefit cost by $255, $263 and $342. This effect is included in several line items above.

Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income

	Pension Benefits			Postretirement Benefits		
	2009	2008	2007	**2009**	2008	2007
Net loss (gain)	**$ 435**	$13,857	$(2,131)	**$(1,242)**	$1,716	$(2,525)
Prior service cost (credit)	**(392)**	(16)	139	**(322)**	32	(28)
Amortization of net loss (gain)	**412**	4	154	**(1)**	—	181
Amortization of prior service cost (credit)	**69**	83	78	**(223)**	(222)	(223)
Total recognized in net pension and postretirement cost and other comprehensive income	**$ 524**	$13,928	$(1,760)	**$(1,788)**	$1,526	$(2,595)

The estimated net loss for pension benefits that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $683, and the prior service credit for pension benefits that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $16. The estimated net gain for postretirement benefits that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $8, and the prior service credit for postretirement benefits that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $625.

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

	2009	2008	2007
Discount rate for determining projected benefit obligation at December 31	**6.50%**	7.00%	6.50%
Discount rate in effect for determining net cost (benefit)	**7.00%**	6.50%	6.00%
Long-term rate of return on plan assets	**8.50%**	8.50%	8.50%
Composite rate of compensation increase for determining projected benefit obligation and net pension cost (benefit)	**4.00%**	4.00%	4.00%

Approximately 10% of pension and postretirement costs are capitalized as part of construction labor, providing a small reduction in the net expense recorded. Uncertainty in the securities markets and U.S. economy could result in investment returns less than those assumed. GAAP requires that actual gains and losses on pension and postretirement plan assets be recognized in the market-related value of assets (MRVA) equally over a period of not more than five years. We use a methodology, allowed under GAAP, under which we hold the MRVA to within 20% of the actual fair value of plan assets, which can have the effect of accelerating the recognition of excess actual gains and losses into the MRVA to less than five years. Due to investment losses on plan assets experienced in 2008, this methodology contributed approximately $1,577 to our combined net pension and postretirement cost in 2009 as compared with not using this methodology. This methodology did not have a material impact on 2008 and 2007 combined net pension and postretirement benefits. Should the securities markets decline or medical and prescription drug costs increase at a rate greater than assumed, we would expect increasing annual combined net pension and postretirement costs for the next several years. Should actual experience differ from actuarial assumptions, the projected pension benefit obligation and net pension cost and accumulated postretirement benefit obligation and postretirement benefit cost would be affected in future years.

Discount Rate Our assumed discount rate of 6.50% at December 31, 2009, reflects the hypothetical rate at which the projected benefit obligations could be effectively settled or paid out to participants. We determined our discount rate based on a range of factors, including a yield curve comprised of the rates of return on several hundred high-quality, fixed-income corporate bonds available at the measurement date and the related expected duration for the obligations. These bonds were all rated at least Aa3 or AA- by one of the nationally recognized statistical rating organizations, denominated in U.S. dollars, and neither callable, convertible nor index linked. For the year ended December 31, 2009, we decreased our discount rate by 0.50%, resulting in an increase in our pension plan benefit obligation of $2,065 and an increase in our postretirement benefit obligation of $1,847. For the year ended December 31, 2008, we increased our discount rate by 0.50%, resulting in a decrease in our pension plan benefit obligation of $2,176 and a decrease in our postretirement benefit obligation of $2,154.

Expected Long-Term Rate of Return Our expected long-term rate of return on plan assets of 8.50% for 2010 and 2009 reflects 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. However, the dramatic adverse market conditions in 2008 have skewed traditional measures of long-term return, such as the 10-year return, which was 3.67% through 2009 and 4.21% through 2008, compared with 9.18% through 2007. The severity of the 2008 losses may make the 10-year return less of a relevant factor in future expectations. In 2009, we experienced actual returns on investments much greater than what was expected, which will create a reduction in combined pension and postretirement costs for 2010. Based on the future expectations for the target asset mix, this assumption will remain unchanged for 2010. 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 advisors. This assumption, which is based on our long-term expectations of market returns in future years, is one of the most significant of the weighted-average assumptions used to determine our actuarial estimates of pension and postretirement benefit expense. If all other factors were to remain unchanged, we expect that a 1% decrease in the expected long-term rate of return would cause 2010 combined pension and postretirement cost to increase $639.

Composite Rate of Compensation Increase Our expected composite rate of compensation increase of 4% reflects the long-term average rate of salary increases.

Health Care Cost Trend Our health care cost trend assumptions are developed based on historical cost data, the near-term outlook and an assessment of likely long-term trends. In addition to the health care cost trend, we assume an annual 3% growth in administrative expenses and an annual 3% growth in dental claims. Due to benefit design changes (e.g., increased co-pays and deductibles for prescription drugs and certain medical services), we have generally experienced better-than-expected claims cost in recent years. The following table provides our assumed average health care cost trend based on the demographics of plan participants:

	2010	2009
Health care cost trend rate assumed for current year		
Retirees 64 and under	**5.00%**	5.21%
Retirees 65 and over	**5.00%**	5.36%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	**5.00%**	5.00%
Year that rate reaches the ultimate trend rate	**2010**	2010

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	$ 325	$ (266)
Increase (decrease) in accumulated postretirement benefit obligation	3,423	(2,842)

Prior to August 2009, a majority of our labor contracts contained an annual dollar cap for nonmanagement retirees who retire during the term of the labor contract. However, we waived the cap during the relevant contract periods and thus did not collect contributions from those retirees. We have similarly waived the cap for nonmanagement retirees who retired prior to inception of the labor contract. In accordance with the substantive plan provisions required in accounting for postretirement benefits under GAAP, we did not account for the cap in the value of our accumulated postretirement benefit obligation (i.e., for GAAP purposes, we assumed the cap would be waived for all future contract periods). In August 2009, the company announced that the annual dollar caps would be enforced for some groups beginning in 2010, with alternative uncapped plans available and participants assumed to move to the uncapped plans. Consequently, no substantive assumptions about the annual caps being waived are reflected after August 2009.

We also changed from a static mortality table to a generational mortality table, creating an increase in our pension and postretirement benefit obligations as of December 31, 2009, as well as an increase in net pension and postretirement costs in 2010. Given full recognition of bargained changes, assumption changes and recognition of gains/losses, our combined pension and postretirement cost is expected to decrease for 2010 compared to 2009.

Plan Assets

Plan assets consist primarily of private and public equity, government and corporate bonds, and real assets. 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. 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 are based on a study completed and approved during 2009.

The plans' weighted-average asset target 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	**2009**	2008	Target	**2009**	2008
Equity securities:						
Domestic	26% – 36%	**34%**	34%	34% – 44%	**39%**	39%
International	12% – 22%	**16**	16	22% – 32%	**27**	21
Fixed income securities	27% – 37%	**30**	30	15% – 25%	**20**	25
Real assets	6% – 16%	**8**	11	0% – 7%	**2**	3
Private equity	4% – 14%	**10**	9	0% – 9%	**4**	6
Other	0% – 5%	**2**	—	3% – 13%	**8**	6
Total		**100%**	100%		**100%**	100%

At December 31, 2009, AT&T securities represented less than one-half of a percent of assets held by our pension plans and VEBA trusts.

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 Measurement" 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. Over-the-counter (OTC) securities and government obligations 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 a series of techniques, such as Black-Scholes option pricing model, simulation models or a combination of various models.

Common/collective trust funds and 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 equities, private bonds, limited partnerships, hedge funds, real assets and natural resources, 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. Private equity, private bonds, limited partnership interests, hedge funds and other investments not having an established market are valued at net asset values as determined by the investment managers, which management has determined approximates fair value. Private equity investments are often valued initially based upon cost; however, valuations are reviewed utilizing available market data to determine if the carrying value of these investments should be adjusted. Such market data primarily includes observations of the trading multiples of public companies considered comparable to the private companies being valued. Investments in real assets funds are stated at the aggregate net asset value of the units of these funds, which management has determined approximates fair value. Real assets and natural resource investments are valued either at amounts based upon appraisal reports prepared by appraisers or at amounts as determined by an internal appraisal performed by the investment manager, which management has determined approximates fair value.

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.

Fair Value Measurement
GAAP standards require disclosures for financial assets and liabilities that are remeasured at fair value at least annually. GAAP standards establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. See Note 9 "Fair Value Measurement and Disclosure" 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, 2009:

Pension Assets and Liabilities at Fair Value as of December 31, 2009	Level 1	Level 2	Level 3	Total
Interest bearing investments	$ 134	$ 2,277	$ —	$ 2,411
Equity securities:				
Domestic	9,253	3,207	2	12,462
International	4,928	1,766	—	6,694
Fixed income securities:				
U.S. Government and governmental agencies	—	5,295	—	5,295
Corporate and other bonds and notes	—	4,548	—	4,548
Private equity	36	10	5,312	5,358
Real assets	—	—	3,650	3,650
Other	128	206	—	334
Market value of securities on loan:				
Interest bearing investments	—	300	—	300
Equity – domestic	1,907	1	—	1,908
Equity – international	597	15	—	612
U.S. Government and governmental agencies	—	2,962	—	2,962
Corporate bonds and notes	—	659	—	659
Other	22	8	—	30
Collateral value of securities lending	—	6,039	—	6,039
Total plan net assets at fair value	$17,005	$27,293	$8,964	$ 53,262
Other assets (liabilities)[1]				(6,389)
Total Plan Net Assets				**$46,873**

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

Postretirement Assets and Liabilities at Fair Value as of December 31, 2009	Level 1	Level 2	Level 3	Total
Interest bearing investments	$ 49	$1,145	$ —	$ 1,194
Equity securities:				
Domestic	2,484	1,175	—	3,659
International	2,534	755	—	3,289
Fixed income securities:				
U.S. Government and governmental agencies	—	1,507	—	1,507
Corporate and other bonds and notes	—	485	—	485
Private equity	—	—	583	583
Real assets	—	—	117	117
Other	33	11	—	44
Market value of securities on loan:				
Equities – domestic	354	118	—	472
Equities – international	95	82	—	177
U.S. government bonds and notes	—	74	—	74
Corporate and other bonds and notes	—	15	—	15
Collateral value of securities lending	—	765	—	765
Total plan net assets at fair value	$5,549	$6,132	$700	$ 12,381
Other assets (liabilities)[1]				(868)
Total Plan Net Assets				**$11,513**

[1]Other assets (liabilities) include accounts 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 pension and postretirement assets Level 3 investment assets for the year ended December 31, 2009:

Pension Assets	Equity-Domestic	Private Equity	Real Assets	Total
Balance, beginning of year	$ 21	$ 5,494	$ 5,281	$10,796
Actual return on plan assets:				
Assets sold during the period	—	130	(41)	89
Assets still held at reporting date	10	(652)	(1,829)	(2,471)
Purchases, sales, issuances and settlements (net)	(29)	340	239	550
Balance, End of Year	**$ 2**	**$5,312**	**$3,650**	**$ 8,964**

Postretirement Assets	Private Equity	Real Assets	Total
Balance, beginning of year	$ 669	$ 210	$ 879
Actual return on plan assets:			
Assets sold during the period	23	(34)	(11)
Assets still held at reporting date	(76)	(62)	(138)
Purchases, sales, issuances and settlements (net)	(33)	3	(30)
Balance, End of Year	**$583**	**$117**	**$ 700**

Estimated Future Benefit Payments

Expected benefit payments are estimated using the same assumptions used in determining our benefit obligation at December 31, 2009. Because benefit payments will depend on future employment and compensation levels, average years employed and average life spans, 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	Medicare Subsidy Receipts
2010	$ 4,897	$ 2,836	$(113)
2011	4,605	2,665	(121)
2012	4,578	2,627	(132)
2013	4,504	2,615	(143)
2014	4,432	2,596	(154)
Years 2015 – 2019	21,449	12,729	(944)

Supplemental Retirement Plans

We also provide 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 discount rate and composite rate of compensation increase used in determining the projected benefit obligation and the net pension and postemployment benefit cost. 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 recorded as "Other noncurrent liabilities" on our consolidated balance sheets at December 31, 2009, was $2,139 and was $2,114 at December 31, 2008.

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

	2009	2008
Projected benefit obligation	**$(2,139)**	$(2,114)
Accumulated benefit obligation	**(2,058)**	(2,023)
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 other comprehensive income:

Net Periodic Benefit Cost	2009	2008
Service cost – benefits earned during the period	**$ 11**	$ 13
Interest cost on projected benefit obligation	**140**	141
Amortization of prior service cost	**5**	6
Recognized actuarial loss	**10**	21
Net supplemental retirement pension cost	**$166**	$181

Other Changes Recognized in Other Comprehensive Income	2009	2008
Net loss (gain)	**$51**	$(66)
Prior service cost (credit)	**(5)**	—
Amortization of net loss (gain)	**7**	11
Amortization of prior service cost	**3**	4
Total recognized in net supplemental pension cost and other comprehensive income	**$56**	$(51)

The estimated net loss for our supplemental retirement plan benefits that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $16, and the prior service cost for our supplemental retirement plan benefits that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $2.

Deferred compensation expense was $95 in 2009, $54 in 2008 and $106 in 2007. Our deferred compensation liability, included in "Other noncurrent liabilities," was $1,031 at December 31, 2009, and $1,054 at December 31, 2008.

Non-U.S. Plans

As part of our ATTC acquisition, we acquired certain non-U.S. operations that have varying types of pension programs providing benefits for substantially all of their employees and, to a limited group, postemployment benefits. The net amounts recorded as "Postemployment benefit obligation" on our consolidated balance sheets at December 31, 2009 and 2008, were $(9) and $(7).

	2009	2008
Benefit obligations at end of year	**$(1,040)**	$(786)
Fair value of plan assets	**1,049**	793
Funded status at end of year	**$ 9**	$ 7

The following table provides information for certain non-U.S. defined-benefit pension plans with plan assets in excess of accumulated benefit obligations:

	2009	2008
Projected benefit obligation	**$1,040**	$786
Accumulated benefit obligation	**975**	700
Fair value of plan assets	**1,049**	793

Our International Pension Assets are composed of Level 1 and Level 2 assets. Level 2 assets are primarily made up of corporate bonds, notes and real assets totaling $688. The remaining assets at fair value are Level 1 assets totaling $361, related to equity investments and cash.

In determining the projected benefit obligation for certain non-U.S. defined-benefit pension plans, we use assumptions based upon interest rates relative to each country in which we sponsor a plan. Additionally, the expected return is based on the investment mix relative to each plan's assets. Following are the significant weighted-average assumptions:

	2009	2008
Discount rate for determining projected benefit obligation at December 31	**5.16%**	6.20%
Discount rate in effect for determining net cost (benefit)	**6.20%**	5.57%
Long-term rate of return on plan assets	**6.24%**	6.13%
Composite rate of compensation increase for determining projected benefit obligation at December 31	**3.99%**	4.06%
Composite rate of compensation increase for determining net pension cost	**4.06%**	4.25%

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

Net Periodic Benefit Cost	**2009**	2008
Service cost – benefits earned during the period	**$ 22**	$ 25
Interest cost on projected benefit obligation	**47**	54
Expected return on assets	**(58)**	(60)
Amortization of actuarial (gain)	**(17)**	(5)
Net pension cost	**$ (6)**	$ 14

Other Changes Recognized in Other Comprehensive Income	**2009**	2008
Net loss (gain)	**$75**	$70
Amortization of net loss (gain)	**(8)**	(2)
Amortization of prior service cost	**—**	—
Total recognized in net pension cost and other comprehensive income	**$67**	$68

The estimated net loss that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $1.

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 $586, $664 and $633 for the years ended December 31, 2009, 2008 and 2007.

NOTE 12. SHARE-BASED PAYMENT

We account for our share-based payment arrangements using GAAP standards for share-based awards. Our accounting under these standards may affect our ability to fully realize the value shown on our consolidated balance sheets of deferred tax assets associated with compensation expense. Full realization of these deferred tax assets requires stock options to be exercised at a price equaling or exceeding the sum of the exercise price plus the fair value of the options at the grant date. The provisions of GAAP standards for share-based awards do not allow a valuation allowance to be recorded unless our future taxable income is expected to be insufficient 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 in our consolidated balance sheets.

However, to the extent that additional tax benefits are generated in excess of the deferred taxes associated with compensation expense previously recognized, the potential future impact on income would be reduced.

At December 31, 2009, we had various share-based payment arrangements, which we describe in the following discussion. The compensation cost recognized for those plans was $317 for 2009, compared to $166 for 2008 and $720 for 2007, and is included in "Selling, general and administrative" in our consolidated statements of income. The total income tax benefit recognized in the consolidated statements of income for share-based payment arrangements was $121 for 2009, compared to $63 for 2008 and $275 for 2007.

Under our various plans, senior and other management and nonmanagement employees and nonemployee directors have received stock options, performance stock units, and other nonvested stock units. Stock options issued through December 31, 2009, carry exercise prices equal to the market price of our stock at the date of grant. Beginning in 1994 and ending in 1999, certain employees of AT&T Teleholdings, Inc. (formerly known as Ameritech) were awarded grants of nonqualified stock options with dividend equivalents. Prior to 2006, depending on the grant, stock options vesting could occur up to five years from the date of grant, with most options vesting ratably over three years. Stock options granted as part of a deferred compensation plan do not have a vesting period; since 2006, these are the only options issued by AT&T. Performance stock units, which are nonvested stock units, are granted to key employees based upon our stock price at the date of grant and are awarded in the form of AT&T common stock and cash at the end of a two- to three-year period, subject to the achievement of certain performance goals. Other nonvested stock units are valued at the market price of our common stock at the date of grant and vest typically over a two- to five-year period.

As of December 31, 2009, we were authorized to issue up to 110 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.

The compensation cost that we have charged against income for our share-based payment arrangements was as follows:

	2009	2008	2007
Performance stock units	**$290**	$152	$620
Stock options	**8**	11	14
Restricted stock	**21**	9	68
Other	**(2)**	(6)	18
Total	**$317**	$166	$720

The estimated fair value of the options when granted is amortized to expense over the options' vesting or required service period. The fair value for these options, for the indicated years ended, was estimated at the date of grant based on the expected life of the option and historical exercise experience, using a Black-Scholes option pricing model with the following weighted-average assumptions:

	2009	2008	2007
Risk-free interest rate	**3.17%**	3.96%	5.01%
Dividend yield	**6.82%**	4.36%	3.65%
Expected volatility factor	**19.65%**	18.76%	20.75%
Expected option life in years	**7.00**	7.00	7.00

A summary of option activity as of December 31, 2009, and changes during the year then ended, is presented below (shares in millions):

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value[1]
Outstanding at January 1, 2009	204	$39.41		
Granted	3	24.06		
Exercised	(1)	23.41		
Forfeited or expired	(28)	54.86		
Outstanding at December 31, 2009	178	36.79	1.86	$115
Exercisable at December 31, 2009	175	$37.01	1.73	$103

[1]Aggregate intrinsic value includes only those options with intrinsic value (options where the exercise price is below the market price).

The weighted-average fair value of each option granted during the period was $1.84 for 2009, compared to $5.04 for 2008 and $7.71 for 2007. The total intrinsic value of options exercised during 2009 was $5, compared to $78 for 2008 and $667 for 2007.

It is our policy to satisfy share option exercises using our treasury shares. The actual excess tax benefit realized for the tax deductions from option exercises from these arrangements was less than $1 in 2009, compared to $10 for 2008 and $77 for 2007.

A summary of the status of our nonvested stock units, which includes performance stock units as of December 31, 2009, 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, 2009	24	$ 35.18
Granted	16	24.80
Vested	(14)	34.51
Forfeited	—	28.67
Nonvested at December 31, 2009	**26**	**$26.48**

As of December 31, 2009, there was $365 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 1.88 years. The total fair value of shares vested during the year was $471 for 2009, compared to $554 for 2008 and $345 for 2007.

NOTE 13. STOCKHOLDERS' EQUITY

From time to time, we repurchase shares of common stock for distribution through our employee benefit plans or in connection with certain acquisitions. In December 2007, the Board of Directors authorized the repurchase of up to 400 million shares of our common stock. This authorization replaced previous authorizations and expired on December 31, 2009. As of December 31, 2009, we had repurchased approximately 164 million shares under this program.

During the Annual Meeting of Shareholders in April 2009, shareholders approved the increase of authorized common shares of AT&T stock from 7 billion to 14 billion, with no change to the currently authorized 10 million preferred shares of AT&T stock. As of December 31, 2009 and 2008, no preferred shares were outstanding.

In December 2009, the Company declared its quarterly dividend, which reflected an increase in the amount per share of common stock from $0.41 to $0.42.

NOTE 14. ADDITIONAL FINANCIAL INFORMATION

Consolidated Balance Sheets	December 31, 2009	2008
Accounts payable and accrued liabilities:		
Accounts payable	**$ 7,514**	$ 6,921
Accrued rents and other	**3,335**	4,437
Accrued payroll and commissions	**2,430**	2,401
Deferred directory revenue	**1,491**	1,984
Accrued interest	**1,717**	1,471
Compensated future absences	**563**	609
Current portion of employee benefit obligation	**2,021**	729
Other	**1,928**	1,480
Total accounts payable and accrued liabilities	**$20,999**	$20,032
Deferred compensation (included in Other noncurrent liabilities)	**$ 1,633**	$ 1,648

Consolidated Statements of Income	2009	2008	2007
Advertising expense	**$2,797**	$3,073	$3,430
Interest expense incurred	**$4,119**	$4,049	$3,678
Capitalized interest	**(740)**	(659)	(171)
Total interest expense	**$3,379**	$3,390	$3,507

Consolidated Statements of Cash Flows	2009	2008	2007
Cash paid during the year for:			
Interest	**$3,873**	$3,727	$3,445
Income taxes, net of refunds	**4,471**	5,307	4,013

Consolidated Statements of Changes in Stockholders' Equity	2009	2008	2007
Accumulated other comprehensive income (loss) is composed of the following components, net of taxes, at December 31:			
Foreign currency translation adjustment	**$ (761)**	$ (912)	$(469)
Unrealized gains on securities	**324**	100	375
Unrealized gains (losses) on cash flow hedges	**142**	(483)	(226)
Defined benefit postretirement plans	**(14,112)**	(15,761)	(59)
Other	**(1)**	(1)	(1)
Accumulated other comprehensive (loss)	**$(14,408)**	$(17,057)	$(380)

No customer accounted for more than 10% of consolidated revenues in 2009, 2008 or 2007.

A majority of our employees are represented by labor unions as of year-end 2009.

NOTE 15. CONTINGENT LIABILITIES

In addition to issues specifically discussed elsewhere, we are party to numerous lawsuits, regulatory proceedings and other matters arising in the ordinary course of business. In accordance with GAAP standards for contingencies, 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 $2,890 in 2010, $4,095 in total for 2011 and 2012, $2,549 in total for 2013 and 2014 and $694 in total for years thereafter.

See Note 9 for a discussion of collateral and credit-risk contingencies.

NOTE 16. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following table represents our quarterly financial results:

Calendar Quarter	Total Operating Revenues	Operating Income	Net Income	Net Income Attributable to AT&T	Basic Earnings Per Share[1]	Diluted Earnings Per Share[1]	Stock Price High	Stock Price Low	Stock Price Close
2009									
First	**$ 30,571**	**$ 5,737**	**$ 3,201**	**$ 3,126**	**$0.53**	**$0.53**	**$29.46**	**$21.44**	**$25.20**
Second	**30,734**	**5,506**	**3,276**	**3,198**	**0.54**	**0.54**	**27.09**	**23.38**	**24.84**
Third	**30,855**	**5,388**	**3,275**	**3,192**	**0.54**	**0.54**	**27.68**	**23.19**	**27.01**
Fourth	**30,858**	**4,861**	**3,091**	**3,019**	**0.51**	**0.51**	**28.61**	**25.00**	**28.03**
Annual	**$123,018**	**$21,492**	**$12,843**	**$12,535**	**2.12**	**2.12**			
2008									
First	$ 30,744	$ 5,980	$ 3,519	$ 3,461	$ 0.58	$ 0.57	$ 41.94	$ 32.95	$ 38.30
Second	30,866	6,567	3,843	3,772	0.64	0.63	40.70	32.63	33.69
Third	31,342	5,618	3,289	3,230	0.55	0.55	33.58	27.51	27.92
Fourth	31,076	4,898	2,477	2,404	0.41	0.41	30.65	20.90	28.50
Annual	$ 124,028	$ 23,063	$ 13,128	$ 12,867	2.17	2.16			

[1]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, 2009. 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*. Based on its assessment, AT&T management believes that, as of December 31, 2009, 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

Richard G. Lindner
Senior Executive Vice President and
Chief Financial Officer

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
AT&T Inc.

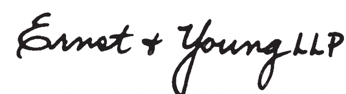
We have audited the accompanying consolidated balance sheets of AT&T Inc. (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. These financial statements 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, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, in 2009 the Company changed its presentation of noncontrolling interests with the adoption of FASB statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment to ARB No. 51*, (codified in FASB Accounting Standards Codification (ASC) Topic 810, *Consolidation*) effective January 1, 2009.

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, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2010 expressed an unqualified opinion thereon.



Dallas, Texas
February 25, 2010

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

The Board of Directors and Stockholders
AT&T Inc.

We have audited AT&T Inc.'s (the Company) internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (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.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, 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, 2009 and 2008, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009 and our report dated February 25, 2010 expressed an unqualified opinion thereon.

Ernst & Young LLP

Dallas, Texas
February 25, 2010