**Results of Operations**

The following table presents, for the three years ended December 31, 1997, certain statement of operations data expressed as a percentage of total revenue:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 1997(1) | 1996 | 1995(2) |
| Revenue: | | | |
| Toll revenue | 87.9% | 91.5% | 92.8% |
| Local service and other | 12.1 | 8.5 | 7.2 |
| Total revenue | 100.0 | 100.0 | 100.0 |
| Network costs | 58.6 | 62.7 | 60.8 |
| Gross profit | 41.4 | 37.3 | 39.2 |
| Other operating expenses: | | | |
| Depreciation and amortization | 6.4 | 5.3 | 6.1 |
| Selling expenses | 13.7 | 11.0 | 11.4 |
| General and administrative | 16.1 | 16.4 | 20.8 |
| Management restructuring | — | — | 0.7 |
| Total other operating expenses | 36.2 | 32.7 | 39.0 |
| Income from operations | 5.2 | 4.6 | 0.2 |
| Total other expense | (2.3) | (1.1) | (2.7) |
| Loss from operations before provision for (benefit from) income taxes and minority interest | 2.9 | 3.5 | (2.5) |
| Provision for income taxes | 0.1 | 0.7 | 0.2 |
| Minority interest in earnings of consolidated subsidiary | — | (0.3) | (0.1) |
| Income (loss) from operations | 2.8% | 2.5% | (2.8)% |

(1) Includes the results of operations of companies acquired during 1997: Transphone International Ltd. from June 1, 1997, United Telecom Ltd. from July 1, 1997, VISTA International from August 1, 1997 and Telenational Communications Deutschland Limited Partnership from July 1, 1997.

(2) Includes the results of operations of Metrowide Communications from August 1, 1995, the date of acquisition.

*1997 Compared with 1996*

*Revenue.* Total revenue for 1997 increased $63.8 million, or 21% to $372.6 million from $308.8 million in 1996. Long distance toll revenue increased $45.0 million, or 16%, to $327.5 million from $282.5 million in 1996. The growth in long distance toll revenue was fueled by a 31% increase in billable minutes. Revenue from wholesale carriers in 1997 increased to $78.9 million (21% of total revenue) from $73.4 million (24% of total revenue) in 1996. Significantly reduced revenue from two Canadian carriers were realized in 1997, accounting for a $10.8 million reduction in carrier revenue from the same period in 1996. Additionally, the 1996 period reflects $9 million of U.S. non-recurring carrier revenue. Excluding total wholesale carrier revenue, long distance toll revenue for 1997 increased 19% from 1996. Long distance toll revenue per billable minute for the current period decreased 11%, from $.157 to $.139, largely a result of competitive pricing pressures and change in customer mix. The growth in other revenue is largely attributable to growth in market share in the competitive local exchange business in the U.S. and a full year of revenues from Internet Canada compared to seven months in 1996.

Total revenue (unaffiliated) in North America for 1997 increased 10% from 1996. Long distance toll revenue (unaffiliated) increased 1% from 1996. However, 1996 included $9 million of non-recurring carrier revenue, and 1997 reflects reduced revenue from two carriers of $10.8 million. Excluding total carrier revenue, long distance toll revenue in 1997 increased 11% from 1996, and is attributable to core growth in minutes and customer accounts and from acquisitions. Long distance toll revenue per minute for 1997 decreased 19% from

$.150 to $.122, largely a result of competitive pricing pressures in both the U.S. and Canada. Retail price pressures in each market are expected to continue which may impact ACC's margin. Local service and other revenue for 1997 increased $18.9 million or 72% from 1996, a result of growth in U.S. local exchange revenue and increased Internet related revenue in Canada. ACC continues to invest in the local exchange business, having installed switches during 1997 in Buffalo, Albany, New York City, Boston and Springfield, Massachusetts. Continued expansion and growth in non-toll revenue, including local exchange service, Internet and other services is expected to become a larger component of total revenue in future periods. As a percent of total revenue, non-toll revenue for 1997 was 12% compared to 8% for 1996.

Total revenue (unaffiliated) in Europe (substantially all long distance toll revenue) for 1997 increased 47% from 1996. Excluding carrier revenue, long distance toll revenue for 1997 increased 33% from 1996, and is attributable to core growth in minutes and commercial and student customer accounts, and from acquisitions. Long distance toll revenue per billable minute for 1997 of $.174 remained unchanged from 1996, as the impact of higher revenue from carriers partially offset retail price reductions implemented during the period for international and domestic long distance rates. The German operating unit contributed a modest amount of revenue from the acquired TNC customer base as well as from switchless resale activity. Revenue per minute in Germany of $.736 in 1997 reflects a high concentration of higher rate international traffic.

*Network Costs.* Network costs for 1997 increased $24.8 million or 13% to $218.4 million from $193.6 million in 1996. As a percent of revenue, network costs for 1997 was 59% compared to 63% in 1996. Network costs per billable minute for 1997 decreased 14%, from $.108 to $.093. The reduction in network costs as a percent of revenue, and per billable minute, is largely attributable to reduced contribution charges enacted during 1997 in Canada, a favorable shift in business/customer mix as higher margin local exchange revenue constitute a higher percent of revenue in 1997 as compared to 1996, declining access rates for origination and termination, and internal network efficiencies.

Network costs in North America for 1997 as a percent of unaffiliated revenue decreased to 57% from 62% for 1996, and per billable minute also decreased from $.105 to $.084. These improvements resulted from the aforementioned reduction in Canadian contribution charges, increased amount of higher margin local exchange revenue in the U.S., and internal network efficiencies. Network costs in Europe for 1997 as a percent of unaffiliated revenue decreased to 62% from 65% in 1996, and per billable minute decreased from $.114 to $.110. Recent investments in switches, a U.K. microwave network and IRU are expected to more significantly lower network costs in the near term, as ownership of these facilities will enable ACC to reduce reliance on leased lines and increase network capacity. This forward looking statement is based on expectations regarding customer demand and the relative cost and availability of leased lines and alternative transmission facilities in ACC's markets, and could be adversely impacted by competitive pricing pressures. If such expectations are not realized, ACC's actual results may differ materially from the foregoing discussion.

*Other Operating Expenses—Selling, General and Administrative Expenses.* Total Selling, General and Administrative expenses ("SG&A") for 1997 increased $26.5 million, or 31%, to $111.0 million from $84.5 million in 1996. As a percent of revenue, SG&A increased to 30% from 27%. This increase is largely attributable to higher selling expenses (i.e., agents, salesperson and customer commissions) associated with growth in local exchange revenue, added overhead from acquired entities and infrastructure costs to support expansion in Germany.

*Other Income (Expense).* Net interest expense for 1997 decreased by $.4 million from 1996. Merger costs in 1997 of $5.0 million were incurred in connection with the then pending mergers with U.S. WATS Inc., and Teleport Communications Group Inc., and includes costs for investment advisory, legal, accounting and other professional services. Foreign exchange gains/losses reflect changes in the value of amounts borrowed by the foreign subsidiaries from ACC Corp., and ACC U.S., net of gains/losses on associated hedging contracts. ACC continues to hedge substantially all intercompany loans to foreign subsidiaries in an attempt to reduce the impact of transaction gains or losses. ACC does not engage in speculative foreign currency transactions. In 1997, ACC recognized losses on foreign currency transactions of $.2 million compared to gains of $.5 million in 1996.

*Provision for Income Taxes.* Provision for income taxes for 1997 of $.5 million represented an effective tax rate of 4% compared to $2.2 million or an effective tax rate of 20% in 1996. Income taxes are provided on all taxable income in excess of available net operating loss carryforwards ("NOL's") at the statutory rate applicable for each country. ACC continues to utilize NOL's to offset taxable income generated in Canada and the U.K. The increase in operating earnings in both of these subsidiaries, which is not subject to tax due to utilization of NOL's, reduces the effective tax rate for the consolidated company. ACC anticipates that its effective tax rate will increase significantly in the future as taxable income in each country increases.

*Minority Interest in Earnings of Consolidated Subsidiary.* Minority interest for 1996 reflects the portion of ACC's Canadian subsidiary's income attributable to the approximately 30% of that subsidiary's common stock that was publicly traded in Canada. Prior to December 31, 1996, ACC repurchased approximately 24% of the outstanding shares, and the remaining 6% was repurchased in January 1997. As a result, the Canadian subsidiary is currently 100% owned, with no remaining minority interest.

ACC's income from operations for 1997 was $19.5 million compared to $14.2 million in 1996, and was comprised of the following: North American operations $13.2 million as compared to $12.0 million in 1996, and European operations $6.3 million as compared to $2.2 million in 1996.

*1996 Compared with 1995*

*Revenue.* Total revenue for 1996 increased by 63% to $308.8 million from $188.9 million in 1995, reflecting growth in both toll revenue and local service and other revenue. Toll revenue for 1996 increased by 61% to $282.5 million from $175.2 million in 1995. In the United States, toll revenue increased 45% as a result of a 21% increase in billable minutes of use, primarily due to increased international sales to carriers. These international sales have a higher rate per minute, also contributing to the revenue increase. The 1996 results include $9.0 million in non-recurring carrier revenue. Excluding this non-recurring revenue, U.S. toll revenue increased 30% over 1995. In Canada, toll revenue increased 34%, as a result of a 30% increase in billable minutes, and an increase in prices due to additional residential customers which typically have a higher revenue per minute. In the United Kingdom, toll revenue increased 142%, due to significant volume increases offset by lower prices that resulted from entering the commercial and residential markets and from competitive pricing pressure. Since the end of 1994, ACC's revenues per minute on a consolidated basis have been increasing slightly as a result of the increasing percentage of U.K. revenues and ACC's successful introduction of higher price per minute products, including international carrier revenue. Exchange rates did not have a material impact on ACC's consolidated revenue.

For 1996, local service and other revenue increased by 93% to $26.3 million from $13.6 million in 1995. This increase was primarily due to the Metrowide Communications acquisition as of August 1, 1995 (approximately $5.2 million), local service revenue generated through the university program in the U.S. (approximately $0.4 million), and the CLEC operations in upstate New York (approximately $5.6 million). ACC is anticipating that a significant portion of its growth in the U.S. operations in the future will come from CLEC operations.

*Gross Profit.* Gross profit (defined as revenue less network costs) for 1996 increased to $115.2 million from $74.0 million in 1995, primarily due to the increases in revenue discussed above. Expressed as a percentage of revenue, gross profit decreased to 37% for 1996 from 39% for 1995, due to an increase in lower margin carrier traffic in the U.S., offset partially by improved margins in Canada and the U.K. due to network efficiencies and reductions in fixed charges from suppliers.

*Other Operating Expenses.* Depreciation and amortization expense increased to $16.4 million for 1996 from $11.6 million in 1995. Expressed as a percentage of revenue, these costs decreased to 5% in 1996 from 6% in 1995, reflecting the increases in revenue realized during 1996. The $4.8 million increase in depreciation and amortization expense was primarily attributable to assets placed in service throughout 1996. Amortization of



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FORM 10-K

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

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

For The Fiscal Year Ended December 31, 1997

OR

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

For The Transition Period From _____ to _____

Commission File Number 1-1105

AT&T CORP.

A NEW YORK CORPORATION

I.R.S. EMPLOYER NO. 13-4924710

32 Avenue of the Americas, New York, New York 10013-2412

Telephone Number 212-387-5400

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes....x.... No.....

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

At February 28, 1998, the aggregate market value of the voting stock held by non-affiliates was $98,828,206,879.

At February 28, 1998, 1,620,390,922 common shares were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of the registrant's annual report to shareholders for the year ended December 31, 1997 (Part II)

(2) Portions of the registrant's definitive proxy statement dated March 26, 1998, issued in connection with the annual meeting of shareholders (Part III)

SCHEDULE A

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
| --- | --- |
| Common Shares (Par Value $1 Per Share) | New York, Boston, Chicago, Philadelphia and Pacific Stock Exchanges |
| Thirty-Seven Year 4-3/4% Debentures, due June 1, 1998 | New York Stock Exchange |
| Thirty-Six Year 4-3/8% Debentures, due May 1, 1999 | |
| Thirty-Three Year 6% Debentures, due August 1, 2000 | |
| Thirty-Five Year 5-1/8% Debentures, due April 1, 2001 | |
| Ten Year 7-1/8% Notes, due January 15, 2002 | |
| Ten Year 6-3/4% Notes, due April 1, 2004 | |
| Ten Year 7% Notes, due May 15, 2005 | |
| Twelve Year 7-1/2% Notes, due June 1, 2006 | |
| Twelve Year 7-3/4% Notes, due March 1, 2007 | |
| Thirty Year 8-1/8% Debentures, due January 15, 2022 | |
| Medium Term Note 8.2%, due February 15, 2005 | |
| Thirty Year 8.35% Debentures, due January 15, 2025 | |
| Thirty-Two Year 8-1/8% Debentures, due July 15, 2024 | |
| Forty Year 8-5/8% Debentures, due December 1, 2031 | |

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## PART I

### ITEM 1. BUSINESS.

#### GENERAL

AT&T Corp. ("AT&T" or the "Company") was incorporated in 1885 under the laws of the State of New York and has its principal executive offices at 32 Avenue of the Americas, New York, New York 10013-2412 (telephone number 212-387-5400). Internet users can access information about AT&T and its services at http://www.att.com.

AT&T is among the world's communications leaders, providing voice, data and video telecommunications services to large and small businesses, consumers and government entities. AT&T and its subsidiaries furnish regional, domestic, international and local communication services. AT&T's wholly owned subsidiaries, including AT&T Wireless Services, Inc., provide cellular telephone and other wireless services. AT&T also provides billing, directory, and calling card services to support its communications business.

#### DEVELOPMENT OF BUSINESS

During 1996 AT&T separated its business into three publicly held stand-alone companies: the current AT&T, focused on communication and information services, Lucent Technologies Inc. ("Lucent") focused on communications systems and technology and NCR Corporation ("NCR") focused on transaction-intensive computing. AT&T distributed to its shareowners all of the shares AT&T owned of Lucent on September 30, 1996 and all of the shares of NCR on December 31, 1996.

Following the separation, AT&T has focused on its core business and disposed of assets and businesses that were not strategic. In October 1996, AT&T completed the sale of its majority interest in AT&T Capital Corporation (leasing services business) in which AT&T received $1.8 billion in cash. In 1997, AT&T completed the sales of AT&T Skynet (satellite services), AT&T Tridom (satellite data and video communications services) and its submarine systems business. In addition, AT&T sold its investments in DirectTV (direct-broadcast television service and DSS equipment business) and decreased its investment in Smartone Communications (a wireless joint venture in Hong Kong).

In addition, in 1997, AT&T agreed to sell AT&T Universal Card Services, Inc.(credit card services business), American Transtech Inc. (customer care services), its investment in LIN Television Corporation (commercial television broadcasting) and WOOD-TV (AT&T's television station in Grand Rapids, Michigan).

On January 8, 1998, AT&T entered into a definitive merger agreement with Teleport Communications Group, Inc. ("TCG"). The merger with TCG, which remains subject to regulatory approvals and a number of other conditions, is expected to close mid to late 1998. Under the merger agreement, each share of TCG will be exchanged for .943 of an AT&T share in an all-stock transaction valued at the time at approximately $11.3 billion. TCG is the largest competitive local exchange carrier in the United States, with networks in operation or under construction in 66 U.S. markets as of December 31, 1997. As of September 30, 1997, TCG's local networks encompassed over 8,680 route miles, over 460,285 fiber miles, and 33 local digital voice switches. These local networks are aimed at addressing high-volume business customers. AT&T believes that the TCG merger will accelerate its ability to offer local services to business customers and, ultimately, to other customers.

LONG DISTANCE SERVICES

AT&T's communication and information services business addresses the needs of consumers, large and small businesses, the Federal government and state and local governments for voice, data and video telecommunications services. Business units within this group provide regular and custom long distance communications services, data transmission services, 500 services, toll-free or 800 and 888 services, 900 services, private line services, software defined network services ("SDN"), integrated services digital network ("ISDN") technology based services, and electronic mail, electronic data interchanges and enhanced facsimile services.

AT&T also provides special long distance services, including AT&T Calling Card services, special calling plans and the Company's domestic and international operator services. AT&T provides communications services internationally, including transaction services, global networks, network management and value added network services (i.e., services offered over communications transmission facilities that employ computer processing applications).

AT&T provides interstate and intrastate long distance telecommunications services throughout the continental United States and provides, or joins in providing with other carriers, telecommunications services to and from Alaska, Hawaii, Puerto Rico and the Virgin Islands and international telecommunications services to and from virtually all nations and territories around the world.

In the continental United States, AT&T provides long distance telecommunications services over its own network. Virtually all switched services are computer controlled and digitally switched and interconnected by a packet switched signaling network. Transmission facilities consist of approximately 2 billion circuit-miles using lightwave, satellite, wire and coaxial cable and microwave radio technology. International telecommunications services are provided via multiple international transoceanic submarine cable (primarily lightwave) systems and via international satellite and radio facilities.

WIRELESS SERVICES

AT&T is one of the world's largest wireless service providers. In the United States, AT&T holds licenses to operate systems providing 850 Mhz broadband wireless services covering markets with a population of over 92 million nationwide and messaging and air-to-ground services throughout the country. The services provided by AT&T currently include cellular, voice and data, messaging and air-to-ground communications. As of December 1997, AT&T served over 6 million cellular subscribers.

In addition, AT&T has purchased (primarily in auctions conducted by the Federal Communications Commission ("FCC")) 1900 Mhz wireless broadband licenses covering markets with a population of over 112 million. AT&T is required by the FCC to provide adequate broadband PCS service to at least one-third of the population in its licensed areas within five years of being licensed and two-thirds of the population in its licensed areas within ten years of being licensed. The licenses are granted for ten year terms from the original date of issuance and may be renewed by AT&T by meeting the FCC's renewal criteria and upon compliance with the FCC's renewal procedures.

AT&T has created service clusters in major metropolitan areas and linked its and other service providers systems into a network which permits its wireless cellular subscribers to both place and receive calls anywhere they travel in areas served by the network, even if the local wireless telephone

service is not provided by AT&T. AT&T is now integrating other communications technologies into the network. AT&T will continue to explore the use of emerging technologies to expand the reach of the network and to provide additional services (especially data and internet services).

AT&T also offers one-way messaging systems such as paging services. As of December 31, 1997, the Company had over 1.3 million messaging service subscribers. The majority of these subscribers are in locations where AT&T holds cellular licenses.

AT&T's wireless services are conducted primarily through subsidiaries of AT&T Wireless Services, Inc. (formerly McCaw Cellular Communications, Inc., which was merged with a special-purpose subsidiary of AT&T in September 1994).

LOCAL SERVICES

Following passage of the Telecommunications Act of 1996 (the "Telecommunications Act"), AT&T applied for permission to provide local service in all 50 states. As of December 31, 1997, AT&T had received authority to provide service in 48 states and the District of Columbia. As of December 31, 1997, AT&T offered AT&T Digital Link service for business customers on an outbound only basis in 48 states and on an inbound and outbound basis in one state. Also as of such date, AT&T offered resold local service to consumers in Alaska, California, Connecticut, Georgia, Illinois, Michigan, Texas and Rochester, New York as well as offering resold local service to small business customers in California and Connecticut.

Notwithstanding these efforts, AT&T has experienced significant difficulty in penetrating local markets. AT&T's ability to purchase combined network elements from incumbent local exchange carriers (ILECS), one of the primary methods by which AT&T intends to provide local service to residential and small business customers, was severely limited by, among other factors, regulatory and judicial actions and a lack of technical and operational interfaces necessary to order network elements from ILECs. In spite of strong demand, in the fourth quarter of 1997 AT&T stopped actively marketing resold local service to residential and small business customers in most of the areas in which it offered such service because of limitations on ILECs' ability to handle anticipated demand and because discounts AT&T receives from ILECs on the sale of such service are insufficient to make resale a viable long-term method of offering service. AT&T's ability to provide facilities-based local service to business customers through AT&T Digital Link service was also hampered by the inability to provide local number portability and other factors. AT&T will continue to pursue the development of alternative methods of local entry, which remains a key growth opportunity. See "Competition" and "Forward Looking Statements" for a discussion of the potential impact on AT&T of an inability to profitably provide local service.

AT&T SOLUTIONS

AT&T Solutions, Inc., established in 1995, provides outsourcing, consulting, networking integration and multimedia call center services. AT&T Solutions provides clients with customized information technology solutions to operate and manage voice, data and video services, including local and wide area networks, PBXs, voice-processing systems and voice and data terminals.

ONLINE SERVICES

AT&T also provides a variety of online and internet access services. These include AT&T WorldNet® Service, a service providing dedicated and dial-up access to the internet, AT&T Easy World Wide Web® Service, an internet web site creation and hosting service, custom web site hosting services, and AT&T

SecureBuy SM Service, an Internet transaction service that simplifies buying and selling on the Internet.

INTERNATIONAL

AT&T has established a number of international alliances to increase the reach and scope of AT&T's services and network over time and has invested in certain countries in order to increase the range of services AT&T offers in those countries. For example, AT&T founded the WorldPartners alliance in 1993 to provide multinational customers with seamless telecommunications and related services. As of the end of 1997, WorldPartners included 17 members who provide services to multinational customers in North America, Latin America, Europe, the Middle East and Asia. In addition, in 1996 AT&T began offering business and consumer services in the United Kingdom and in early 1997 AT&T's joint venture in Mexico, Alestra, began offering long distance service. AT&T also has an interest in several wireless communications companies outside of the United States, including cellular operators licensed to serve Hong Kong, Columbia, Taiwan and parts of India.

LEGISLATIVE AND REGULATORY DEVELOPMENTS

Telecommunications Act of 1996

In February 1996, the Telecommunications Act became law. The Telecommunications Act, among other things, was designed to foster local exchange competition by establishing a regulatory framework to govern new competitive entry in local and long distance telecommunications services. The Telecommunications Act will permit the Regional Bell Operating Companies ("RBOCs") to provide interexchange services originating in any state in its region after demonstrating to the FCC that such provision is in the public interest and satisfying the conditions for developing local competition established by the Telecommunications Act.

In August 1996, the FCC adopted rules and regulations, including pricing rules (the "Pricing Rules") to implement the local competition provisions of the Telecommunications Act, including with respect to the terms and conditions of interconnection with local exchange carrier ("LEC") networks and the standards governing the purchase of unbundled network elements and wholesale services from LECs. These implementing rules rely on state public utilities commissions to develop the specific rates and procedures applicable to particular states within the framework prescribed by the FCC.

On July 18, 1997, the United States Court of Appeals for the 8th Circuit issued a decision holding that the FCC lacks authority to establish pricing rules to implement the sections of the local competition provisions of the Telecommunications Act applicable to interconnection with LEC networks and the purchase of unbundled network elements and wholesale services from LECs. Accordingly, the Court vacated the rules that the FCC had adopted in August 1996, and which had been stayed by the Court since September 1996.

Absent effectiveness of the Pricing Rules, each state will determine the applicable rates and procedures independent of the framework established by the FCC. However, since the stay was issued, many states have used the Pricing Rules as guidelines in establishing permanent rates, or interim rates that will apply pending the determination of permanent rates in subsequent state proceedings. Nevertheless, there can be no assurance that the prices and other conditions established in each state will provide for effective local service entry and competition or provide AT&T with new market opportunities.

On October 14, 1997, the 8th Circuit Court of Appeals vacated an FCC Rule that had prohibited incumbent LECs from separating network elements that are

combined in the LEC's network, except at the request of the competitor purchasing the elements. This decision could increase the difficulty and costs of providing competitive local service through the use of unbundled network elements purchased from the incumbent LECs.

On January 26, 1998, the United States Supreme Court agreed to review the aforementioned decisions of the Eighth Circuit Court of Appeals. Under the normal procedures of the Court, arguments are expected to be heard in October 1998, and a decision is expected sometime in the first half of 1999.

On December 31, 1997, the U.S. District Court for the Northern District of Texas issued a memorandum opinion and order holding that the Telecommunications Act's restrictions on the provision of in-region, interLATA service by the RBOCSs are unconstitutional. AT&T and other carriers (collectively, "intervenors") and the FCC filed prompt appeals with the United States Court of Appeals for the Fifth Circuit. On February 11, 1998, the District Court stayed the effectiveness of its December 31 memorandum opinion and order pending appeal.

The United States Court of Appeals for the Fifth Circuit will review the aforementioned decision of the U.S. District Court for the Northern District of Texas under an expedited briefing schedule, whereby oral arguments will be heard in July 1998. If the memorandum opinion and order is permitted to take effect, the Telecommunications Act's restrictions on the provision of in-region interLATA services will no longer apply to the plaintiffs in the case, SBC Communications, Inc., U S West, Inc. and Bell Atlantic Corporation.

Modification of Final Judgment of 1982

Prior to 1996, AT&T and the RBOCs were subject to the provisions of the Modification of Final Judgment of 1982 (the "MFJ") since its implementation. The Telecommunications Act effectively superseded future operation of the MFJ. Consequently, on April 11, 1996, Judge Harold Greene issued an order terminating the MFJ.

Regulation of Rates

AT&T is subject to the jurisdiction of the FCC with respect to interstate and international rates, lines and services, and other matters. From July 1989 to October 1995, the FCC regulated AT&T under a system known as "price caps" whereby AT&T's prices, rather than its earnings, were limited. On October 12, 1995, recognizing a decade of enormous change in the long distance market and finding that AT&T lacked market power in the interstate long distance market, the FCC reclassified AT&T as a "non-dominant" carrier for its domestic interstate services. As a result, AT&T became subject to the same regulations as its long distance competitors for such services. Thus, AT&T was no longer subject to price cap regulation for these services, was able to file tariffs that are presumed lawful on one day's notice, and was free of other regulations and reporting requirements that apply only to dominant carriers.

In addition, on October 31, 1996, the FCC issued an order that would have prohibited non-dominant carriers, including AT&T, from filing tariffs for their domestic interstate services. AT&T and other parties have filed an appeal of the FCC's order with the United States Court of Appeals for the D.C. Circuit. In February 1997, the D.C. Circuit stayed the effectiveness of the FCC's order pending appeal. Oral argument has not yet been scheduled. If the Court affirms the FCC's order and lifts the stay, non-dominant carriers, including AT&T, will have to utilize mechanisms other than tariffs to establish the terms and conditions that apply to domestic, interstate telecommunications services.

Furthermore, in May 1997, the FCC adopted three orders relating to Price Caps, Access Reform, and Universal Service that will result in substantial revisions to the level and structure of access charges that AT&T as a long distance carrier pays to incumbent LECs. AT&T has agreed to pass through to consumers any savings to AT&T as a result of access charge reform. AT&T began implementing these reductions July 15, 1997. Consequently, AT&T's results after June 1997 reflects lower revenue per minute of usage and lower access and other interconnection costs per minute of usage.

The Price Cap Order requires LECs to reduce their price cap indices by 6.5 percent annually, less an adjustment for inflation, which is likely to result in a reduction in the interstate access charges that long distance carriers, such as AT&T, pay to LECs. The Access Charge Reform Order restructured access charges so that certain costs that do not vary with usage will be recovered on a flat-rate basis and permitted increased flat-rate assessments on multiline business customers and on residential lines beyond the primary telephone line. This restructuring allows a reduction in access charges assessed on long distance carriers on a usage basis. Finally, the Universal Service Order (which represents an FCC mandated contribution to support schools and libraries and rural health care programs, high cost support and low income support mechanisms which are paid to the Universal Service Administrative Company) adopts a new mechanism for funding universal service which expands the set of carriers that must contribute to support universal service from only long-distance carriers to all carriers, including LECs, that provide interstate telecommunications services. Similarly, the set of carriers eligible for the universal service support has been expanded from only LECs to any eligible carrier providing local service to a customer, including AT&T as a new entrant in local markets. The Universal Service Order also adopted measures to provide discounts on telecommunications services, Internet access and inside wire to eligible schools and libraries and rural health carrier providers.

AT&T remains subject to the statutory requirements of Title II of the Communications Act. AT&T must offer service under rates, terms and conditions that are just, reasonable and not unreasonably discriminatory; it is subject to the FCC's complaint process, and it must give notice to the FCC and affected customers prior to discontinuance, reduction, or impairment of service. AT&T has also made certain commitments that address concerns that had been raised with regard to the potential impact of declaring AT&T to be non-dominant, including a three-year rate assurance for low income and low usage residential users and a three-year limit on, and 5 days advance notice for, rate increases on 800 directory assistance and analog private line services.

AT&T's international private line services have been classified as non-dominant for several years. AT&T's switched international services have become subject to increased competition, similar to its domestic services and on May 9, 1996, the FCC adopted an order reclassifying AT&T as a non-dominant carrier for such services. AT&T has made certain voluntary commitments that address issues raised in that proceeding, including commitments: (i) to maintain its annual average revenue per minute for international residential calls at or below the 1995 level through May 9, 1999, and in the event of a significant change that substantially raises AT&T's costs, to provide the FCC five business days notice prior to implementing rate increases that would raise the annual average revenue per minute for such calls above the 1995 level; and (ii) to maintain certain discount calling plans providing at least a 15% discount off basic pricing schedules until May 9, 1999. AT&T also made voluntary commitments relating to its operation of international cable facilities, its negotiation of settlement agreements with foreign carriers and its relationship with foreign partners.

In addition to the matters described above with respect to the Telecommunications Act, state public service commissions or similar authorities having regulatory power over intrastate rates, lines and services and other matters regulate AT&T's local and intrastate communications services. The system of regulation used in many states is rate-of-return regulation. In recent years, many states have adopted different systems of regulation, such as: complete removal of rate-of-return regulation, pricing flexibility rules, price caps and incentive regulation.

COMPETITION

AT&T currently faces significant competition in the communication and information services industry and expects that the level of competition will continue to increase. As competitive, regulatory and technological changes occur, including those occasioned by the Telecommunications Act, AT&T anticipates that new and different competitors will enter and expand their position in the communications services markets. These may include entrants from other segments of the communication and information services industry or global competitors seeking to expand their market opportunities. Many such new competitors are likely to enter with a strong market presence, well recognized names and pre-existing direct customer relationships.

The Telecommunications Act has already impacted the competitive environment. Anticipating changes in the industry, non-RBOC LECs, which are not required to implement the Telecommunications Act's competitive checklist prior to offering long distance in their home markets, have begun integrating their local service offerings with long distance offerings in advance of AT&T being able to offer combined local and long distance service in these areas, adversely affecting AT&T's revenues and earnings in these service regions.

In addition, the Telecommunications Act will permit RBOCs to provide interLATA interexchange services after demonstrating to the FCC that such provision is in the public interest and satisfying the conditions for developing local competition established by the Telecommunications Act. Three RBOCs have petitioned the FCC for permission to provide interLATA interexchange services in one or more states within their home market; to date the FCC has not granted any petition. To the extent that the RBOCs obtain in-region interLATA authority before the Telecommunications Act's checklist of conditions have been fully or satisfactorily implemented and adequate facilities-based local exchange competition exists, there is a substantial risk that AT&T and other interexchange service providers would be at a disadvantage to the RBOCs in providing both local service and combined service packages. Because it is widely anticipated that substantial numbers of long distance customers will seek to purchase local, interexchange and other services from a single carrier as part of a combined or full service package, any competitive disadvantage, inability to profitably provide local service at competitive rates or delays or limitations in providing local service or combined service packages
could adversely affect AT&T's future revenues and earnings. In any event, the simultaneous entrance of numerous new competitors for interexchange and combined service packages is likely to adversely affect AT&T's future long distance revenues and could adversely affect future earnings.

Furthermore, in February 1997, a General Agreement on Trade in Services (the "GATS") was reached under the World Trade Organization. The GATS, which became effective January 1, 1998, is designed to open each country's domestic telecommunications markets to foreign competitors. The GATS, and future trade agreements, may accelerate the entrance into the U.S. market of foreign telecommunications providers, certain of whom are likely to possess dominant home market positions in which there is not effective competition. The GATS may also permit AT&T's entrance into other markets as only a small number of

countries refused to eliminate their foreign ownership restrictions.

In addition to the matters referred to above, various other factors, including market acceptance, start-up and ongoing costs associated with the provision of new services and local conditions and obstacles, could adversely affect the timing and success of AT&T's entrance into the local exchange services market and AT&T's ability to offer combined service packages that include local service.

FORWARD LOOKING STATEMENTS

Except for the historical statements and discussions contained herein, statements contained in this Report on Form 10-K constitute "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Any Form 10-K, Annual Report to Shareholders, Form 10-Q or Form 8-K of AT&T may include forward looking statements. In addition, other written or oral statements which constitute forward looking statements have been made and may in the future be made by or on behalf of AT&T, including statements concerning future operating performance, AT&T's share of new and existing markets, AT&T's short- and long-term revenue and earnings growth rates, and general industry growth rates and AT&T's performance relative thereto. These forward looking statements rely on a number of assumptions concerning future events, including the outcome of litigation, the adoption and implementation of balanced and effective rules and regulations by the FCC and the state public regulatory agencies, and AT&T's ability to achieve a significant market penetration in new markets. These forward looking statements are subject to a number of uncertainties and other factors, many of which are outside AT&T's control, that could cause actual results to differ materially from such statements. These factors include, but are not limited to:

- the efficacy of the rules and regulations to be adopted by the FCC and state public regulatory agencies to implement the provisions of the Telecommunications Act; the outcome of litigation relative thereto; and the impact of regulatory changes relating to access reform and international settlement reform;

- the outcome of negotiations with LECs and state regulatory arbitrations and approvals with respect to interconnection agreements; and the ability to purchase unbundled network elements or wholesale services from LECs at a price sufficient to permit the profitable offering of local exchange service at competitive rates;

- success and market acceptance for new initiatives, many of which are untested; the level and timing of the growth and profitability of new initiatives, particularly local (consumer and business) service and business data service; start-up costs associated with entering new markets, including advertising and promotional efforts; successful deployment of new systems and applications to support new initiatives; and local conditions and obstacles;

- competitive pressures, including pricing pressures, technological developments, alternative routing developments, and the ability to offer combined service packages that include local service; the extent and pace at which different competitive environments develop for each segment of the telecommunications industry; the extent at and duration for which competitors from each segment of the telecommunications industry are able to offer combined or full service packages prior to AT&T being able to; and the degree to which AT&T experiences material competitive impacts to its traditional service offerings prior to achieving adequate local service entry;

- the availability, terms and deployment of capital; the impact of regulatory and competitive developments on capital outlays; the ability to achieve cost savings and realize productivity improvements; the ability to effectively integrate TCG's operations with AT&T; the ability to realize cost-saving and revenue synergies from the merger; and

- general economic conditions, government and regulatory policies, and business conditions in the communications industry.

Readers are cautioned not to put undue reliance on such forward looking statements. For a more detailed description of these and additional uncertainties and other factors that could cause actual results to differ materially from such forward looking statements, see "Results of Operations", "Financial Condition", "Regulatory and Legislative Developments", and "Competition" included in or incorporated by reference into this Form 10-K. As described elsewhere in this Form 10-K, these uncertainties and factors could adversely affect the timing and success of AT&T's entrance into the local exchange services market and AT&T's ability to offer combined service packages that include local service, thereby adversely affecting AT&T's future revenues and earnings. AT&T disclaims any intention or obligation to update or revise any forward looking statements, whether as a result of new information, future events or otherwise.

SEGMENT, OPERATING REVENUE AND RESEARCH AND DEVELOPMENT EXPENSE INFORMATION

For information about the Company's research and development expense, see Note 5 to the Consolidated Financial Statements. For information about the consolidated operating revenues contributed by the Company's major classes of products and services, see the revenue tables and descriptions on pages 28 through 30 and Consolidated Statements of Income on page 40 of the Company's annual report to shareholders for the year ended December 31, 1997. All such information is incorporated herein by reference pursuant to General Instruction G(2).

EMPLOYEE RELATIONS

At December 31, 1997 AT&T employed approximately 128,000 persons in its operations, approximately 122,000 of whom are located domestically. About 48% of the domestically located employees of AT&T are represented by unions. Of those so represented, about 96% are represented by the Communications Workers of America ("CWA"), which is affiliated with the AFL-CIO; about 4% by the International Brotherhood of Electrical Workers ("IBEW"), which is also affiliated with the AFL-CIO. In addition, there is a very small remainder of domestic employees represented by other unions. Labor agreements with most of these unions extend through May 1998.

ITEM 2. PROPERTIES.

The properties of AT&T consist primarily of plant and equipment used to provide long distance and wireless telecommunications services and administrative office buildings.

Telecommunications plant and equipment consists of: central office equipment, including switching and transmission equipment; connecting lines (cables, wires, poles, conduits, etc.); land and buildings; and miscellaneous properties (work equipment, furniture, plant under construction, etc.). The majority of the connecting lines are on or under public roads, highways and streets and international and territorial waters. The remainder are on or under private property. AT&T also operates a number of sales offices, customer care centers, and other facilities, such as research and development laboratories.

AT&T continues to manage the deployment and utilization of its assets in order to meet its global growth objectives while at the same time ensuring that these assets are generating economic value added for the shareholder. AT&T will continue to manage its asset base consistent with globalization initiatives, marketplace forces, productivity growth and technology change.

A substantial number of the administrative offices of AT&T are in leased buildings. Substantially all of the important long distance communications facilities are in buildings wholly owned by AT&T or in buildings owned partially by AT&T and partially by the regional holding companies created at divestiture. Many of the smaller facilities are in rented quarters. Most of the important buildings used in connection with long distance services are on land held in fee, but a few are on land held under long-term leases.

ITEM 3. LEGAL PROCEEDINGS.

In the normal course of business, AT&T is subject to proceedings, lawsuits and other claims, including proceedings under government laws and regulations related to environmental and other matters. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Consequently, AT&T is unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to these matters at December 31, 1997. While these matters could affect operating results of any one quarter when resolved in future periods, it is management's opinion that after final disposition, any monetary liability or financial impact to AT&T beyond that provided for at year-end would not be material to AT&T's annual consolidated financial position or results of operations.

On July 6, 1997, MCI Telecommunications Corp. and Ronald A. Katz Technology Licensing, L.P. filed suit in United States District Court in Philadelphia, Pennsylvania against AT&T. The suit alleges that a number of AT&T services infringe patents owned by Katz but licensed to MCI for enforcement against AT&T. AT&T is reviewing the allegations of the Complaint. Based on review to date, it is management's opinion that the claims do not present any material monetary liability or financial impact to AT&T that is not subject to patent indemnity agreements with third-party equipment vendors.

AT&T is also a named party in a number of environmental actions, none of which is material to the consolidated financial statements or business of the Company. In addition, pursuant to the Separation and Distribution Agreement by and among AT&T, Lucent, and NCR, dated as of February 1, 1996, and amended and restated as of March 29, 1996, Lucent has assumed liability, subject to the liability sharing provisions of that agreement, for a number of actions in which AT&T remains a named party. AT&T is working to be released as a party to these actions, although there can be no assurance that it will be successful in this regard.

There are four environmental proceedings which are required to be reported pursuant to Instruction 5.C. of Item 103 of Regulation S-K. In September 1997, the government of the U.S. Virgin Islands filed suit in the federal district court of the Virgin Islands against the Company, AT&T Submarine Systems International ("SSI International"), A&L Underground, Inc., a contractor for SSI International at that time, and other entities. In connection with the purported 1996 release of non-toxic bentonite drilling mud within the coastal region of St. Croix by the contractor, the suit seeks penalties for violations of various federal and Virgin Island statutes; damages under several statutory and common law theories; removal of the mud (which has since been completed to the satisfaction of the federal agency that ordered the cleanup); and restitution of response costs allegedly incurred by the Virgin Islands. SSI International was a wholly owned subsidiary of AT&T at the time of the alleged violation. The foregoing environmental proceeding

is not material to the consolidated financial statements or business of the Company and would not be reported but for Instruction 5 C. of Item 103 of Regulation S-K, which requires disclosure of such matters.

In addition, three proceedings involve matters for which Lucent has assumed liability, as described above. On July 31, 1991, the United States Environmental Protection Agency Region III issued a complaint pursuant to Section 3008a of the Resource Conservation and Recovery Act alleging violations of various waste management regulations at the Company's Richmond Works, Richmond, Virginia. The complaint seeks a total of $4.2 million in penalties. In addition, on July 31, 1991, the United States Environmental Protection Agency filed a civil complaint in the U.S. District Court for the Southern District of Illinois against the Company and nine other parties seeking enforcement of its Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") Section 106 cleanup order, issued in November 1990 for the NL Granite City Superfund site, Granite, Illinois, past costs, civil penalties of $25,000 per day and treble damages related to certain United States' costs. Finally, during 1994, AT&T Nassau Metals Corporation ("Nassau"), a wholly owned subsidiary of AT&T, and the New York State Department of Environmental Conservation ("NYSDEC") were engaged in negotiations over a study and cleanup of the Nassau plant located on Richmond Valley Road in Staten Island, New York. During these negotiations, in June 1994, NYSDEC presented Nassau with a draft consent order which included not only provisions relating to site investigation and remediation but also a provision for payment of a $3.5 million penalty for alleged violations of hazardous waste management regulations. No formal proceeding has been commenced by NYSDEC.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS.

No matter was submitted to a vote of security holders in the fourth quarter of the fiscal year covered by this report.

Executive Officers of the Registrant
(as of March 25, 1998)

| Name | Age | | Became AT&T Executive Officer On |
|---|---|---|---|
| C. Michael Armstrong* | 59 | Chairman of the Board and Chief Executive Officer | 10-97 |
| R.C.M. Baker | 51 | Executive Vice President, International | 9-97 |
| Harry S. Bennett | 53 | Executive Vice President, Local Services Division | 3-97 |
| Harold W. Burlingame | 57 | Executive Vice President, Human Resources | 9-86 |
| Dan R. Hesse | 44 | Executive Vice President & President, AT&T Wireless Services | 3-97 |
| Frank Ianna | 48 | Executive Vice President, Network & Computing Services | 3-97 |
| Jim G. Kilpatric*** | 59 | Executive Vice President, Law & Government Affairs | 11-97 |
| Marilyn Laurie*** | 58 | Executive Vice President, Brand Strategy & Marketing Communications | 2-87 |
| Richard J. Martin | 51 | Executive Vice President, Public Relations | 11-97 |
| Gail J. McGovern | 45 | Executive Vice President, Consumer Markets Division | 1-96 |
| David C. Nagel | 53 | President, AT&T Labs & Chief Technology Officer | 3-97 |
| John C. Petrillo | 48 | Executive Vice President, Corporate Strategy & Business Development | 1-96 |
| Richard Roscitt | 46 | Executive Vice President & President, AT&T Solutions | 9-97 |
| Daniel E. Somers | 50 | Senior Executive Vice President and Chief Financial Officer | 5-97 |
| John D. Zeglis** | 50 | President | 9-86 |

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*Chairman of the Board of Directors and Chairman of the Executive and Proxy Committees.

**Member of the Board of Directors.

***Mr. Kilpatric and Ms. Laurie will retire from the Company in April 1998.

All of the above executive officers have held high level managerial positions with AT&T or its affiliates for more than the past five years, except Messrs. Armstrong, Nagel and Somers. Prior to joining AT&T in October 1997, Mr. Armstrong was Chairman and Chief Executive Officer of Hughes Electronics from 1991 and prior to that time, Mr. Armstrong held various other positions with IBM, including Senior Vice President and Chairman of the board of IBM World Trade Corporation. Prior to joining AT&T in April 1996, Mr. Nagel was with Apple Computer, a computer company, serving as Senior Vice President from 1995 and General Manager from 1988 through 1995. Prior to joining AT&T in May 1997, Mr. Somers was Chairman and Chief Executive Officer for Bell Cablemedia, plc, of London for two years and from 1992 to 1995, Mr. Somers was Executive Vice President and Chief Financial Officer for Bell Canada International.

## PART II

Items 5. through 8.

The information required by these items is included in pages 25 through 56 of the Company's annual report to shareholders for the year ended December 31, 1997. Such information is incorporated herein by reference, pursuant to General Instruction G(2). The referenced information from the Company's annual report to share holders has been filed as Exhibit 13 to this document.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

There have been no changes in independent accountants and no disagreements with independent accountants on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure during the last two years.

## PART III

Items 10. through 13.

Information regarding executive officers required by Item 401 of Regulation S-K is furnished in a separate disclosure in Part I of this report because the Company did not furnish such information in its definitive proxy statement prepared in accordance with Schedule 14A.

The other information required by Items 10 through 13 is included in the Company's definitive proxy statement dated March 26, 1998, the third and fourth paragraphs on page 6, the carryover paragraph on page 7, the first, second and third full paragraphs on page 7, the second full paragraph on page 8 through the final footnote on page 13 and the last paragraph on page 23 through page 48. Such information is incorporated herein by reference, pursuant to General Instruction G(3).

PART IV

Item 14. Exhibits, Financial Statement Schedule, and Reports on Form 8-K.

(a) Documents filed as a part of the report:

(1) Financial Statements:

| | Pages |
|---|---|
| Report of Management | * |
| Report of Independent Accountants | * |
| Statements: | |
| Consolidated Statements of Income | * |
| Consolidated Balance Sheets | * |
| Consolidated Statements of Changes in Shareowners' Equity | * |
| Consolidated Statements of Cash Flows | * |
| Notes to Consolidated Financial Statements | * |

(2) Financial Statement Schedule:

| | |
|---|---|
| Report of Independent Accountants | 18 |
| Schedule: | |
| II -- Valuation and Qualifying Accounts | 19 |

Separate financial statements of subsidiaries not consolidated and 50 percent or less owned persons are omitted since no such entity constitutes a "significant subsidiary" pursuant to the provisions of Regulation S-X, Article 3-9.

(3) Exhibits:

Exhibits identified in parentheses below, on file with the Securities and Exchange Commission ("SEC"), are incorporated herein by reference as exhibits hereto.

| Exhibit Number: | |
|---|---|
| (3)a | Restated Certificate of Incorporation of the registrant filed January 10, 1989, Certificate of Correction of the registrant filed June 8, 1989, Certificate of Change of the registrant filed March 18, 1992, Certificate of Amendment of the registrant filed June 1, 1992, and Certificate of Amendment of the registrant filed April 20, 1994. (Exhibit 4 to Registration Statement No. 333-00573). |

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*Incorporated herein by reference to the appropriate portions of the Company's annual report to shareholders for the year ended December 31, 1997. (See Part II.)

| | |
|---|---|
| (3)b | By-Laws of the registrant, as amended January 15, 1997 (Exhibit (3)b to Form 10-K for 1996, File No. 1-1105). |
| (4) | No instrument which defines the rights of holders of long term debt, of the registrant and all of its consolidated subsidiaries, is filed herewith pursuant to Regulation S-K, Item 601(b)(4)(iii)(A). Pursuant to this regulation, the registrant hereby agrees to furnish a copy of any such instrument to the SEC upon request. |
| (10)(i)1 | Form of Separation and Distribution Agreement by and among AT&T Corp., Lucent Technologies Inc. and NCR Corporation, dated as of February 1, 1996 and amended and restated as of March 29, 1996 (Exhibit (10)(i)1 to Form 10-K for 1996, File No. 1-1105). |
| (10)(i)2 | Form of Distribution Agreement, dated as of November 20, 1996, by and between AT&T Corp. and NCR Corporation (Exhibit (10)(i)2 to Form 10-K for 1996, File No. 1-1105). |
| (10)(i)3 | Tax Sharing Agreement by and among AT&T Corp., Lucent Technologies Inc. and NCR Corporation, dated as of February 1, 1996 and amended and restated as of March 29, 1996 (Exhibit (10)(i)3 to Form 10-K for 1996, File No. 1-1105). |
| (10)(i)4 | Employee Benefits Agreement by and between AT&T Corp. and Lucent Technologies Inc., dated as of February 1, 1996 and amended and restated as of March 29, 1996 (Exhibit (10)(i)4 to Form 10-K for 1996, File No. 1-1105). |
| (10)(i)5 | Form of Employee Benefits Agreement, dated as of November 20, 1996, between AT&T Corp. and NCR Corporation (Exhibit (10)(i)5 to Form 10-K for 1996, File No. 1-1105). |
| (10)(ii)(B)1 | General Purchase Agreement between AT&T Corp. and Lucent Technologies Inc., dated February 1, 1996 and amended and restated as of March 29, 1996 (Exhibit (10)(ii)(B)1 to Form 10-K for 1996, File No. 1-1105). |
| (10)(ii)(B)2 | Form of Volume Purchase Agreement, dated as of November 20, 1996, by and between AT&T Corp. and NCR Corporation (Exhibit (10)(ii)(B)2 to Form 10-K for 1996, File No. 1-1105). |
| (10)(iii)(A)1 | AT&T Short Term Incentive Plan as amended March, 1994 (Exhibit (10)(iii)(A)1 to Form 10-K for 1994, File No. 1-1105). |
| (10)(iii)(A)2 | AT&T 1987 Long Term Incentive Program as amended December 17, 1997. |
| (10)(iii)(A)3 | AT&T Senior Management Individual Life Insurance Program as amended March 3, 1998. |
| (10)(iii)(A)4 | AT&T Senior Management Long Term Disability and Survivor Protection Plan, as amended and restated effective January 1, 1995 (Exhibit (10)(iii)(A)4 to Form 10-K for 1996, File No. 1-1105). |
| (10)(iii)(A)5 | AT&T Senior Management Financial Counseling Program dated December 29, 1994 (Exhibit (10)(iii)(A)5 to Form 10-K for 1994, File No. 1-1105). |

| | |
|---|---|
| (10)(iii)(A)6 | AT&T Deferred Compensation Plan for Non-Employee Directors, as amended December 15, 1993 (Exhibit (10) (iii)(A)6 to Form 10-K for 1993, File No. 1-1105). |
| (10)(iii)(A)7 | The AT&T Directors Individual Life Insurance Program as amended March 2, 1998. |
| (10)(iii)(A)8 | AT&T Plan for Non-Employee Directors' Travel Accident Insurance (Exhibit (10)(iii)(A)8 to Form 10-K for 1990, File No. 1-1105). |
| (10)(iii)(A)9 | AT&T Excess Benefit and Compensation Plan, as amended and restated effective October 1, 1996 (Exhibit (10)(iii)(A)9 to Form 10-K for 1996, File No. 1-1105). |
| (10)(iii)(A)10 | AT&T Non-Qualified Pension Plan, as amended and restated January 1, 1995 (Exhibit (10)(iii)(A)10 to Form 10-K for 1996, File No. 1-1105). |
| (10)(iii)(A)11 | AT&T Senior Management Incentive Award Deferral Plan, as amended December 17, 1997. |
| (10)(iii)(A)12 | AT&T Mid-Career Hire Program revised effective January 1, 1988 (Exhibit (10)(iii)(A)4 to Form SE, dated March 25, 1988, File No. 1-1105) including AT&T Mid-Career Pension Plan, as amended and restated October 1, 1996, (Exhibit (10)(iii)(A)12 to Form 10-K for 1996, File No. 1-1105). |
| (10)(iii)(A)13 | AT&T 1997 Long Term Incentive Program as amended December 17, 1997. |
| (10)(iii)(A)14 | Form of Indemnification Contract for Officers and Directors (Exhibit (10)(iii)(A)6 to Form SE, dated March 25, 1987, File No. 1-1105). |
| (10)(iii)(A)15 | Pension Plan for AT&T Non-Employee Directors revised February 20, 1989 (Exhibit (10)(iii)(A)15 to Form 10-K for 1993, File No. 1-1105). |
| (10)(iii)(A)16 | AT&T Corp. Senior Management Basic Life Insurance Program, as amended February 27, 1998. |
| (10)(iii)(A)17 | Form of AT&T Benefits Protection Trust Agreement (Exhibit (10)(iii)(A)17 to Form SE, dated March 25, 1992, File No. 1-1105). |
| (10)(iii)(A)18 | AT&T Senior Officer Severance Plan effective October 9, 1997, as amended October 30, 1997. |
| (10)(iii)(A)19 | Form of Pension Agreement between AT&T Corp. and Frank Ianna dated October 30, 1997. |
| (10)(iii)(A)20 | Form of Pension Agreement between AT&T Corp. and Gail J. McGovern dated October 30, 1997. |
| (10)(iii)(A)21 | Form of Pension Agreement between AT&T Corp. and John C. Petrillo dated October 30, 1997. |
| (10)(iii)(A)22 | Form of Pension Agreement between AT&T Corp. and John Zeglis dated May 7, 1997. |

| | |
|---|---|
| (10)(iii)(A)23 | Form of Employment Agreement between AT&T Corp. and C. Michael Armstrong dated October 17, 1997. |
| (12) | Computation of Ratio of Earnings to Fixed Charges. |
| (13) | Specified portions (pages 25 through 56) of the Company's Annual Report to Shareholders for the year ended December 31, 1997. |
| (21) | List of subsidiaries of AT&T. |
| (23) | Consent of Coopers & Lybrand L.L.P. |
| (24) | Powers of Attorney executed by officers and directors who signed this report. |
| (27) | Financial Data Schedules. |

AT&T will furnish, without charge, to a shareholder upon request a copy of the annual report to shareholders and the proxy statement, portions of which are incorporated herein by reference thereto. AT&T will furnish any other exhibit at cost.

(b) Reports on Form 8-K:

During the fourth quarter 1997, Form 8-K dated October 20, 1997 was filed pursuant to Item 5 (Other Events) and Item 7 (Financial Statements and Exhibits) on October 24, 1997, Form 8-K dated October 20, 1997 was filed pursuant to Item 5 (Other Events) on November 4, 1997 and Form 8-K dated December 18, 1997 was filed pursuant to Item 2 (Acquisition or Disposition of Assets) and Item 7 (Financial Statements and Exhibits) on December 23, 1997.

## REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareowners of AT&T Corp.:

Our report on the consolidated financial statements of AT&T Corp. and subsidiaries has been incorporated by reference in this Form 10-K from page 39 of the 1997 Annual Report to the Shareowners of AT&T Corp. In connection with our audits of such financial statements, we have also audited the related consolidated financial statement schedule listed in the index on page 14 of this Form 10-K.

In our opinion, the consolidated financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

COOPERS & LYBRAND L.L.P.

1301 Avenue of the Americas
New York, New York
January 26, 1998

Schedule II--Sheet 1

AT&T CORP.
AND ITS CONSOLIDATED SUBSIDIARIES

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

(Millions of Dollars)

| COL. A | COL. B | COL. C | COL. D | COL. E |
|---|---|---|---|---|
| Description | Balance at Beginning of Period | Charged to Costs and Expenses | Deductions(a) | Balance at End of Period |
| Year 1997 | | | | |
| Allowances for doubtful accounts (b) ..... | $ 994 | $1,957 | $1,925 | $1,026 |
| Reserves related to business restructuring, including force and facility consolidation (c) ..... | $1,388 | $ -- | $ 481 | $ 907 |
| Deferred tax asset valuation allowance ... | $ 166 | $ 48 | $ 2 | $ 212 |
| Year 1996 | | | | |
| Allowances for doubtful accounts (b) ..... | $ 832 | $1,938 | $1,776 | $ 994 |
| Reserves related to business restructuring, including force and facility consolidation (c) ..... | $2,092 | $ -- | $ 704 | $1,388 |
| Deferred tax asset valuation allowance ... | $ 129 | $ 39 | $ 2 | $ 166 |

The Notes on Sheet 2 are an integral part of this Schedule.