

The Administrator shall serve as the final review committee under the Plan and shall have sole and complete discretionary authority to administer, interpret, construe and apply the Plan provisions, and determine all questions of administration, interpretation, construction, and application of the Plan, including questions and determinations of eligibility, entitlement to benefits and the type, form and amount of any payment of benefits, all in its sole and absolute discretion. The Committee shall further have the authority to determine all relevant facts and related issues, and all documents, records and other information relevant to a claim conclusively for all parties, and in accordance with the terms of the documents or instruments governing the Plan. Decisions by the Administrator shall be conclusive and binding on all parties and not subject to further review.

In any case, a Participant or Beneficiary may have further rights under ERISA. The Plan provisions require that Participants or Beneficiary pursue all claim and appeal rights described in this Section 4 before they seek any other legal recourse regarding claims for benefits.

## Section

### 5.

#### Amendment and Termination

- 5.0 **Continuation of Program.** The Company does not guarantee the continuation of the Plan or any benefits during employment or after termination of employment, nor does the Company guarantee any specific level of benefits. Benefits are provided under the Plan at the Company's discretion and do not create a contract of employment. Neither the establishment nor the continuance of the Plan shall be construed as conferring any legal rights upon any Eligible Executive, Participant or other person for continuation of employment, nor shall such establishment or continuance interfere with the right of the Company to discharge any Eligible Executive, Participant or other person without regard to the existence of the Plan. The Company intends to continue the Plan indefinitely; however, the Committee (for periods ending prior to the Closing) and the Board or its delegate (for periods beginning on or after the Closing) reserve the right to amend or terminate the Plan at any time pursuant to Section 5.1.
- 5.1 **Amendment or Termination.** The Committee (for periods ending prior to the Closing) and the Board or its delegate (for periods beginning on or after the Closing) may, at any time, amend or terminate the Plan or any underlying program, but such amendment or termination shall not adversely affect the rights of any Participant without his or her consent, to any benefit under the Plan to which such Participant may have previously become entitled prior to the effective date of such amendment or termination. The Executive Vice President – Human Resources of AT&T Corp. (or his or her successor), with the concurrence of the General Counsel of AT&T Corp. (or his or her successor), shall be authorized to make minor or administrative changes to the Plan, as well as amendments required by applicable federal or state law (or authorized or made desirable by such statutes).

## Section

### 6.

#### Change In Control

- 6.0 **Coverage of Individual Deferral Agreements.** Upon the occurrence of a "Change in Control" or a "Potential Change in Control" (as those terms are defined in the AT&T Corp. Benefits Protection Trust as in effect on October 23, 2000), each individual deferral agreement (including any individual nonqualified pension arrangement) made between an Officer (active or former) and a Participating Company for the deferral of compensation, retirement and/or severance benefits (and the deferred account balance, if any, under each such agreement) identified by the Executive Vice President – Human Resources of AT&T Corp. (or his or her successor), in his or her discretion, shall be deemed to be a deferred compensation obligation under the Plan. Notwithstanding any other provision of the Plan to the contrary, (i) each of the individual deferral agreements (including each of the individual nonqualified pension arrangements) deemed to be a deferred compensation obligation of the Plan pursuant to the provisions of this Section 6.0 shall be treated under the Plan in a manner that is consistent with the express terms and conditions of the respective individual deferral agreement; and (ii) the deferred compensation (including nonqualified pension benefit) entitlement of an Officer under the Plan with respect to any such individual deferral agreement (including individual nonqualified pension arrangements) shall be limited solely to the benefit provided under the express terms and conditions of the respective individual deferral agreement. Nothing contained in this Section 6.0 shall entitle an Officer to any other deferred compensation benefits under the Plan except as expressly provided in the individual deferral agreement (including any individual nonqualified pension arrangement).
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- 6.1 **Vesting Upon Change in Control.** Upon the occurrence of a "Change in Control" (as defined in the 2004 Incentive Program as in effect on May 19, 2004), the portion, if any, of each deferred account balance under the Plan (including the deferred account balance of any former Officer, the deferred account balance under any individual deferral agreement, and the benefits under any individual nonqualified pension arrangement deemed pursuant to the provisions of Section 6.0 to be an obligation of the Plan), that was not vested immediately prior to such "Change in Control", shall become fully vested.
- 6.2 **Interest Crediting After Change in Control.** After the occurrence of a "Change in Control" (as defined in the 2004 Incentive Program as in effect on May 19, 2004), the interest credited to a deferred account (including the deferred account of any former Officer and the deferred account under any individual deferral agreement deemed pursuant to the provisions of Section 6.0 to be an obligation of the Plan) for any period, to the extent applicable, shall not be less than the interest derived under the interest rate formula applicable to such deferred account (and used to calculate the interest credited to such deferred account) for the interest crediting period immediately prior to the occurrence of such "Change in Control" (unless the provisions of any individual deferral agreement provide otherwise).
- 6.3 **Prohibition on Deferral of Short-Term Incentive Awards.** Notwithstanding any provision of any Officer's deferral election to the contrary, after the occurrence of a "Change in Control" (as defined in the 2004 Incentive Program as in effect on May 19, 2004), no payment of any Officer's short term incentive award, if any, under the AT&T Short Term Incentive Plan for the performance year during which such "Change in Control" occurs shall be deferred under the Plan.

#### Section

#### 7.

#### General Provisions

- 7.0 **Named Fiduciary.** The Administrator is hereby designated as the "named fiduciary" under this Plan. The named fiduciary shall have authority to control and manage the operation and administration of this Program.
- 7.1 **Plan Administration.** The Administrator (or his or her designee) shall have authority to establish, from time to time, and implement reasonable and necessary procedures for the administration of the Plan.
- 7.2 **Cooperation With Administrator.** All Participants and Beneficiaries shall be required to reasonably cooperate with the direction of the Administrator (or his or her designee) with respect to the administration of the Plan. Such cooperation shall include (i) timely completion, execution, and return of all enrollment forms, deferral election forms, and other administrative forms and documents in the manner prescribed by the Administrator; and (ii) compliance with such further administrative requirements and conditions as may be reasonably established by the Administrator from time to time.
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- 7.3 **Effective Date.** The effective date of this amended and restated Plan document is January 1, 2008, unless otherwise stated herein.
- 7.4 **Calendar Year Plan.** All Plan records shall be maintained on a calendar year basis, beginning January 1 and ending December 31.
- 7.5 **Notice Under Plan.** Any notice to be given under this Plan shall be in writing and shall be either delivered in person or mailed by United States Mail, first-class postage pre-paid. If notice is to be given to the Administrator by mail, such notice shall be addressed as indicated below and mailed to the Administrator at the following address:

AT&T Inc.  
208 South Akard, Room 2350.06  
Dallas, Texas 75202  
Attention: AT&T Executive Compensation  
Administration Department

If notice is to be given to a Participant by United States Mail, such notice shall be addressed using such Participant's address then on file with the AT&T Executive Compensation Department. Any party may change the address to which notices shall be mailed by giving written notice of such change of address.

- 7.6 **Binding Effect.** This Plan shall be binding upon the Company's successors and assigns, and upon the Participants and their Beneficiaries, heirs, executors, and administrators.
- 7.7 **Pension Benefit Plan Under ERISA.** The Plan is intended to constitute an "employee pension benefit plan" within the meaning of Section 3(2)(A) of ERISA, covering a select group of management or highly compensated employees.
- 7.8 **Plan Document.** This Plan document is the plan document required by ERISA. The information contained herein provides the final and exclusive statement of the terms of the Plan. Unless otherwise authorized by the Board or its delegate, no amendment or modification to this Plan shall be effective until reduced to writing and adopted pursuant to Section 5.1. This document legally governs the operation of the Plan, and any claim of right or entitlement under the Plan shall be determined solely in accordance with the provisions of Section 4. No other evidence, whether written or oral, shall be taken into account in determining the right of an Eligible Executive, a Participant or a Beneficiary, as applicable, to any benefit of any type provided under the Plan.
- 7.9 **Source of Funds.** The amounts of compensation deferred under this Plan (and any earnings thereon) shall be held in the general funds of the Participating Companies. The Participating Companies shall not be required to reserve, or otherwise set aside, funds for the payment of such amounts of compensation deferred (or the earnings thereon).
- 7.10 **Prohibition on Assignments.** The rights of a Participant or Beneficiary to any deferred amounts of compensation deferred under this Plan, plus the additional amounts credited thereon pursuant to Section 2.3, Section 2.4(a), Section 2.4(b), Section 2.4(c), Section 2.4(d), and Section 3.7, shall not be subject to assignment by the Participant or any Beneficiary.
- 7.11 **Governing Law.** To the extent not preempted by applicable federal law, the Plan shall be governed by, and construed and interpreted in accordance with, the laws of the State of Texas (irrespective of the choice of laws principles of the State of Texas).
- 7.12 **Severability.** If any provision of this Plan or the application thereof to any person or circumstance shall be held by a court of competent jurisdiction to be invalid or unenforceable under any applicable law, such event shall not affect or render invalid or unenforceable the remainder of the Plan and shall not affect the application of any provision of the Plan to any other person or circumstance.
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- 7.13 **Headings.** The headings and subheadings preceding the Sections of this Plan have been inserted solely as a matter of convenience of reference, and shall have no force or effect in the construction or interpretation of the Plan or any of its provisions.
- 7.14 **Construction.** Whenever any words used herein are in the singular form, they shall be construed as though they were also used in the plural form in all cases where the plural form would apply (*and vice versa*). Pronouns and other words of one gender used herein shall be construed to include the other gender as the context requires. The word "or" shall not be exclusive; "may not" is prohibitive and not permissive. The term "earnings" shall refer to the amounts of interest and/or dividend equivalents credited to a deferral account hereunder pursuant to the provisions of Section 2.3(b), Section 2.4(d), and Section 3.7. The words, "hereof", "herein", "hereunder" and words of similar import shall refer to the entire Plan document, and not to any particular Section or paragraph of the Plan document, unless the context clearly indicates otherwise. All Section references made in this Plan document are to the applicable Sections of this Plan document unless otherwise specified.
- 7.15 **Plan to Comply with Section 409A.** The Plan (other than with respect to the Grandfathered Deferral Program) is at all times intended to comply with and operate in a manner that is consistent with the requirements of Section 409A of the Code. Notwithstanding any other provision to the contrary in this Plan, each provision in this Plan (other than with respect to the Grandfathered Deferral Program) shall be interpreted to permit the deferral of compensation in accordance with Section 409A of the Code and any provision that would conflict with such requirements shall not be valid or enforceable.
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Exhibit 10-cc

**AT&T CORP.**  
**NON-QUALIFIED PENSION PLAN**

THIS DOCUMENT, LIKE ALL COMPANY PLANS, PERSONNEL POLICIES OR PRACTICES, IS NOT A CONTRACT OF EMPLOYMENT. IT IS NOT INTENDED TO CREATE, AND IT SHOULD NOT BE CONSTRUED TO CREATE, ANY CONTRACTUAL RIGHTS TO CONTINUED EMPLOYMENT, EITHER EXPRESS OR IMPLIED, BETWEEN THE COMPANY AND ITS EMPLOYEES.

AT AT&T CORP., THE EMPLOYMENT RELATIONSHIP WITH EMPLOYEES COVERED BY THIS PLAN IS "AT-WILL." THIS MEANS THAT EMPLOYEES HAVE THE RIGHT TO QUIT THEIR EMPLOYMENT AT ANY TIME AND FOR ANY REASON, AND THE COMPANY RESERVES THE RIGHT TO TERMINATE ANY EMPLOYEE'S EMPLOYMENT, WITH OR WITHOUT CAUSE, AT ANY TIME FOR ANY REASON, SUBJECT TO THE RIGHTS OF ELIGIBLE PARTICIPANTS TO BENEFITS PROVIDED BY THIS PLAN.

IN THE EVENT THERE IS A CONFLICT BETWEEN STATEMENTS IN THIS PLAN AND THE TERMS OF ANY OTHER BENEFIT PLAN, POLICY, OR PRACTICE, THE APPLICABLE BENEFIT PLAN, POLICY OR PRACTICE PROVIDING THE BENEFITS IN QUESTION WILL CONTROL. AT&T CORP. RESERVES THE RIGHT, AT ANY TIME, TO MODIFY, SUSPEND, CHANGE, OR TERMINATE ITS EMPLOYEE BENEFIT PLANS OR EXECUTIVE LEVEL INCENTIVE, BENEFIT AND/OR PERQUISITE PLANS, PROGRAMS, POLICIES OR PRACTICES.

As Amended and Restated Effective January 1, 1997, Including  
Amendments Adopted Through December 31, 2008

Article 1

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Purpose

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## AT&T CORP. NON-QUALIFIED PENSION PLAN

### Article 1. Purpose

This AT&T Non-Qualified Pension Plan (the "Plan") is an amendment and restatement of predecessor programs sponsored by the Company that were first adopted on October 1, 1980, and reflects amendments adopted through December 31, 2008. The Plan provides supplemental pension, disability and death benefits to certain employees of AT&T Corp. ("AT&T") and its Affiliated Corporations, as defined herein. The Plan is intended to constitute an unfunded plan of deferred compensation for a select group of management or highly compensated employees for purposes of Title I of ERISA. Except as otherwise indicated herein, the provisions of this amended and restated AT&T Non-Qualified Pension Plan shall apply only with respect to a Participant, as defined herein, who terminates employment on or after January 1, 1997. For former employees who terminated employment before January 1, 1997, the provisions of the AT&T Non-Qualified Pension Plan in effect on the date of the former employee's termination of employment shall govern.

Effective January 1, 1997, the Plan was amended to provide a Special Update to the Basic Formula and a Special Update to the Alternate Formula, for employees who were actively employed and participating in the Plan on January 1, 1997. Effective January 1, 1998, the Plan was amended to discontinue ongoing benefit accruals for employees other than Officers, to implement a Cash Balance Formula as the only formula providing ongoing accruals, and to provide for the transfer of the benefit accrued as of December 31, 1996 under the AT&T Mid-Career Pension Plan to this Plan, for Officers who participate in this Plan on or after January 1, 1998.

Effective January 1, 2004, the Plan was amended to provide benefit accruals for a select group of management or highly compensated employees of a Participating Company who participate in the AT&T Executive Deferred Compensation Plan. The benefit provided to such employees by the Plan is generally equal to the reduction in the benefit payable to or on behalf of such employee under the AT&T Management Pension Plan and the AT&T Excess Benefit and Compensation Plan, resulting from such employee's election to defer amounts ("Qualified Deferrals" herein) under the AT&T Executive Deferred Compensation Plan or the AT&T Inc. Cash Deferral Plan. Accruals under this provision ceased December 31, 2007.

Effective after December 31, 2008, benefit accruals under this Plan are limited to accruals under the cash balance formula with respect to short term incentive awards, for employees who are Officers on December 31, 2008. These accruals will continue for this group of Officers until the individuals "SERP Vesting Date," as defined herein, at which time the benefit will be frozen. Employees who become Officers after December 31, 2008 are not entitled to benefits under this Plan, except with respect to benefits earned under a prior formula that was frozen effective December 31, 1997, or with respect to benefits based on Qualified Deferrals, with respect to which benefit accruals ceased December 31, 2007.

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During the period from January 1, 2005 to December 31, 2008, the Plan has been operated in good faith compliance with the provisions of Code Section 409A, Internal Revenue Notice 2005-1, and the final Treasury Regulations for Code Section 409A, and any other generally applicable guidance published in the Internal Revenue Service Bulletin with an effective date prior to January 1, 2009. On or after January 1, 2009, this Plan shall be interpreted and construed consistent with the requirements of Code Section 409A and all applicable guidance issued thereunder with respect to all accrued benefits under this Plan, including, except as indicated below, those benefits that may be otherwise treated as existing prior to the statutory effective date of Code Section 409A ("grandfathered benefits") within the meaning of Treasury Regulation Section 1.409A-6(a)(3). The preceding sentence notwithstanding, it is the intention of the Company that the grandfathering provisions of Code Section 409A be applied under this Plan with respect to any Participant (and any surviving Spouse, Beneficiary or Estate of such Participant) who terminated employment prior to January 1, 2005, with respect to all benefits earned under the Plan with respect to such Participant prior to termination of employment. If any individual who terminated employment prior to January 1, 2005 is rehired after December 31, 2004 and earns additional benefits following reemployment the terms of the Plan shall be applied separately with respect to benefits earned prior to January 1, 2005 and with respect to benefits earned following rehire. The Company reserves the right to amend any provision of the Plan or any election submitted by a Participant, or take any other action that the Company deems appropriate to ensure compliance with Code Section 409A, including altering the time and form of any distribution so as to accomplish the intended purpose of this Plan.

Article 1

-3-

Purpose

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**Article 2.**  
**Definitions**

Unless the context clearly indicates otherwise, the following terms have the meanings described below when used in this Plan, and references to a particular Article, Section, or Appendix shall mean the Article, Section, or Appendix so delineated in this Plan.

**Section    Adjusted Career Average Pay**  
**2.01**

“Adjusted Career Average Pay,” as used in the Alternate Formula described in Section 4.02(b), means (i) in the case of an Officer, the sum of A and B below, divided by such Officer’s Term of Employment, and (ii) in the case of an E-band Employee, the amount described in B below divided by such E-band Employee’s Term of Employment; for purposes of this Section 2.01, the last day of a Participant’s Term of Employment is the earliest to occur of July 31, 1997, the date specified in the applicable provision of Section 3.02(c) for purposes of determining a benefit under the Alternate Formula, or the date of the Participant’s termination of employment from a Participating Company:

- A.     the sum of (1) and (2), where (1) is the product of (a) the average of the Officer’s annual Short Term Incentive Awards includable in the 1989 Base Period, and (b) the Officer’s Term of Employment as of December 31, 1989, and (2) is his or her Short Term Incentive Awards and any Deferred Salary for the period from January 1, 1990 through the earliest to occur of (i) July 31, 1997, (ii) the date specified in the applicable provision of Section 3.02(c) for purposes of determining a benefit under the Alternate Formula, or (iii) the date of the Participant’s termination of employment from a Participating Company.
- B.     the sum of (1) and (2), where (1) is the product of (a) the Participant’s average annual “Compensation” (as defined in the Pension Plan) for the 1992 Base Period, and (b) the Participant’s Term of Employment as of December 31, 1992, and (2) is the Participant’s “Compensation” (as defined in the Pension Plan) for the period from January 1, 1993 through the earliest to occur of (i) July 31, 1997, (ii) the date specified in the applicable provision of Section 3.02(c) for purposes of determining a benefit under the Alternate Formula, or (iii) the date of the Participant’s termination of employment from a Participating Company.

**Section    Administrator**  
**2.02**

“Administrator” means the person identified as the Pension Plan Administrator under the Pension Plan, or such other person or entity designated by the Company.

**Section    Affiliated Corporation**  
**2.03**

“Affiliated Corporation” means any corporation or other entity of which 50 percent or more of the voting stock is owned directly or indirectly by AT&T.

**Section AT&T, Company**  
**2.04**

“AT&T” or “Company” means AT&T Corp., a New York Corporation, or its successors. Effective on November 18, 2005, AT&T Corp. was acquired by SBC Communications Inc. (now known as AT&T Inc.) pursuant to a plan and agreement of merger dated January 30, 2005.

**Section AT&T Controlled Group**  
**2.05**

“AT&T Controlled Group” means AT&T and each other entity required to be aggregated with AT&T under Code Sections 414(b), (c), (m), or (o). With respect to periods on or after November 18, 2005, the controlled group shall be determined with respect to entities required to be aggregated recognizing the acquisition of AT&T Corp. by SBC Communications Inc. (now known as AT&T Inc.).

**Section 1989 Base Period**  
**2.06**

“1989 Base Period” means the period from January 1, 1987, through December 31, 1989, inclusive. Notwithstanding the provisions of the immediately preceding sentence, the “1989 Base Period” shall in no event include any period on or after the date specified in the applicable provision of Section 3.02(c) for purposes of determining a benefit under the Basic Formula or under the Alternate Formula.

**Section 1992 Base Period**  
**2.07**

“1992 Base Period” means the period from January 1, 1990, through December 31, 1992, inclusive. Notwithstanding the provisions of the immediately preceding sentence, the “1992 Base Period” shall in no event include any period on or after the date specified in the applicable provision of Section 3.02(c) for purposes of determining a benefit under the Alternate Formula or under the Alternate Minimum Formula.

**Section 1996 Base Period**  
**2.08**

“1996 Base Period” means the period from January 1, 1994 through December 31, 1996, inclusive. Notwithstanding the provisions of the immediately preceding sentence, the “1996 Base Period” shall in no event include any period on or after the date specified in the applicable provision of Section 3.02(c) for purposes of determining a benefit under the Special Update to the Basic Formula or under the Special Update to the Alternate Formula.

**Section Board**  
**2.09**

“Board” means the Board of Directors of AT&T.

**Section Cash Balance Account**  
**2.10**

“Cash Balance Account” means a hypothetical bookkeeping account used solely in calculating the amount under this Plan of a Cash Balance Participant’s Benefit Based on the Cash Balance Account, as described in Section 4.03. The term “Cash Balance Account” does not include amounts credited to the Qualified Deferrals Cash Balance Account, as described in Section 4.11.

**Section Cash Balance Participant**  
**2.11**

“Cash Balance Participant” means an employee who is on the active roll of a Participating Company as an Officer on or after January 1, 1998. Notwithstanding the preceding sentence, an individual who is promoted to an Officer position after December 31, 2008 shall not be eligible to earn benefits as a “Cash Balance Participant.”

**Section CIC Eligible Employee**  
**2.12**

“CIC Eligible Employee” means a Deferral Participant who is considered a “CIC Eligible Employee” under the terms of the Pension Plan.

**Section Code**  
**2.13**

“Code” means the Internal Revenue Code of 1986, as amended from time to time. Any reference to a particular section of the Code includes any applicable regulations promulgated under that section.

**Section Committee**  
**2.14**

“Committee” means the Employees’ Benefit Committee appointed by AT&T to administer the Pension Plan.

**Section Concert Employee**  
**2.15**

“Concert Employee” means a former employee of a Participating Company who, pursuant to pertinent agreement(s) concluded between AT&T and British Telecommunications, PLC (“BT”) became employed by a Concert entity after December 15, 1999 and before April 1, 2002, under such circumstances that his or her net credited service would be subject to an immediate bridge if the Concert entity were a participating company under the Pension Plan, who was an Officer immediately prior to his or her employment by Concert, and who returned to the employment of a Participating Company as an Officer immediately following the termination of his or her employment by Concert on or before April 1, 2002. For purposes of this definition, “Concert” means the joint venture established pursuant to pertinent agreement(s) concluded between AT&T and BT.

**Section Covered Compensation Base**  
**2.16**

“Covered Compensation Base” means an amount which is the average of the maximum wage amounts on which an employee’s liability for Social Security taxes was determined for each year beginning with January 1, 1958 and ending with December 31, 1993.

**Section Deferral Participant**  
**2.17**

“Deferral Participant” means an employee who defers compensation under the AT&T Executive Deferred Compensation Plan, or for periods after 2006, the AT&T Inc. Cash Deferral Plan, to the extent that such deferred compensation is a Qualified Deferral.

**Section Deferred Salary**  
**2.18**

“Deferred Salary” means any salary amounts deferred under the AT&T Senior Manager Incentive Award Deferral Plan, for periods commencing on or after January 1, 1994 and prior to January 1, 2005. For periods commencing on or after January 1, 2005, “Deferred Salary” is zero. Deferred Salary does not include amounts deferred pursuant to Code Section 401(k) or amounts contributed pursuant to Code Section 125.

**Section Deferred Vested Benefit**  
**2.19**

“Deferred Vested Benefit” means a benefit determined pursuant to Section 4.02E (under benefit formulas prior to January 1, 1998) and payable to a Participant who is vested under the Pension Plan at the time of his or her termination of employment, and who is not Service Pension Eligible as of the date specified by the relevant provision of this Plan.

**Section Disability Benefit**  
**2.20**

“Disability Benefit” means the benefit payable from the Plan to a Participant who, prior to January 1, 1998, became eligible for a disability pension from the Pension Plan while an Officer. If the disability pension from the Pension Plan is discontinued (other than by reason of attainment of normal retirement age, as defined in the Pension Plan), the Disability Benefit hereunder shall also be discontinued.

**Section E-band Employee**  
**2.21**

“E-band Employee” means any employee of a Participating Company employed in a position evaluated or classified by the Company as an “E-band” (formerly E-level, Fifth level and SG-12 through SG-14) or equivalent position in a banded environment, or Manager 5 or its equivalent in a non-banded environment, except that no employee who is assigned to such a position on a temporary basis after being notified in writing of the temporary status of such assignment shall be an “E-band Employee” for any purpose under this Plan.

**Section ERISA**  
**2.22**

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time. Any reference to a particular section of ERISA includes any applicable regulations promulgated under that section.

**Section 50% Joint and Survivor Annuity**  
**2.23**

“50% Joint and Survivor Annuity” means an annuity form of payment under which payments continue to the surviving Spouse of the Participant, effective as of the first day of the month after the death of the Participant, and continuing until the last day of the month in which the death of the Spouse occurs, in an amount equal to fifty percent of the amount of the monthly benefit which was being paid to the Participant. If the Spouse predeceases the Participant after the Pension Commencement Date (and the pension is other than a Deferred Vested Pension described in Section 4.02(a)(iii)), the Participant’s pension shall be restored by the amount of the original reduction for this election, starting with the pension payment for the month following the death of the Spouse. For purposes of the 50% Joint and Survivor Annuity, the Spouse is the Spouse to whom the Participant was married on his or her Pension Commencement Date. This definition does not apply with respect to any benefit payable pursuant to a SERP Election made by a SERP Participant.

**Section 100% Joint and Survivor Annuity**  
**2.24**

“100% Joint and Survivor Annuity” means an annuity form of payment under which payments continue to the surviving Spouse of the Participant, effective as of the first day of the month after the death of the Participant, and continuing until the last day of the month in which the death of the Spouse occurs, in an amount equal to amount of the monthly benefit which was being paid to the Participant. If the Spouse predeceases the Participant after the Pension Commencement Date, the Participant’s pension shall be restored by the amount of the original reduction for this election, starting with the pension payment for the month following the death of the Spouse. For purposes of the 100% Joint and Survivor Annuity, the Spouse is the Spouse to whom the Participant was married on his or her Pension Commencement Date. This definition does not apply with respect to any benefit payable pursuant to a SERP Election made by a SERP Participant.

**Section Leave of Absence**  
**2.25**

A “Leave of Absence” means where a person is absent from employment with AT&T on a leave of absence, military leave, or sick leave, where the leave is given in order to prevent a break in the continuity of term of employment, and permission for such leave is granted (and not revoked) in conformity with the rules of the employer that employs the individual, as adopted from time to time, and the employee is reasonably expected to return to service. Except as set forth below, the leave shall not exceed six (6) months for purposes of this Plan, and the employee shall Terminate Employment upon termination of such leave if the employee does not return to work prior to or upon expiration of such six (6) month period, unless the individual retains a right to reemployment under law or by contract. A twenty-nine (29) month limitation shall apply in lieu of such six (6) month limitation if the leave is due to the employee being “disabled” (within the meaning of Treasury Regulation Section 1.409A-3(i)(4)). A Leave of Absence shall not commence or shall be deemed to cease under the Plan where the employee has incurred a Termination of Employment.

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**Section Normal Retirement Date**  
**2.26**

“Normal Retirement Date” means the Participant’s normal retirement date as that term is defined in the Pension Plan.

**Section Officer**  
**2.27**

“Officer” means any employee of a Participating Company holding a position evaluated or classified by the Company above the “E-band” level in a banded environment, or classified at the Manager 6 level or above in a non-banded environment, except that no employee who is assigned to such a position on a temporary basis after being notified in writing of the temporary status of such assignment shall be an “Officer” for any purpose under this Plan.

**Section Participant**  
**2.28**

“Participant” means an Officer or an E-band Employee who satisfies the requirements of Article 3 for eligibility to accrue benefits under the Plan. An employee who has become a Participant, but who is no longer eligible to accrue benefits under the Plan, shall continue to be a Participant with respect to any nonforfeitable benefits he or she has accrued under the Plan, until such accrued benefits have been fully discharged through payment or through the purchase of an annuity contract.

**Section Participating Company**  
**2.29**

“Participating Company” means AT&T and any Affiliated Corporation which shall have determined, with the concurrence of AT&T, to participate in the Plan. In order to be a Participating Company under this Plan, a company must also be a participating company under the AT&T Management Pension Plan.

**Section Pension Commencement Date**  
**2.30**

“Pension Commencement Date” means the first day of the first month for which a payment under this Plan is payable in the form of an annuity or any other form. With respect to payments that commenced prior to January 1, 2009, the pension commencement date under the Pension Plan was the same as the Pension Commencement Date under this Plan.

**Section Pension Plan**  
**2.31**

“Pension Plan” means the AT&T Management Pension Plan, as amended and restated from time to time, and effective January 1, 2007, the AT&T Pension Benefit Plan – AT&T Legacy Management Program.

**Section Pension Plan Benefit**  
**2.32**

“Pension Plan Benefit” means (i) for purposes of determining the benefit under Section 4.02E(b) of the Plan, the “accrued benefit” under any of the pay base formulas under the Pension Plan, other than the special update formula, (ii) for purposes of determining the benefit under Section 4.02E(c) of the Plan, the “accrued benefit” under any of the pay base formulas under the Pension Plan, including the special update formula, and (iii) for purposes of determining the benefit under Section 4.02E(c) of the Plan, the “accrued benefit” under the Pension Plan under any of the pay base formulas under the Pension Plan, including the special update formula, each of (i), (ii) and (iii) herein determined without regard to the limitations on covered compensation under Code Section 401(a)(17), or the limitations on benefit accruals and payments under Code Section 415 and, unless otherwise indicated in the Plan, before any reduction in such pension benefit for the cost of a survivor benefit or for early commencement. Notwithstanding the provisions of the immediately preceding sentence, in applying the pay base formulas under the Pension Plan to a Participant described in Section 3.02(c), service and compensation after the date specified in the applicable provisions of Section 3.02(c) for purposes of determining the benefit under Section 4.02E(b) or Section 4.02E(e) of this Plan shall be excluded.

**Section Plan**  
**2.33**

“Plan” means this AT&T Non-Qualified Pension Plan, as set forth herein and as amended from time to time.

**Section Position Rate**  
**2.34**

“Position Rate” means an amount established periodically by the Company for each Officer’s position, upon which base salaries are administered.

**Section Qualified Deferral**  
**2.35**

A “Qualified Deferral” means any salary or bonus amounts deferred under the AT&T Executive Deferred Compensation Plan, for periods commencing on or after January 1, 2005, or the AT&T Inc. Cash Deferral Plan for periods after December 31, 2006, to the extent such salary or bonus would have been included as “Eligible Pay” (determined before application of any limitations under Code Section 401(a)(17)) under the Pension Plan if not deferred. Notwithstanding the preceding, the term “Qualified Deferral” does not include amounts deferred pursuant to Code Section 401(k) or amounts contributed pursuant to Code Section 125. An amount is treated as deferred for the period in which such amount would have been paid, if not deferred. Notwithstanding the preceding, a Qualified Deferral does not include amounts deferred with respect to any paycheck dated after December 31, 2007.

**Section Qualified Deferrals Cash Balance Account**  
**2.36**

“Qualified Deferrals Cash Balance Account” means a hypothetical bookkeeping account used solely in calculating the amount under this Plan of a Deferral Participant’s Benefit Based on the Qualified Deferrals Cash Balance Account, as described in Section 4.11E. The term “Qualified Deferrals Cash Balance Account” does not include amounts credited to the Cash Balance Account described in Section 4.03E.

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**Section SERP**  
**2.37**

“SERP” means the 2005 Supplemental Employee Retirement Plan of AT&T Inc., as amended from time to time.

**Section SERP Effective Date**  
**2.38**

“SERP Effective Date” means SERP Effective Date as defined in the SERP.

**Section SERP Election**  
**2.39**

“SERP Election” means the election made before December 31, 2008 and in effect on December 31, 2008 with respect to distributions under the 2005 Supplemental Employee Retirement Plan of AT&T Inc. The SERP Election shall also apply to benefits payable under this Plan to a Participant who became a SERP Participant prior to January 1, 2009.

**Section SERP Participant**  
**2.40**

“SERP Participant” means an individual who has been designated as eligible to participate in the SERP. For purposes of this Plan, such individual is considered a SERP Participant whether or not he or she has satisfied the vesting requirements of the SERP.

**Section SERP Vesting Date**  
**2.41**

“SERP Vesting Date” means the date a SERP Participant becomes vested in his or her benefit under the 2005 Supplemental Employee Retirement Plan of AT&T Inc., or January 1, 2011 if later.

**Section Service Benefit**  
**2.42**

“Service Benefit” means the benefit determined pursuant to Section 4.02E(a) through (e), as applicable, and payable under the Plan to a Participant who is Service Pension Eligible at the date specified by the relevant provision of this Plan as if the Participant terminated employment as of such date.

**Section Service Pension Eligible**  
**2.43**

“Service Pension Eligible” means (i) with respect to a termination of employment prior to January 1, 1997, the Participant is eligible for a service pension under the Pension Plan; and (ii) with respect to a termination of employment on or after January 1, 1997, the Participant meets the following requirements:

- (i) the Participant’s term of employment has been at least thirty years, regardless of his or her age, or
- (ii) the Participant’s term of employment has been at least twenty-five years and he or she has reached the age of fifty years, or

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- (iii) the Participant's term of employment has been at least twenty years and he or she has reached the age of fifty-five years, or
- (iv) the Participant's term of employment has been at least ten years and he or she has reached the age of sixty-five years.

For purposes of subparagraphs (i) through (iv) above, a Participant's "term of employment" is determined under the provisions of the Pension Plan, as that plan was in effect on January 1, 1997, and is measured as of the date specified by the relevant provision of this Plan as if the Participant terminated employment of such date, or if no date is specified, as of the date of such Participant's termination of employment. In determining the Participant's "term of employment" under the Pension Plan, and in determining a Participant's status as eligible for a service pension under the Pension Plan, the effect of the Management Pension Enhancement under the Pension Plan for employees with five or more years of term of employment (under the Pension Plan) as of December 30, 1989, shall be disregarded.

**Section Short Term Incentive Award**  
**2.44**

"Short Term Incentive Award" means the actual amount awarded annually (including any such amounts deferred pursuant to the AT&T Senior Management Incentive Award Deferral Plan or the AT&T Executive Deferred Compensation Plan) to an Officer pursuant to the AT&T Short Term Incentive Plan, or any predecessor short term incentive plan. A Short Term Incentive Award shall, for purposes of Sections 4.02E(a) and 4.02E(d) of this Plan, be considered to be awarded on the last day of the performance period with respect to which it is earned. For purposes of the annual award credit under the Cash Balance Account, the Short Term Incentive Awards shall be taken into account in the year paid (or in which it would have been paid, if not deferred) and only if such amount is paid (or would have been paid, if not deferred) on or before the end of the month in which the Officer terminates employment. Notwithstanding the preceding, after calendar year 2007, a short term incentive award shall be taken into account if it is paid in the month following termination of employment as part of the regular payroll schedule applied for payment of amounts earned during the final pay period of the month in which employment terminated.

Effective December 15, 1999, any short term award received from Concert by a Concert Employee while employed in "Concert service" (as defined in the Pension Plan) shall be treated as a Short Term Incentive Award provided that, had the award been received from a Pension Plan participating company, it would have been considered a Short Term Incentive Award.

**Section Special Update Adjusted Career Average Pay**  
**2.45**

"Special Update Adjusted Career Average Pay," as used in the Special Update to the Alternate Formula described in Section 4.02E(e), means (i) in the case of an Officer the sum of (a) the average annual Short Term Incentive Awards and the average annual Deferred Salary under the AT&T Senior Management Incentive Award Deferral Plan for the 1996 Base Period and (b) the average annual "Compensation" (as defined in the Pension Plan) for the 1996 Base Period, and (ii) in the case of an E-band Employee, the average annual "Compensation" (as defined in the Pension Plan) for the 1996 Base Period.

**Section Specified Employee  
2.46**

Any Participant who is a Key Employee (as defined in Code Section 416(i) without regard to paragraph (5) thereof), as determined by AT&T in accordance with its uniform policy with respect to all arrangements subject to Code Section 409A, based upon the 12-month period ending on each December 31st (such 12-month period is referred to below as the identification period). All Participants who are determined to be Key Employees under Code Section 416(i) (without regard to paragraph (5) thereof) during the identification period shall be treated as Key Employees for purposes of the Plan during the 12-month period that begins on the first day of the 4th month following the close of such identification period.

**Section Successor Plan Sponsor  
2.47**

"Successor Plan Sponsor" means Lucent Technologies Inc. and any other corporation or entity that enters into an agreement or agreements providing for the assumption of liabilities arising under this Plan, including the Management Interchange Agreement dated as of April 8, 1996, and the Employee Benefits Agreement dated February 1, 1996, and amended and restated as of March 29, 1996, between AT&T and Lucent Technologies Inc.

**Section Spouse  
2.48**

"Spouse" means a person of the opposite sex who is the lawful spouse of a married Participant, under the laws of the state of the Participant's domicile, and at the relevant time period stated under the applicable Plan provisions. Notwithstanding the preceding, if an alternate payee (as that term is defined in Section 414(p) of the Code) is deemed the surviving spouse for purposes of all or a portion of the Participant's benefit under the Pension Plan, such alternate payee shall not be deemed to be the "spouse" for any purpose under this Plan.

**Section Term of Employment  
2.49**

"Term of Employment" means "term of employment" as determined under the provisions of the Pension Plan, as that plan was in effect on January 1, 1997, but excluding any service subsequent to the date indicated, if any, by a provision of this Plan for purposes of applying such Plan provision. Notwithstanding the foregoing, except for purposes of determining a CIC Credit pursuant to Section 4.11E(c), a Participant's Term of Employment shall end no later than the date the Participant is reclassified or reassigned (or such later date as otherwise specified in Section 3.02(c) for the purpose indicated therein).

**Section Termination of Employment  
2.50**

The ceasing of the Participant's employment from the AT&T controlled group of companies for any reason whatsoever, whether voluntarily or involuntarily. Effective January 1, 2009, references herein to Termination of Employment, Terminate Employment, or a similar reference, shall mean the event where the employee has a separation from service, as defined under Code Section 409A, with all members of the AT&T controlled group. Notwithstanding the foregoing, the employment relationship of a Participant with the AT&T controlled group is considered to remain intact while the individual is on a Leave of Absence.

**Section Total Compensation**  
**2.51**

“Total Compensation” as used in the Alternate Minimum Formula described in Section 4.02(c) means, with respect to any period, the sum of (i) “Compensation” as defined in the Pension Plan, (ii) Deferred Salary under the AT&T Senior Management Incentive Award Deferral Plan, and (iii) Short Term Incentive Awards, applicable to such period.

**Section Transition Employee**  
**2.52**

“Transition Employee” means a former Participant, as to whom the responsibility and liability for the payment of benefits accrued or payable under this Plan has been assumed by a Successor Plan Sponsor.

**Section Years of Service**  
**2.53**

“Years of Service” with respect to a Participant means the years of service as defined in Article 2 of the Pension Plan as that plan was in effect on December 31, 1993. “Years of Service” is used herein solely for the purpose of determining a Participant’s eligibility for the Alternate Minimum Formula.

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**Article 3.**  
**Participation and Eligibility for Plan Benefits**

**Section Eligibility to Accrue Plan Benefits**  
**3.01**

Effective for periods prior to January 1, 1997, eligibility to accrue benefits under this Plan shall be determined in accordance with the provisions of the Plan as in effect from time to time prior to January 1, 1997.

Effective January 1, 1997 through July 31, 1997, all Officers and E-band Employees shall be eligible to accrue benefits under this Plan.

During the period beginning August 1, 1997 and ending December 31, 1997, no employee will accrue additional retirement benefits under this Plan.

Effective January 1, 1998, an employee who was an Officer prior to January 1, 1998 shall be eligible to accrue benefits under the Cash Balance Formula of this Plan, during the period on or after January 1, 1998 that he or she continues to be an Officer of a Participating Company. Any other employee who becomes an Officer prior to January 1, 2009 shall become eligible to accrue benefits under the Cash Balance Formula on the date he or she becomes an Officer. Notwithstanding the preceding, such Officer shall not accrue additional benefits hereunder after the SERP Vesting Date. An individual who is not an Officer on December 31, 2008 shall not be eligible to accrue benefits under the Plan after December 31, 2008.

Effective January 1, 2004, an employee who defers compensation under the AT&T Executive Deferred Compensation Plan, or the AT&T Inc. Cash Deferral Plan for periods after December 31, 2006, shall be eligible to accrue benefits under this Plan with respect to amounts deferred under such plan, to the extent such amounts deferred are Qualified Deferrals. Notwithstanding the preceding, a Qualified Deferral does not include amounts deferred with respect to any paycheck dated after December 31, 2007.

No individual shall become a Participant in this Plan after December 31, 2008.

**Section Eligibility to Receive Plan Benefits**  
**3.02**

**(a) Participants Who Are Officers**

**Participants Who Are Officers Before January 1, 2009**

Subject to the provisions of Section 3.01, Section 3.02(c) regarding reassignments and reclassifications, and Section 3.02(d) regarding Qualified Deferrals and Section 3.02(a)(v) regarding Participants who become an Officer after December 31, 2008, a Participant who is an Officer prior to January 1, 2009 shall be eligible for the following pension benefits from the Plan, in an amount determined in accordance with the provisions of Article 4 and Appendix E. If a Participant is eligible for a benefit determined pursuant to more than one subparagraph of this Section 3.02(a), the benefit payable from the Plan shall be determined under the provision which applies to him or her and which produces the greatest benefit, taking into account the Pension Commencement Date and the form of payment. Notwithstanding the preceding, the benefit with respect to a Participant who is an Officer prior to January 1, 2009 shall be calculated as of the earlier of the Participant's termination of employment or SERP Vesting Date as the immediate single life annuity that would be payable under the Plan commencing on such date, and once determined, the amount of the single life annuity payable under this Plan shall not change.

- (i) If the Participant is a Cash Balance Participant, a Benefit Based on the Cash Balance Account, as described in Section 4.03E(f), provided that the Participant is vested under the Pension Plan at the time of his or her termination of employment from the AT&T Controlled Group;
- (ii) If the Participant is Service Pension Eligible at the time of his or her termination of employment with a Participating Company, a Service Benefit determined in accordance with the applicable provision of Section 4.01E and Section 4.02E (with regard to benefits frozen prior to January 1, 1998);
- (iii) If the Participant is not Service Pension Eligible at the time specified in the relevant Plan provision, a Deferred Vested Benefit determined in accordance with Section 4.02E(a) or Section 4.02E(d) (with regard to benefits frozen prior to January 1, 1998), as applicable, provided that the Participant is vested under the Pension Plan at the time of his or her termination of employment from the AT&T Controlled Group;
- (iv) If the Participant became eligible for a disability pension from the Pension Plan while an Officer, a Disability Benefit, determined in accordance with Section 4.02E(a) or Section 4.02E(d) (with regard to benefits frozen prior to January 1, 1998), as applicable. Such Disability Benefit shall be paid in lieu of any other benefit under the Plan, so long as the Participant is prevented by such disability from resuming active service with a Participating Company. If the Participant's disability continues to his or her Normal Retirement Date, the Disability Benefit shall be converted to a Service Benefit commencing on the first day of the month following such Normal Retirement Date;

**Participants Who Become Officers After December 31, 2008**

- (v) If an individual first becomes an Officer after December 31, 2008, the only benefits payable under the Plan with respect to such individual will be benefits attributable to Qualified Deferrals, if any, and benefits that were accrued under the Plan prior to January 1, 1998, if any. Benefits earned prior to January 1, 1998 will be paid pursuant to the provisions of Section 3.02(b) applicable to Participants who are E-band Employees, and benefits attributable to Qualified Deferrals pursuant to Section 3.02(d). The benefit with respect to such Participant shall be calculated as of the SERP Effective Date as the immediate single life annuity that would be payable under the Plan commencing on such date, and once determined, the amount of the single life annuity payable under this Plan shall not change.

**(b) Participants Who Are E-band Employees (and Certain Officer Promotions)**

Subject to the provisions of Section 3.01, Section 3.02(c) regarding reassignments and reclassifications, and Section 3.02(d) regarding Qualified Deferrals, a Participant who is an E-band Employee, and a Participant who becomes an Officer after December 31, 2008, shall be eligible for the following pension benefits from the Plan, in an amount determined in accordance with the provisions of Article 4 and, as applicable Appendix E:

- (i) If the Participant is Service Pension Eligible at the time of his or her termination of employment from a Participating Company, a Service Benefit determined in accordance with the applicable provision of Section 4.01E and Section 4.02E (with respect to benefits frozen prior to January 1, 1998) ;
- (ii) If the Participant is not Service Pension Eligible at the time of his or her termination of employment with a Participating Company, a Deferred Vested Benefit determined in accordance with Section 4.02E(a) or Section 4.02E(d) (with respect to benefits frozen prior to January 1, 1998), as applicable, provided that the Participant is vested under the Pension Plan at the time of his or her termination of employment from the AT&T Controlled Group.

In applying the provisions of this Section 3.02(b) to a Participant who is promoted to Officer after December 31, 2008, the determinations in (i) and (ii) of whether the Participant is Service Pension Eligible shall be made as of such Participant's SERP Effective Date. The benefit with respect to such a Participant shall be determined as described in Section 3.02(a)(v).

**(c) Reassignments**

- (i) An Officer who, on or after January 1, 1986 and before January 1, 1998, was reassigned to a position evaluated below the E-band level for reasons other than unsatisfactory performance, and who has satisfied the vesting requirements of the Pension Plan as of the reassignment date shall be eligible for benefits as follows:
  - (A) such a former Officer who was Service Pension Eligible as of the reassignment date, shall be eligible for a Service Benefit under Section 3.02(a)(ii) as of his or her termination of employment. The benefit of any reassigned Officer described in this Section 3.02(c)(i)(A) shall equal the greater of (1) or (2), as follows:
    - (1) an amount computed in accordance with Section 4.02(a), the Basic Formula, or Section 4.02(d), the Special Update to the Basic Formula, as applicable, as in effect on the reassignment date. For purposes of determining a benefit under the Basic Formula, the Participant's Term of Employment shall exclude any period following the earliest to occur of the last day of the year in which he or she was reassigned, July 31, 1997, or termination of employment; and

- (2) an amount computed in accordance with Section 4.02(b) (the Alternate Formula), or Section 4.02(e) (the Special Update to the Alternate Formula), as applicable, as in effect on the reassignment date. For purposes of determining a benefit under the Alternate Formula, the Participant's Term of Employment shall exclude any period following the last day of 1988 or if later, the earliest to occur of the last day of the year in which he or she was reassigned, July 31, 1997, or termination of employment.

(B) such a former Officer who was not Service Pension Eligible, but who was eligible for a deferred vested pension pursuant to the Pension Plan as of the reassignment date, shall be eligible for a Deferred Vested Benefit under Section 3.02(a)(iii) as of his or her termination of employment. For purposes of determining benefits pursuant to this Section 3.02(c)(i) (B) the Participant's Term of Employment shall exclude any period following the earliest to occur of the last day of the year in which such reassignment occurs, July 31, 1997, or termination of employment, and.

- (ii) An Officer who, on or after January 1, 1986 and before January 1, 1998, was reassigned to a position evaluated below the E-band level, and who was not Service Pension Eligible or eligible for a deferred vested pension pursuant to the Pension Plan as of the reassignment date, will not be eligible for benefits under this Plan.
- (iii) An Officer who, on or after January 1, 1986 and before January 1, 1998, was reassigned to a position evaluated at the E-band level for reasons other than unsatisfactory performance, shall be eligible for benefits as follows:

(A) such a former Officer who was Service Pension Eligible as of the reassignment date, shall be eligible for a Service Benefit under Section 3.02(a)(ii) upon his or her termination of employment. The benefit of any reassigned Officer described in this Section 3.02(c)(iii)(A) shall equal the greater of (1) and (2) as follows:

- (1) an amount computed in accordance with Section 4.02(a), the Basic Formula, or Section 4.02(d), the Special Update to the Basic Formula, as applicable, as in effect on the reassignment date. For purposes of determining a benefit under the Basic Formula, the Participant's Term of Employment shall exclude any period following the earliest to occur of the last day of the year in which his or her job was reclassified, July 31, 1997, or termination of employment; for purposes of determining a benefit under the Special Update to the Basic Formula, the Participant's Term of Employment shall exclude any period following the earliest to occur of the last day of the year in which his or her job was reclassified, December 31, 1996, or termination of employment; and

- (2) an amount computed in accordance with Section 4.02(b) (the Alternate Formula), or Section 4.02(e) (the Special Update to the Alternate Formula), as applicable, as in effect on the reassignment date. For purposes of determining a benefit under the Alternate Formula, the Participant's Term of Employment shall exclude any period following the last day of 1988 or if later, the earliest to occur of the last day of the year in which his or her job was reclassified, July 31, 1997, or termination of employment; for purposes of determining a benefit under the Special Update to the Alternate Formula, the Participant's Term of Employment shall exclude any period following the earliest to occur of the last day of the year in which his or her job was reclassified, December 31, 1996, or termination of employment.

(B) such a former Officer who was not Service Pension Eligible but was eligible for a deferred vested pension pursuant to the Pension Plan, as of the reassignment date, shall be eligible for a Deferred Vested Benefit under Section 3.02(a)(iii) upon his or her termination of employment. The benefit of any reassigned Officer described in this Section 3.02(c)(iii)(B) shall be computed under Section 4.02(a) (the Basic Formula), or Section 4.02(d) (the Special Update to the Basic Formula), as applicable, in effect as of the date of such reassignment. For purposes of determining a benefit under the Basic Formula, the Participant's Term of Employment shall exclude any period following the earliest to occur of the last day of the year in which his or her job was reclassified, July 31, 1997, or termination of employment; for purposes of determining a benefit under the Special Update to the Basic Formula, the Participant's Term of Employment shall exclude any period following the earliest to occur of the last day of the year in which his or her job was reclassified, December 31, 1996, or termination of employment.

- (iv) A Participant, other than an Officer, whose job was classified or reclassified during or after 1986 and prior to January 1, 1998 to a level below E-band, will be eligible for the Service Benefit computed in accordance with Section 4.02(b) (the Alternate Formula), or Section 4.02(e) (the Special Update to the Alternate Formula), as applicable, as in effect on the reclassification date, provided he or she is Service Pension Eligible as of the date of such classification or reclassification, and further provided he or she is not demoted subsequent to such day because of unsatisfactory job performance prior to termination of employment. For purposes of determining a benefit under the Alternate Formula, the Participant's Term of Employment shall exclude any period following the last day of 1988 or if later, the earliest to occur of the last day of the year in which his or her job was reclassified, July 31, 1997, or termination of employment; For purposes of determining a benefit under the Special Update to the Alternate Formula, the Participant's Term of Employment shall exclude any period following the earliest to occur of the last day of the year in which his or her job was reclassified, December 31, 1996, or termination of employment.

- (v) The benefit with respect to a Participant who is an Officer on or after January 1, 1998 who is reassigned on or after January 1, 1998 and before January 1, 2009, shall be determined pursuant to Section 4.03(f); provided, however, that the benefit of such former Officer shall be determined in accordance with subparagraphs (i) through (iii) of this Section 3.02(c) assuming a reassignment date of December 31, 1997, if such determination produces a higher benefit, as of the Participant's Pension Commencement Date.

**(d) Benefits Based on Qualified Deferrals**

A Participant who is a Deferral Participant shall be eligible for a Benefit Based on the Qualified Deferrals Cash Balance Account, as described in Section 4.11E. Notwithstanding any other provision of the Plan to the contrary, the Benefit Based on the Qualified Deferrals Cash Balance Account shall be payable in addition to any other benefits payable under the Plan.

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**Article 4.**  
**Pension Benefits After 2008**

**Section Applicable Benefit Formulas.**  
**4.01**

The provisions of this Article 4 apply with respect to benefits payable to or with respect to a Participant who terminates employment on or after December 1, 2008. This article also describes the distribution provisions with respect to Participants who terminated employment after December 31, 2004 with respect to whom benefit payments had not commenced on or before December 1, 2008. The determination of pension benefits in all other cases is made as described in Appendix E. Appendix E generally includes the provisions of Article 4 as in effect prior to December 31, 2008. References in the Plan to a provision in Article 4 should in general be interpreted as reference to the corresponding provision in Appendix E when applied to or with respect to a termination of employment prior to December 1, 2008.

**(a) Participants Terminated Before January 1, 1997**

The Service Benefit, Deferred Vested Benefit, or Disability Benefit payable to a Participant who terminated employment from a Participating Company prior to January 1, 1997 is determined in accordance with the terms of the Plan as in effect from time to time prior to January 1, 1997.

**(b) Active Participants on January 1, 1997**

**(i) Participants Whose Eligibility to Accrue Benefits Ends Prior to August 1, 1997.**

(A) Subject to the provisions of Section 4.01(b)(i)(D), the annual benefit of a Participant, who is an Officer or an E-band Employee on January 1, 1997, who is an Officer at the time he or she leaves the service of a Participating Company prior to August 1, 1997, and who is Service Pension Eligible as of the last day of his or her Term of Employment, will be the greater of the annual benefit amount determined under the Basic Formula described in Section 4.02E(a), the annual benefit amount determined under the Alternate Formula described in Section 4.02E(b), or, in the case of an Officer who had at least five Years of Service as an Officer as of December 31, 1993, the annual benefit amount determined under the Alternate Minimum Formula described in Section 4.02E(c).

(B) Subject to the provisions of Section 4.01(b)(i)(D), the annual benefit of a Participant, who is an Officer or an E-band Employee on January 1, 1997, who is an Officer at the time he leaves the service of a Participating Company prior to August 1, 1997, but who is not Service Pension Eligible as of the last day of his or her Term of Employment, will be a Deferred Vested Benefit determined under the Basic Formula described in Section 4.02E(a), provided he or she is vested under the Pension Plan at the time of termination of employment from the AT&T Controlled Group. Notwithstanding the provisions of the immediately preceding sentence, if such Participant was an Officer who had at least five Years of Service as an Officer as of December 31, 1993, the annual benefit shall not be less than the annual benefit determined under the Alternate Minimum Formula described in Section 4.02E(c).

- (C) Subject to the provisions of Section 4.01(b)(i)(D), the annual benefit of a Participant, who is an E-band Employee on January 1, 1997, who terminates employment as an E-band Employee prior to August 1, 1997 and who is Service Pension Eligible as of the last day of his or her Term of Employment, will be the annual benefit amount determined under the Alternate Formula described in Section 4.02E(b).
- (D) Effective August 1, 1997, the annual benefit of a Participant described in this Section 4.01(b)(i) shall increase (but shall not be decreased) to the amount determined pursuant to the following subsection 4.01(b)(ii)(A), if the Participant is described in subsection 4.01(b)(i)(A), or to the amount determined pursuant to subsection 4.01(b)(ii)(B) if the Participant is described in subsection 4.01(b)(i)(B), or to the amount determined pursuant to the following subsection 4.01(b)(ii)(D), if the Participant is described in subsection 4.01(b)(i)(C). For purposes of applying the provisions of Section 4.01(b)(ii) to increase a benefit which commenced prior to August 1, 1997 pursuant to this subsection 4.01(b)(i)(D), any age-based reduction shall be based on such Participant's age on his or her original Pension Commencement Date.

**(ii) Participants Whose Eligibility to Accrue Benefits Ends after July 31, 1997 .**

- (A) Subject to the provisions of subsection 4.01(b)(ii)(C) for Officers after December 31, 1997, the annual benefit of a Participant who is an Officer or an E-band Employee on January 1, 1997, who is an Officer at the time he or she leaves the service of a Participating Company after July 31, 1997, and who is Service Pension Eligible as of his or her termination of employment from a Participating Company, will be the greater of the annual benefit amount determined under the Special Update to the Basic Formula described in Section 4.02E(d) and the annual benefit amount determined under the Special Update to the Alternate Formula described in Section 4.02E(e). Notwithstanding the preceding, in no event shall be the benefit with respect to a Participant described in this subsection 4.01(b)(ii)(A) be less than the amounts determined pursuant to Section 4.01(b)(i)(A).

- (B) Subject to the provisions of subsection 4.01(b)(ii)(C), the annual benefit of a Participant who is an Officer or an E-band Employee on January 1, 1997, who is an Officer at the time he leaves the service of a Participating Company after July 31, 1997 but who is not Service Pension Eligible as of the last day of his or her termination of employment will be a Deferred Vested Benefit equal to the greater of the annual benefit amount determined under the Special Update to the Basic Formula described in Section 4.02E(d) or the amounts determined pursuant to Section 4.01(b)(i)(B), provided he or she is vested under the Pension Plan at the time of termination of employment from the AT&T Controlled Group.

(C) The annual benefit of a Participant on January 1, 1997 who is also an Officer on or after January 1, 1998 shall not be less than the amount determined pursuant to subsection 4.01(d).

(D) Subject to the provisions of Section 4.01(d)(ii) regarding an E-band Employee who becomes an Officer on or after January 1, 1998, the benefit of a Participant who is an E-band Employee on January 1, 1997, who terminates employment as an E-band Employee after July 31, 1997, and who is Service Pension Eligible as of his or her termination of employment from a Participating Company, will be the annual benefit amount determined under the Special Update to the Alternate Formula described in Section 4.02E(e), but shall in no event be less than the amount determined pursuant to Section 4.01(b)(i)(C).

**(c) New Participants after January 1, 1997 and before January 1, 1998**

- (i) An individual who first becomes a Participant after January 1, 1997 and before January 1, 1998, and who is an Officer on January 1, 1998, shall be eligible for benefits determined pursuant to Section 4.01(d).
- (ii) An individual who first becomes an Officer on or after August 1, 1997, who was not previously an E-band Employee, and who leaves the service of a Participating Company prior to January 1, 1998 shall not be eligible for benefits under the Plan.
- (iii) An individual, who first becomes a Participant after January 1, 1997 and before January 1, 1998, who is not an Officer at any time on or after January 1, 1998, and who terminates employment with a Participating Company on or after January 1, 1998 shall be eligible for a Service Benefit if the Participant is Service Pension Eligible at the time of his or her termination of employment from a Participating Company. Such benefit shall be determined only under the Alternate Formula described in Section 4.02E(b). No benefit shall be payable from the Plan if such Participant is not Service Pension Eligible at the time of his or her termination of employment from a Participating Company.

**(d) Participants who are Officers on or after January 1, 1998 (Cash Balance Participants)**

**Participants Who Are Officers Before January 1, 2009**

- (i) An individual who is an Officer on or after January 1, 1998, who first became an Officer on or after August 1, 1997 and who was not previously an E-band Employee shall be eligible for a benefit determined under Section 4.03 if such Officer is vested in his or her benefit under the Pension Plan upon his or her termination of employment from the AT&T Controlled Group.
- (ii) An individual who is an Officer on or after January 1, 1998, who was an Officer or an E-band Employee prior to August 1, 1997, and whose Pension Commencement Date is after July 1, 1998, shall be eligible for a benefit from the Plan if such Officer is vested in his or her benefit under the Pension Plan upon termination of employment from the AT&T Controlled Group. The benefit shall be the greater of (A) the benefit determined pursuant to Section 4.03, or (B) the sum of (I) the Mid-Career Pension Benefit determined pursuant to Section 4.07 and (II) the benefit accrued under the Plan prior to January 1, 1998 and payable pursuant to the terms of Section 4.01E(b)(ii)(A) or Section 4.01E(b)(ii)(B), as applicable. For purposes of the preceding sentence, the determination of the greater of (A) and (B) shall be made taking into account the Pension Commencement Date and the form of payment determined in accordance with Section 4.09E.

**Participants Who Become Officers After December 31, 2008**

- (iii) Notwithstanding the preceding Sections 4.01(d)(i) and 4.01(d)(ii), benefits, if any, with respect to an individual who first becomes an Officer after December 31, 2008 shall be determined pursuant to the provisions of the Plan related to a Qualified Deferral Participant and to a Participant who is an E-band Employee, as applicable with respect to such individual. Such a Participant shall not be eligible for benefits determined under the Cash Balance Formula.

**(e) Surviving Spouse of an E-band Employee or Officer**

An Automatic Survivor Annuity will be paid to the Spouse to whom an E-band Employee or Officer is married at the time of his or her death while an active employee, provided such Participant is vested as of his or her date of death, and satisfies the provisions of Section 4.04 at the date of death. The benefit payable to such Spouse shall be equal to the present value of the benefit determined in accordance with Section 4.04. The provisions of this Section 4.01(e) do not apply to a benefit determined under the cash balance formula of Section 4.11, or to a benefit based on a Mid-Career Pension Benefit of Section 4.07E. The benefit to a Surviving Spouse shall not be payable under both this Section 4.01(e) and Section 4.01(f).

**(f) Surviving Spouse (or Estate) of a Cash Balance Participant**

A benefit, determined pursuant to the provisions of Section 4.10, shall be payable to the surviving Spouse (or estate, in the case of a Participant who is not married at the time of death) of a Cash Balance Participant who is vested in his or her benefit under the Pension Plan as of his or her date of death and who dies prior to commencing distribution of his or her benefit under the Plan. The benefit to a Surviving Spouse shall not be payable under both this Section 4.01(f) and Section 4.01(e).

**(g) Deferral Participant**

An individual who is a Deferral Participant shall be eligible for a benefit determined pursuant to Section 4.11, provided that such Participant is vested in his or her benefit under the Pension Plan upon his or her termination of employment from the AT&T Controlled Group. Notwithstanding any other provision of the Plan to the contrary, such benefit shall be payable in addition to any other benefits otherwise payable under the Plan.

**(h) Surviving Spouse (or Estate) of a Deferral Participant**

A benefit, determined pursuant to the provisions of Section 4.10, shall be payable to the surviving Spouse (or estate, in the case of a Participant who is not married at the time of death) of a Deferral Participant who is vested in his or her benefit under the Pension Plan as of his or her date of death and who dies prior to commencing distribution of his or her benefit under the Plan.

**Section Benefit Formulas (other than Cash Balance)  
4.02**

To the extent that a benefit payable to a Participant who terminates employment on or after December 1, 2008 is based on a formula other than the Cash Balance Account of Section 4.03 or the Qualified Deferral Cash Balance Account of Section 4.11, the amount of such benefit shall be determined in accordance with the provisions of Section 4.02E of Appendix E.

**Section Cash Balance Accounts  
4.03**

Effective January 1, 1998, a cash balance formula was added to the Plan, applicable only to Participants who were Officers on or after such date. Section 4.03E describes the manner in which cash balance accounts were established, and the annual accruals under such formula.

The Cash Balance Account of a Participant who is an Officer prior to January 1, 2009 shall continue to be credited with Annual Award Credits and Interest Credits until the earlier of such Participant's termination of employment or SERP Vesting Date, at which time no further amounts shall be credited to the Cash Balance Account. In the latter case, the provisions of Section 4.03E(c) and Section 4.03E(d) shall be applied as if the SERP Vesting Date is the Participant's termination date and commencement date, as applicable. The amount of the single life annuity that would be payable from the Cash Balance Account commencing as of such date shall be determined in accordance with the provisions of Section 4.03E(f). Any reference to the Benefit Based on the Cash Balance Account for a period after the SERP Vesting Date shall be the amount so determined as of such date.

The Cash Balance Account with respect to a Participant who is not an Officer prior to January 1, 2009 shall be zero.

**Section Automatic Survivor Annuities  
4.04**

The Automatic Survivor Annuity described in this Section 4.04 does not apply to a benefit determined under the cash balance formula of Section 4.03 or 4.11, or to a benefit based on the Mid-Career Pension Benefit of Section 4.07. The Automatic Survivor Annuity is payable upon the death of a Participant who dies while actively employed after December 31, 2008, if such Participant's benefit under the Plan is determined under a formula described in Section 4.02E.

The surviving Spouse of such a Participant shall be entitled to a pre-retirement Automatic Survivor Annuity determined pursuant to this Section 4.04 effective commencing as of the first day of the month following the death of a Participant who dies while an employee if such Participant has a Term of Employment of at least fifteen years at the time of death, or, if such Participant meets the age and Term of Employment requirements for a Service Benefit (or is Service Pension Eligible) at the time of his or her death. The pre-retirement Automatic Survivor Annuity shall be payable monthly in an amount equal to forty six percent of the monthly benefit that would have been payable to the Participant pursuant to Section 4.02E had such Participant terminated employment with a Service Benefit, regardless of his or her actual eligibility therefore, on the date of his or her death. For purposes of determining the Automatic Survivor Annuity provided in this Section 4.04(a), the early retirement discounts in Sections 4.02E(a), 4.02E(b), 4.02E(d) or 4.02E(e) shall not apply. With respect to a Participant whose benefit is determined pursuant to Section 4.01(d)(ii)(B), the Automatic Survivor Annuity shall not include the portion, if any, of the Participant's benefit attributable to the Participant's transferred Mid-Career Pension Benefit described in Section 4.07. With respect to a Participant who terminates employment on or after December 1, 2008, distribution of a benefit determined pursuant to this Section 4.04 shall be made in a lump sum payment upon the death of the Participant. The amount of the lump sum payment shall be determined by multiplying the monthly benefit determined above by the immediate single life annuity factor based on the age of the surviving Spouse as of the commencement date, and the Code Section 417(e) actuarial assumptions in effect under the Pension Plan as of such date.

**Section Special Increases**  
**4.05**

The provisions of Section 4.05E do not apply to a benefit that commences after December 1, 2008, except in the case of a survivor benefit payable with respect to a Participant who commenced distribution of a Plan benefit on or before December 1, 2008.

**Section Monthly Payments**  
**4.06**

The annual benefit determined under Section 4.02 shall be divided by twelve to determine a monthly benefit amount. All annuity benefits under the Plan shall be payable monthly or at such other periods as the Committee or the Administrator, as applicable, may determine in each case; a benefit payable other than monthly shall be adjusted to reflect the period covered by such payment. Notwithstanding the preceding, distributions after December 1, 2008 with respect to a Participant who terminates employment on or after December 1, 2008 shall only be made in the form of a lump sum or installments over a period of 120 months, except with respect to a SERP Election.

**Section Mid-Career Pension Benefit**  
**4.07**

The description of the Mid-Career Pension Benefit is set forth in Section 4.07E of Appendix E.

**Section Treatment During Subsequent Employment**  
**4.08**

Effective beginning January 1, 2005, benefits shall not be suspended during a period of employment or reemployment. Benefits paid upon a subsequent termination of employment shall be reduced by the actuarial equivalent of the benefit payments that were continued during reemployment.

**Section Payment of Pensions  
4.09**

**(a) Commencement Prior to 2005**

Provisions governing the payment of pension benefits that commenced after 2004 and prior to 2009 are set forth in Section 4.09E of Appendix E.

**(b) Commencement After 2004 and Prior to 2009**

Provisions governing the payment of pension benefits that commenced after 2004 and prior to 2009 are set forth in Section 4.09E of Appendix E.

**(c) Commencement After 2008**

Payment of benefits that commence after December 1, 2008, except in the case of a survivor benefit payable with respect to a Participant who commenced distribution of a Plan benefit on or before December 1, 2008, shall be made in the time and form as described in the following subparagraphs (i) through (iv), as applicable.

(i) Participants Terminating Prior to 2005: The provisions of Section 4.09E regarding the time and form of payment of benefits under the Plan shall apply with respect to benefits commencing after 2008 to or with respect to a Participant who terminated employment prior to 2005. If such an individual is rehired into a position covered by this Plan after 2004, the terms of the Plan shall apply separately to the benefit earned prior to 2005 and the benefit earned after 2004.

(ii) Participants Terminating Employment after 2004 and Prior to December 1, 2008: Subject to the provisions of Section 4.09(d) and Section 6.01, benefits payable to or with respect to a Participant who terminates employment after December 31, 2004 and prior to December 1, 2008 shall be paid

(A) if distribution of benefits to or on behalf of the Participant commence on or before December 1, 2008, pursuant to the provisions of Section 4.09E, or

(B) if distribution of benefits does not commence on or before December 1, 2008, the annual benefit amount to which such Participant is entitled commencing at Normal Retirement Date shall be determined under the terms of the Plan as set forth in Appendix E. Distribution of such benefit shall be made to the Participant commencing on July 1, 2009 in the form of a lump sum, equal to the present value determined pursuant to Section 4.09(c)(iv); provided, however, if the amount so determined exceeds \$50,000, distribution shall be paid in monthly installments over a period of 120 months. If the Participant dies prior to the commencement of such payment, distribution equal to the present value of the amount that otherwise would have been payable to the Participant shall be made on July 1, 2009 to the Surviving Spouse, if any, otherwise to the estate of the Participant. If the Surviving Spouse entitled to receive the benefit described in the preceding sentence dies after the Participant but before distribution of such benefit, the benefit shall be paid to the estate of the Surviving Spouse. Survivor benefits, if any, upon death following commencement of distribution to the Participant shall be determined pursuant to the provisions of Section 4.10(d).

(iii) Participants Terminating Employment on or After December 1, 2008: Subject to the provisions of Section 4.09(c)(iv) and Section 4.09(d), benefits payable to or with respect to a Participant who terminates employment on or after December 1, 2008 shall be paid as follows:

(A) Participants Who Are Not SERP Participants:

The "Plan Retirement Benefit" for a Participant who does not become a SERP Participant is equal to the sum of (i) the benefit earned prior to January 1, 1998, determined pursuant to the provisions of Section 4.02E, and (ii) the Benefit Based on the Qualified Deferrals Cash Balance Account, if any, payable at Normal Retirement Date and determined pursuant to the provisions of Section 4.11, expressed as a single life annuity payable commencing at Normal Retirement Date. Distribution of such benefit shall be paid in the form of a lump sum, in an amount determined pursuant to Section 4.09(c)(iv), upon the Participant's Termination of Employment; provided, however, if the present value so determined exceeds \$50,000, distribution shall be paid in monthly installments over a period of 120 months. If the Participant dies before receiving a complete distribution of the benefits so determined, survivor benefits, if any, shall be paid in accordance with the provisions of Section 4.10.

(B) Participants Who Are SERP Participants on December 31, 2008:

(I) A Participant who is a SERP Participant on December 31, 2008 shall continue to accrue benefits under the Cash Balance Formula until the earlier of his or her SERP Vesting Date or termination of employment. As of such date, the Participant's benefit under the Plan shall be determined as the greater of (A) the Participant's benefit, if any, determined pursuant to Section 4.02 or (B) the sum of (i) the Benefit Attributable to the Cash Balance Formula and (ii) the Benefit Attributable to Qualified Deferrals, determined as if payment of such benefit were to commence on such date. The amount of the monthly benefit so determined, expressed as a single life annuity, shall be fixed and shall not change (the "Frozen Single Life Annuity");

(II) Subject to the provisions of Section 4.09(d), upon Termination of Employment, distribution of the benefit determined pursuant to subparagraph (I) shall commence in a form of payment determined pursuant to such Participant's SERP Election, as defined herein. The amount payable to such Participant shall be the actuarial equivalent of the single life annuity determined pursuant to subparagraph (I), based on actuarial equivalent factors under the AT&T SERP as of the Participant's Termination of Employment. Survivor benefits, if any, following the death of the Participant shall be determined in accordance with the provisions of Section 4.10.

(C) Participants who become SERP Participants after December 31, 2008:

(I) A Participant who becomes a SERP Participant after December 31, 2008 shall not be entitled to accrued additional benefits under the Plan after December 31, 2008. The sum of (i) the benefit earned prior to January 1, 1998, determined pursuant to the provisions of Section 4.02E, and (ii) the Benefit Attributable to Qualified Deferrals, determined pursuant to the provisions of Section 4.11, if any, shall be determined as if payment of such benefits were to commence on the SERP Effective Date, and the amount of the monthly benefit so determined, expressed as a single life annuity, shall be fixed and shall not change (the "Frozen Single Life Annuity").

(II) Subject to the provisions of Section 4.09(d), distribution of the benefit determined pursuant to subparagraph (I) shall be paid in the form of a lump sum or in 120 monthly installments commencing upon Termination of Employment; the applicable form of payment shall be determined on the Participant's SERP Effective Date, based on the present value of the Frozen Single Life Annuity if distribution of such benefit commenced on the SERP Effective Date in the form of a single life annuity, and based on the actuarial assumptions in effect under the SERP as of such date. If the present value determined as of such SERP Effective Date is \$50,000 or less, the form of payment shall be a lump sum, and if the present value exceeds \$50,000, the form of payment shall be 120 monthly installments. The amount of the benefit payable commencing at Termination of Employment shall be determined in accordance with the provisions of Section 4.09(c)(iv). If the Participant dies before receiving a complete distribution of the benefits so determined, survivor benefits, if any, shall be determined in accordance with the provisions of Section 4.10.

(iv) Determination of Present Value: For purposes of Section 4.09(c)(ii)(B), Section 4.09(c)(iii)(A), and Section 4.09(c)(iii)(C), present value shall be determined as follows:

- (A) Employee who is not a SERP Participant: with respect to a Participant described in Section 4.09(c)(ii)(B) or Section 4.09(c)(iii)(A), an amount equal to the present value of the single life annuity that would be payable under the Plan commencing on the Participant's Normal Retirement Date. Such present value shall be determined on the basis of actuarial assumptions under the Qualified Plan as of such date, calculated as follows: the annual amount of such benefit payable at Normal Retirement Date shall be multiplied by the factor for determining the lump sum value as set forth in Appendix B of the Qualified Plan for the Participant's age at Termination of Employment. Notwithstanding the preceding, for a Participant described in Section 4.09(c)(ii)(B), the present value shall be based on the Participant's age as of December 1, 2008, and the amount so determined will be accumulated to July 1, 2009 at an effective annual interest rate of four percent; and

- (B) Employee who is a SERP Participant other than a SERP Participant on December 31, 2008: with respect to a Participant described in Section 4.09(c)(iii)(C), the present value of the amount payable commencing at Termination of Employment shall be determined by multiplying the Frozen Single Life Annuity (determined pursuant to Section 4.09(c)(iii)(C)(I)) by an immediate annuity factor based on the age of the Participant at Termination of Employment. The immediate annuity factor shall be based on the Mortality Tables and the GAAP Rate, both as in effect for the calendar year immediately preceding the calendar year of the Participant's Termination of Employment, and as defined in the SERP.

With respect to benefits payable in installments over a period of 120 months, the amount of each monthly installment shall be calculated in the same manner that a financial institution would calculate the monthly payments for a 10-year fixed interest loan, based on the present value of Plan benefits determined pursuant to Section 4.09(c)(iv). The interest rate used in the calculations shall be equal to the Code Section 417(e) interest rate in effect under the Pension Plan on the date of the Participant's Termination of Employment, or, with respect to distributions made pursuant to Section 4.09(c)(ii)(B), the rate in effect for the 2008 calendar year.

**(d) Payments to Specified Employees**

Notwithstanding the provisions of the preceding sections 4.09(a) through 4.09(c), effective on and after January 1, 2005 with respect to payments in the form of a commercial annuity pursuant to Section 6.01 and effective on and after January 1, 2009 with respect to all other payments under the Plan, payment under the Plan to or with respect to a Participant who is eligible to participate in the SERP or who is determined to meet the definition of Specified Employee shall be payable as otherwise provided in this Plan, except that the initial payment shall be made no earlier than six (6) months following his or her Termination of Employment. If, absent this Section 4.09(d), payment to a Specified Employee would have commenced before the expiration of such six-month period, the first payment with respect to such Specified Employee will include the sum of the annuity payments withheld, together with interest thereon. For purposes of the immediately preceding sentence, interest shall be credited using the GAAP Rate in effect as of the end of the calendar year immediately preceding the Participant's Termination of Employment, for distributions made after December 31, 2007. "GAAP Rate" means such rate as defined under the SERP for the referenced period. Notwithstanding the preceding, for distributions made prior to January 1, 2008, interest credited for purposes of this Section 4.09(d) shall be at an effective annual rate equal to 120 percent of the Federal Mid-term rate in effect as of the date such annuity payments otherwise would have commenced.

**Section 4.10 Payment of Plan Benefits Following Death**

The provisions of this Section 4.10 apply upon the death of a Participant who is an employee on or after December 1, 2008, and, for purposes of Section 4.10(d), upon the death of a Participant described in Section 4.09(c)(ii)(B).

(a) Death prior to commencement: If a Participant described in Section 4.09(c)(iii) dies before Termination of Employment, or following Termination of Employment but before the date as of which distribution of the Plan benefit commences, benefits will be payable in a lump sum to the Spouse, or if there is no surviving Spouse, to the Participant's estate. The amount of such lump sum payment shall be determined pursuant to the provisions of Section 4.10(c).

(b) Death of Spouse before payment of survivor benefit: If a Participant dies before the date as of which distribution of the Plan benefits commences, and he or she is survived by a Spouse entitled to payment pursuant to Section 4.10(a), and such surviving Spouse dies prior to the date payment of benefits under this Plan commence, a lump sum benefit shall be payable to the estate of the Spouse upon the death of the Spouse. The amount of such lump sum payment shall be determined pursuant to the provisions of Section 4.10(c).

(c) Determination of lump sum amount for death before commencement:

(i) With respect to a Participant described in Section 4.09(c)(iii)(A), the lump sum payment payable pursuant to Section 4.10(a) or Section 4.10(b) shall be an amount equal to the present value of the Plan Retirement Benefit, as defined in Section 4.09(c)(iii)(A). Such present value shall be determined on the basis of actuarial assumptions under the Qualified Plan as of the date of death, calculated as follows: the annual amount the Plan Retirement Benefit, payable in the form of a single life annuity commencing at Normal Retirement Date shall be multiplied by the factor for determining the lump sum value as set forth in Appendix B of the Qualified Plan for the Participant's age at death;

(ii) The lump sum payment payable pursuant to Section 4.10(a) or Section 4.10(b) upon the death of a Participant who is a SERP Participant, shall be determined by multiplying the Frozen Single Life Annuity determined pursuant to Section 4.09(c)(iii)(B) or Section 4.09(c)(iii)(C), as applicable, by an immediate annuity factor based on the age of the Participant as of the date of death. The immediate annuity factor shall be based on the Mortality Tables and the GAAP Rate, both as in effect for the calendar year immediately preceding the calendar year of the date of death and as defined in the SERP.

(d) Death following commencement of distribution for a Participant who is not a SERP Participant on December 31, 2008: If a Participant described in Section 4.09(c)(ii)(B), Section 4.09(c)(iii)(A) or Section 4.09(c)(iii)(C) dies following distribution of Plan benefits in the form of a lump sum, no benefit shall be payable following the death of the Participant. If the Participant is receiving payment of the Plan benefit in the form of 120 monthly installments, the present value of the remaining payments shall be made to the surviving Spouse of the Participant, or if there is no surviving Spouse, to the estate of the Participant. Such present value shall be calculated using the interest rate that was used to determine the amount of the monthly installments at the time distribution of such payments commenced.

(e) Death following commencement of distribution for a Participant who is a SERP Participant on December 31, 2008 : Upon the death following commencement of benefits under the Plan of a Participant who is a SERP Participant on December 31, 2008, further payment of benefits related to the retirement benefit under the Plan shall be the survivor benefit, if any, payable under the terms of an election made on or before December 31, 2008 with respect to benefits that may become payable to the Participant under the SERP, determined under the actuarial assumptions and methodology set forth in the SERP. Any survivor benefit payable pursuant to this Section 4.10(e) shall be paid to the same beneficiary to whom survivor benefits are payable under the SERP.

**Section Qualified Deferrals Cash Balance Account**  
**4.11**

A Qualified Deferral Cash Balance Account was added to the Plan effective January 1, 2005, or such later date on which an Officer, E-band Employee, or other eligible employee began deferring certain compensation under the AT&T Executive Deferred Compensation Plan or the AT&T Inc. Cash Deferral Plan ("Qualified Deferrals," as defined in Section 2.35 herein). Annual Qualified Deferral Credits were discontinued under the Plan effective with respect to amounts deferred under such deferral plan from any paycheck dated after December 31, 2007.

Deferral Interest Credits shall continue to be credited to the Qualified Deferral Cash Balance Account of all Participants who made Qualified Deferrals as defined herein. The Benefit Based on the Qualified Deferrals Cash Balance Account shall be the benefit commencing at Normal Retirement determined pursuant to the provisions of Section 4.11E(e). Notwithstanding the preceding sentence, with respect to a Participant who is an Officer, the following provisions shall apply:

(i) with respect to a Participant who is an Officer prior to December 31, 2008, Deferral Interest Credits shall cease as of the earlier of the Participant's termination of employment or SERP Vesting Date. In the latter case, the provisions of Section 4.11E(d) with respect to application of the interest credit shall be applied as if the SERP Vesting Date is the Participant's commencement date. The amount of the single life annuity that would be payable from the Qualified Deferral Cash Balance Account commencing as of the date of termination or the SERP Vesting Date shall be determined in accordance with the provisions of Section 4.11E(e). Any reference to the Benefit Based on the Qualified Deferral Cash Balance Account for a period after the SERP Vesting Date shall mean the benefit so determined as of such date; and

(ii) with respect to a Participant who becomes an Officer after December 31, 2008, Deferral Interest Credits shall cease as of the Participant's SERP Effective Date. The provisions of Section 4.11E(d) with respect to application of the interest credit shall be applied as if the SERP Effective Date is the Participant's commencement date. The amount of the single life annuity that would be payable from the Qualified Deferral Cash Balance Account commencing as of the SERP Effective Date shall be determined in accordance with the provisions of Section 4.11E(e). Any reference to the Benefit Based on the Qualified Deferral Cash Balance Account for a period after the SERP Effective Date shall mean the benefit so determined as of such date.

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**Article 5.**  
**Death Benefits**

**Section    Participation**  
**5.01**

A Death Benefit shall be provided under this Article 5, in the following cases: (a) upon the death prior to January 1, 1998 of an active Officer; (b) upon the death of an Officer who, on or after August 10, 1980 and prior to January 1, 1998, (i) terminated employment with eligibility for a pensioner death benefit under the Pension Plan (excluding for purposes of this Section 5.01 the effect of any management pension enhancement pursuant to the Pension Plan) or (ii) terminated employment with eligibility to receive payments under the AT&T Senior Management Long Term Disability and Survivor Protection Plan; (c) upon the death prior to January 1, 2008 of an active Officer, provided such Officer is eligible for the sickness death benefit under the Pension Plan; or (d) upon the death of an Officer who is on the active payroll of a Participating Company on January 1, 1998 and who terminates employment prior to January 1, 2008, if such Officer was Service Pension Eligible or otherwise satisfied eligibility requirements for the Pensioner Death Benefit under the Pension Plan (such as, under certain circumstances, the Rule of 65, as defined in the Pension Plan), at the time of his or her termination of employment (excluding for purposes of this Section 5.01 the effect of any management pension enhancement pursuant to the Pension Plan). A Participant who terminates employment on or after January 1, 1998 and is subsequently reemployed prior to January 1, 2008 shall not be eligible for a Death Benefit following such reemployment unless he or she was eligible for the pensioner death benefit under the Pension Plan as of the date of such earlier termination of employment, and provided further that such Participant's last employment with a Participating Company was with one covered by the death benefit provisions of the Pension Plan; such eligibility for a Death Benefit shall terminate with respect to a Participant who remains employed within the AT&T Controlled Group on January 1, 2008.

Notwithstanding the provisions of the preceding paragraph, no Death Benefit under this Article 5 shall be provided with respect to a Participant who made a qualified election for a form of payment that resulted in a lump sum distribution of the full present value of his or her accrued benefit (as reduced to reflect the limitations of Code Section 415 and Code Section 401(a)(17) as of the Participant's Pension Commencement Date) under the Pension Plan.

The Death Benefit under this Article 5 is in addition to the sickness and pensioner death benefits under the Death Benefit Plan in the Pension Plan, and shall be paid to the same beneficiary or beneficiaries, and administered in the same manner as such benefits under the Death Benefit Plan in the Pension Plan. Notwithstanding the preceding, effective for deaths occurring on or after January 1, 2009, the Death Benefit shall be paid in a lump sum within a reasonable period of time following the date the Beneficiary is identified by the Committee or its delegate.

**Section 5.02 Death Benefits**

**(a) Sickness or Pensioner Death Benefit**

In the case of the death of an Officer described in Section 5.01, as eligible for death benefit coverage, except as otherwise determined under Section 5.02(a)(ii), a Death Benefit equal to one year's wages (as defined below) shall be paid.

*(i) Death after January 1, 1996 and before January 1, 1998*

For purposes of determining the Death Benefit payable under Section 5.02(a), with respect to an Officer described in Section 5.01, who died after January 1, 1994 and before January 1, 1998, "one year's wages" is defined as the greater of (A) the Officer's Short Term Award for the calendar year preceding the earlier of (i) his or her date of death, or (ii) the date of his or her termination of employment, or (B) the Officer's Short Term Award with respect to any later partial calendar year of service, but only with respect to a calendar year prior to 1998.

*(ii) Death on or after January 1, 1998*

For purposes of determining the Death Benefit under Section 5.02(a), with respect to an Officer described in Section 5.01, who dies on or after January 1, 1998, the amount of the Death Benefit shall equal the amount that would have been payable if the Participant died with eligibility for the Death Benefit as of December 31, 1997.

**(b) Other Post-Retirement Death Benefits**

Additional death benefits described in this Section 5.02(b) shall be provided, (i) with respect to an Officer who terminated employment on a service pension or disability pension under the Pension Plan, after December 31, 1986 and before January 1, 1997 (or who terminated employment on a service pension or a disability pension prior to December 31, 1986, provided he or she did not attain age fifty-five on or before December 31, 1983), and (ii) with respect to an Officer who terminates employment after December 31, 1996, only if such Officer is Service Pension Eligible at the time of his or her termination of employment. The death benefits described under Section 5.02(b)(ii) shall also be paid upon the death of an Officer who terminates employment with entitlement to the benefits under the AT&T Senior Management Long Term Disability and Survivor Protection Plan.

*(i) Group Life Differential*

Upon the death of an Officer, age sixty-six or older who retired after December 31, 1986 and before October 1, 1990, the difference between (i) the amount of his or her Basic Group Life Insurance coverage under the Company's Group Life Insurance Program, as in effect on the day before his or her sixty-sixth birthday, and (ii) the amount of such insurance coverage, as in effect on the date of his or her death, shall be paid in a lump sum to the beneficiary or beneficiaries designated by the Officer, or, if there is no such beneficiary, to the Officer's estate.

*(ii) Tax Differential*

An individual who is the beneficiary of a deceased retired Officer or of an Officer who terminated employment with entitlement to payments under the AT&T Senior Management Long Term Disability and Survivor Protection Plan, and who receives one or more of the benefits listed below, shall be eligible to receive, under this Section 5.02(b)(ii), a tax differential payment related to the difference between (i) the beneficiary's assumed federal income tax liability on such benefit or benefits and (ii) the beneficiary's assumed federal income tax liability had such benefit or benefits been paid as a non-tax death benefit under a life insurance policy on the life of the retired Officer:

- (A) Post-Retirement Survivor Annuity described in Section 4.04(b),
- (B) Pensioner Death Benefit described in Section 5.02(a),
- (C) Group Life Differential Death Benefit described in Section 5.02(b)(i),
- (D) Pensioner Death Benefit described in Article 5 of the Pension Plan,
- (E) The Death Benefit described in Section 5 of the AT&T Senior Management Long Term Disability and Survivor Protection Plan, and
- (F) The Death Benefit described in the AT&T Excess Benefit and Compensation Plan.

Pursuant to the terms of the various plans described above, no benefit identified in (A), (B), (C), (D) or (F) is payable with respect to a Participant who terminates employment after December 31, 2007 (or such earlier date as may be specified in such plan), and no benefit shall be payable under this Plan with respect to such plans.

Federal estate tax, state and local inheritance taxes, and state and local income taxes, shall not be considered in computing the tax differential payment under this Section 5.02(b)(ii).

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**Article 6.**  
**Source Of Payment**

**Section Source of Payments**  
**6.01**

(a) Benefits arising under this Plan and all costs, charges, and expenses relating thereto will be payable from the Company's general assets. The Company may, however, establish a trust to pay such benefits and related expenses, provided such trust does not cause the Plan to be "funded" within the meaning of ERISA. To the extent trust assets are available, they may be used to pay benefits arising under this Plan and all costs, charges, and expenses relating thereto. To the extent that the funds held in the trust, if any, are insufficient to pay such benefits, costs, charges and expenses, the Company shall pay such benefits, costs, charges, and expenses from its general assets.

(b) In addition, the Company may, in its sole discretion, purchase and distribute one or more commercial annuity contracts, or cause the trustee of the trust to purchase and distribute one or more commercial annuity contracts, to make benefit payments required under this Plan, to any Officer, as defined herein, or the Surviving Spouse of any Officer, provided, however, that with respect to an annuity purchase occurring prior to January 1, 2005, the purchase and distribution of any such annuity contracts shall be no sooner than the expiration of any forfeiture provisions applicable to the Officer under the AT&T Non-Competition Guidelines, or as otherwise may be provided in accordance with procedures established by the Executive Vice President – Human Resources (or any successor to such position), and provided further that, effective January 1, 2004, the Company's right to direct that payments under the Plan shall be made through one or more commercial annuity contracts shall be applicable to only the benefits payable to any Participant, or the Surviving Spouse of any such Participant, as applicable, who (1) was on the active payroll of the Company (or on an approved leave of absence with guaranteed right of reinstatement) and classified as an Officer on December 31, 2003, and (2) satisfies the age and service requirements, or is within twelve months of satisfying the requirements in effect at the time the Participant terminates employment with the Company for the receipt of retirement-related health benefits under the AT&T Corp. Postretirement Welfare Benefits Plan (or any successor to such plan) (other than by virtue of the "Rule of 65" or through a Company-sponsored employee-paid health benefits access program, or through the AT&T Corp. Separation Medical Plan), without regard to whether or not the Officer has five years of service as of December 31, 1999.

Any such annuity contracts described above may be purchased from a commercial insurer acceptable to the Executive Vice President - Human Resources (or any successor to such position). Further, the Executive Vice President - Human Resources (or any successor to such position), may determine, in his or her sole discretion, to pay additional sums to any Officer, from the Company's general assets or from the trust, if any, to reimburse the Officer for additional federal and state income taxes estimated to be incurred by reason of the distribution of any such annuity contracts. The Executive Vice President - Human Resources (or any successor to such position) shall establish a methodology or methodologies for determining the amount of such additional sums. The methodology or methodologies selected shall be those that the Executive Vice President - Human Resources (or any successor to such position) determines, in his or her sole discretion, to be the most effective and administratively feasible for the purpose of producing after-tax periodic benefit payments that approximate the after-tax periodic benefit payments that would have been received by Officers in the absence of the distribution of the annuity contract. Any such purchase and distribution of an annuity contract shall be a full and complete discharge of the Plan's, AT&T's and the Participating Companies' liability for payments assumed by the issuer of the annuity contract.

(c) Notwithstanding the provisions of the preceding Section 6.01(b), effective January 1, 2005, a Participant who is eligible to elect to receive his or her benefit under the Plan in the form of a third-party commercial annuity contract pursuant to Section 6.01(b) shall be required to submit an election, on a form provided by the Company, with respect to the time and form of payment in which benefits under this Plan shall be distributed for any reason other than the death of the Participant. Such election form shall be submitted to the Company no later than one of the following dates, whichever is applicable: (i) such Participant's separation from service, with respect to distribution of such annuity contract during the 2005 calendar year, (ii) the earlier of (A) such employee's separation from service, or (B) December 31, 2005, with respect to the distribution of such annuity contract during the 2006 calendar year, and (iii) December 31, 2006, for distributions of such annuity contracts occurring after the 2006 calendar year. Notwithstanding the foregoing, the Company may permit such a Participant to submit a distribution election form in 2006 with respect to his or her benefits under the Plan, provided that such election in the 2006 calendar year may not result in a change in payment elections with respect to payments that the Participant would otherwise receive during the 2006 calendar year, or to cause payments to be made in 2006, to the extent permitted under the proposed Treasury Regulations under Code Section 409A.

(d) Notwithstanding the provisions of the preceding Section 6.01(b) and Section 6.01(c), the annuity purchase program described in Section 6.01(b) shall be discontinued effective September 6, 2007, and any election in effect on September 6, 2007 pursuant to which a Participant has elected to receive distribution of his or her benefits under this Plan through the purchase of a commercial annuity contract shall be null and void, as such election relates to any distribution from this Plan to a Participant or Surviving Spouse occurring after September 6, 2007.

**Section    Unfunded Status**  
**6.02**

The Plan at all times shall be entirely unfunded for purposes of the Code and ERISA, and, except as provided in Section 6.01, no provision shall be made at any time with respect to segregating any assets of a Participating Company for the payment of any benefits hereunder. The Plan constitutes a mere promise by the Participating Companies to make payments, if any, in the future. No Participant, surviving Spouse or any other person shall have any interest in any particular assets of a Participating Company by reason of the right to receive a benefit under the Plan, and to the extent a Participant, surviving Spouse, or any other person, acquires a right to receive benefits under this Plan, such right shall be no greater than the right of any unsecured general creditor of any Participating Company.

**Article 7.**  
**Administration Of The Plan**

**Section Administration and Authorities**  
**7.01**

The Plan shall be administered by the Company, and it shall have full discretionary authority to manage and control the operation and administration of the Plan, including the power to interpret the provisions of the Plan, to make determinations of fact, promulgate rules and regulations, to determine benefit eligibility of individuals and classes of Participants (including, without limitation, determinations of a Participant's applicable Term of Employment and Position Rate), delegate its powers and duties hereunder to the Committee, the Administrator, or others, and to take such other action as it shall find necessary and appropriate to implement the provisions of the Plan. The Committee and the Administrator may retain attorneys, consultants, accountants or other persons (who may be employees of the Company or an Affiliated Corporation) to render advice and assistance, and may delegate any of the authorities conferred on them to such persons as they shall determine to be appropriate to effect the discharge of their duties hereunder. The Company, other Participating Companies, and any of their Officers and E-band Employees, shall be entitled to rely upon the advice, opinions, and determinations of any such persons. Any exercise of the authorities set forth in this Article 7, whether by the Company, the Committee or its delegate, or the Administrator, shall be final and binding upon the Company, its Affiliated Corporations, their officers, directors and affected Participants and beneficiaries.

**Section Committee**  
**7.02**

The Company has delegated to the Committee the authority to make the final determination to grant or deny claims for benefits under the Plan with respect to Participants, surviving Spouses, and other beneficiaries, and to authorize disbursements according to the terms of the Plan.

**Section Indemnification**  
**7.03**

No member of the Board, the Committee or the Administrator shall be personally liable, by reason of any contract or other instrument executed by such individual, or on his or her behalf, in his or her capacity as a member of the Board, the Committee or the Administrator, nor for any mistake of judgment made in good faith, and AT&T shall indemnify and hold harmless each member of the Board, each member of the Committee, the Administrator and each other employee, officer, or director of AT&T, to whom any duty or power relating to the administration or interpretation of the Plan have been allocated or delegated, against any cost or expense (including attorneys' fees) or liability (including any sum paid in settlement of a claim) arising out of any act or omission to act in connection with the Plan, unless arising out of such person's own fraud or bad faith.

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**Section Benefit Claims and Appeals**  
**7.04**

**(a) Benefit Claims**

All claims for benefit payments under the Plan shall be submitted in writing by the Participant, a Surviving Spouse, beneficiary, or the estate of the Participant, or the duly authorized representative of such person or estate ("Claimant" for purposes of this Section 7.04) to the Administrator. The Administrator shall notify the Claimant in writing within 90 days after receipt as to whether the claim has been granted or denied. This period may be extended for up to an additional 90 days, for a total of 180 days, in the case of special circumstances provided that written notice of the extension is furnished to the Claimant prior to the termination of the initial 90-day period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Administrator expects to render the benefit determination. In the event the claim is denied, in whole or in part, the Claimant will receive notice of the Administrator's decision, including: (i) the specific reasons for the adverse determination, (ii) reference to the pertinent Plan provisions on which the adverse determination is based, (iii) a description of any additional material or information necessary for the Claimant to perfect the claim and an explanation of why such material or information is necessary, and (iv) a description of the Plan's procedures for appealing the adverse determination (including applicable time limits) and the Claimant's right to bring a civil action under section 502(a) of ERISA following an adverse determination on review.

**(b) Benefit Appeals**

A Claimant whose claim for benefits has been denied, in whole or in part, may, within 60 days of receipt of any adverse benefit determination, appeal such denial to the Committee. All appeals shall be in the form of a written statement and shall (i) set forth all of the reasons in support of favorable action on the appeal, (ii) identify those provisions of the Plan upon which the Claimant is relying, and (iii) include copies of any other documents, records and other materials which may support favorable consideration of the claim. If the Claimant submits a written request for review of a denied claim, the Claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant to the claim (as defined in DOL Reg. §2560.503-1(m)(8) for claims filed on or after January 1, 2002), and (iv) a statement of the right of the Claimant to bring a civil action under section 502(a) of ERISA following an adverse benefit determination on review. The Claimant may raise issues even if such issues were not raised in the initial benefit determination. The Committee shall decide the issues presented within 60 days after receipt of such request, but this period may be extended for up to an additional 60 days in the case of special circumstances provided that written notice of the extension is furnished to the Claimant prior to the termination of the initial 60-day period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Committee expects to render the determination. In the case of an adverse determination, the decision of the Committee shall be set forth in writing and include (i) the specific reason or reasons for the adverse determination, (ii) reference to the pertinent Plan provisions on which the denial is based, (iii) a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information (as defined in DOL Reg. §2560.503-1(m)(8) for claims filed on or after January 1, 2002) relevant to the Claimant's claim for benefits, and (iv) a statement of the right of the Claimant to bring a civil action under section 502(a) of ERISA.

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Any Claimant whose claim for benefits has been denied shall have such further rights of review as are provided in ERISA § 503, and the Committee and Administrator shall retain such right, authority, and discretion as is provided in or not expressly limited by ERISA § 503.

**(c) Final Review**

The Committee shall serve as the final review committee, under the Plan and ERISA, for the review of all appeals by Claimants (as defined in Section 7.04) whose initial claims for benefits have been denied, in whole or in part, by the Administrator. The Committee shall have the authority, subject to Section 7.04(c), to determine conclusively for all parties any and all questions arising from administration of the Plan, and shall have sole and complete discretionary authority and control to manage the operation and administration of the Plan, including, but not limited to, authorizing disbursements according to the Plan, the determination of all questions relating to eligibility for participation and benefits, interpretation of all Plan provisions, determination of the amount and kind of benefits payable to any Participant, Surviving Spouse or estate, and the construction of disputed and doubtful terms. Such decisions by the Committee shall be conclusive and binding on all parties and not subject to further review.

**(d) Action by Trustee**

In the event that the Company (or its designee) fails to make a decision on a claim and/or appeal within 20 days of an event entitling the Claimant to a payment under this Plan (or, if later, within the ninety/sixty day period, with extensions, set forth in Section 7.04(a) and (b)), the Trustee of the AT&T Corp. Benefits Protection Trust ("Trust") may make a decision in lieu of the Company (or its designee) as authorized by the Trust and subject to the terms and conditions of the Trust. Any decision by the Trustee to make a payment under this Plan to the Claimant is subject to the availability of Trust assets allocated to pay benefits under this Plan. A payment to the Claimant from the prorated Trust assets shall be considered a satisfaction of the Company's liability under this Plan to the extent payment from the Trust was sufficient to cover the amount determined by the Trustee as the amount to which the Claimant was entitled.

**Article 8.**  
**Adoption, Amendment And Termination**

**Section Adoption of Plan**  
**8.01**

Any Affiliated Corporation that participates in the Pension Plan may, with the consent of AT&T, elect to participate in the Plan. Such Affiliated Corporation shall become a Participating Company as of the date specified by AT&T in its resolution approving the participation of the Affiliated Corporation in the Plan.

**Section Amendment and Termination**  
**8.02**

AT&T is the sponsor of the Plan, and the Board or its delegate, may from time to time amend, modify or change the Plan, as set forth in this document, and the Board or its delegate (acting pursuant to the Board's delegations of authority then in effect) may terminate the Plan at any time. Plan amendments, modifications, and changes may include, but are not limited to, elimination or reduction in the level or type of benefits provided to any class or classes of Participant (and surviving Spouses and other beneficiaries). Any and all Plan amendments, modifications, and changes may be made without the consent of any Participant, surviving Spouse or beneficiary. Notwithstanding the foregoing, no such amendment, modification, or change shall retroactively impair or otherwise adversely affect the rights of any Participant or surviving Spouse to benefits under the Plan to which he or she has previously become entitled as a result of a Participant's satisfaction of the vesting schedule of this Plan which is the same as and never will be greater than the vesting schedule under the Pension Plan.

Notwithstanding the preceding, the Board may adopt any prospective or retroactive amendment that it determines is necessary for the Plan to maintain its compliance with Code Section 409A.

**Section Sale, Spin-Off, or Other Disposition of Participating Company**  
**8.03**

(a) Subject to Section 9.01 of this Plan, in the event AT&T sells, spins off, or otherwise disposes of an Affiliated Corporation, or disposes of all or substantially all of the assets of an Affiliated Corporation, such that one or more Participants terminate employment with a Participating Company for the purpose of accepting employment with the acquirer of such Affiliated Corporation or such assets, each such Participant shall be deemed to have terminated his or her employment with such Participating Company for all relevant purposes under this Plan. Notwithstanding the preceding, effective January 1, 2005, no distribution shall commence pursuant to this Section 8.03(a) unless the Participant has a separation from service, as defined under Code Section 409A, with all members of the AT&T controlled group.

(b) Notwithstanding the provisions of Section 8.03(a), and subject to Section 9.01 of this Plan, if the sale, spin-off, or other disposition of the stock or assets of an Affiliated Corporation is to a Successor Plan Sponsor, with the effect that a Participant is or becomes a Transition Employee, the Successor Plan Sponsor shall be solely liable for the payment of the annual benefits and death benefits described in this Plan, and the entitlement of the Transition Employee, or of his or her surviving Spouse or beneficiary, to benefits under this Plan shall terminate. A Transition Employee shall not be considered to have terminated his or her employment with AT&T or a Participating Company for any purpose under this Plan.

Article

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Adoption, Amendment  
And Termination

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## Article 9. General Provisions

### Section    **Binding Effect** 9.01

The Plan shall be binding upon and inure to the benefit of each Participating Company and its successors and assigns, and to the benefit of each Participant, his or her successors, assigns, designees, spouse, and estate. The Plan also shall be binding upon any successor corporation or organization succeeding to substantially all of the assets and business of AT&T, but nothing in the Plan shall preclude AT&T from merging or consolidating into or with, or transferring all or substantially all of its assets to, another corporation which assumes the Plan and all obligations of AT&T hereunder. AT&T agrees that it will make appropriate provision for the preservation of the rights of Participants, surviving Spouses and beneficiaries under the Plan, in any agreement or plan or reorganization into which it may enter to effect any merger, consolidation, reorganization or transfer of assets. Upon such a merger, consolidation, reorganization, or transfer of assets and assumption of obligations, that results in a Participant continuing to be employed by the Company or an Affiliated Corporation, the term "Participating Company" shall refer to such other corporation and the Plan shall continue in full force and effect as to that Participant and his or her lawful spouse or other beneficiary.

### Section    **Fiduciary Relationship** 9.02

Nothing contained in the Plan, and no action taken pursuant to the provisions of the Plan, shall create or be construed to create a trust or contract of any kind, or a fiduciary relationship between or among AT&T, any other Participating Company, any Affiliated Corporation, the Board, the Administrator, the Committee, any Participant, any surviving Spouse or any other person.

### Section    **No Guarantee of Employment** 9.03

Neither the Plan, nor any action taken thereunder, shall be construed as (i) a contract of employment, or (ii) deemed to give any employee the right to be retained in the employment of a Participating Company, or (iii) the right to any position level or level of compensation, or (iv) the right to future participation in the Plan, or (v) affecting the right of a Participating Company to discharge or dismiss any employee at any time.

### Section    **Tax Withholding** 9.04

AT&T shall withhold all federal, state, local or other taxes required by law to be withheld from payments or accruals under the Plan.

### Section    **Assignment of Benefits** 9.05

Benefits under the Plan may not be anticipated, alienated, sold, transferred, assigned, pledged, executed upon, encumbered, or subjected to any charge or legal process; no interest or right to receive a benefit may be taken, either voluntarily or involuntarily, for the satisfaction of the debts of, or other obligations or claims against, any Participant, Spouse, or beneficiary, including without limitation, any judgment or claim for alimony, support or separate maintenance pursuant to a domestic relations order within the meaning of Section 206(d)(3) of ERISA, and claims in bankruptcy proceedings. Any such attempted disposition shall be null and void.

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**Section Facility of Payment**  
**9.06**

If the Administrator shall find that any person to whom any amount is or was payable under the Plan is unable to care for his or her affairs, because of illness or accident, then any payment, or any part thereof, due to such person (unless a prior claim therefore has been made by a duly appointed legal representative), may, if the Administrator so directs AT&T, be paid to the same person or institution that the benefits with respect to such person are paid under the Pension Plan, if applicable, or to the person's spouse, under the laws of the state of the person's domicile, Participant's surviving Spouse, child, or relative, or to an institution maintaining or having custody of such person, or to any other person deemed by the Administrator to be a proper recipient, on behalf of such person otherwise entitled to payment. Any such payment shall be in complete discharge of the liability for such amount, of AT&T, the Board, the Committee, the Administrator, and the Participating Company therefore. If any payment, to which a Participant, a surviving Spouse, or a beneficiary, is entitled under this Plan, is unclaimed or otherwise not subject to payment to the person or persons so entitled, the amounts representing such payment or payments shall be forfeited after a period of two (2) years from the date the first such payment was payable and shall not escheat to any state or revert to any party; provided, however, that any such payment or payments shall be restored if any person otherwise entitled to such payment or payments makes a valid claim.

**Section Severability**  
**9.07**

If any section, clause, phrase, provision or portion of this Plan, or the application thereof, to any person or circumstance, shall be invalid or unenforceable under any applicable law, such invalidity or unenforceability shall not affect or render invalid or unenforceable the remainder of this Plan, and shall not affect the application of any section, clause, provision, or portion hereof to other persons or circumstances.

**Section Effective Date**  
**9.08**

This Plan first became effective for Officers actively employed on or after October 1, 1980 and for E-band Employees actively employed on or after on January 1, 1984 and is amended and restated effective January 1, 1997, with subsequent amendments through December 31, 2008.

**Section Plan Year**  
**9.09**

The Plan Year shall begin on January 1 and end on December 31.

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**Section Headings**  
**9.10**

The captions of the sections and articles hereof have been inserted solely as a matter of convenience and shall not in any manner define or limit the scope or intent of any provision of the Plan.

**Section Governing Law**  
**9.11**

To the extent such laws are not preempted by the laws of the United States of America, the Plan shall be governed by the laws of the State of Texas, except as to its principles of conflict of laws.

**Section Forfeiture of Benefits**  
**9.12**

Except as provided in this Section 9.12 and Section 3.02, benefits previously awarded may not be canceled, and upon attaining the right under the Plan for a Service Benefit or a Deferred Vested Benefit, or for an automatic survivor annuity, such right shall be nonforfeitable. Notwithstanding any eligibility or entitlement to benefits of an individual arising or conferred under any other provision or paragraph of this Plan, all benefits for which a Participant would otherwise be eligible hereunder may be forfeited, subject to the requirements of ADEA (29 CFR 1625.12), (i) at the discretion of the Board or the Committee, if an individual without the Company's consent establishes a relationship with a competitor of the Company or (ii) at the discretion of the Executive Vice President – Human Resources, if an individual violates the AT&T Non-Competition Guideline, as determined by the Executive Vice President – Human Resources in his or her sole discretion. To the extent a benefit under any other nonqualified plan of AT&T is offset by benefits payable under this Plan, such offset shall be determined as if a forfeiture had not occurred.

**Section Special Classification**  
**9.13**

For purposes of the Plan, the determination of those causes of death not classified as due to accident shall be accomplished in the same manner as set forth in the Pension Plan, as such plan was in effect on October 1, 1996.

**Section Claims Release**  
**9.14**

In case of accident resulting in the death of a Participant which entitles his or her beneficiary or beneficiaries or his or her surviving Spouse to death benefits under the Plan, such beneficiary(ies) or surviving Spouse shall, prior to the payment of any such benefits, sign a release, releasing the Company and/or other Participating Companies, as applicable, from all claims and demands which the deceased had and which his or her beneficiary(ies) or his or her surviving Spouse may have against them, otherwise than under the Plan, on account of such accident. If any person(s), other than the beneficiary(ies) and/or the surviving Spouse under this Plan, might legally assert claims against a Participating Company on account of the death of a Participant, no part of the Death Benefit under the Plan shall be due or payable until there have also been delivered to the Committee or the Administrator, as applicable, good and sufficient releases of all claims, arising from or growing out of the death of the Participant, which such other beneficiary(ies) and/or surviving Spouse might legally assert against any Participating Company. The Committee or the Administrator, as applicable, in its discretion, may require that the releases described above shall release any other company connected with the accident. This requirement of a release or releases shall not apply in the case of Survivor Annuities as described in Section 4.04.

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**Section 9.15 Damage Claims or Suits**

Should a claim, other than under the Plan, be presented, or suit brought against the Company or any Participating Company, for damages on account of death of the Participant, nothing shall be payable under the Plan on account of such death except as provided in Section 9.17; provided, however, that the Committee or the Administrator, as applicable, may, in its discretion and upon such terms as it may prescribe, waive this provision if such claim be withdrawn or if such suit be discontinued; and provided further that this provision shall not preclude the payment of Survivor Annuities as described in Section 4.04.

**Section 9.16 Judgment or Settlement**

In case any judgment is recovered against any Participating Company, or any settlement is made of any claim or suit, on account of the death of a Participant, and the amount paid to the beneficiary(ies) or surviving Spouse who would have received benefits under the Plan is less than what would otherwise have been payable under the Plan, the difference between the two amounts may, in the discretion of the Committee or the Administrator, as applicable, be distributed to such beneficiary(ies) or surviving Spouse.

**Section 9.17 Payment under Law**

In the case that any benefit (which the Committee or the Administrator, as applicable, shall determine to be of the same general character as a benefit provided by the Plan) is payable to any Participant, to his or her beneficiary(ies), to his or her estate, or to his or her surviving Spouse under any law now in force or hereafter enacted, only the excess, if any, of the amount prescribed in the Plan, above the amount of such payment prescribed by law, shall be payable under the Plan; provided, however, that no benefit payable under the Plan shall be reduced by reason of any governmental benefit or pension payable on account of military service or by reason of any benefit which the recipient would be entitled to receive under the Social Security Act or the Railroad Retirement Act. In those cases where, because of differences in the beneficiaries, or in the time or methods of payment or otherwise, the determination of any such excess is not ascertainable by mere comparison but adjustments are necessary, the Committee or the Administrator, as applicable, shall, in its discretion, determine whether or not in fact any such excess exists and make the adjustments necessary to carry out in a fair and equitable manner the spirit of the provision for the payment of any such excess. Further, in determining whether or not there is an excess, to the extent any payments under any law are considered in determining whether there is any excess payable to an employee under any other plan sponsored by the Company, the amount of such payments under law shall not be considered under this Plan.

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**Section 9.18**    **CIC Provision**

**(a)    Applicability**

This Section 9.18 applies only to an individual who, as of the date a Change in Control ("CIC") occurs (as defined in the Pension Plan) is an employee of a Participating Company and a Participant in this Plan.

**(b)    Nonforfeitable Benefits**

Notwithstanding any other provisions of this Plan, on and after the date a CIC occurs, solely for purposes of determining entitlement to benefits from this Plan, and individual described in Section 9.18(a) shall be deemed to be vested under the Pension Plan, whether or not such Participant is otherwise entitled to a vested benefit from the Pension Plan.

**(c)    Amendments to CIC Provisions**

Notwithstanding the provisions of Section 8.02, or any other provision of the Plan, unless required by applicable law, this Section 9.18 may not be amended in any manner adverse to the interests of Participants without their consent and, further, upon the occurrence of a CIC, no amendment may be made to this Section 9.18 by the Board, the Company, (including any successor to the Company), any committee, any officer, or any other party to suspend, modify, or eliminate any benefit provisions that are applicable upon occurrence of a CIC.

**Section 9.19**    **Entire Plan**

This written Plan document is the exclusive statement of the terms of this Plan, and any claim of right or entitlement under the Plan shall be determined in accordance with its provisions pursuant to the procedures described in Article 7. Unless otherwise authorized by the Board or its delegate, no amendment or modification to this Plan shall be effective until reduced to writing and adopted pursuant to Section 8.02.

**Section 9.20**    **Overpayments**

If any overpayment is made by the Plan for any reason, the Plan shall have the right to recover such overpayment. The Participant shall cooperate fully with the Plan to recover any overpayment and provide any necessary information and required documents. Any recovery of overpayment pursuant to this Section 9.20 may be deducted from future benefits payable to or on behalf of the Participant from this Plan.

## AT&amp;T Non-Qualified Pension Plan

**Appendix A.**  
**Section 4.02(c)E Alternate Minimum Formula - Table of Factors**

Service/Age	50 or less	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65
<b>20 or less</b>	1.33	1.33	1.33	1.36	1.43	1.47	1.43	1.38	1.33	1.28	1.25	1.20	1.15	1.10	1.05	1.00
<b>21</b>	1.38	1.32	1.32	1.35	1.42	1.46	1.42	1.37	1.32	1.27	1.24	1.19	1.14	1.09	1.05	1.00
<b>22</b>	1.42	1.37	1.31	1.34	1.41	1.45	1.41	1.36	1.30	1.26	1.23	1.18	1.14	1.09	1.05	1.00
<b>23</b>	1.47	1.41	1.36	1.33	1.40	1.44	1.40	1.35	1.29	1.25	1.22	1.17	1.13	1.09	1.04	1.00
<b>24</b>	1.52	1.46	1.40	1.39	1.39	1.43	1.39	1.34	1.29	1.24	1.21	1.17	1.12	1.08	1.04	1.00
<b>25</b>	1.58	1.51	1.45	1.43	1.45	1.42	1.38	1.33	1.28	1.23	1.20	1.16	1.12	1.08	1.04	1.00
<b>26</b>	1.57	1.50	1.44	1.42	1.44	1.41	1.37	1.32	1.27	1.22	1.19	1.15	1.11	1.08	1.04	1.00
<b>27</b>	1.57	1.49	1.43	1.42	1.43	1.40	1.36	1.31	1.26	1.21	1.18	1.15	1.11	1.07	1.04	1.00
<b>28</b>	1.56	1.48	1.42	1.41	1.43	1.39	1.36	1.31	1.25	1.21	1/18	1.14	1.11	1.07	1.04	1.00
<b>29</b>	1.55	1.48	1.42	1.40	1.42	1.39	1.35	1.30	1.25	1.20	1.17	1.14	1.10	1.07	1.03	1.00
<b>30</b>	1.38	1.36	1.33	1.35	1.39	1.38	1.34	1.29	1.24	1.19	1.17	1.13	1.10	1.07	1.03	1.00
<b>31</b>	1.38	1.35	1.33	1.34	1.39	1.37	1.34	1.29	1.24	1.19	1.16	1.13	1.10	1.06	1.03	1.00
<b>32</b>	1.37	1.35	1.32	1.34	1.38	1.37	1.33	1.28	1.23	1.18	1.16	1.12	1.09	1.06	1.03	1.00
<b>33</b>	1.37	1.34	1.32	1.34	1.38	1.36	1.33	1.28	1.23	1.18	1.15	1.12	1.09	1.06	1.03	1.00
<b>34</b>	1.36	1.34	1/31	1.33	1.37	1.36	1.32	1.27	1.22	1.17	1.15	1.12	1.09	1.06	1.03	1.00
<b>35 or more</b>	1.36	1.33	1.31	1.33	1.37	1.35	1.32	1.27	1.22	1.17	1.14	1.11	1.09	1.06	1.03	1.00

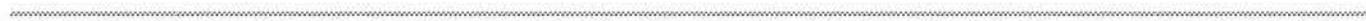
AT&T Non-Qualified Pension Plan

**Appendix B.  
Early Retirement Factors – Alternate Formula, Special Update to the Alternate Formula, and Alternate Minimum Formula**

The benefit payable under the Alternate Formula of Section 4.02E(b), under the Special Update to the Alternate Formula of Section 4.02E(c), or under Formula B of the Alternate Minimum Formula of Section 4.02E(c), for commencement prior to Normal Retirement Age shall equal the amount otherwise determined under such sections, multiplied by the applicable factor based on completed years and months of age effective as of the Pension Commencement Date:

*Attained Age*

Years/Months	0	1	2	3	4	5	6	7	8	9	10	11
50	.29	.29	.30	.30	.31	.31	.32	.32	.32	.33	.33	.34
51	.34	.34	.35	.35	.36	.36	.37	.37	.37	.38	.38	.39
52	.39	.40	.40	.41	.42	.42	.43	.44	.44	.45	.46	.46
53	.47	.48	.48	.49	.50	.50	.51	.52	.52	.53	.54	.54
54	.55	.56	.57	.57	.58	.59	.60	.60	.61	.62	.63	.63
55	.64	.64	.66	.66	.66	.66	.67	.67	.67	.67	.69	.69
56	.69	.69	.71	.71	.71	.72	.72	.72	.74	.74	.74	.76
57	.76	.76	.78	.78	.78	.79	.79	.79	.81	.81	.81	.83
58	.83	.83	.84	.84	.86	.86	.88	.88	.88	.90	.90	.91
59	.91	.91	.93	.93	.95	.95	.97	.97	.97	.98	.98	1.00
60	1.00											



## AT&amp;T Non-Qualified Pension Plan

**Appendix C.  
Initial Conversion Factors**

Age	Conversion Factor	Age	Conversion Factor
20	17.16	43	50.04
21	17.88	44	51.60
22	18.48	45	52.92
23	19.20	46	55.08
24	20.04	47	57.12
25	20.76	48	59.28
26	22.08	49	61.32
27	24.12	50	63.24
28	26.16	51	65.88
29	29.76	52	68.28
30	31.68	53	70.80
31	33.72	54	73.20
32	35.16	55	75.60
33	36.48	56	78.60
34	37.44	57	81.60
35	38.40	58	84.60
36	40.08	59	87.48
37	41.64	60	90.36
38	42.84	61	94.56
39	44.16	62	98.76
40	45.36	63	102.84
41	46.92	64	106.92
42	48.60	65 or later	111.12

## AT&amp;T Non-Qualified Pension Plan

**Appendix D.**  
**Deferred Vested Benefit – Early Commencement Factors**

*Single Life Annuity Early Commencement Factors*

Based Upon Completed Years and Months of Age  
At Commencement of Non-Service Benefit

<b>Years\Months</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>11</b>
50	0.26	0.26	0.26	0.26	0.26	0.26	0.27	0.27	0.27	0.27	0.27	0.28
51	0.28	0.28	0.28	0.28	0.28	0.29	0.29	0.29	0.29	0.29	0.30	0.30
52	0.30	0.30	0.30	0.31	0.31	0.31	0.31	0.32	0.32	0.32	0.32	0.32
53	0.33	0.33	0.33	0.33	0.34	0.34	0.34	0.34	0.34	0.35	0.35	0.35
54	0.35	0.36	0.36	0.36	0.36	0.37	0.37	0.37	0.37	0.38	0.38	0.38
55	0.38	0.39	0.39	0.39	0.40	0.40	0.40	0.40	0.41	0.41	0.41	0.42
56	0.42	0.42	0.43	0.43	0.43	0.44	0.44	0.44	0.44	0.45	0.45	0.45
57	0.46	0.46	0.46	0.47	0.47	0.48	0.48	0.48	0.49	0.49	0.49	0.50
58	0.50	0.50	0.51	0.51	0.52	0.52	0.52	0.53	0.53	0.54	0.54	0.54
59	0.55	0.55	0.56	0.56	0.57	0.57	0.57	0.58	0.58	0.59	0.59	0.60
60	0.60	0.61	0.61	0.62	0.62	0.63	0.63	0.64	0.64	0.65	0.65	0.66
61	0.66	0.67	0.67	0.68	0.68	0.69	0.70	0.70	0.71	0.71	0.72	0.72
62	0.73	0.74	0.74	0.75	0.76	0.76	0.77	0.78	0.78	0.79	0.80	0.80
63	0.81	0.82	0.82	0.83	0.84	0.85	0.85	0.86	0.87	0.88	0.88	0.89
64	0.90	0.91	0.91	0.92	0.93	0.94	0.95	0.96	0.97	0.97	0.98	0.99
65	1.00											

Appendix D

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Deferred Vested Benefit - Early  
Commencement Factors

## AT&amp;T Non-Qualified Pension Plan

**Appendix E.**  
**Article 4E - Pension Benefits**

This Appendix E sets forth the provisions related to the determination of benefit amounts and payment of such benefits commencing on or before December 1, 2008, and to the extent indicated herein, and as modified by Article 4 of the main text of the Plan, the determination of benefit amounts with respect to certain benefits commencing after December 1, 2008. A reference in this Appendix E to a provision of Article 4 means such provision as set forth in this Appendix E, unless the reference specifically indicates otherwise.

**Section 4.01E Applicable Benefit Formulas.**

For purposes of applying the provisions of Sections 4.01 and 4.02 with respect to a Participant described in Section 3.02(c), the Participant's "Term of Employment" and the day for the determination of such a Participant's status as "Service Pension Eligible" shall be subject to the provisions of Section 3.02(c).

**(a) Participants Terminated Before January 1, 1997**

The Service Benefit, Deferred Vested Benefit, or Disability Benefit payable to a Participant who terminated employment from a Participating Company prior to January 1, 1997 is determined in accordance with the terms of the Plan as in effect from time to time prior to January 1, 1997.

**(b) Active Participants on January 1, 1997****(i) Participants Whose Eligibility to Accrue Benefits Ends Prior to August 1, 1997 .**

- (A) Subject to the provisions of Section 4.01(b)(i)(D), the annual benefit of a Participant, who is an Officer or an E-band Employee on January 1, 1997, who is an Officer at the time he or she leaves the service of a Participating Company prior to August 1, 1997, and who is Service Pension Eligible as of the last day of his or her Term of Employment, will be the greater of the annual benefit amount determined under the Basic Formula described in Section 4.02(a), the annual benefit amount determined under the Alternate Formula described in Section 4.02(b), or, in the case of an Officer who had at least five Years of Service as an Officer as of December 31, 1993, the annual benefit amount determined under the Alternate Minimum Formula described in Section 4.02(c).
- (B) Subject to the provisions of Section 4.01(b)(i)(D), the annual benefit of a Participant, who is an Officer or an E-band Employee on January 1, 1997, who is an Officer at the time he leaves the service of a Participating Company prior to August 1, 1997, but who is not Service Pension Eligible as of the last day of his or her Term of Employment, will be a Deferred Vested Benefit determined under the Basic Formula described in Section 4.02(a), provided he or she is vested under the Pension Plan at the time of termination of employment from the AT&T Controlled Group. Notwithstanding the provisions of the immediately preceding sentence, if such Participant was an Officer who had at least five Years of Service as an Officer as of December 31, 1993, the annual benefit shall not be less than the annual benefit determined under the Alternate Minimum Formula described in Section 4.02(c).

## AT&amp;T Non-Qualified Pension Plan

- (C) Subject to the provisions of Section 4.01(b)(i)(D), the annual benefit of a Participant, who is an E-band Employee on January 1, 1997, who terminates employment as an E-band Employee prior to August 1, 1997 and who is Service Pension Eligible as of the last day of his or her Term of Employment, will be the annual benefit amount determined under the Alternate Formula described in Section 4.02(b).
- (D) Effective August 1, 1997, the annual benefit of a Participant described in this Section 4.01(b)(i) shall increase (but shall not be decreased) to the amount determined pursuant to the following subsection 4.01(b)(ii)(A), if the Participant is described in subsection 4.01(b)(i)(A), or to the amount determined pursuant to subsection 4.01(b)(ii)(B) if the Participant is described in subsection 4.01(b)(i)(B), or to the amount determined pursuant to the following subsection 4.01(b)(ii)(D), if the Participant is described in subsection 4.01(b)(i)(C). For purposes of applying the provisions of Section 4.01(b)(ii) to increase a benefit which commenced prior to August 1, 1997 pursuant to this subsection 4.01(b)(i)(D), any age-based reduction shall be based on such Participant's age on his or her original Pension Commencement Date.
- (ii) **Participants Whose Eligibility to Accrue Benefits Ends after July 31, 1997 .**
- (A) Subject to the provisions of subsection 4.01(b)(ii)(C) for Officers after December 31, 1997, the annual benefit of a Participant who is an Officer or an E-band Employee on January 1, 1997, who is an Officer at the time he or she leaves the service of a Participating Company after July 31, 1997, and who is Service Pension Eligible as of his or her termination of employment from a Participating Company, will be the greater of the annual benefit amount determined under the Special Update to the Basic Formula described in Section 4.02(d) and the annual benefit amount determined under the Special Update to the Alternate Formula described in Section 4.02(e). Notwithstanding the preceding, in no event shall be the benefit with respect to a Participant described in this subsection 4.01(b)(ii)(A) be less than the amounts determined pursuant to Section 4.01(b)(i)(A).
- (B) Subject to the provisions of subsection 4.01(b)(ii)(C), the annual benefit of a Participant who is an Officer or an E-band Employee on January 1, 1997, who is an Officer at the time he leaves the service of a Participating Company after July 31, 1997 but who is not Service Pension Eligible as of the last day of his or her termination of employment will be a Deferred Vested Benefit equal to the greater of the annual benefit amount determined under the Special Update to the Basic Formula described in Section 4.02(d) or the amounts determined pursuant to Section 4.01(b)(i)(B), provided he or she is vested under the Pension Plan at the time of termination of employment from the AT&T Controlled Group.

## AT&amp;T Non-Qualified Pension Plan

- (C) The annual benefit of a Participant on January 1, 1997 who is also an Officer on or after January 1, 1998 shall not be less than the amount determined pursuant to subsection 4.01(d).
- (D) Subject to the provisions of Section 4.01(d)(ii) regarding an E-band Employee who becomes an Officer on or after January 1, 1998, the benefit of a Participant who is an E-band Employee on January 1, 1997, who terminates employment as an E-band Employee after July 31, 1997, and who is Service Pension Eligible as of his or her termination of employment from a Participating Company, will be the annual benefit amount determined under the Special Update to the Alternate Formula described in Section 4.02(e), but shall in no event be less than the amount determined pursuant to Section 4.01(b)(i)(C).

**(c) New Participants after January 1, 1997 and before January 1, 1998**

- (i) An individual who first becomes a Participant after January 1, 1997 and before January 1, 1998, and who is an Officer on January 1, 1998, shall be eligible for benefits determined pursuant to Section 4.01(d).
- (ii) An individual who first becomes an Officer on or after August 1, 1997, who was not previously an E-band Employee, and who leaves the service of a Participating Company prior to January 1, 1998 shall not be eligible for benefits under the Plan.
- (iii) An individual, who first becomes a Participant after January 1, 1997 and before January 1, 1998, who is not an Officer at any time on or after January 1, 1998, and who terminates employment with a Participating Company on or after January 1, 1998 shall be eligible for a Service Benefit if the Participant is Service Pension Eligible at the time of his or her termination of employment from a Participating Company. Such benefit shall be determined only under the Alternate Formula described in Section 4.02(b). No benefit shall be payable from the Plan if such Participant is not Service Pension Eligible at the time of his or her termination of employment from a Participating Company.

**(d) Participants who are Officers on or after January 1, 1998 (Cash Balance Participants)****Participants Who Are Officers Before January 1, 2009**

- (i) An individual who is an Officer on or after January 1, 1998, who first became an Officer on or after August 1, 1997 and who was not previously an E-band Employee shall be eligible for a benefit determined under Section 4.03 if such Officer is vested in his or her benefit under the Pension Plan upon his or her termination of employment from the AT&T Controlled Group.
- (ii) An individual who is an Officer on or after January 1, 1998, who was an Officer or an E-band Employee prior to August 1, 1997, and whose Pension Commencement Date is after July 1, 1998, shall be eligible for a benefit from the Plan if such Officer is vested in his or her benefit under the Pension Plan upon termination of employment from the AT&T Controlled Group. The benefit shall be the greater of (A) the benefit determined pursuant to Section 4.03, or (B) the sum of (I) the Mid-Career Pension Benefit determined pursuant to Section 4.07 and (II) the benefit accrued under the Plan prior to January 1, 1998 and payable pursuant to the terms of Section 4.01(b)(ii)(A) or Section 4.01(b)(ii)(B), as applicable. For purposes of the preceding sentence, the determination of the greater of (A) and (B) shall be made taking into account the Pension Commencement Date and the form of payment determined in accordance with Section 4.09.

## AT&amp;T Non-Qualified Pension Plan

**Participants Who Become Officers After December 31, 2008**

- (iii) Notwithstanding the preceding Sections 4.01(d)(ii) and 4.01(d)(ii), benefits, if any, with respect to an individual who first becomes an Officer after December 31, 2008 shall be determined pursuant to the provisions of the Plan related to a Qualified Deferral Participant or to a Participant who is an E-band Employee, as more fully described in the provisions of Article 4 of the main text of the Plan effective after December 31, 2008 (such provisions which are not included in this Appendix E). Such a Participant shall not be eligible for benefits determined under the Cash Balance Formula.

**(e) Surviving Spouse of an Officer (other than a Cash Balance Participant)**

(i) An Automatic Survivor Annuity will be paid to the Spouse to whom an Officer (other than a Cash Balance Participant) is married at the time of his or her death, provided such Participant is vested as of his or her date of death, and satisfies the provisions of Section 4.04(a) or Section 4.04(b), as applicable. The benefit payable to such Spouse shall be determined in accordance with Section 4.04(a) if such Officer is an employee of the AT&T Controlled Group at the time of death, and in accordance with Section 4.04(b) if such Officer is not an employee of the AT&T Controlled Group at the time of death.

(ii) Notwithstanding the provisions of the preceding subsection 4.01(e)(i), if the Officer elects distribution of his or her Pension Plan benefit in the form of a 50% Joint and Survivor Annuity and dies following his or her Pension Commencement Date, the surviving Spouse will be eligible for a monthly benefit equal to 50% of the monthly benefit being paid to the Officer at the time of his or her death. The benefit payable to the surviving Spouse will commence on the first day of the month following the date of the Officer's death. For purposes of this subsection 4.01(e)(ii), the surviving Spouse is the Spouse to whom the Officer was married at his or her date of death. In no event will a benefit be paid pursuant to this subsection 4.01(e)(ii), if a benefit is payable pursuant to subsection 4.01(e)(i) or subsection 4.01(g).

**(f) Surviving Spouse of an E-band Employee**

An Automatic Survivor Annuity will be paid to the Spouse to whom an E-band Employee is married at the time of his or her death while an active employee, provided such Participant is vested as of his or her date of death, and satisfies the provisions of Section 4.04(a) at the date of death. The benefit payable to such Spouse shall be determined in accordance with Section 4.04(a). The provisions of this Section 4.01(f) do not apply to a benefit determined under the cash balance formula of Section 4.11, or to a benefit based on a Mid-Career Pension Benefit of Section 4.07.

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## AT&amp;T Non-Qualified Pension Plan

**(g) Surviving Spouse (or Estate) of a Cash Balance Participant**

A benefit, determined pursuant to the provisions of Section 4.10, shall be payable to the surviving Spouse (or estate, in the case of a Participant who is not married at the time of death) of a Cash Balance Participant who is vested in his or her benefit under the Pension Plan as of his or her date of death and who dies prior to commencing distribution of his or her benefit under the Plan.

A benefit, determined pursuant to the provisions of Section 4.09, shall be payable to the surviving Spouse of a Cash Balance Participant who dies prior to December 1, 2008 following commencement of his or her benefits under the Plan, if such Participant's benefit was being paid under the 50% Joint and Survivor Annuity or 100% Joint and Survivor Annuity form of payment.

**(h) Deferral Participant**

An individual who is a Deferral Participant shall be eligible for a benefit determined pursuant to Section 4.11, provided that such Participant is vested in his or her benefit under the Pension Plan upon his or her termination of employment from the AT&T Controlled Group. Notwithstanding any other provision of the Plan to the contrary, such benefit shall be payable in addition to any other benefits otherwise payable under the Plan.

**(i) Surviving Spouse (or Estate) of a Deferral Participant**

A benefit, determined pursuant to the provisions of Section 4.11(f), shall be payable to the surviving Spouse (or estate, in the case of a Participant who is not married at the time of death) of a Deferral Participant who is vested in his or her benefit under the Pension Plan as of his or her date of death and who dies prior to commencing distribution of his or her benefit under the Plan.

A benefit, determined pursuant to the provisions of Section 4.09, shall be payable to the surviving Spouse of a Deferral Participant who dies prior to December 1, 2008 following commencement of his or her benefits under the Plan, if such Participant's benefit was being paid under the 50% Joint and Survivor Annuity or 100% Joint and Survivor Annuity form of payment.

**Section 4.02E Benefit Formulas (other than Cash Balance)****(a) Basic Formula**

- (i) **Service Benefit.** The annual Service Benefit under the Basic Formula shall be determined by adding (A) the product of one and five-tenths percent (1.5%) of the average annual Short Term Incentive Awards for the 1989 Base Period and the Officer's Term of Employment as of December 31, 1989, and (B) the sum of one and six-tenths percent (1.6%) of the Short Term Incentive Award for each successive full or partial calendar year of employment following 1989, through the earlier of the date of termination of active participation in the Plan or July 31, 1997.

## AT&amp;T Non-Qualified Pension Plan

- (ii) **Service Benefit - Early Commencement.** If a Participant commences distribution of the annual Service Benefit prior to attainment of age fifty-five, the Service Benefit determined in accordance with the Basic Formula of this Section 4.02(a) shall be reduced by one-half percent for each calendar month or part thereof by which his or her age at commencement is less than fifty-five years, except that the Service Benefit for an Officer who terminates employment with a Term of Employment of thirty or more years shall be reduced by one-quarter percent for each calendar month or part thereof by which such Officer's age at commencement is less than fifty-five years.
- (iii) **Deferred Vested Benefit.**
- The annual benefit determined under the Basic Formula for an Officer eligible for a Deferred Vested Benefit under the provisions of Section 3.02(a)(iii) shall be payable commencing at the Officer's Normal Retirement Date in an amount equal to the benefit determined pursuant to Section 4.02(a)(i). An Officer who has elected to have his deferred vested pension under the Pension Plan payable early in reduced amounts pursuant to the terms and conditions of the Pension Plan shall be deemed to have elected to have his or her Deferred Vested Benefit under this Plan payable early in reduced amounts. In the event of such an election, the amount of Deferred Vested Benefit shall be determined as follows:
- (A) with respect to payments for the months occurring on or after January, 1997 and prior to August, 1997, the amount determined pursuant to Section 4.02(a)(i) shall be multiplied by a factor determined in accordance with Appendix D, based on the Participant's age on his or her Pension Commencement Date, or
- (B) with respect to payments for months commencing on or after August 1, 1997, the amount determined pursuant to Section 4.02(a)(i) shall be multiplied by a factor of one-half percent for each calendar month or part thereof by which the Participant's age at commencement is less than fifty-five years, except that the reduction with respect to an Officer with a Term of Employment of thirty or more years shall be one-quarter percent for each calendar month or part thereof by which such Officer's age at commencement is less than fifty-five years.
- (iv) **Disability Benefit.** The annual Disability Benefit payable to a Participant who becomes eligible for a disability pension from the Pension Plan because of total disability as a result of sickness or injury incurred while an Officer, shall be equal to the Service Benefit determined pursuant to this Section 4.02(a), unreduced for early commencement. Such Disability Benefit shall continue to be paid so long as the employee is prevented by such disability from resuming active service with a Participating Company. If the employee's disability continues to his or her Normal Retirement Date, the Disability Benefit shall be converted to a Service Benefit.

## AT&amp;T Non-Qualified Pension Plan

**(b) Alternate Formula**

The annual Service Benefit under the Alternate Formula shall be the excess of B over A, where A equals the Participant's annual Pension Plan Benefit and B equals the product of (i) one and seven-tenths percent of the Participant's Adjusted Career Average Pay, less eight-tenths of one percent of the Participant's Covered Compensation Base, and (ii) the Participant's Term of Employment. The Service Benefit under this Alternate Formula will be reduced in case of commencement before age sixty by multiplying such benefit by the appropriate reduction factor from Appendix B. For purposes of the Alternate Formula, the Participant's Term of Employment is determined as of the earliest to occur of (i) July 31, 1997, (ii) the date specified in the applicable provision of Section 3.02(c) for purposes of determining a benefit under the Alternate Formula, or (iii) the date of termination of employment from a Participating Company.

**(c) Alternate Minimum Formula**

The annual Service Benefit under the Alternate Minimum Formula in this Section 4.02(c) shall be an amount equal to (A) the product of the greater of the amount determined under the following Formula A or Formula B, multiplied by the applicable factor set forth in Appendix A, where such factor is based on the Participant's age and service as of December 31, 1996, less (B) the amount of the Officer's Pension Plan Benefit (as adjusted to reflect any reduction for early commencement). If the Pension Commencement Date under this Plan occurs prior to the date the Participant is eligible to commence receipt of his or her deferred vested pension from the AT&T Management Pension Plan, payments under this Plan shall be made without the reduction in (B) of the immediately preceding sentence until the earliest date on which the Participant is eligible to commence distribution of such deferred vested pension from the AT&T Management Pension Plan, at which time payments from the Plan shall be adjusted to reflect such reduction.

- (i) **Formula A.** For purposes of the Alternate Minimum Formula in this Section 4.02(c), Formula A means the sum of (a) the product of one and five tenths percent of average calendar year Total Compensation for the 1992 Base Period and the Term of Employment as of December 31, 1992 and (b) one and six tenths percent of Total Compensation for the calendar year 1993. Such sum shall be actuarially reduced in case of commencement before age fifty-five by applying the appropriate reduction factor set forth in Section 4.02(a)(ii).
- (ii) **Formula B.** For purposes of the Alternate Minimum Formula in this Section 4.02(c), Formula B means the product of (a) the excess of one and seven tenths percent of Adjusted Career Average Pay, over eight tenths of one percent of the Covered Compensation Base (determined as of December 31, 1993), and (b) the Officer's Term of Employment at December 31, 1993. Such product shall be actuarially reduced in case of commencement before age sixty by applying the appropriate reduction factor set forth in Appendix B. Solely for purposes of this Formula B, "Adjusted Career Average Pay" means the Participant's Total Compensation for his or her Term of Employment through December 31, 1993, divided by such Participant's Term of Employment as of December 31, 1993.

## AT&amp;T Non-Qualified Pension Plan

**(d) Special Update to the Basic Formula**

- (i) **Service Benefit.** The annual Service Benefit under the Special Update to the Basic Formula shall be equal to one and six-tenths percent of the sum of the Officer's average annual Short Term Incentive Awards and the average annual Deferred Salary for the 1996 Base Period, multiplied by the lesser of (1) one plus the Officer's Term of Employment as of December 31, 1996 and (2) one hundred and five percent of the Officer's Term of Employment as of December 31, 1996. The Special Update to the Basic Formula is equal to zero for any determination date prior to January 1, 1997.
- (ii) **Service Benefit - Early Commencement.** If a Participant commences distribution of the annual Service Benefit prior to attainment of age fifty-five, the Service Benefit determined in accordance with the Special Update to the Basic Formula of this Section 4.02(d), shall be reduced by one-half percent for each calendar month or part thereof by which his or her age at commencement is less than fifty-five years, except that the Service Benefit for an Officer who terminates employment with a Term of Employment of thirty or more years shall be reduced by one-quarter percent for each calendar month or part thereof by which such Officer's age at commencement is less than fifty-five years.
- (iii) **Deferred Vested Benefit.** The annual benefit determined under the Special Update to the Basic Formula for each Officer eligible for a Deferred Vested Benefit under the provisions of Section 3.02(a)(iii) shall be payable commencing at the Normal Retirement Date in an amount equal to the benefit determined pursuant to Section 4.02(d)(i). An Officer who has elected to have his deferred vested pension under the Pension Plan payable early in reduced amounts pursuant to the terms and conditions of the Pension Plan shall be deemed to have elected to have his or her Deferred Vested Benefit under this Plan payable early in reduced amounts. In the event of such an election, the amount determined pursuant to Section 4.02(d)(i) shall be reduced by one-half percent for each calendar month or part thereof by which the Participant's age at commencement is less than fifty-five years, except that the reduction with respect to an Officer with a Term of Employment of thirty or more years shall be one-quarter percent for each calendar month or part thereof by which such Officer's age at commencement is less than fifty-five years.

**(e) Special Update to the Alternate Formula**

The annual Service Benefit under the Special Update to the Alternate Formula shall be the excess of B over A, where A equals the Participant's Pension Plan Benefit and B equals the product of (i) and (ii), where (i) is one and seven-tenths percent of the Participant's Special Update Adjusted Career Average Pay, less eight-tenths of one percent of the Participant's Covered Compensation Base (determined as of December 31, 1996), and (ii) is the lesser of (1) one plus the Participant's Term of Employment as of December 31, 1996 and (2) one hundred and five percent of the Participant's Term of Employment as of December 31, 1996. The benefit under this Alternate Formula will be reduced in case the Pension Commencement Date is before age sixty by applying the appropriate reduction factor from the Table of such factors shown in Appendix B to such benefit. The Special Update to the Alternate Formula is equal to zero for any determination date prior to January 1, 1997.

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**Section 4.03E Cash Balance Accounts**

The provisions of this Section 4.03E describe the establishment and development of the Cash Balance Account with respect to a Participant who is an Officer on or after January 1, 1998 and before January 1, 2009 with respect to benefits that commence under the Cash Balance Formula prior to January 1, 2009. Except as modified by the provisions of Article 4 of the main text of the Plan, the methodology set forth in this Section 4.03E also applies for purposes of determining a Benefit Based on the Cash Balance Account with respect to benefits that commence after December 1, 2008 to or with respect to a Participant who was an Officer prior to January 1, 2009.

The Cash Balance Account with respect to a Participant who is not an Officer prior to January 1, 2009 shall be zero.

**(a) Establishment of Cash Balance Accounts**

A Cash Balance Participant's Cash Balance Account is a hypothetical bookkeeping account used solely in calculating the amount of the Cash Balance Participant's Benefit Based on the Cash Balance Account. The Cash Balance Account is calculated by accumulating the initial cash balance credit determined pursuant to Section 4.03(b), annual award credits determined pursuant to Section 4.03(c), and interest credits determined pursuant to Section 4.03(d).

A Participant's Cash Balance Account shall be established as of the later of January 1, 1998 or the date the Participant becomes a Cash Balance Participant in the Plan. Except as provided in Section 4.03(b), the initial Cash Balance Account shall be zero.

**(b) Initial Cash Balance Credit**

(i) Effective as of January 1, 1998, the Cash Balance Account of each Cash Balance Participant on the roll of a Participating Company on that date shall be credited with an initial cash balance credit determined by multiplying the Participant's conversion benefit (as defined below) by one hundred seven percent (107%) of the applicable conversion factor set forth in Appendix C, based on the Participant's attained age (in whole years) as of December 31, 1996. The Cash Balance Participant's conversion benefit under this Section 4.03(b) shall equal one-twelfth of his or her annual benefit determined in accordance with Section 4.02(d).

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## AT&amp;T Non-Qualified Pension Plan

- (ii) The initial cash balance credit shall be zero for any Participant who is not an Officer on January 1, 1998.

**(c) Annual Award Credit****(i) January 1, 1998**

Effective as of January 1, 1998, the Cash Balance Account of each Cash Balance Participant on the roll of a Participating Company on that date shall be credited with an annual award credit. This annual award credit shall equal the sum of (A) and (B) where (A) is the product of (I) and (II), where (I) is the Short Term Incentive Award, if any, for 1997 and (II) is two times the pay factor for the Participant as set forth in Section 4.04(c)(v) of the Pension Plan, based on the Participant's attained age as of December 31, 1997, and (B) is the credit based on the Participant's 1997 Deferred Salary, if any, determined pursuant to the following (x), (xi) or (xii), as applicable, where for purposes of (x), (xi) and (xii), "pay factor" means the pay factor as set forth in Section 4.04(c)(v) of the Pension Plan based on the Participant's attained age as of December 31, 1997, and:

- (x) if the sum of the pay taken into account for such Participant under the Pension Plan and the AT&T Excess Benefit and Compensation Plan (such sum constituting "1997 Considered Pay") is equal to or greater than the Social Security Wage Base for 1997, the credit described in Section 4.03(c)(i)(B) shall be equal to the Participant's 1997 Deferred Salary multiplied by two times the pay factor, and
- (xi) if the sum of the Participant's 1997 Deferred Salary and 1997 Considered Pay (as defined in (x) above) is less than or equal to the Social Security Wage Base for 1997, the credit described in Section 4.03(c)(i)(B) shall be equal to the Participant's 1997 Deferred Salary multiplied by one times the pay factor, and
- (xii) if the 1997 Considered Pay, (as defined in (x) above), is less than the Social Security Wage Base for 1997, but the sum of the Participant's 1997 Deferred Salary and 1997 Considered Pay is greater than such Social Security Wage Base, the credit described in Section 4.03(c)(i)(B) shall be equal to the sum of (I) and (II), where (I) is the 1997 Deferred Salary multiplied by one times the pay factor, and (II) is one times the pay factor multiplied by the excess over the 1997 Social Security Wage Base of the sum of 1997 Deferred Salary and 1997 Considered Pay.

**(ii) Calendar Year 1998 and Thereafter**

Except as otherwise provided herein, effective as of December 31, 1998, and each December 31 thereafter, the Cash Balance Account of each individual who is a Cash Balance Participant during the respective calendar year shall be credited with an annual award credit. The Cash Balance Participant's annual award credit shall equal (A), plus, for Plan Years prior to 2005, (B), where (A) is the product of (I) and (II), where (I) is the Short Term Incentive Award for the respective calendar year (as determined pursuant to Section 2.40), and (II) is two times the supplemental pay factor for the Participant as set forth in Section 4.04(c)(v) of the Pension Plan, based on the Participant's attained age as of December 31 of such calendar year, and (B) is the credit based on the Participant's Deferred Salary, if any, for the calendar year determined pursuant to the following (xiii), (xiv) or (xv), as applicable, where for purposes of (x), (xi) and (xii), "pay factor" means the pay factor as set forth in Section 4.04(c)(v) of the Pension Plan based on the Cash Balance Participant's attained age as of December 31 of such calendar year, and

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- (xiii) if the sum of the pay taken into account for such Participant under the Pension Plan and the AT&T Excess Benefit and Compensation Plan (such sum constituting "Considered Pay") is equal to or greater than the Social Security Wage Base for the calendar year, the credit described in Section 4.03(c)(ii)(B) shall be equal to the Participant's Deferred Salary multiplied by two times the pay factor, and
- (xiv) if the sum of the Participant's Deferred Salary and Considered Pay (as defined in (xiii) above) is less than or equal to the Social Security Wage Base for the calendar year, the credit described in Section 4.03(c)(ii)(B) shall be equal to the Participant's Deferred Salary multiplied by one times the pay factor, and
- (xv) if the Considered Pay, (as defined in (xiii) above), is less than the Social Security Wage Base for the calendar year, but the sum of the Participant's Deferred Salary and Considered Pay is greater than such Social Security Wage Base, the credit described in Section 4.03(c)(ii)(B) shall be equal to the sum of (I) and (II), where (I) is the Deferred Salary multiplied by one times the pay factor, and (II) is one times the pay factor multiplied by the excess over such Social Security Wage Base of the sum of the Participant's Deferred Salary and Considered Pay.

Notwithstanding the foregoing, in any calendar year in which a Cash Balance Participant terminates employment, any such annual award credit shall be based on his or her attained age as of the end of the month in which the Participant terminates employment and shall be credited to the Participant's Cash Balance Account as of that date.

**(d) Interest Credits**

Beginning in 1998, a Cash Balance Participant's Cash Balance Account shall be credited with an interest credit based on the balance of his or her Cash Balance Account as of the first day of the Plan Year. Notwithstanding the provisions of the immediately preceding sentence, no Interest Credits shall be made with respect to the period after the last day of the month immediately preceding the Participant's Pension Commencement Date.

For the Plan Year in which a Cash Balance Participant terminates employment, his or her Cash Balance Account shall also be credited with an interest credit based on any annual award credit for that Plan Year.

Unless the Participant commences his or her pension during the Plan Year, the interest credit shall be made as of the last day of that Plan Year. For the Plan Year in which the Participant commences his or her pension, the interest credit shall be made as of the last day of the month immediately preceding the Participant's Pension Commencement Date.

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The interest crediting rate shall be the same interest crediting rate in effect for such period under the Pension Plan, and shall be credited at the same time and in the same manner as interest credits are applied under the Pension Plan.

**(e) Cash Balance Account Attributable to the Mid-Career Pension Benefit**

(i) With respect to an employee who is an Officer on or after January 1, 1998, effective as of the later of January 1, 1998 or the first day of the month following the transfer to this Plan of the liability for a Participant's annual benefit from the AT&T Mid-Career Pension Plan, if any, as described in Section 4.07, a Mid-Career Cash Balance Subaccount shall be established for such Participant. The initial credit to such Mid-Career Cash Balance Subaccount shall be determined by multiplying the Cash Balance Participant's Mid-Career Conversion Benefit (as defined below) by one hundred seven percent (107%) of the applicable conversion factor set forth in Appendix C, based on the Cash Balance Participant's attained age (in whole years) as of December 31, 1996. The Cash Balance Participant's Mid-Career Conversion Benefit under this Section 4.03(b) shall equal the monthly benefit (commencing at Normal Retirement Age) transferred from the AT&T Mid-Career Pension Plan. Such initial Mid-Career Cash Balance Subaccount shall be credited with interest credits as follows:

- (A) with respect to the Mid-Career Cash Balance Subaccount for a Participant who is Officer on January 1, 1998, interest credits, beginning in 1998, determined in the manner described in Section 4.03(d);
- (B) with respect to the Mid-Career Cash Balance Subaccount for a Participant who is not an Officer on January 1, 1998, interest credits determined as follows:
  - (I) an initial interest credit effective as of the date the Mid-Career Cash Balance Subaccount is established, equal to the interest that would have been credited in accordance with the provisions of Section 4.03(d) for the period beginning January 1, 1998 to the date such Subaccount is established; and
  - (II) interest credits determined in the manner described in Section 4.03(d), effective for periods following the establishment of such Subaccount.

(ii) A benefit attributable to the Mid-Career Cash Balance Subaccount, if any, shall be payable only if the Participant has completed a Term of Employment of at least five years classified by the Company as full-time, for one or more Participating Companies, at E-band or above, prior to the Normal Retirement Date. For purposes of determining whether the Participant has completed a Term of Employment of at least five years, the provisions of the Pension Plan providing exceptions to what is considered a break in the continuity of service shall not apply. Except as otherwise provided under the terms of the Plan, if the Participant becomes eligible to receive a benefit based on the Mid-Career Cash Balance Subaccount, the Mid-Career Cash Balance Subaccount shall be added to the Participant's Cash Balance Account determined pursuant to Section 4.03(b) through (d).

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**(f) Benefit Based on the Cash Balance Account**

A Cash Balance Participant's Benefit Based on the Cash Balance Account shall be a monthly benefit determined in the manner described in the Pension Plan, taking into account the Participant's Cash Balance Account as of the date such benefit is being determined.

**Section 4.04E Automatic Survivor Annuities**

The Automatic Survivor Annuity described in this Section 4.04 does not apply to a benefit determined under the cash balance formula of Section 4.03 or 4.11, or to a benefit based on the Mid-Career Pension Benefit of Section 4.07. For purposes of this Section 4.04, an Officer who is not Service Pension Eligible at the time of his or her termination of service with a Participating Company shall not be considered a retired Officer, unless such Officer was eligible for a Disability Benefit at the time of his or her termination of service.

**(a) Before-Retirement**

The surviving Spouse shall be entitled to a pre-retirement Automatic Survivor Annuity determined pursuant to this Section 4.04(a) effective commencing as of the first day of the month following the death of a Participant who dies while an employee if such Participant has a Term of Employment of at least fifteen years at the time of death, or, if such Participant meets the age and Term of Employment requirements for a Service Benefit (or is Service Pension Eligible) at the time of his or her death. The pre-retirement Automatic Survivor Annuity shall be payable monthly in an amount equal to forty five percent (forty six percent effective for benefits commencing on or after July 1, 1998) of the monthly benefit that would have been payable to the Participant pursuant to Section 4.02 had such Participant terminated employment with a Service Benefit, regardless of his or her actual eligibility therefore, on the date of his or her death. For purposes of determining the Automatic Survivor Annuity provided in this Section 4.04(a), the early retirement discounts in Sections 4.02(a), 4.02(b), 4.02(d) or 4.02(e) shall not apply. With respect to a Participant whose benefit is determined pursuant to Section 4.01(d)(ii)(B), the Automatic Survivor Annuity shall not include the portion, if any, of the Participant's benefit attributable to the Participant's transferred Mid-Career Pension Benefit described in Section 4.07.

**(b) Post-Retirement**

(i) Subject to the provisions of Section 4.04(b)(ii), upon the death of an Officer receiving (or eligible to receive) a Service or Disability Benefit under this Plan who retired on or after December 31, 1986 (or retired prior to that date but had not reached age fifty-five on or before December 31, 1983), a survivor annuity in the amount of forty five percent (forty six percent effective for benefits commencing on or after July 1, 1998) of such retired Officer's monthly benefit amount will be payable beginning on the first day of the month following the date of his or her death to the surviving Spouse to whom such retired Officer is married at the time of death. If the Officer had not yet commenced distribution of his or her benefit, the benefit will be reduced for early commencement, as if the Officer's Pension Commencement Date were the date payments to the surviving Spouse commence. For purposes of determining the monthly benefit payable to the surviving Spouse pursuant to this Section 4.04(b), the Officer's Service or Disability Benefit determined pursuant to Section 4.02 is based on the amount that would be paid in the form of a single life annuity, and is not reduced to reflect any optional form of payment. With respect to a Participant whose benefit is determined pursuant to Section 4.01(d)(ii)(B), the Automatic Survivor Annuity shall not include the portion, if any, of the Service or Disability Benefit attributable to the Participant's transferred Mid-Career Pension Benefit described in Section 4.07.

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(ii) In the case of an Officer who terminates employment on or after August 1, 1997, no benefit shall be payable pursuant to Section 4.04(b)(i) unless (A) the Officer's benefit under the Pension Plan is larger under a "pay base" formula of the Pension Plan than under the cash balance formula of such plan, (B) the benefit determined under Section 4.02(a), 4.02(b), 4.02(d) or 4.02(e), as applicable, is greater than the benefit determined under Section 4.03 of this Plan, and (C) the Officer elected to receive his or her Pension Plan benefit in the form of a single life annuity or a 50% joint and survivor annuity. For purposes of making the determination under (A) and (B) of this Section 4.04(b)(ii), any applicable reduction for commencement prior to age 65 is taken into account, and any amounts attributable to the Mid-Career Pension Benefit, whether pursuant to Section 4.03(e) or Section 4.07, shall be disregarded. If pursuant to the immediately preceding provisions of this Section 4.04(b)(ii) the provisions of Section 4.04(b)(i) do not apply with respect to such Participant, the benefits, if any, payable following the death of a Participant after his or her Pension Commencement Date shall be determined solely in accordance with the provisions of Section 4.09(a)(iv).

**Section 4.05E Special Increases**

Monthly pension payments being made under the Plan to a terminated Participant or the surviving Spouse of a terminated Participant shall be increased by the same percentage and pursuant to the same terms and conditions, as are set forth for comparable payments to similarly situated individuals, from time to time, under the Pension Plan.

**Section 4.06E Monthly Payments**

The annual benefit determined under Section 4.02 shall be divided by twelve to determine a monthly benefit amount. All annuity benefits under the Plan shall be payable monthly or at such other periods as the Committee or the Administrator, as applicable, may determine in each case; a benefit payable other than monthly shall be adjusted to reflect the period covered by such payment.

**Section 4.07E Mid-Career Pension Benefit****(a) Transfer of Mid-Career Pension Benefit**

Effective January 1, 1998, for an Officer who is a Participant as of January 1, 1998, the liability for the monthly benefit from the AT&T Mid-Career Pension Plan, if any, shall be transferred to this Plan, and the AT&T Mid-Career Pension Plan shall retain no further obligation with respect to such benefit. With respect to an employee who becomes an Officer after January 1, 1998, the liability for the annual benefit from the AT&T Mid-Career Pension Plan, if any, shall be transferred to this Plan effective upon his or her designation as an Officer, and the AT&T Mid-Career Pension Plan shall retain no further obligation with respect to such benefit. Solely for purposes of determining the benefit transferred to this Plan, it shall be assumed that the Participant had completed a Term of Employment of at least five years classified by the Company as full-time, for one or more Participating Companies, at E-band or above prior to December 31, 1997, and had terminated employment as of December 31, 1997.

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**(b) Eligibility for Payment of Mid-Career Pension Benefit**

Following the transfer of the AT&T Mid-Career Pension Plan benefit to this Plan, such transferred benefit shall be paid from this Plan, in the manner described in Section 4.07(c), provided that such Participant has completed a Term of Employment of at least five years classified by the Company as full-time, for one or more Participating Companies, at E-band or above, prior to the last day of the month in which he or she reaches Normal Retirement Age. For purposes of determining whether the Participant has completed a Term of Employment of at least five years, the provisions of the Pension Plan providing exceptions to what is considered a break in the continuity of service shall not apply. Notwithstanding the preceding provisions of this Section 4.07, if a benefit paid under this Plan is paid pursuant to the Cash Balance Formula of Section 4.03, no additional benefit shall be paid pursuant to this Section 4.07, because such transferred benefit is already included in the determination of benefit amounts under Section 4.03.

**(c) Manner of Payment of Mid-Career Pension Benefit**

The transferred Mid-Career Pension Benefit is included in the benefit determined pursuant to Section 4.01(d)(ii)(A) or Section 4.01(d)(ii)(B), as applicable. A Mid-Career Pension Benefit payable pursuant to Section 4.01(d)(ii)(A) is included in the "Benefit Based on the Cash Balance Account" described in Section 4.03(f), through the operation of Section 4.03(e)(ii). If a Participant's benefit is payable pursuant to Section 4.01(d)(ii)(B) and commences prior to January 1, 2009, the portion of such benefit attributable to the Mid-Career Pension Benefit shall be paid only in the form of a single life annuity, and if such benefit commences prior to Normal Retirement Date shall be reduced in accordance with the terms of the AT&T Mid-Career Pension Plan as in effect on December 31, 1997, and shall not be included in determining the Automatic Survivor Annuity of Section 4.04 (a) or Section 4.04(b). In addition to the provisions of this Section 4.07(c), distribution of the Mid-Career Pension Benefit shall be subject to the provisions of Section 4.09.

**Section 4.08E Treatment During Subsequent Employment**

When a Participant's Term of Employment includes service with more than one Participating Company, the last Participating Company to employ him or her immediately prior to his or her termination of employment, with entitlement to a benefit hereunder, shall be responsible for the full benefit under this Plan. If a Participant's benefit payments under the Pension Plan are suspended under the terms of the Pension Plan, because of his or her employment or reemployment subsequent to termination of employment, any benefit payment he or she is entitled to under this Plan shall be permanently suspended for the period of such employment or reemployment to the same extent and in the same manner, consistent with the terms and conditions applicable to the suspension of benefit payments under the Pension Plan, provided, however, that payments to which an Officer is entitled under an annuity contract purchased on his or her behalf shall not be suspended for the period of such employment or reemployment. Payment of a Participant's benefit under this Plan shall resume simultaneously with the recommencement of his or her benefits under the Pension Plan. Following recommencement of benefit payments under this Plan, the Participant (or surviving Spouse) shall not be eligible to receive any payments under this Plan that would otherwise have been payable but for the suspension.

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Notwithstanding the preceding, effective beginning January 1, 2005, benefits shall not be suspended during a period of employment or reemployment. Benefits paid upon a subsequent termination of employment shall be reduced by the actuarial equivalent of the benefit payments that were continued during reemployment.

**Section 4.09E Payment of Pensions****(a) Commencement Prior to 2005**

(i) Subject to the exception set forth in paragraph (ii) of this Section 4.09(a), (regarding the Alternate Minimum Formula), benefits payable to the Participant under this Plan shall commence on the date the benefits under the Pension Plan are first paid to the Participant, and shall, except for the reasons specified in Section 3.02(a)(iv), Section 4.08 or Section 9.12, continue to the death of the recipient. Benefits payable to the surviving Spouse or the estate of the Participant shall commence and be paid as indicated in the applicable provision of this Plan.

(ii) Any benefit payable to an Officer pursuant to Section 4.02(c) shall not commence before age sixty-five, except that an Officer who has been employed for at least five years as an Officer as of December 31, 1993, and as to whom the sum of his or her attained age and Term of Employment equaled or exceeded seventy as of that date, shall be eligible to commence his or her benefit as of the first day of the month following his or her termination of employment and shall, except for the reasons specified in Section 4.09(a)(i), continue to his or her death.

(iii) For a Participant who terminated employment prior to August 1, 1997, the benefit under this Plan shall be payable in the form of a single life annuity. Any post-retirement survivor benefits, with respect to such a Participant, shall be determined solely in accordance with the provisions of Section 4.04(b).

(iv) This Section 4.09(a)(iv) applies only to a Participant who terminates employment on or after August 1, 1997, and who is not described in Section 4.09(a)(v).

(A) If the Participant elects the cash payment option under the Pension Plan, with no remaining annuity payable from the Pension Plan, or a lump sum, if applicable, the benefit under this Plan shall be paid in the form of a single life annuity. For purposes of this subparagraph (A), an annuity payable under the AT&T Excess Benefit and Compensation Plan is not considered to be an annuity payable from the Pension Plan.

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(B) If the Participant elected the cash payment option under the Pension Plan, with an annuity remaining under the Pension Plan, the benefit under this Plan shall be paid in the same form as the remaining annuity under the Pension Plan is paid.

(C) The form of payment under this Plan shall be the same form of payment, as elected by the Participant under the Pension Plan, unless the benefit under the Pension Plan is the cash payment option or a lump sum, if applicable, (in which case the form of payment under this Plan shall be determined pursuant to the immediately preceding subparagraphs (A) or (B)). If the form of payment under the Pension Plan includes a joint and survivor form of payment with the survivor benefit payable to an alternate payee, the benefit to the Participant under this Plan shall be (i) paid as a single life annuity, if the Participant is not married on the Pension Commencement Date, or (ii) paid in the joint and survivor form of payment elected by the Participant under the Pension Plan, with the survivor benefit under this Plan payable to the Spouse to whom the Participant is married at the Pension Commencement Date, if the Participant is married on the Pension Commencement Date.

(D) The single life annuity benefit otherwise payable under this Plan to a Participant will be reduced as follows to reflect the form of payment: (1) the benefit under this Plan based on the Cash Balance Account shall be reduced by 8% (10% for a Pension Commencement Date prior to July 1, 1999) if payment is made in the form of a 50% Joint and Survivor Annuity, and by 15% (18% for a Pension Commencement Date prior to July 1, 1999) if payment is made in the form of a 100% Joint and Survivor Annuity; (2) the benefit under this Plan which is not based on the Cash Balance Account, with respect to a Participant who is not Service Pension Eligible on termination of employment, shall be reduced by 12% if the benefit is to be paid under the 50% Joint and Survivor Annuity form of payment; and (3) in the case of a Participant whose benefit under the Plan is based on a formula other than the Cash Balance Account, a benefit payable in the form of a 100% Joint and Survivor Annuity shall be reduced for commencement prior to Normal Retirement Date by applying the early commencement factors applicable to the cash balance formula, as described in the Pension Plan, and shall be reduced for the 100% Joint and Survivor Annuity form of payment by 15% (18% for a Pension Commencement Date prior to July 1, 1999).

(E) Notwithstanding the preceding (A) through (D), the benefit payable under this Plan that is attributable to the Mid-Career Pension Benefit and paid pursuant to Section 4.01(d)(ii)(B) shall be paid only in the form of a single life only.

(v) The benefit under this Plan with respect to an Officer who is Service Pension Eligible at his or her termination of employment on or after August 1, 1997, and who meets the requirements set forth in Section 4.04(b)(ii), shall be paid in the form of a single life annuity, and any post-retirement survivor benefit will be determined pursuant to Section 4.04(b)(ii). In lieu of the benefit payable pursuant to the immediately preceding sentence, such Officer may instead elect distribution of his benefit in the form of a 100% Joint and Survivor Annuity, with reduction for commencement prior to Normal Retirement Date and for the 100% Joint and Survivor Annuity form of payment determined as described in the preceding subsection 4.09(a)(iv)(D)(3).

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**(b) Commencement After 2004 and Prior to 2009**

Except as provided in Section 6.01 regarding payments in the form of a commercial annuity contract, the provisions of Section 4.09(a) regarding the time and form of payment of benefits under the Plan shall apply with respect to benefits for which distribution to a Participant commenced, or with respect to benefits payable on behalf of a Participant whose death occurred, after 2004 and prior to 2009. The provisions of Section 4.09(a) relating to commencement of the benefit under the Pension Plan shall refer to commencement of the Participant's regular pension under the Pension Plan (and not to commencement of any benefit under the Pension Plan based on the Special CIC Credit or the Force Management Pension Credit).

**(c) Commencement After 2008**

Provisions related to payment of benefits to the Participant that commence after December 31, 2008 or with respect to a Participant who is an employee on December 31, 2008 and whose death occurs after December 31, 2008 are not included in Appendix E. Such payments shall be made in the time and form as described in Section 4.09(c) of Article 4 as in effect after December 31, 2008 as set forth in the main text of the Plan.

**(d) Payments to Specified Employees**

Notwithstanding the provisions of the preceding sections 4.09(a) through 4.09(c), effective on and after January 1, 2005 with respect to payments in the form of a commercial annuity pursuant to Section 6.01 and effective on and after January 1, 2009 with respect to all other payments under the Plan, payment under the Plan to or with respect to a Participant who is determined to meet the definition of Specified Employee shall be payable as otherwise provided in this Plan, except that the initial payment shall be made no earlier than six (6) months following his or her Termination of Employment. If, absent this Section 4.09(d), payment to a Specified Employee would have commenced before the expiration of such six-month period, the first payment with respect to such Specified Employee will include the sum of the annuity payments withheld, together with interest thereon. For purposes of the immediately preceding sentence, interest shall be credited using the GAAP Rate in effect as of the end of the calendar year immediately preceding the Participant's Termination of Employment, for distributions made after December 31, 2007. "GAAP Rate" means such rate as defined under the SERP for the referenced period. Notwithstanding the preceding, for distributions made prior to January 1, 2008, interest credited for purposes of this Section 4.4(d) shall be at an effective annual rate equal to 120 percent of the Federal Mid-term rate in effect as of the date such annuity payments otherwise would have commenced.

**Section 4.10E Preretirement Survivor Benefits for Cash Balance Participants****(a) Preretirement Death Benefit**

(i) If a Cash Balance Participant who is vested under the Pension Plan dies before the date as of which his or her benefit commences under this Plan, and he or she has a surviving Spouse at the time of death, a single life annuity determined pursuant to Section 4.10(b), shall be payable to the surviving Spouse commencing on the first day of any month following the death of the Participant, (A) with respect to a Participant who terminated employment prior to January 1, 2005, or (B) with respect to a Participant who terminated employment after December 31, 2004 and dies before December 1, 2008, but only to the extent that such surviving Spouse otherwise satisfies the requirements of the Plan with respect to receipt of such a benefit. Payment shall commence at the same time as payment to a surviving Spouse commences under the Pension Plan. For purposes of this Section 4.10(a), the surviving Spouse shall be the Spouse to whom the Participant is married on the date of the Participant's death and who has survived the Cash Balance Participant to at least the next calendar day after the Cash Balance Participant's death. If the Cash Balance Participant is unmarried at the date of his or her death, or if the surviving Spouse does not survive the Participant to at least the next calendar day after the Participant's death, the Participant's Cash Balance Account shall be payable to the estate of the Participant. No death benefit is payable with respect to a Participant who terminated employment after December 31, 2004 who dies after December 1, 2008, except as described in Section 4.09(c)(ii) of Article 4 of the main text of the Plan effective after December 31, 2008 (such provisions which are not included in this Appendix E).

## AT&amp;T Non-Qualified Pension Plan

(ii) If a Participant dies before the date as of which his or her benefit commences under this Plan, and he or she does not have a surviving Spouse at the time of his or her death, or if such surviving Spouse is not eligible for a benefit pursuant to the provisions of Section 4.10(a)(i), a lump sum benefit shall be payable to the surviving Spouse of the Participant, or, if there is no surviving Spouse, to the Participant's estate, within a reasonable period of time following the death of the Participant. The amount of such single cash payment shall be equal to the Participant's Cash Balance Account.

(iii) If a Participant dies before the date as of which his or her benefit commences under this Plan and he or she is survived by a surviving Spouse who is entitled to a benefit pursuant to the preceding Section 4.10(a)(i) or Section 4.10(a)(ii), and such surviving Spouse dies prior to the date payment of benefits under this Plan commence, a lump sum benefit shall be payable to the estate of the surviving Spouse upon the death of the surviving Spouse. The amount of such single cash payment shall be equal to the Participant's Cash Balance Account.

**(b) Single Life Annuity**

A surviving Spouse's single life annuity shall equal the Cash Balance Participant's Benefit Based on the Cash Balance Account under Section 4.03(f), but substituting the surviving Spouse's attained age, for the age of the Participant when applying the procedures of the Pension Plan for purposes of such determination.

If the Cash Balance Participant would have been eligible for a benefit determined pursuant to Section 4.02 had he or she terminated employment on the day preceding the date of death, the surviving Spouse's single life annuity will be determined in accordance with the provisions of Section 4.04(a), if that provision produces a higher benefit (determined as of the Spouse's Pension Commencement Date) for the surviving Spouse than the benefit determined under this Section 4.10(b).

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## AT&amp;T Non-Qualified Pension Plan

**Section 4.11E Qualified Deferrals Cash Balance Account**

The provisions of this Section 4.03E describe the establishment and development of the Qualified Deferrals Cash Balance Account with respect to benefits that commence under the Qualified Deferrals Cash Balance Account Formula prior to January 1, 2009. Except as modified by the provisions of Article 4 of the main text of the Plan, the methodology set forth in this Section 4.11E also applies for purposes of determining a Benefit Based on the Qualified Deferrals Cash Balance Account with respect to benefits that commence after December 1, 2008.

**(a) Establishment of Qualified Deferrals Cash Balance Accounts**

A Deferral Participant's Qualified Deferrals Cash Balance Account is a hypothetical bookkeeping account used solely in calculating the amount of the Deferral Participant's Benefit Based on the Qualified Deferrals Cash Balance Account. The Qualified Deferrals Cash Balance Account is calculated by accumulating the annual qualified deferral credits determined pursuant to Section 4.11(b), and deferral interest credits determined pursuant to Section 4.11(c).

A Participant's Qualified Deferrals Cash Balance Account shall be established as of the date the Deferral Participant begins to make Qualified Deferrals under the AT&T Executive Deferred Compensation Plan or the AT&T Inc. Cash Deferral Plan.

**(b) Annual Qualified Deferral Credits**

Effective as of each December 31 following the date an individual becomes a Deferral Participant, the Qualified Deferrals Cash Balance Account of such individual shall be credited with an annual qualified deferral credit. The Deferral Participant's annual qualified deferral credit shall equal the credit based on the participant's Qualified Deferral, if any, for the calendar year determined pursuant to the following (xvi), (xvii) or (xviii), as applicable, where for purposes of (xvi), (xvii) and (xviii), "pay factor" means the pay factor as set forth in Section 4.04(c)(v) of the Pension Plan based on the Participant's attained age as of December 31 of such calendar year, and

- (xvi) if the sum of the pay taken into account for such Participant under the Pension Plan and the AT&T Excess Benefit and Compensation Plan (such sum constituting "Considered Pay") is equal to or greater than the Social Security Wage Base for the calendar year, the annual qualified deferral credit shall be equal to the Qualified Deferral multiplied by two times the pay factor, and
- (xvii) if the sum of the participant's Qualified Deferral and Considered Pay (as defined in (xvi) above) is less than or equal to the Social Security Wage Base for the calendar year, the annual qualified deferral credit shall be equal to the participant's Qualified Deferrals multiplied by one times the pay factor, and
- (xviii) if the Considered Pay, (as defined in (xvi) above), is less than the Social Security Wage Base for the calendar year, but the sum of the participant's Qualified Deferrals and Considered Pay is greater than such Social Security Wage Base, the annual qualified deferral credit shall be equal to the sum of (I) and (II), where (I) is the Qualified Deferrals multiplied by one times the pay factor, and (II) is one times the pay factor multiplied by the excess over such Social Security Wage Base of the sum of the participant's Qualified Deferrals and Considered Pay.

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## AT&amp;T Non-Qualified Pension Plan

Notwithstanding the foregoing, in any calendar year in which a Deferral Participant terminates employment, any such annual qualified deferral credit shall be based on his or her attained age as of the end of the month in which the participant terminates employment and shall be credited to the Qualified Deferrals Cash Balance Account as of that date.

Annual Qualified Deferral Credits were discontinued under the Plan effective with respect to amounts deferred from any paycheck dated after December 31, 2007.

**(c) CIC Subaccount**

A Deferral Participant who is a CIC Eligible Employee shall have a "CIC credit" credited to his or her CIC Subaccount as of the date of such termination of employment that allows the Deferral Participant to be considered a CIC Eligible Employee. The CIC credit shall be an amount equal to the sum of (i) and (ii) as follows:

- (i) The CIC Eligible Employee's Qualified Deferral for the calendar year immediately preceding the calendar year in which the "change in control" (as such term is defined in the Pension Plan) occurs, multiplied by the lesser of (A) five percent for each whole year of the CIC Eligible Employee's Term of Employment as of the last day of the month in which the change in control occurs, or (B) one hundred percent;
- (ii) An interest credit on the amount determined in (i) above from the first of the month following the month in which the change in control occurs through the last day of the month in which such termination of employment occurs, based on the effective annual rates set forth in Section 4.10(d), as in effect for the period beginning on the first of the month following the month in which the change in control occurs through the month in which such termination of employment described in this Section 4.10(c) occurs.

The CIC Subaccount shall be credited with interest credits in the manner described in the following Section 4.11(d). The benefit amount, method of payment, and pre-retirement survivor benefit, if any, attributable to the CIC Subaccount shall be determined in the manner described with respect to the "CIC Credit" under the Pension Plan. The benefit provisions of this Section 4.11(c) shall be subject to the provisions of Section 9.18. For purposes of any joint and survivor annuity benefit, the surviving Spouse is the Spouse to whom the Participant was married on his or her Pension Commencement Date.

In order to fulfill the intent of the CIC resolutions as adopted by the Board of Directors of the Company in October, 2000, prior to the adoption of the AT&T Executive Deferred Compensation Plan, solely for the purpose of determining severance payments with respect to a CIC Eligible Employee under an "applicable severance plan" as that term is defined in Section G.07(j) of the Pension Plan, the benefit attributable to the CIC Subaccount with respect to a Deferral Participant shall be treated as paid from the Pension Plan.

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## AT&amp;T Non-Qualified Pension Plan

**(d) Deferral Interest Credits**

Effective as of each December 31 following the date an individual becomes a Deferral Participant, the Qualified Deferrals Cash Balance Account of such individual shall be credited with an interest credit based on the balance of his or her Qualified Deferrals Cash Balance Account as of the first day of the Plan Year. Notwithstanding the provisions of the immediately preceding sentence, no Interest Credits shall be made with respect to the period after the last day of the month immediately preceding the participant's Pension Commencement Date.

For the Plan Year in which a Deferral Participant terminates employment, his or her Qualified Deferrals Cash Balance Account shall also be credited with an interest credit based on any annual qualified deferral credit for that Plan Year.

Unless the Participant commences his or her pension during the Plan Year, the interest credit shall be made as of the last day of that Plan Year. For the Plan Year in which the Deferral Participant commences his or her pension, the interest credit shall be made as of the last day of the month immediately preceding the participant's Pension Commencement Date.

The interest crediting rate shall be the same interest crediting rate in effect for such period under the Pension Plan, and shall be credited at the same time and in the same manner as interest credits are applied under the Pension Plan.

**(e) Benefit Based on the Qualified Deferrals Cash Balance Account**

A Deferral Participant's Benefit Based on the Qualified Deferrals Cash Balance Account shall be a monthly benefit determined in the manner described in the Pension Plan, taking into account the participant's Qualified Deferrals Cash Balance Account as of the date such benefit is being determined, and multiplied by twelve to produce an annual benefit. Notwithstanding the preceding, the Benefit Based on the Qualified Deferrals Cash Balance Account shall not exceed (I) the benefit that would have been payable under the Pension Plan, determined before application of the limitations of Code Section 401(a)(17) and Code Section 4-15, if eligible pay under the Pension Plan for a Plan Year included the Qualified Deferrals for such Plan Year, minus (II) the benefit actually payable under the Pension Plan plus the benefit actually payable under the AT&T Excess Benefit and Compensation Plan, where (I) and (II) are determined as of the Participant's Pension Commencement Date, and the form of payment elected by the participant. The Benefit Based on the Qualified Deferrals Cash Balance Account shall be paid in the same form of payment elected by the Participant under the Pension Plan. Notwithstanding the preceding, if the Participant elected the cash payment option under the Pension Plan, the benefit under this Plan shall be paid in the same form as the remaining annuity elected by the Participant under the Pension Plan. For purposes of any joint and survivor annuity benefit, the surviving Spouse is the Spouse to whom the Participant was married on his or her Pension Commencement Date.

**(f) Preretirement Death Benefit**

(i) If a Deferral Participant dies prior to his or her Pension Commencement Date and he or she has a surviving Spouse at the time of death, a single life annuity determined pursuant to the following Section 4.11(f)(iv), commencing on the first day of any month following the death of the Participant, shall be payable to the surviving Spouse if such Participant terminates employment after December 31, 2004 and dies before January 1, 2009, but only to the extent that such surviving Spouse otherwise satisfies the requirements of the Plan with respect to receipt of such a benefit. For purposes of this Section 4.11(f), a surviving Spouse shall be the individual to whom the Participant is legally married on the date of the Participant's death and who has survived the Participant to at least the next calendar day after the Participant's death. If the Deferral Participant is unmarried at the date of his or her death, or if the surviving Spouse does not survive the Participant to at least the next calendar day after the Participant's death, the Participant's Qualified Deferrals Cash Balance Account shall be payable to the estate of the Participant.

(ii) If a Deferral Participant dies before the date as of which his or her benefit commences under this Plan, and he or she does not have a surviving Spouse at the time of his or her death, or if such surviving Spouse is not eligible for a benefit pursuant to the provisions of Section 4.11(f)(i), a lump sum benefit shall be payable to the surviving Spouse of the Participant, or, if there is no surviving Spouse, to the Participant's estate, within a reasonable period of time following the death of the Participant. The amount of such single cash payment shall be equal to the Participant's Qualified Deferrals Cash Balance Account.

(iii) If a Deferral Participant dies before the date as of which his or her benefit commences under this Plan and he or she is survived by a surviving Spouse who is entitled to a benefit pursuant to the preceding Section 4.11(f)(i) or Section 4.11(f)(ii), and such surviving Spouse dies prior to the date payment of benefits under this Plan commence, a lump sum benefit shall be payable to the estate of the surviving Spouse within a reasonable period of time following the death of the surviving Spouse. The amount of such single cash payment shall be equal to the Participant's Qualified Deferrals Cash Balance Account.

(iv) A surviving Spouse's single life annuity payable pursuant to Section 4.11(f)(i) shall equal the Participant's Benefit Based on the Qualified Deferrals Cash Balance Account under Section 4.03(d), but substituting the surviving Spouse's attained age, for the age of the Participant when applying the procedures of the Pension Plan for purposes of such determination.



Exhibit 10-dd

**AT&T CORP.  
EXCESS BENEFIT AND COMPENSATION PLAN**

AT&T Corp.  
and  
Such of its Subsidiary Companies which are  
Participating Companies

Effective January 1, 1997, Including Amendments Adopted Through December 31, 2008

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**AT&T EXCESS BENEFIT AND COMPENSATION PLAN****Article****1.****Background and Purpose**

The AT&T Excess Benefit Plan was established to provide eligible management and occupational employees of AT&T Corp. (formerly American Telephone and Telegraph Company) and Participating Companies with certain benefits that would have been payable under the AT&T Management Pension Plan or the AT&T Pension Plan, respectively, but for the limitations placed on benefits payable under the AT&T Management Pension Plan or the AT&T Pension Plan by Section 415 of the Code. Effective January 1, 1989, AT&T established an additional plan to provide eligible management employees with certain benefits that would have been payable under the AT&T Management Pension Plan but for the limitations placed on eligible compensation by Code Section 401(a)(17). These plans were amended, the two separate plans combined into a single plan document, and restated, effective January 1, 1994, and are referred to collectively as the "AT&T Excess Benefit and Compensation Plan" or "Plan."

The Plan is intended to constitute an unfunded "excess benefit plan" as defined in Section 3(36) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), to the extent it provides benefits that would be paid under the AT&T Management Pension Plan or the AT&T Pension Plan but for the limitations imposed by Code Section 415, and an "unfunded plan primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees" for purposes of Title I of ERISA, to the extent it provides other benefits.

Except as expressly provided below, this amended and restated plan document applies only to employees who terminate employment on or after January 1, 1997. For former employees who terminated employment before January 1, 1997, the provisions of the AT&T Excess Benefit and Compensation Plan in effect on the date of the former employee's termination of employment shall govern.

During the period from January 1, 2005 to December 31, 2008, the Plan has been operated in good faith compliance with the provisions of Code Section 409A, Internal Revenue Notice 2005-1, and the final Treasury Regulations for Code Section 409A, and any other generally applicable guidance published in the Internal Revenue Service Bulletin with an effective date prior to January 1, 2009. On or after January 1, 2009, this Plan shall be interpreted and construed consistent with the requirements of Code Section 409A and all applicable guidance issued thereunder with respect to all accrued benefits under this Plan, including, except as indicated below, those benefits that may be otherwise treated as existing prior to the statutory effective date of Code Section 409A ("grandfathered benefits") within the meaning of Treasury Regulation Section 1.409A-6(a)(3). The preceding sentence notwithstanding, it is the intention of the Company that the grandfathering provisions of Code Section 409A be applied under this Plan with respect to any Participant (and any Surviving Spouse, Beneficiary or Estate of such Participant) who terminated employment prior to January 1, 2005, with respect to all benefits earned under the Plan with respect to such Participant prior to termination of employment. If an individual who terminated employment prior to January 1, 2005 is rehired after December 31, 2004 and earns additional benefits under the Plan following his or her rehire, the terms of the Plan shall be applied separately with respect to benefits earned prior to January 1, 2005 and with respect to benefits earned following rehire. The Company reserves the right to amend any provision of the Plan or any election submitted by a Participant, or take any other action that the Company deems appropriate to ensure compliance with Code Section 409A, including altering the time and form of any distribution so as to accomplish the intended purpose of this Plan.

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**Article**  
**2.**  
**Definitions**

Unless the context clearly indicates otherwise, the following terms have the meanings described below when used in this Plan and references to a particular Article or Section shall mean the Article or Section so delineated in this Plan.

**2.1. Administrator**

AT&T Corp. shall be the "administrator" of the Plan as that term is defined in ERISA. Effective August 22, 2006, and until such time as the Board determines and advises otherwise, the Senior Executive Vice President – Human Resources of AT&T Inc. (or the individual directly reporting to the Chief Executive Officer of AT&T Inc. who has responsibility for human resource matters, regardless of such individual's title) is authorized to administer, amend, merge and/or terminate the Plan, to appoint and remove members of the administrative committees and claims administrators for the Plan, and to allocate Plan administrative responsibilities to such committees or administrators.

**2.2. AT&T Corp.**

AT&T Corp. (formerly the American Telephone and Telegraph Company), a New York corporation, or its successor.

**2.3. AT&T Inc. or AT&T**

AT&T Inc. (formerly SBC Communications Inc.), a Delaware Corporation, which acquired AT&T Corp. effective November 18, 2005 pursuant to that certain merger agreement dated January 30, 2005.

**2.4. AT&T Company**

AT&T and each other entity required to be aggregated with AT&T under Code §§ 414(b), (c), (m), or (o). With respect to periods prior to November 18, 2005, the controlled group shall be determined only with respect to entities required to be aggregated with AT&T Corp. With respect to periods on or after November 18, 2005, the controlled group shall be determined with respect to entities required to be aggregated recognizing the acquisition of AT&T Corp. by SBC Communications Inc. (now known as AT&T Inc.).

**2.5. AT&T Corp. Subsidiary**

Any corporation of which more than 50 percent of the voting stock is owned directly or indirectly by AT&T Corp.

**2.6. AT&T Management Pension Plan**

The AT&T Management Pension Plan, as amended and restated from time to time, and effective January 1, 2007, the AT&T Pension Benefit Plan – AT&T Legacy Management Program.

**2.7. AT&T Pension Plan**

The AT&T Pension Plan, as amended and restated from time to time.

**2.8. Beneficiary**

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Any person entitled to an Excess Death Benefit, if any, pursuant to Section 4.10.

#### **2.9. Benefit Limitation**

The maximum benefit payable to a Participant under the Qualified Plan in accordance with Code Section 415, but after application of the Compensation Limitation, if any, under the AT&T Management Pension Plan or the AT&T Pension Plan.

#### **2.10. Board**

The Board of Directors of AT&T Corp.

#### **2.11. Change in Control**

A change in control, as that term is defined in the AT&T Management Pension Plan.

#### **2.12. CIC Eligible Employee**

A CIC eligible employee, as that term is defined in the AT&T Management Pension Plan.

#### **2.13. Code**

The Internal Revenue Code of 1986, as amended from time to time (and its predecessor, the Internal Revenue Code of 1954, as amended). Any reference to a particular section of the Code includes any applicable regulations promulgated under that section.

#### **2.14. Code Section 401(a)(17) Excess Retirement Benefit**

The benefit, if any, described in Section 4.3 that is payable to an Executive or a Surviving Spouse of an Executive under the terms of the Plan.

#### **2.15. Code Section 415 Excess Retirement Benefit**

The benefit, if any, described in Section 4.2 that is payable to a Participant or a Surviving Spouse of a Participant under the terms of the Plan.

#### **2.16. Committee**

The Employees' Benefit Committee appointed by AT&T Corp. to administer the Plan, or any successor to such Employees' Benefit Committee.

#### **2.17. Company**

AT&T Corp.

#### **2.18. Compensation Limitation**

The maximum amount of annual compensation under Code Section 401(a)(17) that may be taken into account in any Plan Year for benefit accrual purposes under the AT&T Management Pension Plan, or that is taken into account in any Plan Year under the AT&T Management Pension Plan for purposes of calculating an Accident Death Benefit (for periods prior to January 1, 1999), Sickness Death Benefit or Pensioner Death Benefit under the AT&T Management Pension Plan.

#### **2.19. Eligible Employee**

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An individual who is employed in a position eligible to participate in the AT&T Management Pension Plan or the AT&T Pension Plan. An individual who is a participant in the 2005 Supplemental Employee Retirement Plan of AT&T Inc. ("SERP") on December 31, 2008 shall not be eligible to continue to accrue a benefit under this Plan on or after such individual's SERP Vesting Date. An individual who becomes a participant in the SERP after December 31, 2008 shall not be eligible to continue to accrue a benefit under this Plan on or after such individual's SERP Effective Date (as defined in the SERP).

## **2.20. ERISA**

The Employee Retirement Income Security Act of 1974, as amended from time to time. Any reference to a particular section of ERISA includes any applicable regulations promulgated under that section.

### **2.21.Excess Death Benefit**

The benefit, if any, described in Section 4.10 of the Plan.

### **2.22.Excess Retirement Benefit**

The sum of the Code Section 415 Excess Retirement Benefit, if any, and the Code Section 401(a)(17) Excess Retirement Benefit, if any, payable to a Participant or a Surviving Spouse (or to the estate of the Participant or Surviving Spouse) under the terms of the Plan.

### **2.23.Executive**

A participant in the AT&T Management Pension Plan who is considered to be within "a select group of management or highly compensated employees" for purposes of Title I of ERISA and whose "eligible pay," as that term is defined in the AT&T Management Pension Plan (other than the AT&T Management Pension Plan provision limiting eligible pay to an amount under \$150,000, as adjusted), in any Plan Year exceeds the Compensation Limitation for that Plan Year. Notwithstanding the preceding, for periods of participation in the AT&T Management Pension Plan prior to January 1, 1998, the term "compensation," as that term is defined in the AT&T Management Pension Plan, shall be substituted in the preceding sentence for the term "eligible pay."

### **2.24.Leave of Absence**

Where a person is absent from employment with AT&T on a leave of absence, military leave, or sick leave, where the leave is given in order to prevent a break in the continuity of term of employment, and permission for such leave is granted (and not revoked) in conformity with the rules of the employer that employs the individual, as adopted from time to time, and the employee is reasonably expected to return to service. Except as set forth below, the leave shall not exceed six (6) months for purposes of this Plan, and the employee shall Terminate Employment upon termination of such leave if the employee does not return to work prior to or upon expiration of such six (6) month period, unless the individual retains a right to reemployment under law or by contract. A twenty-nine (29) month limitation shall apply in lieu of such six (6) month limitation if the leave is due to the employee being "disabled" (within the meaning of Treasury Regulation Section 1.409A-3(i)(4)). A Leave of Absence shall not commence or shall be deemed to cease under the Plan where the employee has incurred a Termination of Employment.

### **2.25.Normal Retirement Date**

The Normal Retirement Date as determined under the AT&T Management Pension Plan or the AT&T Pension Plan, as applicable.

### **2.26.Officer**

An individual who is designated as an officer level employee for compensation purposes on the records of AT&T Inc. Notwithstanding the preceding, for purposes of Section 7.1(b), relating to the purchase of a commercial annuity contract, the term "Officer" shall mean an officer of AT&T Corp., as defined in the AT&T Non-Qualified Pension Plan.

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**2.27.Participant**

An individual and/or an Executive who has satisfied the eligibility requirements in Section 3.1.

**2.28.Participating Company**

AT&T Corp. and any AT&T Corp. Subsidiary that is a participating company under the AT&T Management Pension Plan or the AT&T Pension Plan. Effective January 1, 2007, the term Participating Company shall also include an AT&T Company to the extent that an employee of such AT&T Company is eligible to participate in the AT&T Management Pension Plan pursuant to the provisions of Section 2.15(c) of that plan.

**2.29.Plan**

This AT&T Excess Benefit and Compensation Plan.

**2.30.Plan Administrator**

With respect to individuals covered by the AT&T Management Pension Plan, the Pension Plan Administrator under the AT&T Management Pension Plan and, with respect to individuals covered by the AT&T Pension Plan, the Pension Plan Administrator under the AT&T Pension Plan. The Plan Administrator has the authority to administer and adjudicate claims under the Plan.

**2.31.Qualified Plan**

The AT&T Management Pension Plan or the AT&T Pension Plan, whichever such Plan holds the liability for the Participant's qualified accrued pension benefit as of the date payment(s) under this Plan commence(s) or recommence(s).

**2.32.Specified Employees**

Any Participant who is a Key Employee (as defined in Code Section 416(i) without regard to paragraph (5) thereof), as determined by AT&T in accordance with its uniform policy with respect to all arrangements subject to Code Section 409A, based upon the 12-month period ending on each December 31st (such 12-month period is referred to below as the identification period). All Participants who are determined to be Key Employees under Code Section 416(i) (without regard to paragraph (5) thereof) during the identification period shall be treated as Key Employees for purposes of the Plan during the 12-month period that begins on the first day of the 4th month following the close of such identification period.

**2.33.SERP**

The 2005 Supplemental Employee Retirement Plan of AT&T Inc., as amended from time to time.

**2.34.SERP Participant**

An individual who has been designated as eligible to participate in the SERP. For purposes of this Plan, such individual is considered a SERP Participant whether or not he or she has satisfied the vesting requirements of the SERP.

**2.35.SERP Vesting Date**

The later of January 1, 2011 or the date an individual vests under the SERP.

**2.36.Surviving Spouse**

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A deceased Participant's surviving spouse of the opposite sex who is such Participant's "spouse" within the meaning of the Qualified Plan, as defined in the respective provisions of the Qualified Plan. Notwithstanding the preceding, if an alternate payee (as that term is defined in Section 414(p) of the Code) is deemed the surviving spouse for purposes of all or a portion of the Participant's benefit under the Qualified Plan, such alternate payee shall not be deemed to be the "spouse" for any purpose under this Plan.

### **2.37. Termination of Employment**

The ceasing of the Participant's employment from the AT&T controlled group of companies for any reason whatsoever, whether voluntarily or involuntarily. References herein to Termination of Employment, Terminate Employment, or a similar reference, shall mean the event where the employee has a separation from service, as defined under Code Section 409A, with all members of the AT&T controlled group. Notwithstanding the foregoing, the employment relationship of a Participant with the AT&T controlled group is considered to remain intact while the individual is on a Leave of Absence.

### **2.38. VRIP**

The Voluntary Retirement Incentive Program for Management Employees within the meaning of the AT&T Management Pension Plan.

## **Article 3. Eligibility**

### **3.1. Participation**

(a) Date of Participation. If the benefit payable under the Qualified Plan to an Eligible Employee or a Surviving Spouse or Beneficiary of an Eligible Employee is limited by reason of the application of the Benefit Limitation or the Compensation Limitation, he or she shall be eligible to be a Participant or receive benefits as a Surviving Spouse, as applicable, under this Plan. An Eligible Employee shall not become a Participant in this Plan if he or she is subject to the Compensation Limitation, but not the Benefit Limitation, under the AT&T Pension Plan.

(b) Loss of Eligibility. In the event any Participant ceases to be an Eligible Employee by reason of a change to an employment status which is not eligible to participate in the Plan, such Participant shall nevertheless continue to be eligible to receive benefits under this Plan, however, no additional benefits shall accrue under the Plan unless and until he or she shall re-attain eligibility hereunder.

### **3.2. Surviving Spouse Benefit**

The Surviving Spouse of a Participant shall be eligible to receive an Excess Retirement Benefit under the Plan to the extent provided in Section 4.1 or Section 4.5 of the Plan.

### **3.3. Relationship To Other Plans**

The Excess Retirement Benefit and Excess Death Benefit (as defined in Section 4.10) payable under the Plan shall be in addition to any other benefits provided, directly or indirectly, to a Participant, Surviving Spouse, Beneficiary, or the estate of such Participant or Surviving Spouse, by any AT&T Company. Participation in the Plan shall not preclude or limit the participation of the Participant in any other benefit plan sponsored by an AT&T Company for which such Participant would otherwise be eligible. Notwithstanding the preceding, the Excess Retirement Benefit and Excess Death Benefit payable to a Participant, Surviving Spouse, Beneficiary, or estate of a Participant or Surviving Spouse under this Plan shall not duplicate benefits payable to such Participant, Surviving Spouse, Beneficiary, or estate of such Participant or Surviving Spouse, under any other plan or arrangement of an AT&T Company.

### 3.4. Forfeiture of Benefits

If any Participant who otherwise would be entitled to an Excess Retirement Benefit under this Plan is discharged for cause due to conviction of a felony related to his or her employment, the rights of such Participant to an Excess Retirement Benefit under this Plan, including the rights of the Participant's Surviving Spouse, Beneficiary and/or estate to any benefits related to such Participant under the Plan, shall be forfeited. To the extent a benefit under any other nonqualified plan of AT&T is offset by benefits payable under this Plan, such offset shall be determined as if a forfeiture had not occurred.

## Article

### 4.

## Retirement and Death Benefits

### 4.1 Excess Retirement Benefits

If the retirement benefit payable to a Participant or a Surviving Spouse under the AT&T Management Pension Plan or the AT&T Pension Plan is limited by reason of the application of the Benefit Limitation and/or, for an Executive or Surviving Spouse of an Executive under the AT&T Management Pension Plan is limited in any year by reason of the application of the Compensation Limitation, an Excess Retirement Benefit shall be paid as provided in this Article 4 to the Participant or the Surviving Spouse, as applicable. Notwithstanding the immediately preceding sentence, effective for distributions commencing on or after January 1, 2009, the provisions of Section 4.2 and Section 4.3 shall not apply for purposes of determining the benefit payable following the death of a Participant except with respect to a Participant who terminated employment prior to January 1, 2005. In all other cases, the benefit payable following the death of a Participant shall be determined pursuant to Section 4.5, or Section 4.4(c)(ii)(B).

### 4.2 Amount of Code Section 415 Excess Retirement Benefit

(a) Subject to the provisions of Section 4.2(c), Section 4.7 and Section 4.8, the amount, if any, of the Code Section 415 Excess Retirement Benefit payable monthly to a Participant or a Surviving Spouse pursuant to this Section 4.2 shall be equal to the excess, if any, of (i) over (ii) at the date of benefit commencement or recommencement, as applicable, where:

"(i)" is the amount of the monthly benefit which would be provided to the Participant or the Surviving Spouse under the Qualified Plan as of such date, without regard to the Benefit Limitation but taking into account the Compensation Limitation, based on the age of the Participant (or Surviving Spouse, if applicable) as of such date and the form of payment elected by the Participant or Surviving Spouse, as applicable, under the Qualified Plan; and

"(ii)" is the amount of the monthly benefit actually payable to such Participant or Surviving Spouse under the Qualified Plan as of such date, based on the age of the Participant (or Surviving Spouse, if applicable) and the form of payment elected by the Participant or Surviving Spouse, as applicable, under the Qualified Plan.

For purposes of subparagraphs (i) and (ii), the Qualified Plan shall be the Qualified Plan as in effect at the date of termination of employment, or death, if earlier, provided, however, that if the Qualified Plan is subsequently amended in a manner that affects the amount of benefit payable with respect to such Participant or Surviving Spouse, the terms of the Qualified Plan, as amended, shall, to the extent applicable, apply to such Participant or Surviving Spouse.

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(b) Except as described in Section 4.2(c), the amount of the Code Section 415 Excess Retirement Benefit payable as a result of the application of the Benefit Limitation under the Qualified Plan pursuant to Section 4.2(a) shall be determined or redetermined, including a decrease, (i) as of the date when benefits are to commence pursuant to Section 4.4 or recommence pursuant to Section 4.7 (including the date survivor annuitant benefits payable to a Surviving Spouse commence following the death of a Participant who was receiving a monthly benefit from the Qualified Plan at the time of his or her death); (ii) as of the effective date of any subsequent increases and/or decreases in the Benefit Limitation, to the extent such increase and/or decrease affects the benefit payable to the Participant or Surviving Spouse under the Qualified Plan, and/or (iii) as of the effective date of any special increases in the benefit payable with respect to the Participant or Surviving Spouse, prior to application of the Benefit Limitation, as a result of amendments to the AT&T Management Pension Plan and/or the AT&T Pension Plan, whichever is applicable. Benefits under this Section 4.2 Plan shall also be redetermined upon the occurrence of an event described in Section 4.6.

(c) The provisions of Section 4.2(a) and Section 4.2(b) shall apply only (i) to benefits payable with respect to a Participant who terminated employment prior to January 1, 2005, and (ii) to benefits payable with respect to a Participant who terminated employment after December 31, 2004 if distribution commenced to either the Participant or the Surviving Spouse on or before December 1, 2008. Effective for distributions commencing after December 1, 2008, except with respect to a Participant who terminated employment prior to January 1, 2005, the Code Section 415 Excess Retirement Benefit shall be determined as of the later of (i) November 30, 2008 or (ii) the date of the Participant's termination of employment, determined as if benefits under the Qualified Plan commenced in the form of a single life annuity as of such date, and shall not be subject to redetermination pursuant to Section 4.2(b). Notwithstanding the preceding, (i) with respect to a SERP Participant who is eligible to participate in the SERP on December 31, 2008, the Code Section 415 Excess Retirement Benefit shall be determined as of the earlier of termination of employment or the SERP Vesting Date, and (ii) with respect to a SERP Participant who first becomes eligible to participate in the SERP on or after January 1, 2009, the Code Section 415 Excess Retirement Benefit shall be determined as of the earlier of termination of employment or the Participant's SERP Effective Date (as defined in the SERP), and with respect to any SERP Participant, shall not thereafter be subject to redetermination pursuant to Section 4.2(b).

#### **4.3 Amount of Code Section 401(a)(17) Excess Retirement Benefit**

(a) Subject to the provisions of Section 4.3(c), Section 4.7 and Section 4.8, the amount, if any, of the Code Section 401(a)(17) Excess Retirement Benefit payable monthly to a Participant or a Surviving Spouse pursuant to this Section 4.3 shall be equal to the excess, if any, of (i) over (ii) at the date of benefit commencement or recommencement, as applicable, where:

"(i)" is the amount of the monthly benefit which would be provided to the Participant or the Surviving Spouse under the AT&T Management Pension Plan as of such date, without regard to the Compensation Limitation and Benefit Limitation, based on the age of the Participant (or Surviving Spouse, if applicable) as of such date and the form of payment elected by the Participant or Surviving Spouse, as applicable, under the AT&T Management Pension Plan; and

"(ii)" is the amount of the monthly benefit actually payable to such Participant or Surviving Spouse under the AT&T Management Pension Plan as of such date, based on the age of the Participant (or Surviving Spouse, if applicable) and the form of payment elected by the Participant or Surviving Spouse, as applicable, under the AT&T Management Pension Plan, taking into account the Compensation Limitation, but prior to application of the Benefit Limitation.

For purposes of subparagraphs (i) and (ii), the determination of the benefits payable under this Plan shall be made pursuant to the terms of the AT&T Management Pension Plan as in effect at the date of termination of employment, or death, if earlier, provided, however, that if the AT&T Management Pension Plan is subsequently amended in a manner that affects the amount of benefit payable with respect to such Participant or Surviving Spouse, the terms of the AT&T Management Pension Plan, as amended, shall, to the extent applicable, apply to such Participant or Surviving Spouse.

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(b) Except as described in Section 4.3(c), the amount of the Code Section 401(a)(17) Excess Retirement Benefit payable as a result of the application of the Compensation Limitation under the AT&T Management Pension Plan pursuant to Sections 4.3(a) shall be determined or redetermined, including a decrease, (a) as of the date when benefits are to commence pursuant to Section 4.4 or recommence pursuant to Section 4.7; (b) as of the effective date of any subsequent increases and/or decreases in the Compensation Limitation, to the extent such increase and/or decrease affects the benefit payable to the Participant or Surviving Spouse under the AT&T Management Pension Plan, and/or (c) as of the effective date of any special increases in the benefit payable with respect to the Participant or Surviving Spouse, prior to application of the Compensation Limitation, as a result of amendments to the AT&T Management Pension Plan. Benefits under this Section 4.3 Plan shall also be redetermined upon the occurrence of an event described in Section 4.6.

(c) The provisions of Section 4.3(a) and Section 4.3(b) shall apply only (i) to benefits payable with respect to a Participant who terminated employment prior to January 1, 2005, and (ii) to benefits payable with respect to a Participant who terminated employment after December 31, 2004 if distribution commenced to either the Participant or the Surviving Spouse on or before December 1, 2008. Effective for distributions commencing after December 1, 2008, except with respect to a Participant who terminated employment prior to January 1, 2005, the Code Section 401(a)(17) Excess Retirement Benefit shall be determined as of the later of (i) November 30, 2008 or (ii) the date of the Participant's termination of employment, determined as if benefits under the AT&T Management Pension Plan commenced in the form of a single life annuity as of such date, and shall not be subject to redetermination pursuant to Section 4.3(b). Notwithstanding the preceding, (i) with respect to a SERP Participant who is eligible to participate in the SERP on December 31, 2008, the Code Section 401(a)(17) Excess Retirement Benefit shall be determined as of the earlier of termination of employment or the SERP Vesting Date, and (ii) with respect to a SERP Participant who first becomes eligible to participate in the SERP on or after January 1, 2009, the Code Section 401(a)(17) Excess Retirement Benefit shall be determined as of the earlier of termination of employment or the Participant's SERP Effective Date (as defined in the SERP), and with respect to any SERP Participant, shall not thereafter be subject to redetermination pursuant to Section 4.3(b).

#### 4.4. Time and Form of Benefits Payable to a Participant or Surviving Spouse

(a) For Benefits Commencing Prior to 2005. The Excess Retirement Benefit provided under the Plan payable to either the Participant or the Surviving Spouse, as applicable, with respect to benefits commencing prior to the 2005 calendar year shall be payable as follows:

- (1) With respect to a Participant whose Qualified Plan benefit is payable under the AT&T Management Pension Plan and who terminates employment prior to January 1, 1998, and with respect to a Participant whose Qualified Plan benefit is payable under the AT&T Pension Plan and who terminates employment prior to July 1, 1999, the Excess Retirement Benefit shall commence at the same time and shall be paid in the same benefit form as the Participant's or Surviving Spouse's benefits are paid under the AT&T Management Pension Plan or the AT&T Pension Plan, whichever is applicable, provided, however, that the Committee shall have the right to approve the election of the form of the Excess Retirement Benefit payable to the Participant under this Plan; and
  - (2) With respect to a Participant whose Qualified Plan benefit is payable under the AT&T Management Pension Plan and who terminates employment after December 31, 1997, the Excess Retirement Benefit shall commence at the same time and shall be paid in the same form of annuity in which all or a portion of the Participant's or Surviving Spouse's benefits under the AT&T Management Pension Plan are paid, or if no annuity is payable from the AT&T Management Pension Plan under the form of payment elected, shall be paid in the form of a single life annuity, unless the Committee, in its sole discretion, elects to pay the Excess Retirement Benefit in the form of a single lump sum payment; and
  - (3) With respect to a Participant whose Qualified Plan benefit is payable under the AT&T Pension Plan and who terminates employment after June 30, 1999, the Excess Retirement Benefit shall commence at the same time and shall be paid in the same form of annuity in which all or a portion of the Participant's or Surviving Spouse's benefits under the AT&T Pension Plan benefits are paid, or if no annuity is elected under the AT&T Pension Plan, shall be paid in the form of a single life annuity, unless the Committee, in its sole discretion, elects to pay the Excess Retirement Benefit in the form of a single lump sum payment.
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(b) Benefits Commencing After 2004 and On or Before December 1, 2008. With respect to a Participant whose Qualified Plan benefit commences after 2004, except as provided in Section 7.1 regarding payments in the form of a commercial annuity contract, the Excess Retirement Benefit shall commence at the same time and shall be paid in the same form of annuity in which all or a portion of the Participant's or Surviving Spouse's benefits under the Qualified Plan are paid, or if no annuity is elected under the Qualified Plan, in the form of a single life annuity.

(c) Benefits Commencing After December 1, 2008. Payment of benefits with respect to a Participant whose Qualified Plan benefit has not commenced on or before December 1, 2008 shall be made in the time and form as described in the following subparagraphs (i) through (v), as applicable. For purposes of this subparagraph (c), if a Participant or Surviving Spouse is entitled to a benefit based on a Force Management Pension credit and/or a CIC Credit under the AT&T Management Pension Plan in addition to the regular pension benefit, and if such Participant or Surviving Spouse, as applicable, commenced distribution of only a portion of the Qualified Plan benefit (and associated benefit under this Plan) on or before December 1, 2008, then the provisions of subparagraphs (i) through (v) shall be applied separately to the portion of the benefit for which distribution has commenced, and that portion of the benefit for which distribution has not commenced by such date.

(i) Participants Terminating Prior to 2005: The provisions of Section 4.4(b) regarding the time and form of payment of benefits under the Plan shall apply with respect to benefits commencing after December 1, 2008 to or with respect to a Participant who terminated employment prior to 2005. If such an individual is rehired into a position covered by this Plan after 2004, the terms of the Plan shall apply separately to the benefit earned prior to 2005 and the benefit earned after 2004.

(ii) Participants Terminating Employment after 2004 and Prior to December 1, 2008: Subject to the provisions of Section 4.4(d) and Section 7.1(c), benefits payable to or with respect to a Participant who terminates employment after December 31, 2004 and before December 1, 2008 shall be paid as follows:

(A) if distribution of benefits with respect to the Participant commences on or before December 1, 2008, the time and form of payment of benefits under the Plan shall be determined in the manner described in Section 4.4(b), or

(B) if distribution of benefits does not commence on or before December 1, 2008, distribution shall be made to the Participant commencing on July 1, 2009 in the form of a lump sum equal to the present value determined pursuant to Section 4.4(c)(vi); provided, however, if the amount so determined exceeds \$50,000, distribution shall be paid in monthly installments over a period of 120 months. If the Participant dies prior to the commencement of such payment, distribution equal to the present value of the amount that otherwise would have been payable to the Participant shall be made on July 1, 2009 to the Surviving Spouse, or if there is no Surviving Spouse, to the estate of the Participant. If the Surviving Spouse entitled to receive the benefit described in the preceding sentence dies after the Participant but before distribution of such benefit, the benefit shall be paid to the estate of the Surviving Spouse. Survivor benefits, if any, upon death following commencement of distribution to the Participant shall be determined pursuant to the provisions of Section 4.5(d).

(iii) Participants Terminating Employment On or After December 1, 2008 Who Are Not SERP Participants: Subject to the provisions of Section 4.4(c)(iv), Section 4.4(c)(v), and Section 4.4(d), benefits payable to a Participant who terminates employment on or after December 1, 2008 shall be paid in the form of a lump sum equal to the present value determined pursuant to Section 4.4(c)(vi), upon the Participant's Termination of Employment; provided, however, if the amount so determined exceeds \$50,000, distribution shall be paid in monthly installments over a period of 120 months. If the Participant dies before receiving a complete distribution of the benefits so determined, survivor benefits, if any, shall be paid in accordance with the provisions of Section 4.5.

(iv) SERP Participants on December 31, 2008: Subject to the provisions of Section 4.4(d), with respect to a Participant who becomes eligible to participate in the SERP prior to January 1, 2009, Excess Retirement Benefits shall be paid to such Participant in accordance with the terms of an election made on or before December 31, 2008 with respect to benefits that may become payable to the Participant under the SERP, and shall be effective for purposes of this Plan without regard to whether such Participant becomes vested under the SERP. The amount payable from the Plan shall be the actuarial equivalent of the single life annuity benefit determined pursuant to the provisions of Section 4.2(c) and Section 4.3(c), based on the actuarial assumptions in effect under the SERP as of the date payments commence. Survivor benefits, if any, following the death of the Participant shall be determined in accordance with the provisions of Section 4.5.

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(v) Participants Terminating Employment On or After December 1, 2008 Who Become SERP Participants After December 31, 2008: Subject to the provisions of Section 4.4(d), with respect to a Participant who becomes eligible to participate in the SERP after December 31, 2008, Excess Retirement Benefits shall be paid in the form of a lump sum or in 120 monthly installments commencing upon Termination of Employment; the applicable form of payment shall be determined on the Participant's SERP Effective Date, based on the present value of the Excess Retirement Benefit determined as if distribution of such benefit commenced on the SERP Effective Date in the form of a single life annuity, and based on the actuarial assumptions in effect under the SERP as of such date. If the present value determined as of the SERP Effective Date is \$50,000 or less, the form of payment shall be a lump sum, and if present value exceeds \$50,000, the form of payment shall be 120 monthly installments. The amount of the benefit payable commencing at Termination of Employment shall be determined in accordance with the provisions of Section 4.4(c)(vi). If the Participant dies before receiving a complete distribution of the benefits so determined, survivor benefits, if any, shall be paid in accordance with the provisions of Section 4.5

(vi) Determination of Present Value: For purposes of Section 4.4(c)(ii)(B), Section 4.4(c)(iii) and Section 4.4(c)(v), the present value shall be determined as follows:

(A) Employee who is not a SERP Participant: with respect to a Participant who is not a SERP Participant, equal to the present value of the single life annuity that would be payable under the Plan commencing on the Participant's Normal Retirement Date. Such present value shall be determined on the basis of actuarial assumptions under the Qualified Plan as of such date, calculated as follows: the annual amount of the Excess Retirement Benefit shall be divided by the early commencement factor as set forth in Appendix B of the Qualified Plan for the Participant's age at Termination of Employment, and multiplied by the factor for determining the lump sum value as set forth in Appendix B of the Qualified Plan for the Participant's age at Termination of Employment. Notwithstanding the preceding, for a Participant described in Section 4.4(c)(ii)(B), the present value shall be based on the Participant's age as of December 1, 2008, and the amount so determined will be accumulated to July 1, 2009 at an effective annual interest rate of four percent.

(B) Employee who is a SERP Participant: with respect to a Participant who is a SERP Participant, other than a SERP Participant described in Section 4.4(c)(iv), the present value of the amount payable at Termination of Employment shall be determined by multiplying the Excess Retirement Benefit determined pursuant to Section 4.2(c) and Section 4.3(c) by an immediate annuity factor based on the age of the Participant at Termination of Employment. The immediate annuity factor shall be based on the Mortality Tables and the GAAP Rate, both as in effect for the calendar year immediately preceding the calendar year of the Participant's Termination of Employment and as defined in the SERP.

For purposes of Sections 4.4(c)(ii)(B), 4.4(c)(iii) and 4.4(c)(v) above, monthly installments shall be calculated in the same manner that a financial institution would calculate the monthly payments for a 10-year fixed interest loan. The interest rate used in the calculations shall be equal to the Code Section 417(e) interest rate in effect under the Qualified Plan on the date of the Participant's Termination of Employment (except, with respect to distributions made pursuant to Section 4.4(c)(ii)(B), such rate in effect for the 2008 calendar year).

(d) Payments to Specified Employees. Notwithstanding the provisions of the preceding sections 4.4(a) through 4.4(c), effective on and after January 1, 2005 with respect to payments in the form of a commercial annuity pursuant to Section 7.1 and effective on and after January 1, 2009 with respect to all other payments under the Plan, payment of the Excess Retirement Benefit under the Plan with respect to a Participant who is eligible to participate in the SERP or who is determined to meet the definition of Specified Employee shall be payable as otherwise provided in this Plan, except that the initial payment shall be made no earlier than the sixth month anniversary of his or her Termination of Employment. If, absent this Section 4.4(d), payment to a Specified Employee would have commenced before the expiration of such six-month period, the first payment with respect to such Specified Employee will include the sum of the payments withheld, together with interest thereon. For purposes of the immediately preceding sentence, interest shall be credited using the GAAP Rate in effect as of the end of the calendar year immediately preceding the Participant's Termination of Employment, for distributions made after December 31, 2007. "GAAP Rate" means such rate as defined under the SERP for the referenced period. Notwithstanding the preceding, for distributions made prior to January 1, 2008, interest credited for purposes of this Section 4.4(d) shall be at an effective annual rate equal to 120 percent of the Federal Mid-term rate in effect as of the date such annuity payments otherwise would have commenced.

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#### 4.5. Additional Provisions for Payment of Excess Retirement Benefit Following Death

The provisions of this Section 4.5 apply upon the death of a Participant if payment of the Excess Retirement Benefit is determined pursuant to the provisions of Section 4.4(c)(iii), Section 4.4(c)(iv) or Section 4.4(c)(v), and, for purposes of Section 4.5(d), also to a Participant described in Section 4.4(c)(ii)(B). In all other circumstances, benefits, if any, payable following the death of the Participant, shall be determined as described elsewhere in this Plan.

(a) Death prior to commencement: If a Participant described in Section 4.4(c)(iii), Section 4.4(c)(iv) or Section 4.4(c)(v) dies before Termination of Employment, or following Termination of Employment but before the date as of which his or her benefit commences under this Plan, the Excess Retirement Benefit shall be payable in a lump sum to the Surviving Spouse, or if there is no Surviving Spouse, to the Participant's estate, upon the death of the Participant. The amount of such lump sum payment shall be determined pursuant to the provisions of Section 4.5(c).

(b) Death of Spouse before payment of survivor benefit: If a Participant dies before the date as of which his or her benefit commences under this Plan, and he or she is survived by a Surviving Spouse entitled to payment of the Excess Retirement Benefit pursuant to Section 4.5(a), and such Surviving Spouse dies prior to the date payment of benefits under this Plan commence, a lump sum benefit shall be payable to the estate of the Surviving Spouse upon the death of the Surviving Spouse. The amount of such lump sum shall be determined pursuant to the provisions of Section 4.5(c).

(c) Determination of lump sum amount for death before commencement:

(i) Except with respect to a SERP Participant, the single cash payment payable pursuant to Section 4.5(a) or Section 4.5(b) shall be equal to the difference between (A) the Participant's "cash balance account" under the Qualified Plan as of the date of death of the Participant or the Surviving Spouse, as applicable, determined without regard to the Compensation Limitation or the Benefit Limitation, and (B) the corresponding payment that would be payable under the Qualified Plan as of the date of commencement of benefits under this Plan. No benefit is payable pursuant to Section 4.5(a) or Section 4.5(b) with respect to a Participant who does not have a cash balance account under the Qualified Plan at the time of his or her death.

(ii) The single cash payment payable pursuant to Section 4.5(a) or Section 4.5(b) upon the death of a Participant who is a SERP Participant, shall be determined by multiplying the Excess Retirement Benefit determined pursuant to Section 4.2(c) and Section 4.3(c) by an immediate annuity factor based on the age of the Participant on the date of death. The immediate annuity factor shall be based on the Mortality Tables and the GAAP Rate, both as in effect for the calendar year immediately preceding the calendar year of the Participant's Termination of Employment and as defined in the SERP.

(d) Death following commencement of distribution for a Participant who is not a SERP Participant on December 31, 2008: If the Participant dies following distribution of the lump sum pursuant to Section 4.4(c)(ii)(B), Section 4.4(c)(iii) or Section 4.4(c)(v), no benefit shall be payable with respect to such Participant's Excess Retirement Benefit following the death of the Participant. If the Participant is receiving payment of the Excess Retirement Benefit in the form of installments pursuant to Section 4.4(c)(ii)(B), Section 4.4(c)(iii) or Section 4.4(c)(v) and dies prior to receiving such installments for 120 months, the present value of the remaining payments shall be made to the Surviving Spouse of such Participant, or if there is no Surviving Spouse, to the estate of the Participant. Such present value shall be calculated using the interest rate that was used to determine the amount of the monthly installments at the time distribution of such payments commenced.

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(c) Death following commencement of distribution for a Participant who is a SERP Participant on December 31, 2008 : Upon the death following commencement of benefits under the Plan of a Participant described in Section 4.4(c)(iv), further payment of benefits related to the Excess Retirement Benefit shall be the survivor benefit, if any, payable under the terms of an election made on or before December 31, 2008 with respect to benefits that may become payable to the Participant under the SERP and under this Plan, determined under the actuarial assumptions and methodology set forth in the SERP. Any survivor benefit payable pursuant to this Section 4.5(c) shall be paid to the same beneficiary to whom survivor benefits are payable under the SERP.

#### 4.6. Future Benefit Adjustments

(a) Effective with respect to benefits that commenced on or before December 1, 2008, if a Participant has commenced receiving a pension under the Qualified Plan (other than a deferred vested pension under a formula other than cash balance) in the form of either a joint and 50 percent survivor annuity or a joint and 100 percent survivor annuity (including such a joint and survivor annuity pursuant to the cash payment option under the AT&T Management Pension Plan) and his or her designated annuitant subsequently predeceases him or her, the Participant's Excess Retirement Benefit under this Plan shall be adjusted prospectively, by increasing the monthly pension by the original cost of the survivor annuity form of benefit under the Qualified Plan. Such adjustment shall be effective as of the first day of the first month following the death of the Participant's designated annuitant. The amount, if any, which is to be paid from this Plan following the death of such designated annuitant shall be determined pursuant to the recalculation provisions of Section 4.2 and Section 4.3. The provisions of this Section 4.6(a) do not apply with respect to a distribution in the form of a commercial annuity pursuant to Section 7.1.

(b) In the event that, following commencement of benefits on or before December 1, 2008 to a Participant or Surviving Spouse under the Plan, the Qualified Plan benefit is subsequently increased as a result of a successful claim for benefits under the Qualified Plan, the Excess Retirement Benefit to the Participant or Surviving Spouse under this Article 4 shall be recalculated as soon as practicable after the Qualified Plan benefit is adjusted. The Company shall have the right to recover any benefits paid from this Plan to the extent that such payments are subsequently paid by the Qualified Plan as a result of such successful claim for benefits under those plans.

#### 4.7. Suspension and Resumption of Benefit Payments

Subject to Section 5.2, if a Participant's benefit payments under the Qualified Plan are suspended (or would have been suspended if the Participant had not received his or her total benefit under such plan as a lump sum) under the terms of that plan because of his or her employment or reemployment subsequent to termination of employment, any type of benefit payment he or she is entitled to under this Plan shall be permanently suspended for the period of such employment or reemployment to the extent and in a manner consistent with the terms and conditions applicable to the suspension of benefit payments under the Qualified Plan, provided, however, that payments for which an Executive is entitled pursuant to a commercial annuity contract purchased on his or her behalf pursuant to Section 7.1 of the Plan shall not be suspended for the period of such employment or reemployment. Payment of a Participant's suspended benefit under this Plan shall recommence simultaneously with the commencement of his or her benefits under the Qualified Plan. The amount of the Participant's Excess Retirement Benefit upon commencement shall be adjusted (including a decrease, if applicable) to reflect adjustments, if any, in the amount of the Participant's pension benefit under the Qualified Plan resulting from the period of reemployment, pursuant to Section 4.2 and/or Section 4.3, including any recalculations pursuant to Section 4.2(b) and Section 4.3(b). Following commencement of payment under this Plan, the Participant (or Surviving Spouse) shall not be eligible to receive any payments that would otherwise have been payable but for the suspension.

Notwithstanding the preceding, effective beginning January 1, 2005, benefits shall not be suspended during a period of employment or reemployment. Benefits paid upon a subsequent termination of employment shall be reduced by the actuarial equivalent of the benefit payments that were continued during reemployment.

#### 4.8. Application of Code Section 417(e)

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Notwithstanding the foregoing provisions of this Article 4, effective for distributions commencing on or before December 1, 2008, if the application of Code Section 417(e) has resulted in an increase in the Participant's or Surviving Spouse's otherwise payable benefit under the AT&T Management Pension Plan (including the VRIP provisions) or the AT&T Pension Plan, the benefit otherwise determinable under this Plan will be decreased by the amount of the increase attributable to the application of Code Section 417(e) under the AT&T Management Pension Plan or the AT&T Pension Plan, as applicable, even if this decrease results in eliminating the Excess Retirement Benefit from this Plan.

#### **4.9. Change in Control Provisions**

(a) In accordance with the preceding provisions of Article 3 and this Article 4, following the occurrence of a Change in Control, the benefit determined pursuant to Section 4.2 and/or Section 4.3 for a CIC Eligible Employee shall be determined taking into account the Change in Control provisions of the AT&T Management Pension Plan.

(b) Notwithstanding the provisions of Section 9.1, or any other provision of the Plan, unless required by applicable law, this Section 4.9 may not be amended in any manner adverse to the interests of Participants without their consent and, further, upon the occurrence of a Change in Control, no amendment may be made to this Section 4.9 by the Board, the Company, (including any successor to the Company), any committee, any officer, or any other party to suspend, modify, or eliminate any benefit provisions that are applicable upon occurrence of a Change in Control.

#### **4.10. Excess Death Benefit**

(a) If an Accident Death Benefit (for periods prior to January 1, 1999), Sickness Death Benefit or Pensioner Death Benefit (collectively, "Death Benefit") is payable under the terms of the AT&T Management Pension Plan but is limited by reason of the Compensation Limitation, an Excess Death Benefit shall be paid as provided in this Section 4.10 to the Beneficiary of an Executive otherwise entitled to receive the Death Benefit under the terms and conditions of the AT&T Management Pension Plan, including the condition that no Pensioner Death Benefit is payable with respect to a Participant who has commenced distribution of the pension benefit under the AT&T Management Pension Plan but who at the time of death is not receiving payment in the form of an annuity from that plan.

(b) The amount, if any, of the Excess Death Benefit payable shall be equal to the difference between (i) and (ii) where:

"(i)" is the amount of the Death Benefit which would be provided to the Beneficiary under the AT&T Management Pension Plan, if any, without regard to the Compensation Limitation under the AT&T Management Pension Plan; and

"(ii)" is the amount of the Death Benefit actually payable to such Beneficiary under the AT&T Management Pension Plan.

(c) The Excess Death Benefit provided under this Plan, if any, (i) shall commence at the same time, (ii) shall be paid for as long as, and (iii) shall be paid in the same benefit form as the Committee or its delegate has determined with respect to the Death Benefit payable under the AT&T Management Pension Plan. Notwithstanding the preceding, effective for deaths occurring on or after January 1, 2009, the Excess Death Benefit, if any, shall be paid in a lump sum within a reasonable period of time following the date the Beneficiary is identified by the Committee or its delegate.

### **Article**

#### **5.**

#### **Miscellaneous Provisions**

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### 5.1. Determination of Benefits

Except as otherwise indicated herein, Excess Retirement Benefit payments under Article 4 of this Plan shall be calculated in accordance with the rules, procedures, and assumptions utilized under the AT&T Management Pension Plan or the AT&T Pension Plan, whichever is applicable. Thus, whenever it is necessary to determine whether one benefit is less than, equal to, or larger than another, or to determine the equivalent actuarial value of any benefit, whether or not such form of benefit is provided under this Plan, such determination shall be made, at the Administrator's discretion, by AT&T Corp.'s enrolled actuary, using mortality, interest and other assumptions normally used at the time in determining actuarial equivalence under the AT&T Management Pension Plan or AT&T Pension Plan, whichever is applicable.

### 5.2. Mandatory Portability Agreement

A Participant (a) who is employed by an "Interchange Company," as that term is defined under the Mandatory Portability Agreement ("MPA"), subsequent to retirement or termination of employment from AT&T Corp., its subsidiaries or any affiliated company, (b) who is covered under the terms and conditions of the MPA, and (c) for whom assets and liabilities are transferred from the AT&T Management Pension Plan or the AT&T Pension Plan to a defined benefit pension plan of an Interchange Company, shall forfeit his rights to an Excess Retirement Benefit under this Plan, including the rights of the Participant's spouse to an Excess Retirement Benefit as a Surviving Spouse and the rights of a Beneficiary to an Excess Death Benefit.

## Article

### 6.

#### Disposition of Participating Company

##### 6.1. Sale, Spin-Off, or Other Disposition of Participating Company

(a) Subject to Sections 5.2 and 10.1, in the event AT&T Corp. sells, spins off, or otherwise disposes of a Subsidiary, or disposes of all or substantially all of the assets of a Subsidiary such that one or more Participants terminate employment for the purpose of accepting employment with the purchaser of such stock or assets, any person employed by such Subsidiary who ceases to be an employee as a result of the sale, spin-off, or disposition shall be deemed to have terminated his or her employment with a Participating Company and be eligible for an Excess Retirement Benefit commencing in accordance with the terms and conditions of this Plan that are applicable to a separation from service. Further, if the Participant dies after termination of employment as described in this Section 6.1, his or her Surviving Spouse may be entitled to an Excess Retirement Benefit, if eligible as provided in Sections 4.2 and 4.3, and/or his or her Beneficiary may be entitled to an Excess Death Benefit, if eligible as provided in Section 4.10. Notwithstanding the preceding, effective January 1, 2005, no distribution shall commence pursuant to this Section 6.1(a) unless the Participant has a separation from service, as defined under Code Section 409A, with all members of the AT&T controlled group.

(b) Notwithstanding the foregoing provisions of this Section 6.1, and subject to Section 10.1, if, as part of the sale, spin-off, or other disposition of the stock or assets of a Subsidiary, the Subsidiary, its successor owner, or any other party agrees in writing to assume the liability for the payment of the Excess Retirement Benefit and/or the Excess Death Benefit to which the Participant, Surviving Spouse and/or Beneficiary would have been entitled under the Plan but for such sale, spin-off, or other disposition, then the entitlement of the Participant or his or her Surviving Spouse to an Excess Retirement Benefit and/or any Beneficiary to an Excess Death Benefit under this Plan shall terminate. Any subsequent entitlement of the former Participant or his or her Surviving Spouse or Beneficiary to the Excess Retirement Benefit and/or the Excess Death Benefit shall be the sole responsibility of the assuming party.

## Article

### 7.

#### Source of Payment

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### 7.1. Source of Payments

(a) Benefits arising under this Plan and all costs, charges, and expenses relating thereto will be payable from the Company's general assets. The Company may, however, establish a trust to pay such benefits and related expenses, provided such trust does not cause the Plan to be "funded" within the meaning of ERISA. To the extent trust assets are available, they may be used to pay benefits arising under this Plan and all costs, charges, and expenses relating thereto. To the extent that the funds held in the trust, if any, are insufficient to pay such benefits, costs, charges and expenses, the Company shall pay such benefits, costs, charges, and expenses from its general assets.

(b) In addition, subject to the provisions of Section 7.1(d), the Company may, in its sole discretion, purchase and distribute one or more commercial annuity contracts, or cause the trustee of the trust to purchase and distribute one or more commercial annuity contracts, to make benefit payments required under this Plan, to any Officer, as defined in the AT&T Non-Qualified Pension Plan, or the Surviving Spouse of any Officer, provided, however, that with respect to an annuity purchase occurring prior to January 1, 2005, the purchase and distribution of any such annuity contracts shall be no sooner than the expiration of any forfeiture provisions applicable to the Officer under the AT&T Non-Competition Guidelines, or as otherwise may be provided in accordance with procedures established by the Executive Vice President - Human Resources (or any successor to such position), and provided further that, effective January 1, 2004, the Company's right to direct that payments under the Plan shall be made through one or more commercial annuity contracts shall be applicable to only the benefits payable to any Participant, or the Surviving Spouse of any such Participant, as applicable, who (1) was on the active payroll of the Company (or on an approved leave of absence with guaranteed right of reinstatement) and classified as an Officer on December 31, 2003, and (2) satisfies the age and service requirements, or is within twelve months of satisfying the requirements in effect at the time the Participant terminates employment with the Company for the receipt of retirement-related health benefits under the AT&T Corp. Postretirement Welfare Benefits Plan (or any successor to such plan) (other than by virtue of the "Rule of 65" or through a Company-sponsored employee-paid health benefits access program, or through the AT&T Corp. Separation Medical Plan), without regard to whether or not the Officer has five years of service as of December 31, 1999. Such annuity contracts may be purchased from a commercial insurer acceptable to the Executive Vice President - Human Resources (or any successor to such position). Further, the Executive Vice President - Human Resources (or any successor to such position), may determine, in his or her sole discretion, to pay additional sums to any Officer, from the Company's general assets or from the trust, if any, to reimburse the Officer for additional federal and state income taxes estimated to be incurred by reason of the distribution of any such annuity contracts. The Executive Vice President - Human Resources (or any successor to such position) shall establish a methodology or methodologies for determining the amount of such additional sums. The methodology or methodologies selected shall be those that the Executive Vice President - Human Resources (or any successor to such position) determines, in his or her sole discretion, to be the most effective and administratively feasible for the purpose of producing after-tax periodic benefit payments that approximate the after-tax periodic benefit payments that would have been received by Officers in the absence of the distribution of the annuity contract. Any such purchase and distribution of an annuity contract shall be a full and complete discharge of the Plan's, AT&T Corp.'s and the Participating Companies' liability for payments assumed by the issuer of the annuity contract.

(c) Notwithstanding the provisions of the preceding Section 7.1(b), effective January 1, 2005, a Participant who is eligible to elect to receive his or her benefit under the Plan in the form of a third-party commercial annuity contract pursuant to Section 7.1(b) shall be required to submit an election, on a form provided by the Company, with respect to the time and form of payment in which benefits under this Plan shall be distributed for any reason other than the death of the Participant. Such election form shall be submitted to the Company no later than one of the following dates, whichever is applicable: (i) such Eligible Employee's separation from service, with respect to distribution of such annuity contract during the 2005 calendar year, (ii) the earlier of (A) such employee's separation from service, or (B) December 31, 2005, with respect to the distribution of such annuity contract during the 2006 calendar year, and (iii) December 31, 2006, for distributions of such annuity contracts occurring after the 2006 calendar year. Notwithstanding the foregoing, the Company may permit such an employee to submit a distribution election form in 2006 with respect to his or her benefits under the Plan, provided that such election in the 2006 calendar year may not result in a change in payment elections with respect to payments that the Participant would otherwise receive during the 2006 calendar year, or to cause payments to be made in 2006, to the extent permitted under the proposed Treasury Regulations under Code Section 409A.

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(d) Notwithstanding the provisions of the preceding Section 7.1(b) and Section 7.1(c), the annuity purchase program described in Section 7.1(b) shall be discontinued effective September 6, 2007, and any election in effect on September 6, 2007 pursuant to which a Participant has elected to receive distribution of his or her benefits under this Plan through the purchase of a commercial annuity contract shall be null and void, as such election relates to any distribution from this Plan to a Participant or Surviving Spouse occurring after September 6, 2007.

## **7.2. Unfunded Status**

The Plan at all times shall be entirely unfunded for purposes of the Code and ERISA and no provision shall at any time be made with respect to segregating any assets of a Participating Company for payment of any benefits hereunder. Funds that may be invested through a trust described in Section 7.1 shall continue for all purposes to be part of the general assets of the Participating Company that invested the funds. The Plan constitutes a mere promise by AT&T Corp. and the Participating Companies to make Excess Retirement Benefit payments and Excess Death Benefit payments, if any, in the future. No Participant, Surviving Spouse or any other person shall have any interest in any particular assets of a Participating Company by reason of the right to receive a benefit under the Plan and to the extent the Participant, Surviving Spouse or any other person acquires a right to receive benefits under this Plan, such right shall be no greater than the right of any unsecured general creditor of a Participating Company.

## **7.3. Fiduciary Relationship**

Nothing contained in the Plan, and no action taken pursuant to the provisions of the Plan, shall create or be construed to create a trust or a fiduciary relationship between or among AT&T Corp., any other Participating Company, the Board, the Administrator, the Committee, any Participant, any Surviving Spouse, or any other person, except as provided in Section 8.4.

## **Article**

### **8.**

## **Administration of the Plan**

### **8.1. Administration**

AT&T Corp. shall be the "administrator" of the Plan as that term is defined in ERISA.

### **8.2. Indemnification**

Neither the Administrator, any member of the Board or of the Committee, nor each other officer to whom any duty or power relating to the administration or interpretation of the Plan may be allocated or delegated, shall be personally liable by reason of any contract or other instrument executed by such individual or on his or her behalf in his or her capacity as the Administrator or as a member of the Board or of the Committee, nor for any mistake of judgment made in good faith, and AT&T Corp. shall indemnify and hold harmless the Administrator, each member of the Board, each member of the Committee, and each other employee or officer to whom any duty or power relating to the administration or interpretation of the Plan may be allocated or delegated, against any cost or expense (including attorneys' fees) or liability (including any sum paid in settlement of a claim) arising out of any act or omission to act in connection with the Plan unless arising out of such person's own fraud or bad faith.

### **8.3. Claims Procedure**

(a) All claims for benefit payments under the Plan shall be submitted in writing by the Participant, Surviving Spouse, Beneficiaries, estate, or the duly authorized representative of such person or estate ("Claimant" for purposes of this Section 8.3) to the Plan Administrator. The Plan Administrator shall notify the Claimant in writing within 90 days after receipt as to whether the claim has been granted or denied. This period may be extended for up to an additional 90 days, for a total of 180 days, in the case of special circumstances provided that written notice of the extension is furnished to the Claimant prior to the commencement of the extension. In the event the claim is denied, in whole or in part, the Claimant will receive notice of the Plan Administrator's decision, including: (i) the specific reasons for the denial, (ii) reference to the pertinent Plan provisions on which the denial is based, (iii) a description of any additional material or information necessary for the Claimant to perfect the claim and an explanation of why such material or information is necessary, and (iv) a description of the Plan's procedures for appealing the denial (including applicable time limits) and the Claimant's right to bring a civil action under section 502(a) of ERISA, to the extent ERISA applies to such claim for benefits, following an adverse determination on review.

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(b) Any Claimant whose claim for benefits has been denied, in whole or in part, may, within 60 days of receipt of any adverse benefit determination, appeal such denial to the Committee. All appeals shall be in the form of a written statement and shall (i) set forth all of the reasons in support of favorable action on the appeal, (ii) identify those provisions of the Plan upon which the Claimant is relying, and (iii) include copies of any other documents, records and other materials which may support favorable consideration of the claim. If the Claimant submits a written request for review of a denied claim, the Claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant to the claim (as defined in DOL Reg. §2560.503-1(m)(8) for claims filed on or after January 1, 2002), to the extent ERISA applies to such claim for benefits, and (iv) a statement of the right of the Claimant to bring a civil action under ERISA Section 502(a) following an adverse benefit determination on review, to the extent ERISA applies to such claim for benefits. The Committee shall decide the issues presented within 60 days after receipt of such request, but this period may be extended for up to an additional 60 days in the case of special circumstances provided that written notice of the extension is furnished to the Claimant prior to the commencement of the extension. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Committee expects to render the determination. In the case of an adverse determination, the decision of the Committee shall be set forth in writing and include (i) the specific reason or reasons for the adverse determination, (ii) reference to the pertinent Plan provisions on which the denial is based, (iii) a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information (as defined in DOL Reg. §2560.503-1(m)(8) for claims filed on or after January 1, 2002) relevant to the Claimant's claim for benefits, to the extent ERISA applies to such claim for benefits, and (iv) a statement of the right of the Claimant to bring a civil action under ERISA Section 502(a), to the extent ERISA applies to such claim for benefits.

Any Claimant whose claim for benefits has been denied shall have such further rights of review as are provided in ERISA Section 503, and the Committee and Plan Administrator shall retain such right, authority, and discretion as is provided in or not expressly limited by ERISA Section 503.

(c) The Committee shall serve as the final review committee, under the Plan and ERISA, for the review of all appeals by Claimants whose initial claims for benefits have been denied, in whole or in part, by the Plan Administrator. The Committee shall have the authority, subject to Section 8.3(d), to determine conclusively for all parties any and all questions arising from administration of the Plan, and shall have sole and complete discretionary authority and control to manage the operation and administration of the Plan, including, but not limited to, authorizing disbursements according to the Plan, the determination of all questions relating to eligibility for participation and benefits, interpretation of all Plan provisions, determination of the amount and kind of benefits payable to any Participant, Surviving Spouse, Beneficiary or estate, and the construction of disputed and doubtful terms. Such decisions by the Committee shall be conclusive and binding on all parties and not subject to further review.

(d) In the event that the Company (or its designee) fails to make a decision on a claim and/or appeal within 20 days of an event entitling the Claimant to a payment under this Plan (or, if later, within the ninety/sixty day period, with extensions, set forth in Section 8.3(a) and (b)), the Trustee of the AT&T Corp. Benefits Protection Trust ("Trust") may make a decision in lieu of the Company (or its designee) as authorized by the Trust and subject to the terms and conditions of the Trust. Any decision by the Trustee to make a payment under this Plan to the Claimant is subject to the availability of Trust assets allocated to pay benefits under this Plan. A payment to the Claimant from the prorated Trust assets shall be considered a satisfaction of the Company's liability under this Plan to the extent payment from the Trust was sufficient to cover the amount determined by the Trustee as the amount to which the Claimant was entitled.

#### 8.4. Named Fiduciaries

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AT&T Corp., the Committee, the Administrator(s) and each Participating Company, and effective beginning August 22, 2006, the Chief Financial Officer of AT&T Inc., and the individual directly reporting to the Chief Executive Officer of AT&T Inc., who has responsibility for human resource matters, are each a named fiduciary as that term is used in ERISA with respect to the particular duties and responsibilities herein provided to be allocated to each of them, respectively.

#### **8.5. Role of the Committee**

(a) The Committee shall have the specific powers elsewhere herein granted to it and shall have such other powers as may be necessary in order to enable it to administer the Plan, except for powers herein granted or provided to be granted to others.

(b) The adoption of by-laws and rules for the employment of a secretary and assistants shall be the same as are set forth in AT&T Management Pension Plan or the AT&T Pension Plan.

#### **8.6. Allocation of Responsibilities**

AT&T Corp. may allocate responsibilities for the operation and administration of the Plan consistent with the Plan's terms, including allocation of responsibilities to the Committee and the other Participating Companies. AT&T Corp. and other named fiduciaries may designate in writing other persons to carry out their respective responsibilities under the Plan, and may employ persons to advise them with regard to any such responsibilities.

#### **8.7. Multiple Capacities**

Any person or group of persons may serve in more than one fiduciary capacity with respect to the Plan.

### **Article**

#### **9.**

### **Amendment and Termination**

#### **9.1. Amendment and Termination**

Pursuant to ERISA Section 402(b)(3), and subject to Section 4.9 of the Plan, the Board or its delegate (acting pursuant to the Board's delegations of authority then in effect) may from time to time amend, suspend, or terminate the Plan at any time. Plan amendments may include, but are not limited to, elimination or reduction in the level or type of benefits provided prospectively to any class or classes of Participants (and Surviving Spouses and Beneficiaries). Any and all Plan amendments may be made without the consent of any Participant, Surviving Spouse or Beneficiary. Notwithstanding the foregoing, no such amendment, suspension, or termination shall retroactively impair or otherwise adversely affect the rights of any Participant, Surviving Spouse, or other person to benefits under the Plan, the AT&T Management Pension Plan or the AT&T Pension Plan which have arisen prior to the date of such action.

Notwithstanding the preceding, the Board may adopt any prospective or retroactive amendment that it determines is necessary for the Plan to maintain its compliance with Code Section 409A.

### **Article**

#### **10.**

### **General Provisions**

#### **10.1. Binding Effect**

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The Plan shall be binding upon and inure to the benefit of each Participating Company and its successors and assigns, and to each Participant, his or her successors, designees, Beneficiaries, designated annuitants, and estate. The Plan shall also be binding upon any successor corporation or organization succeeding to substantially all of the assets and business of AT&T Corp. Nothing in the Plan shall preclude AT&T Corp. from merging or consolidating into or with, or transferring all or substantially all of its assets to, another corporation which assumes the Plan and all obligations of AT&T Corp. hereunder. AT&T Corp. agrees that it will make appropriate provision for the preservation of the rights of Participants, Surviving Spouses and Beneficiaries under the Plan in any agreement or plan or reorganization into which it may enter to effect any merger, consolidation, reorganization, or transfer of assets. Upon such a merger, consolidation, reorganization, or transfer of assets, the term "Participating Company" shall refer to such other corporation and the Plan shall continue in full force and effect.

#### **10.2.No Guarantee of Employment**

Neither the Plan nor any action taken hereunder shall be construed as (i) a contract of employment or deemed to give any Participant the right to be retained in the employment of a Participating Company, the right to any level of compensation, or the right to future participation in the Plan; or (ii) affecting the right of a Participating Company to discharge or dismiss any Participant at any time.

#### **10.3.Assignment of Benefits**

No Excess Retirement Benefit or Excess Death Benefit under this Plan or any right or interest in such Excess Retirement Benefit or Excess Death Benefit shall be assignable or subject in any manner to anticipation, alienation, sale, transfer, claims of creditors, garnishment, pledge, execution, attachment or encumbrance of any kind, including, but not limited to, pursuant to any domestic relations order (within the meaning of ERISA Section 206(d)(3) and Code Section 414(p)(1)(B)) or judgment or claims for alimony, support, separate maintenance, and claims in bankruptcy proceedings, and any such attempted disposition shall be null and void.

#### **10.4.Facility of Payment**

If the Plan Administrator shall find that any person to whom any amount is or was payable under the Plan is unable to care for his or her affairs because of illness or accident, then any payment, or any part thereof, due to such person (unless a prior claim therefore has been made by a duly appointed legal representative), may, if the Plan Administrator so directs AT&T Corp., be paid to the same person or institution that the benefit with respect to such person is paid or to be paid under the AT&T Management Pension Plan or AT&T Pension Plan, if applicable, or the Participant's Surviving Spouse, a child, a relative, an institution maintaining or having custody of such person, or any other person deemed by the Administrator to be a proper recipient on behalf of such person otherwise entitled to payment. Any such payment shall be in complete discharge of the liability of AT&T Corp., the Board, the Committee, the Administrator, and the Participating Company therefore. If any payment to which a Participant, Surviving Spouse or Beneficiary is entitled under this Plan is unclaimed or otherwise not subject to payment to the person or persons so entitled, such amounts representing such payment or payments shall be forfeited after a period of two years from the date the first such payment was payable and shall not escheat to any state or revert to any party; provided, however, that any such payment or payments shall be restored if any person otherwise entitled to such payment or payments makes a valid claim.

#### **10.5.Severability**

If any section, clause, phrase, provision, or portion of this Plan or the application thereof to any person or circumstance shall be invalid or unenforceable under any applicable law, such event shall not affect or render invalid or unenforceable the remainder of this Plan and shall not affect the application of any section, clause, provision, or portion hereof to other persons or circumstances.

#### **10.6.Plan Year**

Each plan year shall begin on January 1 and end on December 31.

#### **10.7.Headings**

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The captions preceding the sections and articles hereof have been inserted solely as a matter of convenience and shall not in any manner define or limit the scope or intent of any provisions of the Plan.

#### **10.8. Governing Law**

The Plan shall be governed by the laws of the State of Texas (other than its conflict of laws provisions) from time to time in effect, except to the extent such laws are preempted by the laws of the United States of America.

#### **10.9. Entire Plan**

This written Plan document is the final and exclusive statement of the terms of this Plan, and any claim of right or entitlement under the Plan shall be determined in accordance with its provisions pursuant to the procedures described in Article 8. Unless otherwise authorized by the Board or its delegate, no amendment or modification to this Plan shall be effective until reduced to writing and adopted pursuant to Section 9.1.

#### **10.10. Overpayments**

If any overpayment is made by the Plan for any reason, the Plan shall have the right to recover such overpayment. The Participant shall cooperate fully with the Plan to recover any overpayment and provide any necessary information and required documents. Any recovery of overpayment pursuant to this Section 10.10 may be deducted from future benefits payable to or on behalf of the Participant from this Plan.

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Exhibit 10-c

## **SUPPLEMENTAL RETIREMENT INCOME PLAN**

Effective: January 1, 1984  
Revisions Effective: December 31, 2008

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## SUPPLEMENTAL RETIREMENT INCOME PLAN

## 1 Purpose.

The purpose of the Supplemental Retirement Income Plan ("Plan") is to provide Eligible Employees with retirement benefits to supplement benefits payable pursuant to AT&T's qualified group pension plans.

Except as provided in this paragraph, no benefits shall accrue under this Plan after December 31, 2004. The Plan shall be applied and interpreted consistent with Treasury Regulations issued under Code Section 409A(e)(1) so that no benefit hereunder is an amount deferred after December 31, 2004 and the Plan is not subject to the provisions of Code Section 409A; provided, however, a Participant's Age shall be determined as of December 31, 2008, or, if earlier, the Participant's Termination of Employment. The Administrative Committee shall have discretionary authority to interpret this Plan consistent with this Section 1, and the Committee's determination shall be final and conclusive.

A Participant's accrued benefit hereunder as of December 31, 2004 shall equal the present value as of December 31, 2004 of the amount to which a Participant would be entitled under this Plan assuming the Participant voluntarily terminated employment without cause on December 31, 2004 and received a full payment of his or her SRIP benefits on the earliest possible date allowed hereunder following such deemed Termination of Employment, but only to the extent such SRIP benefits are earned and vested as of December 31, 2004. For purposes of such calculation, a Participant's Years of Service and Final Average Earnings shall be determined as of December 31, 2004, and a Participant's Age shall be determined as of December 31, 2008, or, if earlier, the Participant's Termination of Employment.

## 2 Definitions.

For purposes of this Plan, the following words and phrases shall have the meanings indicated, unless the context clearly indicates otherwise:

**Administrative Committee.** "Administrative Committee" means a Committee consisting of the Senior Executive Vice President-Human Resources and two or more other members designated by the Senior Executive Vice President-Human Resources who shall administer the Plan.

**Agreement.** "Agreement" means the written agreement (substantially in the form attached to this Plan as Attachment A) that shall be entered into between AT&T by the Senior Executive Vice President-Human Resources and a Participant to carry out the Plan with respect to such Participant. Entry into a new Agreement shall not be required upon amendment of the Plan or upon an increase in a Participant's Retirement Percent (which increase shall nevertheless be utilized to determine the Participant's benefits hereunder even though not reflected in the Participant's Agreement), except entry into a new Agreement shall be required in the case of an amendment which alters, to the detriment of a Participant, the benefits described in this Plan as applicable to such Participant (See Section 6.5). Such new Agreement shall operate as the written consent required by Section 6.5 of the Participant to such amendment.

**Beneficiary.** "Beneficiary" shall mean any beneficiary or beneficiaries designated by the Eligible Employee pursuant to the AT&T Rules for Employee Beneficiary Designations as may hereafter be amended from time-to-time ("Rules").

**Chairman.** "Chairman" shall mean the Chairman of the Board of AT&T Inc.

**Disability.** "Disability" means any Termination of Employment prior to being Retirement Eligible (without regard to the 5 Years of Service requirement otherwise applicable to certain Participants age 55 or older) that the Administrative Committee, in its complete and sole discretion, determines is by reason of a Participant's total and permanent disability. The Administrative Committee may require that the Participant submit to an examination by a competent physician or medical clinic selected by the Administrative Committee. On the basis of such medical evidence, the determination of the Administrative Committee as to whether or not a condition of total and permanent disability exists shall be conclusive.

**Earnings.** "Earnings" means for a given calendar year the Participant's: (1) bonus earned as a short term award during the calendar year but not exceeding 200% of the target amount of such bonus (or such other portion of the bonus or target bonus as may be determined by the Human Resources Committee of the Board of AT&T), plus (2) base salary before reduction due to any contribution pursuant to any deferred compensation plan or agreement provided by AT&T, including but not limited to compensation deferred in accordance with Section 401(k) of the Internal Revenue Code. Notwithstanding anything herein to the contrary, "Earnings" shall not include any amounts earned or paid on or after January 1, 2005.

**Eligible Employee.** "Eligible Employee" means an Officer or a non-Officer employee of any AT&T company who is designated by the Chairman as eligible to participate in the Plan. Effective on and after July 1, 1994, only an Officer may become an Eligible Employee. Notwithstanding the foregoing, the Chairman, may, at any time and from time to time, exclude any Employee or group of Employees from being deemed an "Eligible Employee" under this plan.

**Final Average Earnings.** "Final Average Earnings" means the average of the Participant's Monthly Earnings for the thirty-six (36) consecutive months out of the one hundred twenty (120) months next preceding January 1, 2005 which yields the highest average earnings. If the Participant has fewer than thirty-six (36) months of employment prior to January 1, 2005, the average shall be taken over his or her period of employment prior to January 1, 2005.

**GAAP Rate.** "GAAP Rate" means the interest rate used for valuing Plan liabilities on the immediately preceding December 31 and periodic pension expense for the calendar year for purposes of AT&T's financial statement reporting requirements for the referenced period.

**Immediate Annuity Value.** "Immediate Annuity Value" means the annual amount of annuity payments that would be paid out of a plan on a single life annuity basis if payment of the plan's benefit was commenced immediately upon Termination of Employment, notwithstanding the form of payment of the plan's benefit actually made to the Participant (i.e., joint and survivor annuity, lump sum, etc.) and notwithstanding the actual commencement date of the payment of such benefit.

**Mid-Career Hire.** "Mid-Career Hire" means an individual (i) initially hired or rehired at age 35 or older into a position eligible for benefits under this Plan or (ii) initially hired or rehired at age 35 or older who is subsequently promoted to a position eligible for benefits under this Plan.

**Monthly Earnings.** "Monthly Earnings" means one-twelfth (1/12) of Earnings.

**Mortality Tables.** "Mortality Tables" means the mortality tables as defined by Code Section 417(e) for valuing minimum lump sum benefits payable from qualified pension plans for the referenced period.

**Officer.** "Officer" shall mean an individual who is designated as an officer level Employee for compensation purposes on the records of AT&T.

**Participant.** A "Participant" means an Eligible Employee who has entered into an Agreement to Participate in the Plan.

**Retire or Retirement.** "Retire" or "Retirement" shall mean the Termination of Employment of an Eligible Employee for reasons other than death, on or after the earlier of the following dates: (1) the date the Eligible Employee is Retirement Eligible or (2) the date the Eligible Employee has attained one of the following combinations of age and service at Termination of Employment on or after April 1, 1997, except as otherwise indicated below:

<u>Net Credited Service</u>	<u>Age</u>
10 years or more	65 or older
20 years or more	55 or older
25 years or more	50 or older
30 years or more	Any age

With respect to an Eligible Employee who is granted an EMP Service Pension under and pursuant to the provisions of the AT&T Pension Benefit Plan - Nonbargained Program ("ATTPBP") upon Termination of Employment, the term "Retirement" shall include such Eligible Employee's Termination of Employment.

**Retirement Eligible.** "Retirement Eligible" or "Retirement Eligibility" means that a Participant has attained age 55 and, for an individual who becomes a Participant on or after January 1, 2002, has five (5) Years of Service. Note: Any reference in any other AT&T plan to a person being eligible to retire with an immediate pension pursuant to the AT&T Supplemental Retirement Income Plan shall be interpreted as having the same meaning as the term Retirement Eligible.

**Retirement Percent.** "Retirement Percent" means the percent specified in the Agreement with the Participant which establishes a Target Retirement Benefit (see Section 3.1) as a percentage of Final Average Earnings.

**AT&T.** "AT&T" means AT&T Inc.

**Service Factor.** "Service Factor" means, unless otherwise agreed in writing by the Participant and AT&T, either (a) a deduction of 1.43 percent, or .715 percent for Mid-Career Hires, multiplied by the number by which (i) thirty-five (or thirty in the case of an Officer) exceeds (ii) the number of Years of Service of the Participant determined as of December 31, 2004, or (b) a credit of 0.715 percent multiplied by the number by which (i) the number of Years of Service of the Participant determined as of December 31, 2004 exceeds (ii) thirty-five (or thirty in the case of an Officer). For purposes of the above computation, a deduction shall result in the Service Factor being subtracted from the Retirement Percent whereas a credit shall result in the Service Factor being added to the Retirement Percent.

**Termination of Employment.** "Termination of Employment" means the ceasing of the Participant's employment from the AT&T controlled group of companies for any reason whatsoever, whether voluntarily or involuntarily.

**Year.** A "Year" is a period of twelve (12) consecutive calendar months.

**Years of Service.** "Years of Service" means the number of each complete years of continuous, full-time service as an employee beginning on the date when a Participant first began such continuous employment with any AT&T company and on each anniversary of such date, including service prior to the adoption of this Plan.

### 3 Plan ("SRIP") Benefits.

#### 3.1 Termination of Employment/Vesting.

With respect to (1) a person who becomes a Participant prior to January 1, 1998, or (2) a person who prior to January 1, 1998 is an officer of a Pacific Telesis Group ("PTG") company and becomes a Participant after January 1, 1998, upon such a Participant's Termination of Employment, AT&T shall pay to such Participant a SRIP Benefit in accordance with Section 3.3. The amount of such SRIP Benefit is calculated as follows:

Final Average Earnings	
<u>x Revised Retirement Percentage</u>	
= Target Retirement Benefit	
- Immediate Annuity Value of any AT&T/PTG Qualified Pensions as of December 31, 2004	
- Immediate Annuity Value of any other AT&T/PTG Non-Qualified <u>Pensions as of December 31, 2004</u>	
= Target Benefit	
- <u>Age Discount</u>	
= Annual Value of Life with 10 Year Certain SRIP Benefit immediately payable upon Termination of Employment	

With respect to a person who is appointed an Officer and becomes a Participant on or after January 1, 1998, upon such a Participant's Termination of Employment, AT&T shall pay to such Participant a SRIP Benefit in accordance with Section 3.3. The amount of such SRIP Benefit is calculated as follows:

Final Average Earnings	
X Revised Retirement Percentage	
= Target Retirement Benefit	
- <u>Age Discount</u>	
= Discounted Target Benefit	
- Immediate Annuity Value of any AT&T/PTG Qualified Pensions as of December 31, 2004	
- Immediate Annuity Value of any AT&T/PTG Non-Qualified Pensions, <u>as of December 31, 2004</u>	
= Annual Value of Life with 10 Year Certain SRIP Benefit immediately payable upon Termination of Employment	

Where in both of the above cases the following apply:

- (a) Revised Retirement Percentage = Retirement Percent + Service Factor.
- (b) For purposes of determining the Service Factor, the Participant's actual Years of Service as of the earlier of the date of Termination of Employment or December 31, 2004, to the day, shall be used.
- (c) For purposes of determining the Final Average Earnings, the Participant's Earnings history prior to January 1, 2005 shall be used.
- (d) Age Discount means the Participant's SRIP Benefit shall be decreased by five-tenths of one percent (.5%) for each month that December 31, 2008, or, if earlier, the Participant's Termination of Employment, precedes the date on which the Participant will attain age 60.

Notwithstanding the foregoing, if, at the earlier of the time of Termination of Employment or December 31, 2004, the Participant is, or has been within the one year period immediately preceding Participant's Termination of Employment, an Officer with 30 or more Years of Service such Participant's Age Discount shall be zero.

Except to true up for an actual short term award paid following Termination of Employment and prior to December 31, 2004, there shall be no recalculation of the value of a Participant's SRIP Benefit following a Participant's Termination of Employment.

If a Participant who has commenced payment of his or her SRIP Benefit dies, his or her Beneficiary shall be entitled to receive the remaining SRIP Benefit in accordance with the Benefit Payout Alternative elected or deemed elected by the Participant or to make the same elections that the Participant could have made as of the day immediately preceding the Participant's death. If the Participant had elected a lump sum benefit, such Beneficiary may make an election under Section 3.6. If a Participant dies while in active service, Section 4 shall apply.

Notwithstanding any other provision of this Plan, upon any Termination of Employment of the Participant for a reason other than death or Disability, AT&T shall have no obligation to the Participant under this Plan if the Participant has less than 5 Years of Service at the time of Termination of Employment.

### 3.2 Disability

Upon a Participant's Disability and application for benefits under the Social Security Act as now in effect or as hereinafter amended, the Participant will continue to accrue Years of Service during his or her Disability until the earliest of his or her:

- (a) Recovery from Disability,
- (b) Retirement (determined without regard to the 5 Years of Service requirement otherwise applicable to certain Participants age 55 or older), or
- (c) Death.

Upon the occurrence of either (a) Participant's recovery from Disability prior to his or her Retirement Eligibility if Participant does not return to employment, or (b) Participant's Retirement (determined without regard to the 5 Years of Service requirement otherwise applicable to certain Participants age 55 or older), the Participant shall be entitled to receive a SRIP Benefit in accordance with Section 3.1.

For purposes of calculating the foregoing benefit, the Participant's Final Average Earnings shall be determined using his or her Earnings history as of the date of his or her Disability.

If a Participant who continues to have a Disability dies prior to his or her Retirement Eligibility (without regard to the 5 Years of Service requirement otherwise applicable to certain Participants age 55 or older), the Participant will be treated in the same manner as if he or she had died while in employment (See Section 4.1).

### 3.3 Benefit Payout Alternatives.

The normal form of a Participant's benefits hereunder shall be a Life with 10-Year Certain Benefit as described in Section 3.3(a). However, a Participant may elect in his or her Agreement or in a subsequently filed election to convert his or her benefits hereunder, into one of the Benefit Payout Alternatives described in Section 3.3(b), 3.3(c) or 3.3(d).

- (a) Life with a 10-Year Certain Benefit. An annuity payable during the longer of (i) the life of the Participant or (ii) the 10-year period commencing on the date of the first payment and ending on the day next preceding the tenth anniversary of such date (the "Life With 10-Year Certain Benefit"). If a Participant who is receiving a Life with 10-Year Certain Benefit dies prior to the expiration of the 10-year period described in this Section 3.3(a), the Participant's Beneficiary shall be entitled to receive the remaining Life With 10-Year Certain Benefit installments which would have been paid to the Participant had the Participant survived for the entire such 10-year period.

- (b) Joint and 100% Survivor Benefit. A joint and one hundred percent (100%) survivor annuity payable for life to the Participant and at his or her death to his or her Beneficiary, in an amount equal to one hundred percent (100%) of the amount payable during the Participant's life, for life (the "Joint and 100% Survivor Benefit").
- (c) Joint and 50% Survivor Benefit. A joint and fifty percent (50%) survivor annuity payable for life to the Participant and at his or her death to his or her Beneficiary, in an amount equal to fifty percent (50%) of the amount payable during the Participant's life, for life (the "Joint and 50% Survivor Benefit").
- (d) Lump Sum Benefit. Effective for a Termination of Employment on or after June 19, 2001, if the Participant has attained the age of fifty-five years as of his or her Termination of Employment, the Participant is eligible to receive a lump sum benefit as described in Section 3.4.

The Benefit Payout Alternatives described in Section 3.3(b), 3.3(c) and 3.3(d) shall be the actuarially determined equivalent (as determined by the Administrative Committee in its complete and sole discretion) of the Life With 10-Year Certain Benefit that is converted by such election.

Any election made pursuant to this Section 3.3 may be made in the Participant's Agreement or in a timely filed benefit payout election form. A Participant may elect in his or her Agreement or in a timely filed benefit payout election form to defer the time by which he or she is required to elect one of the foregoing forms of Benefit Payout Alternatives. A benefit payout election form is timely filed only if it is delivered by the Participant, in writing, telecopy, email or in another electronic format, to the Administrative Committee no later than the last day of the calendar year preceding the calendar year in which the Participant's Termination of Employment takes place or other benefit payment under this Plan commences.

If a Participant's Agreement or benefit payout election form fails to show an election of a Benefit Payout Alternative, or if the Participant having chosen to defer his or her benefit payout election, fails to make a timely election of benefits, such Participant shall be deemed to have elected and such Participant's form of benefit shall be the Life With 10-Year Certain Benefit which is described in Section 3.3(a).

Notwithstanding the foregoing, in the event of the death of a designated annuitant during the life of the Participant, the Participant's election to have a Benefit Payout Alternative described in Section 3.3(b) or 3.3(c) shall be deemed to be revoked, in which event, subject to the conditions and limitations specified in the immediately preceding paragraph, or within the ninety-day period following the death of the annuitant if such period would end later than the time allowed for an election by the immediately preceding paragraph, the Participant may elect to have his or her benefit, or remaining benefit, under the Plan, as the case may be, paid in any of the forms described in Sections 3.3(a), 3.3(b) or 3.3(c). In the event the Participant's designated annuitant predeceases the Participant and the Participant fails to make a timely election in accordance with the provisions of the immediately preceding sentence, the Participant's benefit, or remaining benefit, as the case may be, shall be paid or reinstated, as the case may be, in the form of a Life With 10-Year Certain Benefit as described in Section 3.3(a). Any conversion of benefit from one form to another pursuant to the provisions of this paragraph shall be subject to actuarial adjustment (as determined by the Administrative Committee in its complete and sole discretion) such that the Participant's new benefit is the actuarial equivalent of the Participant's remaining prior form of benefit. Payments pursuant to Participant's new form of benefit shall be effective commencing with the first monthly payment for the month following the death of the annuitant.

Notwithstanding any other provision of this Plan to the contrary, payment in the form of a Benefit Payout Alternative described in Section 3.3(b) or 3.3(c), with a survivor annuity for the benefit of the Participant's spouse as Beneficiary, may be waived by the annuitant with the consent of the Participant in the event of the divorce (or legal separation) of said annuitant from said Participant. In such event, the Participant's benefit shall be reinstated to the remainder of the Life with 10-Year Certain Benefit as described in Section 3.3(a) (i.e., the 10-Year period as described in Section 3.3(a) shall be the same 10-year period as if such form of benefit was the form of benefit originally selected and the expiration date of such period shall not be extended beyond its original expiration date) effective commencing with the first monthly payment following receipt of the waiver and Participant consent in a form acceptable to the Administrative Committee. A waiver of the type described in this paragraph shall be irrevocable.

#### 3.4 Lump Sum Benefit Election.

- (a) A Participant who has attained the age of fifty-five (55) years as of his or her Termination of Employment and whose Termination of Employment occurs after December 31, 2001 shall be eligible to make an election for a lump sum benefit. A lump sum benefit election may be made in or after the calendar year immediately preceding the calendar year in which the Participant attains age fifty-five (55); provided, however, such election shall not be effective unless the Participant attains age fifty-five on or before such Participant's Termination of Employment, and, in such event, the Participant shall be deemed to have elected the Benefit Payout Alternative described in Section 3.3(a).

The amount of such Participant's lump sum benefit shall be calculated as of the Participant's Termination of Employment applying the Mortality Tables and the GAAP Rate, both as in effect for the calendar year immediately preceding the calendar year of the Participant's Termination of Employment, but using the Participant's age as of the Participant's Termination of Employment.

- (b) A Participant who was eligible to receive a lump sum benefit at Retirement, but who elected (or is deemed to have elected) one of the Benefit Payout Alternatives described in Section 3.3(a), 3.3(b) or 3.3(c), may elect to convert such annuity distribution to a lump sum benefit in a timely filed election. The Beneficiary of a deceased Participant shall be eligible to make such conversion election to the same extent the Participant was eligible to make such election as of the day immediately preceding the Participant's death. An election to convert an annuity benefit into a lump sum benefit is timely filed only if it is delivered by the Participant (or the Beneficiary), in writing, telecopy, email or in another electronic format, to the Administrative Committee no later than December 31 of the calendar year following the calendar year in which the Participant's Termination of Employment occurred. The value of the lump sum benefit resulting from the conversion of a previously elected annuity benefit, shall be the Participant's lump sum benefit valued as of the Participant's Termination of Employment, less the payments, adjusted for interest (using the same GAAP Rate that was used to calculate the Lump Sum Benefit as of the Participant's Termination of Employment), that were received prior to the effective date of the conversion. If a Participant (or his or her Beneficiary) makes a timely election to convert an annuity benefit into a lump sum benefit, such election shall be effective on or about March 1<sup>st</sup> of the calendar year immediately following the calendar year in which such election is made, and the annuity benefit shall continue to be paid through such March 1<sup>st</sup>, whereupon the lump sum benefit election shall become effective. If an election to convert an annuity benefit into a lump sum benefit is not timely filed, the annuity benefit shall continue to be distributed in the form elected (or deemed elected) by the Participant.

- (c) A Participant or Beneficiary who elects a lump sum benefit under Section 3.3(d) and/or Section 3.4 must, contemporaneous with such Lump Sum Benefit election, elect to defer all or a portion of the lump sum benefit (including any interest accrued thereon as provided in Section 3.5) in accordance with a payment schedule timely elected by the Participant (or Beneficiary); provided, however,
- (i) with respect to a lump sum benefit effective at Retirement, the Participant must defer the receipt of one hundred percent (100%) of such lump sum benefit (including any interest thereon) until the later of:
- (A) his or her Termination of Employment; or
- (B) March 1 of the calendar year in which the Participant realizes a Termination of Employment;
- (ii) the Participant must defer the receipt of at least seventy percent (70%) of such lump sum benefit (excluding any interest accrued thereon as provided in Section 3.5) until at least the third (3<sup>rd</sup>) anniversary of such Participant's Termination of Employment; provided, however, if the Participant attained the age of sixty (60) as of his or her Termination of Employment, the Participant is not required to defer receipt of such Lump Sum Benefit if he or she agrees, in writing, substantially in the form provided in Attachment B, not to compete with an Employer Business within the meaning of Section 7.2 for a period of three (3) years from such Participant's Termination of Employment and further agrees that if he or she fails to abide by such agreement, the non-compete agreement is challenged or the non-compete agreement is unenforceable, he or she shall forfeit all benefits hereunder and repay the Lump Sum Benefit to AT&T; and

- (iii) the Participant (or Beneficiary) may not defer the receipt of all or any portion of such lump sum benefit, including any interest accrued thereon, beyond the twentieth (20<sup>th</sup>) calendar year after the Participant's Termination of Employment.

The payment schedule elected by a Participant or Beneficiary must comply with the rules for payment schedules as adopted by the Administrative Committee (as determined by the Administrative Committee in its sole and absolute discretion), which, for example, may require payment of principal to be made no more frequently than once per calendar year.

If a Participant who, as of his or her Retirement, timely elected to defer the receipt of a lump sum benefit under this Section fails to timely elect a payment schedule or if such Participant's timely filed payment schedule does not comply with the rules for payment schedules, (i) thirty percent (30%) of such Participant's lump sum benefit shall be paid to the Participant upon the later of (A) such Participant's Termination of Employment, or (B) March 1 of the calendar year in which the Participant realizes a Termination of Employment, and (ii) the remaining seventy percent (70%) (plus any interest accrued thereon as provided in Section 3.5) shall be paid to the Participant on the third (3<sup>rd</sup>) anniversary of such Participant's Termination of Employment. If a Participant who timely elects to defer the receipt of a lump sum benefit resulting from the conversion of an annuity benefit, fails to timely elect a payment schedule or if such Participant's timely filed payment schedule does not comply with the rules for payment schedules, (i) thirty percent (30%) of such Participant's lump sum benefit shall be paid to the Participant on or about March 1<sup>st</sup> of the calendar year following the year in which the conversion election is made, and (ii) the remaining seventy percent (70%) (plus any interest accrued thereon as provided in Section 3.5) shall be paid to the Participant on the third (3<sup>rd</sup>) anniversary of such Participant's Termination of Employment.

### 3.5 Lump Sum Benefit Account Balance.

The Administrative Committee shall maintain a lump sum benefit account balance on its books and records for each Participant (or Beneficiary) that elects a lump sum benefit. During such period of time that all or any portion of a Participant's lump sum benefit is not paid, interest shall be credited using the same methodology used by AT&T for financial accounting purposes using the GAAP Rate that was used to calculate such Participant's lump sum benefit. Payments of principal and interest shall be deducted from the lump sum benefit account balance.

### 3.6 One-Time Acceleration of Deferred Lump Sum Benefit.

Participants who realize a Termination of Employment on or after June 19, 2001 who timely elected a lump sum benefit under Section 3.3(d) and/or Section 3.4 (and their Beneficiary) may make a one-time, irrevocable election to accelerate the payment of their unpaid lump sum benefit, if any, subject to the following conditions and limitations. The Participant's (or Beneficiary's) election to accelerate his unpaid lump sum benefit, if any, must be received by the Administrative Committee on or before the last day of the calendar year immediately preceding the calendar year in which such unpaid portion of the lump sum benefit distribution is to be made. Such distribution shall be made on March 1 of the calendar year immediately following the calendar year in which such acceleration election is made (the "Accelerated Distribution Date"); provided, however, a Participant who makes a lump sum benefit acceleration election pursuant to this Section 3.6 whose Termination of Employment occurred within three (3) years of the Accelerated Distribution Date shall receive thirty percent (30%) of such lump sum benefit on the Accelerated Distribution Date and the remaining seventy percent (70%) of such lump sum benefit (plus accrued interest as provided in Section 3.5) on the third (3<sup>rd</sup>) anniversary of such Participant's Termination of Employment; provided, further, however, if the Participant attained the age of sixty (60) as of his or her Termination of Employment, the Participant may accelerate the distribution of 100% of his or her unpaid lump sum benefit if he or she agrees, in writing substantially in the form provided in Attachment B, not to compete with an Employer Business within the meaning of Section 7.2 for a period of three (3) years from such Participant's Termination of Employment and further agrees that if he or she fails to abide by such agreement, the non-compete agreement is challenged or the non-compete agreement is unenforceable, he or she shall forfeit all benefits hereunder and repay the Lump Sum Benefit to AT&T.

#### 4 Death Benefits.

##### 4.1 Death.

If a Participant dies prior to his or her Retirement, a pre-retirement death benefit will be calculated and paid as though the Participant had Retired (determined without regard to the 5 Years of Service requirement otherwise applicable to certain Participants age 55 or older) on the day prior to the date of death. Notwithstanding the provisions of Section 3.3, if a Participant's Agreement or benefit payout election form fails to show an election of a Benefit Payout Alternative, or if the Participant, having chosen to defer his benefit election, failed to make a timely election of a Benefit Payout Alternative prior to his or her death, the form of the pre-retirement death benefit shall, at the option of the Participant's Beneficiary, be either the Life With 10-Year Certain Benefit form of the Participant's benefit, a Beneficiary Life Annuity (as such term is hereinafter described) based on the life expectancy of the Beneficiary, or, if the Participant was eligible to make a Lump Sum Benefit election as of his or her date of death, a Lump Sum Benefit (calculated in the manner described in this Section 4.1). If paid as a Beneficiary Life Annuity based on the Life of the Beneficiary, such benefit shall be the actuarially determined equivalent (as determined by the Administrative Committee in its complete and sole discretion) of the Life With 10-Year Certain Benefit; provided, however, should the Beneficiary die prior to the payment to the Beneficiary of the total dollar amount of the Life with 10-Year Certain Benefit, the remaining dollar balance of such Life With 10-Year Certain Benefit shall be paid in accordance with the Participant's beneficiary designation and the Rules at the same monthly rate of payment as would have been the monthly payment pursuant to the 10-year payment schedule had the Life With 10-Year Certain Benefit been selected. For purposes of this Section 4.1, a Lump Sum Benefit shall be calculated in the same manner as provided in Section 3.4 as if the Participant were alive; e.g., calculated as of the Participant's Death applying the Mortality Tables and the GAAP Rate, both as in effect for the calendar year immediately preceding the calendar year of the Participant's Death, but using the Participant's age as of the Participant's date of death.

#### 4.2 Disability.

In the event that a Participant terminates employment prior to Retirement by reason of a Disability that entitles the Participant to continue to accrue Years of Service until Retirement Eligibility pursuant to Section 3.2 and thereafter dies after attaining Retirement Eligibility (without regard to the 5 Years of Service requirement otherwise applicable to certain Participants age 55 or older), the Employer shall pay to the Participant's Beneficiary the Death Benefit specified in Section 4.1 based on the Participant's Monthly Earnings for the twelve (12) months preceding his or her Disability. No death benefit shall be payable if the Participant dies prior to attaining Retirement Eligibility (without regard to the 5 Years of Service requirement otherwise applicable to certain Participants age 55 or older).

#### 4.3 Termination of Employment.

If a Participant terminates employment other than by reason of Disability prior to Retirement Eligibility (without regard to the 5 Years of Service requirement otherwise applicable to certain Participants age 55 or older), no death benefit shall be payable to the Participant's Beneficiary.

### 5 Payment.

#### 5.1 Commencement of Payments.

Notwithstanding the designation of a specific date for payment of a distribution hereunder, commencement of payments under this Plan may be delayed for administrative reasons in the discretion of the Administrative Committee, but shall begin not later than sixty (60) days following the occurrence of an event which entitles a Participant (or a Beneficiary) to payments under this Plan.

#### 5.2 Withholding; Unemployment Taxes.

- a. A payment may be made from the Plan to reflect the payment of state, local, or foreign tax obligations arising from participation in the Plan that apply to an amount deferred under the Plan before the amount is paid or made available to a Participant (the "State, Local, or Foreign Tax Amount"). Such payment may not exceed the amount of such taxes due as a result of participation in the Plan. Such payment may be made by distributions to the Participant in the form of withholding pursuant to provisions of applicable state, local, or foreign law or by distribution directly to the Participant. Additionally, a payment may be made from the Plan to pay the income tax at source on wages imposed under Code Section 3401 as a result of the payment of the State, Local, or Foreign Tax Amount and to pay the additional income tax at source on wages attributable to such additional Code Section 3401 wages and taxes. However, the total payment under this Section (a) shall not exceed the aggregate of the State, Local, or Foreign Tax Amount and the income tax withholding related to such State, Local, or Foreign Tax Amount.

(b) A payment may be made from the Plan to pay the Federal Insurance Contributions Act tax imposed by Code Sections 3101, 3121(a), and 3121(v)(2) on compensation deferred under the Plan (the "FICA Amount"). Additionally, a payment may be made from the Plan to pay the income tax at source on wages imposed under Code Section 3401 or the corresponding withholding provisions of applicable state, local or foreign tax laws as a result of the payment of the FICA Amount and to pay the additional income tax at source on wages attributable to the pyramiding section 3401 wages and taxes. However, the total payment under this Section (b) shall not exceed the aggregate of the FICA Amount and the income tax withholding related to such FICA Amount.

5.3 Recipients of Payments; Designation of Beneficiary.

All payments to be made under the Plan shall be made to the Participant during his or her lifetime, provided that if the Participant dies prior to the completion of such payments, then all subsequent payments under the Plan shall be made to the Participant's Beneficiary or Beneficiaries.

In the event of the death of a Participant, distributions/benefits under this Plan shall pass to the Beneficiary (ies) designated by the Participant in accordance with the Rules.

5.4 Additional Benefit.

The reduction of any benefits payable under the AT&T Pension Benefit Plan ("ATTPBP"), which results from participation in the AT&T Senior Management Deferred Compensation Program of 1988, will be restored under this Plan.

5.5 No Other Benefits.

No benefits shall be paid hereunder to the Participant or his or her Beneficiary except as specifically provided herein.

#### 5.6 Small Benefit.

Notwithstanding any election made by the Participant, the Administrative Committee in its sole discretion may pay any benefit in the form of a lump sum payment if the lump sum equivalent amount is or would be less than \$10,000 when payment of such benefit would otherwise commence.

#### 5.7 Special Increases.

##### 5.7.1 1990 Special Increase.

Notwithstanding any other provision of this Plan to the contrary:

- (a) Effective July 1, 1990, the monthly pension benefit amount then being paid hereunder to a retired Participant whose Plan payments began before January 1990 shall be increased by 1/30 of 5.0% for each month from and including January 1988 or the month in which said Participant's pension payments began, whichever is later, through and including June 1990, inclusive.

- (b) Effective July 1, 1990, the present and/or future monthly payment hereunder of a surviving annuitant of a Participant whose Plan payments began before January 1990 or of a Participant who died in active service before January 1990, shall be increased by the same percentage as the related pension was or would have been increased under the provisions of Paragraph (a) of this Section 5.7.1.

##### 5.7.2 Enhanced Management Pension (EMP) Flow-Through for Participant Receiving Other than an ATPBP "Cash Balance" Benefit.

Notwithstanding any other provision of this Plan to the contrary:

- (a) Effective December 30, 1991, a Participant who as of the date of his or her Retirement satisfies the requirements for a service pension under the terms of the ATPBP as it existed prior to December 30, 1991, shall have his or her SRIP Benefit determined without subtracting any increase in his or her ATPBP (or successor plan) pension amount attributable to the Enhanced Management Pension ("EMP") provisions thereof, i.e., EMP benefits will "flow-through" to the Participant; provided, however, such additional benefit amounts corresponding to term of employment extending beyond age 65 through application of the EMP provisions shall be subtracted.

- (b) EMP flow-through shall not apply in the case of any person who becomes an Eligible Employee after December 31, 1997.

5.7.3 1993 Special Increase and Subsequent Special Increases.

Notwithstanding any other provision of this Plan to the contrary:

- (a) Effective July 1, 1993, the monthly pension benefit amount then being paid hereunder to (1) all retired Participants whose Plan payments began before July 1, 1993, (2) then current and contingent annuitants of such retired Participants who elected one of the Plan's survivor annuities and (3) then current annuitants of employees who before July 1, 1993 died in active service shall be increased in the same percentages as the ATPBP ad hoc pension increase percentages effective July 1, 1993.
- (b) Any time after July 1, 1993 that the ATPBP is amended to provide for an ad hoc pension increase for ATPBP nonbargained participants, the same percentage increase shall apply to Plan benefit amounts.

6 Conditions Related to Benefits.

6.1 Administration of Plan.

The Administrative Committee shall be the sole administrator of the Plan and will, in its discretion, administer, interpret, construe and apply the Plan in accordance with its terms. The Administrative Committee shall further establish, adopt or revise such rules and regulations as it may deem necessary or advisable for the administration of the Plan. All decisions of the Administrative Committee shall be final and binding unless the Board of Directors should determine otherwise.

#### 6.2 No Right to AT&T Assets.

Neither a Participant nor any other person shall acquire by reason of the Plan any right in or title to any assets, funds or property of any AT&T company whatsoever including, without limiting the generality of the foregoing, any specific funds or assets which AT&T, in its sole discretion, may set aside in anticipation of a liability hereunder, nor in or to any policy or policies of insurance on the life of a Participant owned by AT&T. No trust shall be created in connection with or by the execution or adoption of this Plan or any Agreement, and any benefits which become payable hereunder shall be paid from the general assets of AT&T. A Participant shall have only a contractual right to the amounts, if any, payable hereunder unsecured by any asset of AT&T.

#### 6.3 Trust Fund.

AT&T shall be responsible for the payment of all benefits provided under the Plan. At its discretion, AT&T may establish one or more trusts, for the purpose of providing for the payment of such benefits. Such trust or trusts may be irrevocable, but the assets thereof shall be subject to the claims of AT&T's creditors. To the extent any benefits provided under the Plan are actually paid from any such trust, AT&T shall have no further obligation with respect thereto, but to the extent not so paid, such benefits shall remain the obligation of, and shall be paid by AT&T.

#### 6.4 No Employment Rights.

Nothing herein shall constitute a contract of continuing employment or in any manner obligate any AT&T company to continue the service of a Participant, or obligate a Participant to continue in the service of any AT&T company and nothing herein shall be construed as fixing or regulating the compensation paid to a Participant.

#### 6.5 Modification or Termination of Plan.

This Plan may be modified or terminated at any time in accordance with the provisions of AT&T's Schedule of Authorizations; provided, however, the Plan shall not be materially modified (within the meaning of Section 885(d)(2)(B) of the American Jobs Creation Act of 2004) after October 3, 2004 unless such modification is consistent with the guidance issued under Section 885(f) of the American Jobs Creation Act of 2004 so that such amendment is not a material modification of the Plan. A modification may affect present and future Eligible Employees. AT&T also reserves the sole right to terminate at any time any or all Agreements. In the event of termination of the Plan or of a Participant's Agreement, a Participant shall be entitled to benefits hereunder, if prior to the date of termination of the Plan or of his or her Agreement, such Participant has attained 5 Years of Service, in which case, regardless of the termination of the Plan/Participant's Agreement, such Participant shall be entitled to benefits at such time as provided in and as otherwise in accordance with the Plan and his or her Agreement, provided, however, Participant's benefit shall be computed as if Participant had terminated employment as of the date of termination of the Plan or of his or her Agreement. No amendment, including an amendment to this Section 6.5, shall be effective, without the written consent of a Participant, to alter, to the detriment of such Participant, the benefits described in this Plan as applicable to such Participant as of the effective date of such amendment. For purposes of this Section 6.5, an alteration to the detriment of a Participant shall mean a reduction in the amount payable hereunder to a Participant to which such Participant would be entitled if such Participant terminated employment at such time, or any change in the form of benefit payable hereunder to a Participant to which such Participant would be entitled if such Participant terminated employment at such time. Any amendment which reduces Participant's benefit hereunder to adjust for a change in his or her pension benefit resulting from an amendment to any company-sponsored defined benefit pension plan which changes the pension benefits payable to all employees, shall not require the Participant's consent. Written notice of any amendment shall be given to each Participant.

#### 6.6 Offset.

If at the time payments or installments of payments are to be made hereunder, a Participant or his or her Beneficiary or both are indebted to any AT&T company, then the payments remaining to be made to the Participant or his or her Beneficiary or both may, at the discretion of the Board of Directors, be reduced by the amount of such indebtedness; provided, however, that an election by the Board of Directors not to reduce any such payment or payments shall not constitute a waiver of such AT&T company's claim for such indebtedness.

#### 6.7 Change in Status.

In the event of a change in the employment status of a Participant to a status in which he is no longer an Eligible Employee, the Participant shall immediately cease to be eligible for any benefits under this Plan except such benefits as had previously vested. Only Participant's Years of Service and Earnings history prior to the change in his employment status shall be taken into account for purposes of determining Participant's vested benefits hereunder.

### 7 Miscellaneous.

#### 7.1 Nonassignability.

Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate or convey in advance of actual receipt of the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are, expressly declared to be unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, nor be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency.

#### 7.2 Non-Competition.

Notwithstanding any other provision of this Plan, all benefits provided under the Plan with respect to a Participant shall be forfeited and canceled in their entirety if the Participant, without the consent of AT&T and while employed by AT&T or any subsidiary thereof or within three (3) years after termination of such employment, engages in competition with AT&T or any subsidiary thereof or with any business with which AT&T or a subsidiary or affiliated company has a substantial interest (collectively referred to herein as "Employer business") and fails to cease and desist from engaging in said competitive activity within 120 days following receipt of written notice from AT&T to Participant demanding that Participant cease and desist from engaging in said competitive activity. For purposes of this Plan, engaging in competition with any Employer business shall mean engaging by the Participant in any business or activity in the same geographical market where the same or substantially similar business or activity is being carried on as an Employer business. Such term shall not include owning a nonsubstantial publicly traded interest as a shareholder in a business that competes with an Employer business. However, engaging in competition with an Employer business shall include representing or providing consulting services to, or being an employee of, any person or entity that is engaged in competition with any Employer business or that takes a position adverse to any Employer business. Accordingly, benefits shall not be provided under this Plan if, within the time period and without the written consent specified, Participant either engages directly in competitive activity or in any capacity in any location becomes employed by, associated with, or renders service to any company, or parent or affiliate thereof, or any subsidiary of any of them, if any of them is engaged in competition with an Employer business, regardless of the position or duties the Participant takes and regardless of whether or not the employing company, or the company that Participant becomes associated with or renders service to, is itself engaged in direct competition with an Employer business.

### 7.3 Notice.

Any notice required or permitted to be given to the Administrative Committee under the Plan shall be sufficient if in writing and hand delivered, or sent by certified mail, to the principal office of AT&T, directed to the attention of the Senior Vice President-Human Resources. Any notice required or permitted to be given to a Participant shall be sufficient if in writing and hand delivered, or sent by certified mail, to Participant at Participant's last known mailing address as reflected on the records of his or her employing company or the company from which the Participant incurred a Termination of Employment, as applicable. Notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark or on the receipt for certification.

### 7.4 Validity.

In the event any provision of this Plan is held invalid, void or unenforceable, the same shall not affect, in any respect whatsoever, the validity of any other provision of this plan.

### 7.5 Applicable Law.

This Plan shall be governed and construed in accordance with the laws of the State of Texas to the extent not preempted by the Employee Retirement Income Security Act of 1974, as amended, and regulations thereunder ("ERISA").

### 7.6 Plan Provisions in Effect Upon Termination of Employment.

The Plan provisions in effect upon a Participant's Termination of Employment shall govern the provision of benefits to such Participant. Notwithstanding the foregoing sentence, the benefits of a Participant whose Retirement occurred prior to February 1, 1989, shall be subject to the provisions of Section 3.3 hereof.

7.7 Plan To Be Interpreted and Applied So As Not To Be Subject To Code Section 409A.

Notwithstanding any provision to the contrary in this Plan, each provision in this Plan shall be interpreted and applied so that amounts deferred under the Plan are not subject to the provisions of Section 409A of the Code and any provision that would conflict with such requirements shall be applied and construed, as determined by the Administrative Committee in its complete discretion, consistent with the foregoing. The Administrative Committee's determination, as provided herein, shall be final and conclusive.

## SUPPLEMENTAL RETIREMENT INCOME PLAN AGREEMENT

THIS AGREEMENT is made and entered into at San Antonio, Texas as of this \_\_\_\_ day of \_\_\_\_\_, by and between AT&T Inc. ("AT&T") and \_\_\_\_\_ ("Participant").

WHEREAS, AT&T has adopted a Supplemental Retirement Income Plan (the "Plan"); and

WHEREAS, the Participant has been determined to be eligible to participate in the Plan; and

WHEREAS, the Plan requires that an agreement be entered into between AT&T and Participant setting out certain terms and benefits of the Plan as they apply to the Participant;

NOW, THEREFORE, AT&T and the Participant hereby agree as follows:

1. The Plan is hereby incorporated into and made a part of this Agreement as though set forth in full herein. The parties shall be bound by, and have the benefit of, each and every provision of the Plan as set forth in the Plan.
2. The Participant was born on \_\_\_\_\_, and his or her present employment began on \_\_\_\_\_,
3. The Participant's "Retirement Percent" which is described in the Plan shall be \_\_\_\_\_ percent (\_\_\_\_%)
4. Election as to Form of Benefits. The Participant elects the Benefit Payout Alternative as shown on the Supplemental Retirement Income Plan (SRIP) Benefit Election form attached hereto and incorporated herein for all purposes (the "Form"). The Participant may change this election at any time prior to the end of the calendar year immediately preceding the Participant's Termination of Employment, and the Participant's election in effect at the time will control the distribution of benefit under the Plan. If the Participant has not elected a Benefit Payout Alternative prior to the end of the calendar year immediately preceding the Participant's Termination of Employment, the Participant's form of benefit under the Plan shall be the Life With 10-Year Certain Benefit.

This Agreement supersedes all prior Supplemental Retirement Income Plan Agreements between AT&T and Participant, and any amendments thereto, and shall inure to the benefit of, and be binding upon, AT&T, its successors and assigns, and the Participant and his or her Beneficiaries.

IN WITNESS WHEREOF, the parties hereto have signed and entered into this Agreement on and as of the date first above written.

AT&T INC.:

By: \_\_\_\_\_  
Senior Executive Vice President-Human Resources

PARTICIPANT:

Due Date:

Form SRIP-4 (9/01)

Supplemental Retirement Income Plan (SRIP)

**Payment Election**

Name: \_\_\_\_\_  
 Security Number: \_\_\_\_\_

Social

**I. Form of Payment**

I hereby elect the following form of benefit for my SRIP benefit in accordance with and subject to the terms of the Plan:

- a. \_\_\_ Life with 10-Year Certain Benefit. Complete Section 4.
- b. \_\_\_ Joint and 100% Survivor Benefit. Complete Section 4.
- c. \_\_\_ Joint and 50% Survivor Benefit. Complete Section 4.
- d. \_\_\_ Lump Sum. Complete Section 2. (Only available if age 54 or older at time of election and age 55 or older at Termination of Employment).
- e. \_\_\_ Defer making an election until no later than the last day of the calendar year preceding the calendar year in which my Termination of Employment takes place or my SRIP benefit commences. Complete Section 4.

**Default Distribution:** If a payment election is not on file as of the last day of the year prior to your retirement or termination, the form of benefit shall be the Life with 10-Year Certain Benefit.

**2. SRIP Lump Sum Deferral Amount**

You must defer the receipt of at least seventy percent (70%) of your lump sum (excluding accrued interest thereon) until at least the third anniversary of your retirement (the "70% Rule"). Please indicate below the portion of your lump sum that you wish to defer:

I wish to defer \_\_\_\_\_% (not less than 70%). Any portion not deferred will be paid within 60 days following my Termination of Employment. Complete Section 3.

*Note: You have a one-time right to accelerate the distribution of your deferred balance by making an election prior to the first day of the calendar year in which you desire to receive an accelerated distribution of your deferred balance.*

**3. Distribution Election for Deferred Lump Sum and Accrued Interest ("Deferred Balance")**

Please indicate how you would like your deferred balance distributed.

- Complete Section 3a if you wish to receive monthly interest only payments. You must also complete Section 3b to elect how to receive your remaining deferred balance.
- Complete Section 3b to specify distribution of your deferred balance. Subject to the 70% Rule, payment will begin within 60 days of your retirement date if you elect distribution in your year of retirement.
- The deferred balance must be distributed no later than the 20th anniversary of your retirement.
- If applicable, the dates you complete in Section a and b cannot overlap.

**a. Interest Paid Monthly**

Please distribute interest on my deferred balance paid monthly commencing \_\_\_\_\_ (month/year) through \_\_\_\_\_ (month/year).

**Note: Also complete Section 3b to elect payment of deferred balance.**

**b. Ratable Distribution Over a Period of Years**

Please make an annual payment of my deferred balance on March 1<sup>st</sup> of each year paid for \_\_\_\_\_

(insert number from 1 through 20) year(s) commencing \_\_\_\_\_ (insert year). Please choose one distribution method as follows:

- Paid ratably for the period(s) selected in 3b. (e.g. 1/20<sup>th</sup>, 1/19<sup>th</sup>, 1/18<sup>th</sup> .... If payment is requested over 20 years).
- Paid in equal annual installments for the period(s) selected in 3b.

*Note: You may not request more than 30% of your lump sum within 36 months following retirement.*

Complete Section 4.

**4. Authorization**

I hereby authorize and make the above elections.

Signature \_\_\_\_\_ Date \_\_\_\_\_

Please return to Executive Compensation Staff  
 175 E. Houston, 3-N-1, San Antonio, Texas 78205





Exhibit 10-g

**SENIOR MANAGEMENT  
DEFERRED COMPENSATION PLAN  
OF 1988**  
(4 Year Units)

Effective For Units of Participation  
Having A Unit Start Date Of  
January 1, 1988 Or Later And  
Prior To January 1, 1991

January 1, 1988  
amended through April 1, 2002

Ex 10-g\_Senior Mgmt Def Comp Plan of 1988 amended 04.01.2002

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SENIOR MANAGEMENT  
DEFERRED COMPENSATION PLAN OF 1988

- Section 1        Statement of Purpose. The purpose of the Senior Management Deferred Compensation Plan of 1988 is to provide retirement, death, or termination-of-employment benefits to a select group of management employees consisting of Eligible Employees of SBC Communications Inc. (the "Company") and its Subsidiaries ("Participating Companies").
- Section 2        Definitions. For the purposes of this Plan, the following words and phrases shall have the meanings indicated, unless the context clearly indicates otherwise.
1.        Administrative Committee. "Administrative Committee" means a committee of three or more members, at least one of whom is a Senior Manager, who shall be designated by the Vice President-Human Resources to administer the Plan pursuant to Section 3.
  2.        Agreement. "Agreement" means the written agreement entitled "Senior Management Deferred Compensation Plan of 1988 Agreement" (substantially in the form attached to this Plan) that shall be entered into by the Employer and a Participant with respect to each Unit of Participation to carry out the Plan with respect to such Participant.
  3.        Annualized Total Unit Deferral Amount. The "Annualized Total Unit Deferral Amount" means the Total Unit Deferral Amount divided by four.
  4.        Base Salary. "Base Salary" means the Participant's annual base salary before reduction pursuant to this Plan or any plan of the Employer whereby compensation is deferred, including but not limited to a plan whereby compensation is deferred in accordance with Section 401(k) of the Internal Revenue Code.
  5.        Beneficiary. "Beneficiary" means the person or persons designated as such in accordance with Section 9.
  6.        Board. "Board" means the Board of Directors of SBC Communications Inc.
  7.        Compensation. "Compensation" means the Participant's monthly Base Salary plus any other compensation that is normally matched in the SBC Communications Inc. Savings Plan for Salaried Employees before reduction for compensation deferred pursuant to this Plan or any plan of the Employer whereby compensation is deferred, including but not limited to a plan whereby compensation is deferred in accordance with Section 401(k) of the Internal Revenue Code.
  8.        Declared Rate. "Declared Rate" means with respect to any Plan Year the interest rate which will be credited during such Plan Year on a Participant's Deferred Compensation Accounts for Units of Participation which have not yet commenced benefit payments. The Declared Rate for each Plan Year will be determined by the Administrative Committee, in its complete and sole discretion, and will be announced on or before January 1 of the applicable Plan Year; provided that in no event will the Declared Rate for any Plan Year be less than the Moody's Corporate Bond Yield Average-Monthly Average Corporates as published by Moody's Investor's Service, Inc. (or any successor thereto) for the month of September before the Plan Year in question, or, if such yield is no longer published, a substantially similar average selected by the Administrative Committee.

9. Deferral Amount. "Deferral Amount" means an amount of Base Salary deferred with respect to a Unit of Participation under this Plan.
10. Deferred Compensation Account. "Deferred Compensation Account" means the account maintained on the books of account of the Employer for each Participant for each Unit of Participation pursuant to Section 5.1.
11. Disability. "Disability" means a disability as defined in the SBC Communications Inc. Sickness and Accident Disability Benefit Plan or the SBC Communications Inc. Senior Management Long Term Disability Plan covering the Participant, as applicable.
12. Intentionally Omitted.
13. Intentionally Omitted.
14. Intentionally Omitted.
15. Early Retirement. "Early Retirement" means the termination of a Participant's employment with Employer for reasons other than death prior to Normal Retirement and on or after the date Participant attains age 55.
16. Election Form. The "Election Form" means an Eligible Employee's written election to participate in the Plan with respect to each Unit of Participation in accordance with Section 4.
17. Eligible Employee. "Eligible Employee" means an Employee of the Employer who (a) is in active service, (b) is a Senior Manager or has an employment status which has been approved by the Board or its Chairman to be eligible to participate in this Plan, and (c) who continuously maintains the employment status upon which eligibility to participate in this Plan was based.
18. Employee. "Employee" means any person employed by the Employer on a regular full-time salaried basis.
19. Employer. "Employer" means SBC Communications Inc. or any of its Subsidiaries.

20. Normal Retirement. "Normal Retirement" means attainment of age 65 during a Participant's employment with Employer irrespective of whether there is a termination of Participant's employment with Employer.
21. Participant. "Participant" means an Employee participating in the Plan in accordance with the provisions of Section 4.
22. Plan Year. "Plan Year" means the calendar year.
23. Projected Employer Contribution. "Projected Employer Contribution" means for purposes of computing the Pre-Retirement Survivor Benefit with respect to a Unit of Participation pursuant to Section 6.6(a), the product of (i) the Company Match Rate Expressed as a Percent\* as in effect at the time of the Unit Start Date, times the Participant's annual Base Salary at the Unit Start Date minus (a) any Employer matching contribution determined as of the Unit Start Date associated with said Base Salary at the Unit Start Date which is then being contributed or is to be contributed to the Salaried Savings Plan and minus (b) any Employer matching contribution which has previously been allocated to a Unit of Participation under this or any other Employer deferred compensation plan and (ii) the number of years in the Unit Deferral Period for the Unit of Participation.
24. Rotational Work Assignment Company ("RWAC"). shall mean Bell Communications Research, Inc. ("Bellcore"), formerly the Central Services Organization, Inc., and/or any other entity with which SBC Communications Inc. or any of its Subsidiaries may enter into an agreement to provide an employee for a rotational work assignment.<sup>25</sup> Retirement Benefit Option. "Retirement Benefit Option" means with respect to any Unit of Participation the Retirement Benefit payment option described in Section 6.
25. Senior Manager. "Senior Manager" means an individual employed by Employer in a position having a Salary Grade of 29 or above or equivalent.
26. SBC Communications Inc. Savings Plan for Salaried Employees. "SBC Communications Inc. Savings Plan for Salaried Employees" or "Salaried Savings Plan" means the SBC Communications Inc. Savings Plan for Salaried Employees or any successor plan to such plan adopted by the Employer. Participants from any Subsidiary, permitted to participate in this Plan, shall be treated as participating in the SBC Communications Inc. Savings Plan for Salaried Employees for purposes of calculating any matching Employer contributions.
- \* **The Company Match Rate Expressed as a Percent means the maximum percent of salary that can be received as Employer matching contribution under the SBC Communications Inc. Savings Plan for Salaried Employees, e.g., a match of 66 2/3% of the amount of basic allotment (up to 6%) of salary results in a Company Match Rate Expressed as a Percent of .667 x 6% = 4%.**

27. **Subsidiary.** A "Subsidiary" of the Company is any corporation, partnership, venture or other entity in which the Company has, either directly or indirectly, at least a 10% ownership interest.

28. **Total Unit Deferral Amount.** "Total Unit Deferral Amount" means the sum of all amounts of Base Salary deferred during the Unit Deferral Period with respect to a Unit of Participation, as shown in Exhibit A of Participant's Agreement for that Unit of Participation.

29. **Unit Deferral Period.** "Unit Deferral Period" means the number of months the Participant elects to reduce his Base Salary with respect to a Unit of Participation, as shown in Exhibit A of Participant's Agreement for that Unit of Participation. The Unit Deferral Period for a Unit of Participation will commence on the Unit Start Date and end upon the earliest to occur of the following: (i) the last day of the forty-eight (48) month period which commenced with the Unit Start Date, or (ii) when the Participant terminates employment, terminates the Unit of Participation or ceases to be an Eligible Employee as described in Section 6.4 of the Plan. In no event shall the Unit Deferral Period for a Unit of Participation end later than forty-eight (48) months after the Unit Start Date.

30. **Unit of Participation.** "Unit of Participation" means a stated Total Unit Deferral Amount and associated Employer contributions which provide stated benefits pursuant to Section 6 in accordance with the Participant's Agreement for that Unit of Participation.

31. **Unit Start Date.** "Unit Start Date" means the date for commencement of deferrals shown in Exhibit A of a Participant's Agreement for a given Unit of Participation. The Unit Start Date will be January 1, unless the Administrative Committee, in its sole discretion permits a new Participant to elect a Unit Start Date within 30 days after such Participant first becomes an Eligible Employee.

Section 3 **Administration of the Plan.** The Administrative Committee shall be the sole administrator of the Plan and will administer the Plan, interpret, construe and apply its provisions in accordance with its terms. The Administrative Committee shall further establish, adopt or revise such rules and regulations as it may deem necessary or advisable for the administration of the Plan. All decisions of the Administrative Committee shall be final and binding.

Section 4 Participation.

4.1 Election to Commence a Unit of Participation. Any Eligible Employee may elect to commence deferral of Base Salary with respect to a Unit of Participation under the Plan by filing a completed Election Form with the Administrative Committee prior to the beginning of the Unit Start Date. Pursuant to said Election Form, the Eligible Employee shall elect a Total Unit Deferral Amount and a Unit Deferral Period to be specified in Exhibit A of Participant's Agreement with respect to such Unit of Participation.

The combination of deferrals from all of the Participant's Units of Participation including the Unit of Participation with respect to which the Participant is electing to commence deferrals and from Units of Participation under the SBC Communications Inc. Senior Management Deferred Compensation Plan ("SBC DCP"), must be at least six percent (6%) of Participant's Base Salary at the Unit Start Date for the Unit of Participation with respect to which the Participant is electing to commence deferrals. A Unit of Participation shall require a minimum Annualized Total Unit Deferral Amount of \$1,000. The sum of the Participant's contributions, if any, to the SBC Communications Inc. Savings Plan for Salaried Employees plus the Annualized Total Unit Deferral Amounts for all Units of Participation under this Plan and under the SBC DCP in a given Plan Year may not exceed thirty percent (30%) of a Participant's Compensation for that Plan Year.

4.2 Termination of Election. A Participant's election to defer Base Salary is irrevocable upon the filing of his Election Form with the Administrative Committee, provided, however, that the election may be terminated with respect to Base Salary not yet paid by mutual agreement in writing between the Participant and the Administrative Committee. Such termination if approved shall be effective beginning the first day of the month following the execution of such mutual agreement.

Section 5 Deferred Compensation.

5.1 Deferred Compensation Account. The Administrative Committee shall establish and maintain a separate Deferred Compensation Account for each Participant for each Unit of Participation. The amount by which a Participant's Base Salary is reduced each month pursuant to Section 4.1 and the amount of Employer contribution allocated to the Participant's Units of Participation pursuant to Section 5.3 with respect to any Unit of Participation shall be credited by the Employer to the Participant's Deferred Compensation Account for such Unit of Participation no later than the first day of the following month, and such Deferred Compensation Account shall be debited by the amount of any payments made by the Employer to the Participant or the Participant's Beneficiary with respect to such Unit of Participation pursuant to this Plan.

With respect to each Unit of Participation, the Deferred Compensation Account of a Participant shall be deemed to bear interest from the date such Deferred Compensation Account was established through the date of commencement of benefit payments at a rate equal to the applicable Declared Rate for the particular Plan Year on the balance from month-to-month in such Deferred Compensation Account. Interest will be credited monthly to the Deferred Compensation Account at one-twelfth of the annual Declared Rate, compounded annually. Following the commencement of benefit payments with respect to a Unit of Participation, a Participant's Deferred Compensation Account shall be deemed to bear interest on the balance in such Deferred Compensation Account from month-to-month at a rate equal to one-twelfth of the average of the annual Declared Rates for the five (5) Plan Years ending prior to commencement of benefit payments (or, if the Plan has been in operation for less than five (5) Plan Years, the average of the Declared Rates for all Plan Years ending prior to commencement of benefit payments).

5.2 Participant Deferrals. The Participant's Total Unit Deferral Amount is deferred in equal amounts on a monthly basis over the Unit Deferral Period or as otherwise may be permitted by the Administrative Committee. The amount deferred each month with respect to a given Unit of Participation shall be credited by the Employer to the Participant's Deferred Compensation Account for that Unit of Participation no later than the first day of the following month.

The Participant will be permitted to defer an additional amount equal to all or a portion of his Short Term Incentive Award. A Participant shall not be permitted to "defer" into the Plan any monies that are not compensation paid by Employer. Any additional deferrals by a Participant with respect to a given Unit of Participation shall not affect Total Unit Deferral Amount and shall not result in any change in the maximum Employer contribution pursuant to Section 5.3 for the Plan Year during which the additional deferral is made. In no event shall any such additional deferral by a Participant result in any reduction in the amounts by which the Participant's Base Salary is reduced pursuant to Exhibit A to the Participant's Agreement with respect to such Unit of Participation prior to completion of deferral of the Total Unit Deferral Amount for such Unit of Participation. Participant's election to defer all or a portion of his Short Term Incentive Award shall be filed with the Administrative Committee (on a form to be provided by said Committee for such purpose) prior to the beginning of the fiscal year during which such Award is earned.

Such additional deferral amount shall be considered a separate part of Participant's Deferred Compensation Account, shall be subject to the terms thereof except survivor benefits, and shall be paid out in the same manner as the rest of such Deferred Compensation Account.

5.3 **Employer Contribution.** Participation in this Plan does not preclude participation in the SBC Communications Inc. Savings Plan for Salaried Employees. For a given Plan Year, the aggregate Employer contribution to both the SBC Communications Inc. Savings Plan for Salaried Employees and this Plan on behalf of a Participant will be an amount equal to the Company Match Rate Expressed as a Percent as in effect during all or portions of that Plan year times the Participant's Compensation as in effect during all or portions of that Plan Year which is contributed or deferred for that Plan Year by the Participant in accordance with each plan, respectively. Any such amount of Employer contribution not allocated to the SBC Communications Inc. Savings Plan for Salaried Employees will be credited to the Participant's Deferred Compensation Accounts, as applicable. The amount or percent of a Participant's Base Salary to be allocated to Basic Allotments in the SBC Communications Inc. Savings Plan for Salaried Employees shall be specified in Paragraph 3 of a Participant's Agreement.

5.4 **Vesting of Deferred Compensation Account.** A Participant's interest in his Deferred Compensation Account shall vest at the same rate and in the same manner as it would under the SBC Communications Inc. Savings Plan for Salaried Employees, as in effect from time to time, had both the Deferral Amount and the Employer contribution to this Plan with respect to that Deferral Amount for any given Unit of Participation been contributed instead to the SBC Communications Inc. Savings Plan for Salaried Employees. For this purpose all years of service recognized under the SBC Communications Inc. Savings Plan for Salaried Employees, for purposes of determining a Participants vested interest under that plan, shall be taken into account in determining the Participant's vested interest under this Plan.

5.5 **Valuation of Accounts.** The value of a Deferred Compensation Account as of any date shall equal the amounts theretofore credited to such account plus the interest on such account credited in accordance with Section 5.1 through the day preceding such date.

5.6 **Statement of Accounts.** Each Participant will receive annual statements in such form as the Administrative Committee deems desirable setting forth the balance standing to the credit of each of the Participant's Deferred Compensation Accounts.

**Section 6 Retirement Benefits.** Section 6 shall apply to all Units of Participation under this Plan. The benefits specified in this Section 6 shall be provided under the Retirement Benefit Option.

6.1 **Normal Retirement.** Upon Normal Retirement, with respect to a Unit of Participation, the Employer shall pay to the Participant an equal amount each month for one hundred eighty (180) months, beginning on the first day of the month next following the date of Normal Retirement, which will amortize over such one hundred eighty (180) equal monthly payments the sum of (a) the value of the Deferred Compensation Account for such Unit of Participation as of the date of commencement of benefit payments, plus (b) the interest that will accrue on the unpaid balance in such Deferred Compensation Account during such one hundred eighty (180) month period pursuant to Section 5.1 ("Standard Retirement Benefit"). Alternatively, a Participant may elect in the Agreement for any Unit of Participation to receive an alternative retirement benefit in lieu of the Standard Retirement Benefit ("Alternative Retirement Benefit") for such Unit of Participation either in a lump sum payment or in sixty (60) or one hundred twenty (120) equal monthly payments, with the amount of each monthly payment to be calculated in accordance with the principle stated in the preceding sentence.

6.2 Early Retirement. Upon Early Retirement, with respect to a Unit of Participation, the Employer shall pay to the Participant an equal amount each month for one hundred eighty (180) months, beginning on the first day of the month next following the date of Early Retirement, which will amortize over such one hundred eighty (180) equal monthly payments the sum of (a) the value of the Deferred Compensation Account for such Unit of Participation as of the date of commencement of benefit payments, plus (b) the interest that will accrue on the unpaid balance in such Deferred Compensation Account during such one hundred eighty (180) month period pursuant to Section 5.1 ("Standard Retirement Benefit"). Alternatively, a Participant may elect in the Agreement for any Unit of Participation to receive an alternative retirement benefit in lieu of the Standard Retirement Benefit ("Alternative Retirement Benefit") for such Unit of Participation either in a lump sum payment or in sixty (60) or one hundred twenty (120) equal monthly payments, with the amount of each monthly payment to be calculated in accordance with the principle stated in the preceding sentence. A Participant may further elect in the Agreement for any Unit of Participation to have the Early Retirement Benefit for such Unit of Participation commence when he attains age 65.

6.3 Provisions Relating to Manner and Time of Payments. If a Participant's Agreement fails to show an election of a manner of payment of a Normal or Early Retirement Benefit such Participant will receive the Standard Normal or Early Retirement Benefit in accordance with Section 6.1 or Section 6.2, respectively.

In the event that a final determination shall be made by the Internal Revenue Service or any court of competent jurisdiction that by reason of Normal or Early Retirement a Participant has recognized gross income for Federal income tax purposes in excess of the Standard or Alternative Retirement Benefit actually paid by the Employer to which such gross income is attributable, the Employer shall make a lump sum payment to the Participant of the remaining balance of his Deferred Compensation Accounts for any affected Units of Participation. If a benefit is payable to a Participant pursuant to this paragraph for any Unit of Participation, no other benefits shall thereafter be payable under this Plan with respect to such Unit of Participation.

Notwithstanding any election made by the Participant, the Administrative Committee will pay the Participant's Standard or Alternative Retirement Benefit in the form of a lump sum payment if the value of his Deferred Compensation Account for a Unit of Participation is less than \$10,000 when payment of a Normal or Early Retirement Benefit with respect to the Unit of Participation would otherwise commence.

## 6.4 Termination Benefit.

- (a) Termination of Employment Before Attaining Age 55. Upon any termination of employment of the Participant for reasons other than death or Disability before the Participant attains age fifty-five (55), the Company shall pay to the Participant, with respect to a Unit of Participation, as compensation earned for services rendered prior to his termination of service, a lump sum equal to the vested portion of the amounts standing credited to his Deferred Compensation Account for such Unit of Participation as of the date of such termination of service ("Termination Benefit").
- (b) Termination of a Unit of Participation. A Participant may discontinue a Unit of Participation while continuing in the service of the Employer. Notwithstanding any other provision of the Plan, upon such discontinuance, the Participant shall immediately cease to be eligible for any benefits other than his Termination Benefit with respect to that Unit of Participation except as provided under Section 8.1.

No other benefit shall be payable with regard to such Unit of Participation to either the Participant or any Beneficiary of such Participant. The Participant shall continue to be credited with interest on the amounts standing credited to his Deferred Compensation Accounts as provided under Section 5.1 and to vest in such amounts as provided under Section 5.4 while he remains in employment with the Employer until payment of his Termination Benefit. However, no further Participant deferrals or Employer contributions to this Plan shall be made pursuant to Sections 5.2 or 5.3 with respect to a Unit of Participation after a Participant discontinues or terminates such Unit of Participation.

A Participant shall terminate a Unit of Participation if he terminates his election to defer Base Salary with the approval of the Administrative Committee pursuant to Section 4.2.

- (c) Loss of Eligibility. In the event that the Participant ceases to be an Eligible Employee by reason of a change to an employment status which is not eligible to participate in this Plan, except as provided under Section 8.1, the Participant shall immediately cease to be eligible for any benefits other than a modified Termination Benefit which shall consist of a lump sum equal to the vested amounts standing credited to his Deferred Compensation Accounts as of the date of such loss of eligibility, provided the Participant shall continue to be credited with interest on such amounts as provided under Section 5.1 and to vest in such amounts as provided under Section 5.4 while he remains in employment with the Employer. However, no further Participant deferrals or Employer contributions shall be made to this Plan pursuant to Sections 5.2 or 5.3 subsequent to the date of such loss of eligibility. Each such lump sum Termination Benefit shall be payable upon the Participant's termination of employment by the Employer, whether by death, Normal Retirement, Early Retirement or any other means. The provisions of this subparagraph 6.4(c) shall not apply if the Participant in his new employment status is an eligible employee under another similar deferred compensation plan of the Employer. In such event the provisions of Section 8.6 of this Plan shall apply.

- (d) **No Other Benefits Payable.** When a Participant terminates employment, terminates a Unit of Participation or ceases to be an Eligible Employee under circumstances in which Section 6.4(a), (b) or (c) applies, no Survivor Benefit or other benefit shall thereafter be payable under this Plan to either the Participant or any Beneficiary of the Participant with respect to such Unit of Participation except as provided under Section 8.1.

6.5 **Disability.** In the event that a Participant suffers a Disability, Participant deferrals and Employer contributions that otherwise would have been credited to the Deferred Compensation Accounts of the Participant in accordance with Sections 5.2 and 5.3 will continue to be credited to such Deferred Compensation Accounts at the same time and in the same amounts as they would have been credited if the Participant had not suffered a Disability for as long as he is eligible to receive monthly disability benefits equal to 100 percent of his monthly base salary at the time of his Disability. At such time as the Participant is not eligible to receive monthly disability benefits equal to 100 percent of his monthly base salary at the time of his Disability, Participant deferrals and Employer contributions that otherwise would have been credited to the Deferred Compensation Accounts of the Participant in accordance with Section 5.2 and 5.3 shall cease.

If the Participant recovers from his Disability and returns within sixty (60) days thereafter to employment with the Employer in an employment status which would make him eligible to participate in this Plan and prior to the end of the original Unit Deferral Period, the Participant shall continue or resume making deferrals, as the case may be, in accordance with Section 5.2 and the Employer shall continue or resume making contributions, as the case may be, in accordance with Section 5.3 until the end of the original Unit Deferral Period.

If the Participant recovers from his Disability, the Participant shall be treated as terminating service with the Employer on the date of his recovery, unless within sixty (60) days thereafter he returns to employment with the Employer in an employment status which makes him eligible to participate in this Plan.

If a Participant's Disability terminates by reason of his death, the rights of his Beneficiary shall be determined pursuant to Section 6.6 as if the Participant had not been disabled but rather had been in service on the date of his death and either died or retired on such date, whichever would be most advantageous to such Beneficiary. If a Participant's Disability terminates by reason of attainment of age 65, the Participant shall upon the attainment of age 65 be entitled to a Normal Retirement Benefit determined pursuant to Section 6.1. If a Participant's Disability terminates by reason of the Participant's election to take Early Retirement under the Plan, the Participant shall be treated as having an Early Retirement on the date elected by the Participant and shall be entitled to an Early Retirement Benefit determined pursuant to Section 6.2.

## 6.6 Survivor Benefits.

- (a) If a Participant dies while in service with the Employer (or while suffering from a Disability prior to attaining age 55) prior to eligibility for Early Retirement with respect to a Unit of Participation, upon the Participant's death the Employer will pay to the Participant's Beneficiary with respect to each Unit of Participation an amount per month, as specified in paragraph 6 of his Agreement, equal to the greater of (i) [50% of the sum of the Total Unit Deferral Amount plus the Projected Employer Contribution for such Unit of Participation) divided by 12] or (ii) the balance in the Deferred Compensation Account (excluding any Short Term Incentive Award deferred pursuant to Section 5.2 and excluding any interest earned on the Short Term Incentive Award) divided by the number of months payments are to be made as stated below, plus interest in accordance with the interest methodology of Section 6.2. Payments are to be made for the greater of one hundred twenty (120) months or the number of months from the date of Participant's death until he would have been age 65 ("Pre-Retirement Survivor Benefit").

In addition, the Participant's Beneficiary will receive any Short Term Incentive Award associated with such Unit of Participation, deferred pursuant to Section 5.2, plus corresponding interest earned on the Short Term Incentive Award, paid out over the same period as the Pre-Retirement Survivor Benefit and in accordance with the interest methodology of Section 6.2.

- (b) If a Participant dies while in service after eligibility for Early Retirement with respect to a Unit of Participation, but prior to commencement of payment of an Early or Normal Retirement Benefit with respect to such Unit of Participation, the Employer will pay to the Participant's Beneficiary the greater of (i) the benefit that such Participant's Beneficiary would have received with respect to such Unit of Participation had the Participant retired and commenced to receive an Early Retirement Benefit on the day prior to such Participant's death or (ii) a benefit equal to the Pre-Retirement Survivor Benefit. The Administrative Committee shall determine which benefit is greater on a present value basis using such interest rate as the Administrative Committee may determine in its sole discretion. Payments will commence upon the Participant's death, irrespective of when Early Retirement Benefit payments would have commenced if the Participant had survived. Such payments shall be made in accordance with the method of payment which the Participant had elected for payment of his Normal or Early Retirement Benefit.

- (c) If a Participant dies after Early or Normal Retirement but before commencement of payment of an Early or Normal Retirement Benefit with respect to a Unit of Participation, the Employer will pay to the Participant's Beneficiary the installments of any such benefit that such Participant's Beneficiary would have received with respect to such Unit of Participation had the Participant commenced to receive an Early or Normal Retirement Benefit on the day prior to such Participant's death. Payments will commence upon the Participant's death, irrespective of when Early or Normal Retirement Benefit payments would have commenced if the Participant had survived. Such payments shall be made in accordance with the method of payment which the Participant had elected for payment of his Normal or Early Retirement Benefit.
- (d) If a Participant dies after the commencement of payment of an Early or Normal Retirement Benefit with respect to a Unit of Participation, the Employer will pay to the Participant's Beneficiary the remaining installments of any such benefit that would have been paid to the Participant had the Participant survived.
- (e) As an additional benefit, if a Participant dies subsequent to eligibility to commence payment of a Standard or Alternative Retirement Benefit, and has a surviving spouse, the Employer shall pay to the spouse commencing on the later of (a) the sixteenth (16th) year after commencement of payment of any Standard or Alternative Retirement Benefit or (b) the first of the month following the Participant's death, an amount per month for the life of the spouse equal to sixty-six and two-thirds percent (66-2/3%) of the Standard Retirement Benefit. If the spouse is more than three (3) years younger or older than the Participant on the date of Participant's death, the amount of such benefit shall be actuarially adjusted based on standard mortality tables.

6.7 Termination with Retirement Eligibility/Involuntary Termination. Notwithstanding any other provisions of the Plan, if after November 17, 1995, a Participant's employment terminates before the Participant attains age fifty-five, and if such termination is involuntary (which shall be deemed to include termination by reason of death), and is for a reason other than for cause (i.e., willful and gross misconduct on the part of the Participant that is materially and demonstrably detrimental to the Company or any entity in which the Company has at least a 50% ownership interest), and is on or after the date Participant is within five years of being pension eligible, i.e., would be within five years of being eligible to retire with a service pension under the rules for service pension eligibility as in effect under the SBC Pension Benefit Plan, and/or is a Senior Manager within five years of being eligible to retire with an immediate pension based on the eligibility rules of the SBC Senior Management Supplemental Retirement Income Plan, whether or not actually a participant in either such plan, then the provisions of this Section 6.7 shall govern and control with respect to the distribution of the Plan's benefits if the benefits offered by this Section 6.7 are elected. In such case, the Participant, or the Participant's Beneficiary(ies) if the Participant's employment terminates by reason of the Participant's death, may irrevocably elect in writing, in a Waiver Agreement, as described below, filed with the Company, to waive the Termination Benefit or the Pre-Retirement Survivor Benefit, as applicable, with respect to any or all Units of Participation, and in lieu of said Benefit for any such Unit, receive an "Alternative Termination Benefit".

Such Alternative Termination Benefit for a Unit shall be the Unit as described in the Participant's Agreement, provided in accordance with and governed in all respects by the terms of the Plan and said Agreement, except that the Plan and Agreement shall be applied with respect to such Unit as if the Participant had remained in employment and retired upon or after attaining age fifty-five, regardless of Participant's actual termination date. For purposes of applying the Plan and the Agreement, Normal Retirement shall be the Participant's sixty-fifth birthday and Early Retirement shall be the date specified by the Participant as Participant's Early Retirement date, which date shall be specified at the time the waiver Agreement, as described below, is filed with the Company, and which date may be no earlier than Participant's fifty-fifth birthday. In the event of Participant's death prior to age fifty-five, the Alternative Termination Benefit for a Unit, whether such Benefit was elected by the Participant or Participant's Beneficiary(ies), shall be determined, as described below, by applying the Plan and Agreement with respect to such Unit as if the Participant had died upon reaching age fifty-five.

Accordingly, notwithstanding any other provisions of the Plan, for purposes of application of this Section 6.7, in the event a Participant elects an Alternative Termination Benefit in lieu of the Termination Benefit for a Unit, or a Beneficiary(ies) elects to receive an Alternative Termination Benefit in lieu of a Pre-Retirement Survivor Benefit for a Unit, survivor benefits for such Unit shall be determined as follows: (a) If Participant dies on or after the date specified by Participant as Participant's Early Retirement date, Participant's Beneficiary(ies) shall receive the remaining installments of Participant's retirement benefit; or (b) If Participant dies on or after age fifty-five but prior to the date specified by Participant as Participant's Early Retirement date, Participant's Beneficiary(ies) will receive survivor benefits in accordance with Section 6.6(b), i.e., the provision of the Plan that would have applied had Participant's death actually been an in service death which occurred upon or after attainment of age fifty-five, or (c) If Participant's death occurs prior to age fifty-five, Participant's Beneficiary(ies) will receive at such time as Participant would have attained age fifty-five, survivor benefits in accordance with Section 6.6(b), i.e., the provision of the Plan that would have applied had Participant's death actually been an in service death which occurred upon attainment of age fifty-five; and (d) Finally, the benefit described in Section 6.6(e) shall apply commencing on the later of the sixteenth year after commencement of payments pursuant to the Alternative Termination Benefit or the first of the month following Participant's death.

For purposes of computing the Vested Benefits (as such term is used in rabbi trusts ("Trusts") established by the Company for the purpose of providing for the payment of benefits under the Plan) corresponding to an Alternative Termination Benefit, for all Trust purposes, including for purposes of determining the Trust funding level applicable for such Alternative Termination Benefit, the Participant shall be treated for each such Alternative Termination Benefit Unit as if continuing in employment until age fifty-five if the Participant dies before attaining age fifty-five or until the date of Participant's death if Participant dies after attaining age fifty-five or until reaching the Participant's Early Retirement Date for such Unit as selected by the Participant if Participant survives until such date, i.e., the Trust funding for any such Unit and the security afforded Participant or Participant's Beneficiary(ies) thereby shall be no different as a result of this Section 6.7 than they would have been had Participant continued in employment in the absence of this Section 6.7 and lived until at least age fifty-five.

Waiver of a Termination Benefit with respect to a Unit by a Participant, or of a Pre-Retirement Survivor Benefit with respect to a Unit by a Beneficiary(ies), and in either case, receipt of an Alternative Termination Benefit in lieu thereof, shall be conditioned upon the agreement in writing by the Participant, or Participant's Beneficiary(ies), as applicable, at the time of Participant's termination of employment, to provisions substantially as attached.

6.8 Termination Under EPR. Notwithstanding any other provisions of the Plan, if a Participant's employment terminates before the Participant attains age fifty-five, and if such termination is as an EPR Terminée under the Enhanced Pension and Retirement Program ("EPR") of the SBC Pension Benefit Plan-Nonbargained Program ("SBC PBP") or as a Deceased Electing Employee under EPR, and is on or after the date Participant is within five years of being pension eligible, i.e., would be within five years of being eligible to retire with a service pension under the rules for service pension eligibility as in effect under the SBC PBP, and/or is a Senior Manager within five years of being eligible to retire with an immediate pension based on the eligibility rules of the SBC Supplemental Retirement Income Plan, whether or not actually a participant in either such plan, or a Participant who is age 55 or over terminates employment under EPR, then the provisions of this Section 6.8 shall govern and control with respect to the distribution of the Plan's benefits if the benefits offered by this Section 6.8 are elected. In such case, the Participant, or the Participant's Beneficiary(ies) if the Participant's employment terminates by reason of the Participant's death, may irrevocably elect in writing, in an EPR special election form filed with the Company, to waive the Termination Benefit or the Pre-Retirement Survivor Benefit or the Early Retirement Benefit, as applicable, with respect to any or all Units of Participation, and in lieu of said Benefit for any such Unit, receive an "EPR Alternative Termination Benefit".

Such an EPR Alternative Termination Benefit for a Unit shall be the Unit as described in the Participant's Agreement, provided in accordance with and governed in all respects by the terms of the Plan and said Agreement, except that the Plan and Agreement shall be applied with respect to such Unit, in accordance with Participant's special EPR election form applicable to such Unit, as if the Participant had remained in employment and retired upon the Participant's Early Retirement Date specified in his EPR special election form applicable to such Unit of Participation, regardless of Participant's actual termination date. For purposes of applying the Plan and the Agreement, Normal Retirement shall be the Participant's sixty-fifth birthday and Early Retirement shall be the date specified by the Participant as Participant's Early Retirement date, which date shall be specified in Participant's special EPR election form filed with the Company, and which date may be no earlier than Participant's fifty-fifth birthday. In the event of Participant's death prior to age fifty-five, the EPR Alternative Termination Benefit for a Unit, whether such Benefit was elected by the Participant or Participant's Beneficiary(ies), shall be determined, as described below, by applying the Plan and Agreement with respect to such Unit as if the Participant had died upon or after reaching age fifty-five.

Accordingly, notwithstanding any other provisions of the Plan, for purposes of application of this Section 6.8, in the event a Participant elects an EPR Alternative Termination Benefit in lieu of the Termination Benefit or the Early Retirement Benefit for a Unit, or a Beneficiary(ies) elects to receive an EPR Alternative Termination Benefit in lieu of a Pre-Retirement Survivor Benefit for a Unit, as applicable, survivor benefits for such Unit shall be determined as follows: (a) If Participant dies on or after the date specified by Participant as Participant's Early Retirement date, Participant's Beneficiary(ies) shall receive the remaining installments of Participant's retirement benefit; or (b) If Participant dies on or after age fifty-five but prior to the date specified by Participant as Participant's Early Retirement date, Participant's Beneficiary(ies) will receive survivor benefits in accordance with Section 6.6(b), i.e., the provision of the Plan that would have applied had Participant's death actually been an in service death which occurred upon or after attainment of age fifty-five, or (c) If Participant's death occurs prior to age fifty-five, Participant's Beneficiary(ies) will receive at such time as Participant would have attained age fifty-five, survivor benefits in accordance with Section 6.6(b), i.e., the provision of the Plan that would have applied had Participant's death actually been an in service death which occurred upon attainment of age fifty-five; and (d) Finally, the benefit described in Section 6.6(c) shall apply commencing on the later of the sixteenth year after commencement of payments pursuant to the EPR Alternative Termination Benefit or the first of the month following Participant's death.

For purposes of computing the Vested Benefits (as such term is used in rabbi trusts ("Trusts") established by the Company for the purpose of providing for the payment of benefits under the Plan) corresponding to an EPR Alternative Termination Benefit, for all Trust purposes, including for purposes of determining the Trust funding level applicable for such EPR Alternative Termination Benefit, the Participant shall be treated for each such EPR Alternative Termination Benefit Unit as if continuing in employment until age fifty-five if the Participant dies before attaining age fifty-five or until the date of Participant's death if Participant dies after attaining age fifty-five or until reaching the Participant's Early Retirement Date for such Unit as selected by the Participant if Participant survives until such date, i.e., the Trust funding for any such Unit and the security afforded Participant or Participant's Beneficiary(ies) thereby shall be no different as a result of this Section 6.8 than they would have been had Participant continued in employment in the absence of this Section 6.8 and lived until at least age fifty-five.

Section 7 Intentionally Omitted.

Section 8 Payment of Benefits.

8.1 Intentionally Omitted.

8.2 Small Benefit. Notwithstanding any election made by the Participant, the Administrative Committee will pay any benefit in the form of a lump sum payment if the lump sum equivalent amount is less than \$10,000 when payment of such benefit would otherwise commence.

8.3 **Emergency Benefit.** In the event that the Administrative Committee, upon written petition of the Participant, determines in its sole discretion, that the Participant has suffered an unforeseeable financial emergency, the Employer shall pay to the Participant, as soon as practicable following such determination, the balance of his Deferred Compensation Accounts for one or more Units of Participation as necessary to meet the emergency (the "Emergency Benefit"). For purposes of this Plan, an unforeseeable financial emergency is an unexpected need for cash arising from an illness, casualty loss, sudden financial reversal, or other such unforeseeable occurrence. Cash needs arising from foreseeable events such as the purchase of a house or education expenses for children shall not be considered to be the result of an unforeseeable financial emergency. Upon payment of an Emergency Benefit with respect to any Unit of Participation, the Unit of Participation shall thereupon terminate, and no other benefits shall be payable under the Plan to either the Participant or any Beneficiary of the Participant with respect to the Unit of Participation.

8.4 **Commencement of Payments.** Except as otherwise provided in this Plan, commencement of payments under this Plan shall begin sixty (60) days following the event which entitles a Participant (or a Beneficiary) to payments under the Plan, or at such earlier date as may be determined by the Administrative Committee.

8.5 **Withholding; Unemployment Taxes.** To the extent required by the law in effect at the time payments are made, the Employer shall withhold from payments made hereunder the minimum taxes required to be withheld by the federal or any state or local government.

8.6 **Change in Status.** In the event of a change in the employment status of a Participant to a status in which he is no longer an Eligible Employee under this Plan, but is an eligible employee under the Management Deferred Compensation Plan of 1988 or another similar deferred compensation plan of the Employer, the Participant and all of his Units of Participation under this Plan shall automatically be transferred to such other deferred compensation plan for which he is then an eligible employee, unless otherwise determined by the Administrative Committee. In the event of any such transfer, the provisions of the other deferred compensation plan to which the Participant transfers shall thereafter determine the rights and benefits of the Participant with respect to all of his Units of Participation, unless otherwise determined by the Administrative Committee. The Employer may, but shall not be required to, enter into revised Agreements with the Participant to carry out the provisions of this Section.

8.7 **Transfer to RWAC.** Effective August 1, 1990, if a Participant transfers to a RWAC prior to completion of a Unit of Participation, deferrals which would otherwise have been made by the Participant in accordance with Section 5.2 shall continue to be made by the Employer until the Participant resumes employment with the Employer but for a maximum period not to exceed 5 years. Contributions which would have been made by the Employer in accordance with Section 5.3 shall also continue to be made by the Employer during such period as Participant contributions are continued in accordance with the preceding sentence. Benefits applicable during the period of employment at a RWAC (not to exceed 5 years) and the methods used for crediting the Deferred Compensation Account and repaying amounts contributed by the Employer and reducing the Normal Retirement or Early Retirement Benefit paid to the Participant or his Beneficiary shall be the same as those applicable pursuant to Section 6.7 in the case of Disability, i.e., employment at a RWAC shall be deemed a Disability for the purpose of making determinations pursuant to Section 6.7. If the Participant has not resumed employment with the Employer or has not completed a Unit of Participation as result of Employer Contributions within 5 years from date of transfer, a Termination Benefit based on the amounts credited to the Participant's Deferred Compensation Account at the date of transfer shall be paid upon termination of employment with a RWAC or the expiration of such 5 year period whichever is earlier.

8.8 Leave of Absence. If a Participant absents himself from employment on a formally granted leave of absence (i.e., the absence is with formal permission in order to prevent a break in the continuity of the Employee's term of employment which permission is granted in conformity with the rules of the Employer which employs the individual, as adopted from time to time), all of the Participant's Units of Participation shall automatically be frozen upon such leave of absence, unless otherwise determined by the Administrative Committee. No Participant deferrals or Employer contributions shall be made during the leave of absence. However, during the leave of absence (for a period not to exceed six (6) months), the Participant shall continue to be credited with interest on his Deferred Compensation Accounts as provided under Section 5.1 and to vest in such amounts as provided under Section 5.4, and all benefits shall continue to be payable to the Participant and his Beneficiaries in accordance with Section 6 hereof, except in the case of a political leave (i.e., to campaign for or serve when elected to a political office, to serve if appointed to public office or for non-candidate employees to participate in campaigns of candidates for political office). In the case of such a political leave, except as provided under Section 8.1, the only benefit payable if the Participant dies during such leave shall be a Termination Benefit based on the amounts credited to the Participant's Deferred Compensation Accounts, which shall be payable to the Participant's Beneficiary. If the Participant returns to employment with the Employer in an employment status which makes him eligible to participate in this Plan within six (6) months from commencement of the leave of absence, Participant deferrals and Employer contributions will resume until the end of the original Unit Deferral Period. If the Participant has not resumed employment with the Employer in an employment status which makes him eligible to participate in this Plan within six (6) months from the commencement of the leave of absence, a Termination Benefit based on the amounts credited to the Participant's Deferred Compensation Accounts shall be paid to the Participant.

This Section 8.8 shall not apply with respect to any period during which a Participant is suffering from a Disability, and such period of Disability shall not be included under this Section 8.8 as a portion of a period of leave of absence.

8.9 Ineligible Participant. Notwithstanding any other provisions of this Plan to the contrary, if any Participant is determined not to be a "management or highly compensated employee" within the meaning of the Employee Retirement Income Security Act of 1974, as amended (ERISA) or Regulations thereunder, such Participant will not be eligible to participate in this Plan and shall receive an immediate lump sum payment equal to the vested portion of the amounts standing credited to his Deferred Compensation Accounts. Upon such payment no Survivor Benefit or other benefit shall thereafter be payable under this Plan either to the Participant or any Beneficiary of the Participant, except as provided under Section 8.1.

Each Participant shall have the right, at any time, to designate any person or persons as his Beneficiary or Beneficiaries (both primary as well as contingent) to whom payment under this Plan shall be made in the event of his death prior to complete distribution to Participant of the benefits due him under the Plan. Each Beneficiary designation shall become effective only when filed in writing with the Administrative Committee during the Participant's lifetime on a form prescribed by the Administrative Committee with written acknowledgment of receipt.

The filing of a new Beneficiary designation form will cancel all Beneficiary designations previously filed. The spouse of a married Participant domiciled in a community property jurisdiction shall join in any designation of Beneficiary or Beneficiaries other than the spouse.

If a Participant fails to designate a Beneficiary as provided above, or if all designated Beneficiaries predecease the Participant or die prior to complete distribution of the Participant's benefits, then the Administrative Committee shall direct the distribution of such benefits to the Participant's estate.

Section 9 Beneficiary Designation. Each Participant shall have the right, at any time, to designate any person or persons as his Beneficiary or Beneficiaries (both primary as well as contingent) to whom payment under this Plan shall be made in the event of his death prior to complete distribution to Participant of the benefits due him under the Plan. Each Beneficiary designation shall become effective only when filed in writing with the Administrative Committee during the Participant's lifetime on a form prescribed by the Administrative Committee with written acknowledgment of receipt.

The filing of a new Beneficiary designation form will cancel all Beneficiary designations previously filed. The spouse of a married Participant domiciled in a community property jurisdiction shall join in any designation of Beneficiary or Beneficiaries other than the spouse.

If a Participant fails to designate a Beneficiary as provided above, or if all designated Beneficiaries predecease the Participant or die prior to complete distribution of the Participant's benefits, then the Administrative Committee shall direct the distribution of such benefits to the Participant's estate.

Section 10 Discontinuation, Termination, Amendment.

10.1 Employer's Right to Discontinue Offering Units. The Chairman of the Board may at any time discontinue offerings of additional Units of Participation with respect to any or all future Plan Years. Any such discontinuance shall have no effect upon the deferrals or benefits or the terms or provisions of this Plan as applicable to any then previously existing Units of Participation.

10.2 Employer's Right to Terminate Plan. The Board may at any time terminate the Plan. Termination of the Plan shall mean that (1) there shall be no further offerings of additional Units of Participation with respect to any future Plan Year; (2) Base Salary shall prospectively cease to be deferred with respect to all Units of Participation for the then Plan Year and thereafter; and (3) all then currently existing Units of Participation shall be treated as follows:

The Participant's Deferred Compensation Accounts shall be 100% vested. The Participant shall receive or continue to receive all benefits under this Plan at such time as provided in and pursuant to the terms and conditions of his Agreement(s) and as described in this Plan, provided however, any benefits payable under a Unit of Participation that is not completed due to a termination of the Plan under this Section 10.2 shall be prorated based upon the number of months Participant made deferrals with respect to such Unit of Participation divided by the Unit Deferral Period for that Unit of Participation.

10.3 Amendment. The Board may at any time amend the Plan in whole or in part, provided however, that no amendment, including an amendment to this Section 10, shall be effective, without the written consent of a Participant, to alter, to the detriment of such Participant, the benefits described in this Plan as applicable to a Unit of Participation of the Participant or to decrease amounts standing credited to such Participant's Deferred Compensation Accounts under the Plan. For purposes of this Section 10.3, an alteration to the detriment of a Participant shall mean a reduction in the period of time over which benefits are payable under a Participant's Agreement, subject however to the proration provisions of Section 10.2 hereof, or any change in the form of benefits payable to a Participant under the Participant's Agreement. Written notice of any amendment shall be given to each Participant.

Section 11 Miscellaneous.

11.1 Unsecured General Creditor. Participants and their Beneficiaries, heirs, successors, and assigns shall have no legal or equitable rights, interest, or claims in any property or assets of Employer, nor shall they be Beneficiaries of, or have any rights, claims, or interests in any life insurance policies, annuity contracts, or the proceeds therefrom owned or which may be acquired by Employer ("Policies"). Any such Policies or other assets of Employer shall not be held under any trust for the benefit of Participants, their Beneficiaries, heirs, successors, or assigns, or held in any way as collateral security for the fulfilling of the obligations of Employer under this Plan. Any and all of the Employer's assets and Policies shall be, and remain, the general, unpledged, unrestricted assets of Employer. Employer's obligation under the Plan shall be merely that of an unfunded and unsecured promise of Employer to pay money in the future.

11.2 Trust Fund. The Employer shall be responsible for the payment of all benefits provided under the Plan. At its discretion, the Company may establish one or more trusts, for the purpose of providing for the payment of such benefits. Such trust or trusts may be irrevocable, but the assets thereof shall be subject to the claims of the Employer's creditors. To the extent any benefits provided under the Plan are actually paid from any such trust, the Employer shall have no further obligation with respect thereto, but to the extent not so paid, such benefits shall remain the obligation of, and shall be paid by, the Employer.

11.3 Obligations to Employer. If a Participant becomes entitled to a distribution of benefits under the Plan, the Employer may offset against the amount of benefits otherwise distributable any claim to reimbursement for intentional wrongdoing by the Participant against the Employer or an affiliate. Such determination shall be made by the Administrative Committee.

11.4 Nonassignability. Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage, or otherwise encumber, transfer, hypothecate or convey in advance of actual receipt the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are, expressly declared to be unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, nor be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency.

11.5 Employment Not Guaranteed. Nothing contained in this Plan nor any action taken hereunder shall be construed as a contract of employment or as giving any Employee any right to be retained in the employ of the Employer or to serve as a director.

11.6 Protective Provisions. A Participant will cooperate with the Employer by furnishing any and all information requested by the Employer, in order to facilitate the payment of benefits hereunder, taking such physical examinations as the Employer may deem necessary and taking such other relevant action as may be requested by the Employer. If a Participant refuses so to cooperate, the Employer shall have no further obligation to the Participant under the Plan. If a Participant commits suicide during the two-year period beginning on the Unit Start Date for a given Unit of Participation or if the Participant makes any material misstatement of information or non-disclosure of medical history, then no benefits will be payable with respect to that Unit of Participation to such Participant or his Beneficiary, or in the Employer's sole discretion, benefits may be payable in a reduced amount.

11.7 Gender, Singular and Plural. All pronouns and any variations thereof shall be deemed to refer to the masculine or feminine, as the identity of the person or persons may require. As the context may require, the singular may be read as the plural and the plural as the singular.

11.8 Waiver of Benefits. No benefit shall be payable under the provisions of this Plan with respect to any Participant who is or was a member of a group of employees designated by an Employer as eligible to waive such benefit if such Participant has waived such benefit under this Plan unless the Employer by which such Participant is or was last employed has authorized the revocation of such waiver and such Participant has revoked such waiver.

11.9 Captions. The captions of the articles, sections, and paragraphs of this Plan are for convenience only and shall not control nor affect the meaning of construction of any of its provisions.

11.10 Applicable Law. This Plan shall be governed and construed in accordance with the laws of the State of Missouri.

11.11 Validity. In the event any provision of this Plan is held invalid, void, or unenforceable, the same shall not affect, in any respect whatsoever, the validity of any other provision of this Plan.

11.12 Notice. Any notice or filing required or permitted to be given to the Administrative Committee under the Plan shall be sufficient if in writing and hand delivered, or sent by registered or certified mail, to the principal office of the Employer, directed to the attention of the Vice President-Human Resources of the Employer. Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

11.13 Successors and Assigns. This Plan shall be binding upon the Company and its successors and assigns.

Ex 10-g\_Senior Mgmt Def Comp Plan of 1988 amended  
04.01.2002

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SBC COMMUNICATIONS INC.  
 SENIOR MANAGEMENT  
 DEFERRED COMPENSATION PLAN OF 1988 AGREEMENT  
 19\_\_ UNIT OF PARTICIPATION

THIS AGREEMENT is made and entered into at St. Louis, Missouri as of the \_\_\_\_ day of \_\_\_\_\_, 19\_\_, by and between SBC Communications Inc. ("Company"), and ("Senior Manager").

WHEREAS, the Company has adopted a Senior Management Deferred Compensation Plan of 1988 (the "Plan"); and

WHEREAS, The Senior Manager has been determined to be eligible to participate in the Plan; and

WHEREAS, the Plan requires that an agreement be entered into between the Company and the Senior Manager setting out certain terms and benefits of the Plan as they apply to the Senior Manager;

NOW, THEREFORE, the Company and the Senior Manager hereby agree as follows:

1. The Plan is hereby incorporated into and made a part of this Agreement, as though set forth in full herein. The parties shall be bound by, and have the benefit of, each and every provision of the Plan, including without limitation the restrictions on assignability set forth in the Plan.
2. The Senior Manager was born on \_\_\_\_\_.
3. The Senior Manager's basic allotment percentage in the SBC Communications Inc. Savings Plan for Salaried Employees ("Savings Plan") is \_\_\_\_ percent (\_\_\_\_%). Any subsequent change in this level of participation by the Senior Manager before this Unit of Participation is completed will void this Agreement and require that a new Agreement be entered into between the Employer and the Senior Manager.
4. The Senior Manager's Base Salary during a calendar year shall be reduced in accordance with Exhibit A attached to this Agreement.
5. The Senior Manager's Projected Employer Contribution associated with this Unit of Participation is set forth in Exhibit A attached to this Agreement. There shall be no duplication of Employer matching contributions, i.e., it is understood that any Employer matching contributions corresponding to Senior Manager deferrals under this Unit of Participation that are contributed to the Plan will preclude Employer matching contributions to the Savings Plan with respect to such Senior Manager deferrals, and vice versa.

6. The amount per month of Pre-Retirement Survivor Benefit in accordance with Section 6.6(a) of the Plan is the greater of (i) \$ \_\_\_\_\_, or (ii) the balance in the Deferred Compensation Account (excluding Short Term Incentive Awards deferred and interest earned on such awards) divided by the number of months payments are to be made, plus interest; such amounts shall be payable for the greater of ten (10) years or the number of years from the date of Participant's death until he would have been age 65.

7. The payment option for Participant's 19\_\_ Unit of Participation shall be the Retirement Benefit Option in accordance with Section 6.

This payment option will also apply to payout of any Short Term Incentive Awards deferred and interest earned on such awards. Such payout is not considered part of the Standard Retirement Benefit.

#### RETIREMENT BENEFIT OPTION

(Paragraphs 8 and 9 apply to benefits paid pursuant to the Retirement Benefit Option.)

8. Upon Normal or Early Retirement, the Participant hereby elects: (please initial (a) or (b))

- (a) \_\_\_\_\_ To receive a Standard Retirement Benefit, payable for a period of one hundred eighty (180) months.
- (b) \_\_\_\_\_ To receive an Alternative Retirement Benefit to be paid in accordance with one of the following payment modes: (please initial one of the following)
- (i) \_\_\_\_\_ In a lump sum payment.
- (ii) \_\_\_\_\_ In equal monthly installments for a period of sixty (60) months.
- (iii) \_\_\_\_\_ In equal monthly installments for a period of one hundred twenty (120) months.

9. The Participant hereby elects to receive any Early Retirement Benefit as follows (please initial (a) or (b)):

- (a) \_\_\_\_\_ Commencing at age 65.
- (b) \_\_\_\_\_ Commencing at Early Retirement.

10. Intentionally Omitted

11. Intentionally Omitted

12. This Agreement shall inure to the benefit of, and be binding upon, the Company, its successors and assigns, and the Senior Manager and his Beneficiaries.

IN WITNESS WHEREOF, the parties hereto have signed and entered into this Agreement on and as of the date first above written.

THE COMPANY:

By \_\_\_\_\_

Its Senior Vice President-Human Resources

SENIOR MANAGER

Signature

Date

\_\_\_\_\_

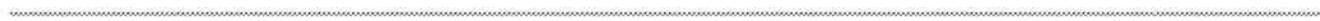


EXHIBIT A

SBC COMMUNICATIONS INC.  
SENIOR MANAGEMENT  
DEFERRED COMPENSATION PLAN AGREEMENT

19\_\_ Unit of Participation

Unit Start Date: \_\_\_\_\_, 19\_\_

Unit Deferral Period: 48 Months

Annual Amount  
Year

Deferred

1. Unit Start Date:

19\_\_ (commencing the first day  
of the month of January)

\$ \_\_\_\_\_ (1)

2. 19\_\_

\_\_\_\_\_ (1)

3. 19\_\_

\_\_\_\_\_ (1)

4. 19\_\_ (ending the last day of  
the month of December)

\_\_\_\_\_ (1)

Total Unit  
Deferral Amount

\$ \_\_\_\_\_

Projected Employer Contribution  
associated with this Unit of  
Participation

\$ \_\_\_\_\_

Monthly Pre-Retirement Survivor  
Benefit associated with this Unit  
of Participation

\$ \_\_\_\_\_

(1) This amount will be deferred in equal amounts  
on a monthly basis.



Exhibit 10-hh(ii)

**AT&T INC.**  
**HUMAN RESOURCES COMMITTEE**  
**June 26, 2008**

Second Amendment to BellSouth Corporation  
Stock and Incentive Compensation Plan

RESOLVED, that the Human Resources Committee of AT&T Inc. ("Corporation") hereby authorizes and directs the Senior Executive Vice President-Human Resources to provide that, notwithstanding anything to the contrary in the plan, payments of Restricted Stock Units under the BellSouth Corporation Stock and Incentive Compensation Plan must be delayed six months from when they would otherwise be payable when such amounts are to be paid to a Specified Employee, as that term is used in Treasury Regulation §1.409A; and

RESOLVED FURTHER, that the appropriate officers of the Corporation are authorized to do or cause to be done any and all such acts and things, and to execute and deliver any and all documents and papers that they may deem necessary, proper or advisable to carry out the foregoing resolutions.

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**AT&T Inc.**  
**Non-Employee Director Stock and Deferral Plan**  
**amended June 26, 2008**

**Article 1. Purpose**

The purpose of the Non-Employee Director Stock and Deferral Plan (the "Plan") (formerly the Deferred Compensation Plan for Non-Employee Directors) is to promote the achievement of long-term objectives of AT&T Inc. by linking the personal interests of Non-Employee Directors to those of the Company's stockholders and to attract and retain Non-Employee Directors of outstanding competence.

**Article 2. Definitions**

Whenever used in the Plan, the following terms shall have the meanings set forth below and, when the defined meaning is intended, the initial letter of the word is capitalized:

- (a) **"Annual Retainer" or "Retainer"** means the payments made to Directors for their annual Board service. It includes any additional Retainer paid to Committee Chairpersons or the Lead Director. **"Base Annual Retainer"** means the Annual Retainer without any additional amounts for Committee Chairpersons, Lead Directors or otherwise.
- (b) **"Award"** means, individually or collectively, an award under this Plan of Stock Units.
- (c) **"Board"** means the Board of Directors of the Company.
- (d) **"Business Day"** means any day that the Company is open for the regular transaction of business.
- (e) **"Company"** means AT&T Inc., a Delaware corporation.
- (f) **"Director"** means any individual who is a member of the Board, including Advisory Directors.
- (g) **"Employee"** means any full-time, nonunion, salaried employee of the Company or of the Company's directly or indirectly held subsidiaries. For purposes of the Plan, an individual whose only employment relationship with the Company is as a Director shall not be deemed to be an Employee.
- (h) **"Fair Market Value" or "FMV"** means the closing price on the New York Stock Exchange ("NYSE") for Shares on the relevant date, all as determined by the Company. In lieu of the foregoing, the Board may select any other index or measurement to determine the FMV of Shares under the Plan.
- (i) **"Non-Employee Director"** means any individual who is a member of the Board but who is not otherwise an Employee, nor has otherwise been an Employee.
- (j) **"Participant"** means a person who is entitled to participate in the Plan.
- (k) **"Shares"** means shares of common stock of the Company, par value one dollar (\$1.00) per share.
- (l) **"Stock Unit" or "Unit"** means an Award acquired by a Participant as a measure of participation under the Plan, and having a value equal to one (1) Share.
- (m) **"Trading Day"** means any day that the Shares are traded on the NYSE.

**Article 3. Eligibility and Administration**

**3.1 Eligibility.** Persons eligible to participate in the Plan are limited to Non-Employee Directors.

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**3.2 The Committee.** The Plan shall be administered by the Corporate Governance and Nominating Committee of the Board (the "Committee"), subject to the restrictions set forth in the Plan.

**3.3 Administration by the Committee.** The Committee shall have the full power, discretion, and authority to interpret and administer the Plan in a manner consistent with the Plan's provisions. However, in no event shall the Committee have the power to determine Plan eligibility, or to determine the number, the value, the vesting period, or the timing of Awards to be made under the Plan (all such determinations being automatic pursuant to the provisions of the Plan).

**3.4 Decisions Binding.** All determinations and decisions made by the Committee pursuant to the Plan, and all related orders or resolutions of the Committee shall be final, conclusive, and binding on all persons, including the Company, its stockholders, Participants, and their estates and beneficiaries.

#### **Article 4. Shares Previously Acquired Under Plan**

Effective December 31, 2008, no Shares may be issued under this Plan. However, any Shares previously acquired by a Director under this Plan may not be sold for one year after acquisition. Thereafter, such Shares shall only be sold pursuant to an effective registration statement or pursuant to an exemption from the Securities Act of 1933, including sales pursuant to Rule 144 thereunder. The Company may place a legend on the certificates for such Shares evidencing this restriction.

#### **Article 5. Award of Stock Units for Non-Employee Directors**

**5.1 Award of Deferred Stock Units for Non-Employee Directors.** Effective the day of each annual meeting of the Company's stockholders, each continuing Non-Employee Director shall be Awarded that number of Stock Units that is equal to: (a) one hundred fifty percent (150%) of the Base Annual Retainer as in effect at the time of the Award divided by (b) the Fair Market Value of a Share on the last Trading Day in the calendar month in which such Award is made. Each Award is intended to be in consideration for service until the next annual meeting of stockholders, but will be fully earned on the date of the Award and credited to the Non-Employee Director's account on the day the number of Stock Units is determined. Provided, however, if the Director terminates service on or before the day of the annual meeting of stockholders, the related Award to be earned on such meeting date will not be made.

**5.2 Award of Deferred Stock Units for New Non-Employee Directors.** The following applies only to Non-Employee Directors who originally became a Non-Employee Director after November 21, 1997 and before September 24, 2004. Each Non-Employee Director shall receive, in addition to the Award described in Section 5.1 above, an annual Award of Stock Units effective the day of each annual meeting of the Company's stockholders. The number of Stock Units in each such Award shall equal thirteen thousand dollars (\$13,000), divided by the Fair Market Value of a Share on the last Trading Day in the calendar month in which such Award is made. Each Award is intended to be in consideration for service until the next annual meeting of stockholders, but will be fully earned on the date of the Award and credited to the Non-Employee Director's account on the day the number of Stock Units is determined. Provided, however, if the Director terminates service on or before the day of the annual meeting of stockholders, the related Award to be earned on such meeting date will not be made. No Director shall receive more than ten (10) Awards under this Section 5.2.

**5.3 Deferral of Retainers and Fees into Stock Units.** Each Non-Employee Director may elect to defer all (100%) or fifty percent (50%) of the Director's Annual Retainer earned during the relevant calendar year into Stock Units. In addition, a Non-Employee Director may elect to defer all (100%) of the Director's Board and committee meeting fees and other attendance fees into Stock Units. The number of Stock Units acquired shall equal the fees and/or the portion of the Annual Retainer being deferred into Stock Units in a calendar month, divided by the Fair Market Value of a Share on the last Trading Day in such calendar month, and such Stock Units shall be credited to the Non-Employee Director's account effective the day the number of Stock Units is determined. Amounts are deferred at the time they otherwise would have been paid were it not for the relevant deferral election.

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Any deferral election under this Section 5.3 shall be made prior to the beginning of, and will be effective for, the calendar year in which such payments would be earned. Unless the Non-Employee Director notifies the Secretary of the Company otherwise prior to the beginning of each subsequent calendar year, each election hereunder will renew automatically for an additional calendar year.

**5.4 Payout of Deferred Stock Units.** Each Stock Unit shall be paid out in cash equal to the Fair Market Value of a Share; a fractional Stock Unit shall be entitled to cash equal to the equivalent fraction of a Share.

The Participant shall elect the timing of the payout for Stock Unit Awards no later than the last day of the calendar year prior to the first scheduled payment of such Stock Units. Notwithstanding the foregoing:

(i) persons who become Directors after November 19, 2004, shall elect the timing of the payout of their Stock Units (their "Post 2004 Stock Units") no later than the time they first make a deferral election into Stock Units or thirty (30) days after their original election to the Board, whichever is sooner (the Corporate Governance and Nominating Committee may extend only the 30 day deadline and may do so only so long as such extension is permitted by Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A")); and

(ii) each Participant in the Plan as of November 19, 2004 who has not irrevocably elected the timing of the payout of Stock Units shall make such an election by December 31, 2004 with respect to all Stock Units from deferrals of Awards made or Annual Retainer or fees earned after December 31, 2004 (also known as "Post 2004 Stock Units").

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One election will apply to all Post 2004 Stock Units, whether from deferrals, annual Awards or otherwise, and Stock Units earned thereon (each such payout schedule is hereinafter referred to as a "Stock Unit Schedule"); and a separate election shall apply to all other Stock Units and earnings thereon. Stock Units acquired under this Plan shall, with respect to each Stock Unit Schedule (if more than one), be paid out in a lump sum payment or in up to fifteen (15) annual installments, as elected by the Participant. The lump sum payment or the first installment, as the case may be, for each Stock Unit Schedule shall be payable on the first Business Day of February of the year following the calendar year of the termination of the Participant's service as a Director. Each subsequent annual installment shall be payable on the first Business Day of February. If the Director fails to make a timely election as to the number of installments for any Stock Unit Schedule, such Stock Units shall be paid out in four (4) annual installments.

For Participants electing a payout (or payouts, as the case may be) of Stock Units in installments, the number of Stock Units to be paid out for each Stock Unit Schedule in each installment shall equal the number of Stock Units available for payout under such Stock Unit Schedule, divided by the number of remaining installments (including the installment being made).

**5.5 Stock Units.** Each Stock Unit shall represent an unfunded and unsecured promise by the Company to issue cash equal in value to the Stock Unit. Participants holding Stock Units (or fractions thereof) shall earn dividend equivalents paid in the form of additional Stock Units added to their account. The number of Stock Units so added shall equal the dividend on a Share multiplied by the number of Stock Units held by the Participant on the record date for such dividend, divided by the Fair Market Value of a Share on the last Trading Day in the calendar month in which the record date for such dividend occurs. The Stock Units shall be credited to a Participant's account on the day the number of Stock Units is determined.

## Article 6. Cash Deferral Account

**6.1 Cash Deferral Account.** A cash deferral account (the "Cash Deferral Account") shall be established and maintained by the Company for each Participant that makes a cash deferral election under the Plan. Each Cash Deferral Account shall be credited as of the date the amount deferred otherwise would have become due and payable to the Participant and shall be credited to reflect the interest return thereon until paid. The establishment and maintenance of such Cash Deferral Accounts, however, shall not be construed as entitling any Participant to any specific assets of the Company and shall represent an unfunded and unsecured promise of the Company with respect to the amounts due thereunder.

**6.2 Cash Deferral Elections.** Effective for payments on or after January 1, 1998, each Non-Employee Director may elect to defer all (100%) or fifty percent (50%) of the Director's Annual Retainer earned during the relevant calendar year into the Director's Cash Deferral Account. In addition, a Non-Employee Director may elect to defer all (100%) of the Director's Board and committee meeting fees and other attendance fees into the

Director's Cash Deferral Account. Amounts are deferred at the time they otherwise would have been paid were it not for the relevant deferral election.

Any deferral election under this Section 6.2 shall be made prior to the beginning of, and will be effective for, the calendar year in which such payments would be earned. Unless the Non-Employee Director notifies the Secretary of the Company otherwise prior to the beginning of each subsequent calendar year, each election hereunder will renew automatically for an additional calendar year.

Deferral elections under the Plan made prior to November 21, 1997, shall be credited to the Cash Deferral Account and continue to earn interest in accordance with Section 6.3.

**6.3 Interest on Cash Deferral Accounts.** The annual rate of interest on amounts in the Cash Deferral Accounts for 1997 and subsequent calendar years shall be Moody's Long-Term Corporate Bond Yield Average as published by Moody's Investor Service, Inc. (or any successor thereto) for the month of September before the calendar year in question (if such yield is no longer published, a substantially similar average selected by the Committee) or such other rate as the Committee shall determine prior to the year for which the interest rate would be applicable. Such interest shall be compounded quarterly, in arrears, on all unpaid amounts and shall be recorded on Participant's statements quarterly.

**6.4 Form and Timing of Payout of Cash Deferral Accounts.** Cash Deferral Accounts shall be paid out in cash. The Participant shall elect the timing of the payout for the Participant's Cash Deferral Account no later than the last day of the calendar year prior to the first scheduled payment thereof. Notwithstanding the foregoing:

(i) persons who become Directors after November 19, 2004, shall elect the timing of the payout of their Cash Deferral Account (their "Post 2004 CDA Deferrals") no later than the time they first make a deferral election into their Cash Deferral Account; and

(ii) each Participant in the Plan as of November 19, 2004 who has not irrevocably elected the timing of the payout of his or her Cash Deferral Account shall make such an election by December 31, 2004 with respect to all amounts from deferrals into such Participant's Cash Deferral Account of Annual Retainers or fees earned after December 31, 2004 (the "Post 2004 CDA Deferrals").

One election shall apply to a Participant's Post 2004 CDA Deferrals and earnings thereon (each such payout schedule is hereinafter referred to as a "Cash Account Schedule"); and a separate election shall apply to amounts that are not Post 2004 CDA Deferrals and earnings thereon. A

Participant's Cash Deferral Account shall, with respect to each Cash Account Schedule (if more than one), be paid out in a lump sum payment or in up to fifteen (15) annual installments, as elected by the Participant. The lump sum payment or the first installment, as the case may be, for each Cash Account Schedule shall be payable on the first Business Day of February of the year following the calendar year of the termination of the Participant's service as a Director. Each subsequent annual installment shall be payable on the first Business Day of February. If the Director fails to make a timely election as to the number of installments for any Cash Account Schedule, the Participant's Cash Deferral Account shall be paid out in four (4) annual installments. Each installment shall equal the amount available for payout under such Cash Account Schedule, divided by the number of remaining installments (including the installment being made).

**6.5 Conversion of Non-Employee Director's Cash Deferral Account to Deferred Stock Units.** Each year, on or before the close of trading in Shares on the NYSE on the tenth day (if the tenth day is not a Trading Day, then the next preceding Trading Day) following the Company's public release of its annual summary statement of earnings (typically in January of each year) (such Trading Day to be the "Conversion Date"), a Non-Employee Director may elect to convert all or part of the balance of his or her Cash Deferral Account into Stock Units. Notwithstanding the foregoing, however, no such conversion of Post 2004 CDA Deferrals shall be permitted unless the payout schedules for such Participant's Post 2004 CDA Deferrals and Post 2004 Stock Units are identical. Each such election shall become irrevocable as of the last time such election may be made. A Non-Employee Director who elects to convert his or her Cash Deferral Account shall receive the number of Stock Units found by dividing the Non-Employee Director's balance in the Cash Deferral Account, together with all accrued but not yet credited interest, or such lesser amount of the Cash Deferral Account elected by the Non-Employee Director, by the Fair Market Value of a Share on the Conversion Date. Upon such conversion, the Participant's Cash Deferral Account shall be reduced by the amount so converted.

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**Article 7. Amendment, Modification, and Termination**

**7.1 Amendment, Modification, and Termination.** Subject to the terms set forth in this Article 7, the Board may terminate, amend, or modify the Plan at any time and from time to time.

**7.2 Awards Previously Granted.** Unless required by law, no termination, amendment, or modification of the Plan shall in any material manner adversely affect any Award previously provided under the Plan, without the written consent of the Participant holding the Award.

**Article 8. Miscellaneous**

**8.1 Elections.** All elections and notices of any kind hereunder shall be in writing and provided to the Secretary of the Company in a form prescribed by the Secretary. Unless marked as irrevocable, an election may be modified or revoked at any time prior to, and shall not be effective until, the deadline for making such election.

**8.2 Assignment.** Except as otherwise expressly provided herein, no rights under this Plan may be assigned by a Participant.

**8.3 Savings Clause.** In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included. Notwithstanding any provision to the contrary in this Plan, each provision in this Plan shall be interpreted to permit the deferral of compensation in accordance with Section 409A of the Internal Revenue Code of 1986, as amended, and any provision that would conflict with such requirements shall not be valid or enforceable.

**8.4 Death of a Director/Beneficiary Designation.** Each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named primarily or contingently) to whom any benefit under the Plan is to be paid in the event of his or her death. Each designation will revoke all prior designations by the same Participant, shall be in a form prescribed by the Secretary of the Company, and will be effective only when provided by the Participant in writing to the Secretary during such Participant's lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate.

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In the event of the death of a Participant before full payment of all amounts due hereunder, the balance shall be paid in a lump sum as soon as administratively possible in accordance with the foregoing. Notwithstanding this, if the Participant so elects as part of the Participant's deferral elections, the Stock Units and/or the Cash Deferral Account will be paid out in the number of annual installments elected by the Participant, beginning on the first Business Day of February following the calendar year of the Participant's death and occurring annually thereafter; provided, however, if distributions to the Participant have already commenced at the time of the Participant's death, then under this election, distributions will continue as scheduled.

**8.5 No Right of Nomination.** Nothing in the Plan shall be deemed to create any obligation on the part of the Board to nominate any Director for reelection by the Company's stockholders.

**8.6 Successors.** All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

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**8.7 Requirements of Law.** The granting of Awards under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

**8.8 Governing Law.** The Plan, and all agreements hereunder, shall be construed in accordance with and governed by the internal, substantive laws of the State of Texas.

**8.9 Adjustments.** In the event of a merger, reorganization, consolidation, recapitalization, separation, liquidation, stock dividend, stock split, share combination, or other change in the corporate structure of the Company affecting the Shares, such adjustment shall be made in the number of outstanding Stock Units as may be determined to be appropriate and equitable by the Board, in its sole discretion, to prevent dilution or enlargement of rights.

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Exhibit 10-t

**AT&T Inc.**  
**Non-Employee Director Stock Purchase Plan**  
**(Effective June 27, 2008)**

A Non-Employee Director of AT&T Inc. (the "Company") may file a written election with the Secretary of the Company to invest one hundred percent (100%) or fifty percent (50%) of his or her annual retainer payments (including any additional retainer payments to Committee Chairpersons or the Lead Director) in shares of common stock of the Company ("Shares"). This election shall be made no later than December 31 of the year preceding, and shall be effective for, the calendar year in which the annual retainer will be paid. This election will renew automatically each year unless the Director notifies the Secretary of the Company in writing no later than December 31 of the preceding year.

The Shares shall be purchased from the Company on the last day Shares are traded on the New York Stock Exchange ("NYSE") in the calendar month in which such retainer would have been paid if not for the investment election (the "Purchase Date"). The number of Shares purchased on a Purchase Date shall equal the portion of the annual retainer payment being used to purchase Shares, divided by the closing price of a Share on the NYSE on such Purchase Date (or such other measurement of the value of a Share that the Board of Directors of the Company shall determine in its sole discretion). Fractional Shares shall not be issued. Any amount that would be used to purchase a fractional Share shall be paid in cash.

No interest shall accrue with respect to funds to be invested hereunder. Participants in this plan shall have no legal or equitable rights, interest, or claims in any property or assets of the Company. No assets of the Company shall be held under any trust for the benefit of participants, or held in any way as collateral security for the fulfilling of the obligations of the Company under this plan. The Company's assets shall be, and remain, the general, unpledged, unrestricted assets of the Company. The only obligation of the Company under this plan shall be merely that of an unfunded and unsecured promise of the Company to sell Shares on the Purchase Date. Participants may not assign any of their rights under this plan.

All elections and notices of any kind hereunder shall be in writing and provided to the Secretary of the Company in a form prescribed by the Secretary. Unless marked as irrevocable, an election may be modified or revoked at any time prior to, and shall not be effective until, the deadline for making such election. The Board may terminate, amend, or modify this plan at any time and from time to time.

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## EXHIBIT 12

**AT&T INC.**  
**COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES**  
Dollars in Millions

	Year Ended December 31,				
	2013	2012	2011	2010	2009
<b>Earnings:</b>					
Income from continuing operations before income taxes	\$ 27,777	\$ 10,439	\$ 6,716	\$ 18,238	\$ 18,518
Equity in net income of affiliates included above	(642)	(752)	(784)	(762)	(734)
Fixed charges	5,452	4,876	4,835	4,723	5,012
Distributed income of equity affiliates	318	137	161	161	317
Interest capitalized	(284)	(263)	(162)	(772)	(740)
<b>Earnings, as adjusted</b>	<b>\$ 32,621</b>	<b>\$ 14,437</b>	<b>\$ 10,766</b>	<b>\$ 21,588</b>	<b>\$ 22,373</b>
<b>Fixed Charges:</b>					
Interest expense	\$ 3,940	\$ 3,444	\$ 3,535	\$ 2,994	\$ 3,368
Interest capitalized	284	263	162	772	740
Portion of rental expense representative of interest factor	1,228	1,169	1,138	957	904
<b>Fixed Charges</b>	<b>\$ 5,452</b>	<b>\$ 4,876</b>	<b>\$ 4,835</b>	<b>\$ 4,723</b>	<b>\$ 5,012</b>
<b>Ratio of Earnings to Fixed Charges</b>	<b>5.98</b>	<b>2.96</b>	<b>2.23</b>	<b>4.57</b>	<b>4.46</b>

**Selected Financial and Operating Data**

Dollars in millions except per share amounts

At December 31 and for the year ended:	2013	2012	2011	2010	2009
<b>Financial Data</b>					
Operating revenues	\$ 128,752	\$ 127,434	\$ 126,723	\$ 124,280	\$ 122,513
Operating expenses	\$ 98,273	\$ 114,437	\$ 117,505	\$ 104,707	\$ 101,513
Operating income	\$ 30,479	\$ 12,997	\$ 9,218	\$ 19,573	\$ 21,000
Interest expense	\$ 3,940	\$ 3,444	\$ 3,535	\$ 2,994	\$ 3,368
Equity in net income of affiliates	\$ 642	\$ 752	\$ 784	\$ 762	\$ 734
Other income - net	\$ 596	\$ 134	\$ 249	\$ 897	\$ 152
Income tax expense (benefit)	\$ 9,224	\$ 2,900	\$ 2,532	\$ (1,162)	\$ 6,091
<b>Net Income</b>	<b>\$ 18,553</b>	<b>\$ 7,539</b>	<b>\$ 4,184</b>	<b>\$ 20,179</b>	<b>\$ 12,447</b>
<b>Less: Net Income Attributable to Noncontrolling Interest</b>	<b>\$ (304)</b>	<b>\$ (275)</b>	<b>\$ (240)</b>	<b>\$ (315)</b>	<b>\$ (309)</b>
<b>Net Income Attributable to AT&amp;T</b>	<b>\$ 18,249</b>	<b>\$ 7,264</b>	<b>\$ 3,944</b>	<b>\$ 19,864</b>	<b>\$ 12,138</b>
<b>Earnings Per Common Share:</b>					
<b>Net Income Attributable to AT&amp;T</b>	<b>\$ 3.39</b>	<b>\$ 1.25</b>	<b>\$ 0.66</b>	<b>\$ 3.36</b>	<b>\$ 2.06</b>
<b>Earnings Per Common Share - Assuming Dilution:</b>					
<b>Net Income Attributable to AT&amp;T</b>	<b>\$ 3.39</b>	<b>\$ 1.25</b>	<b>\$ 0.66</b>	<b>\$ 3.35</b>	<b>\$ 2.05</b>
Total assets	\$ 277,787	\$ 272,315	\$ 270,442	\$ 269,473	\$ 268,312
Long-term debt	\$ 69,290	\$ 66,358	\$ 61,300	\$ 58,971	\$ 64,720
Total debt	\$ 74,788	\$ 69,844	\$ 64,753	\$ 66,167	\$ 72,081
Construction and capital expenditures	\$ 21,228	\$ 19,728	\$ 20,272	\$ 20,302	\$ 17,294
Dividends declared per common share	\$ 1.81	\$ 1.77	\$ 1.73	\$ 1.69	\$ 1.65
Book value per common share	\$ 17.50	\$ 16.61	\$ 17.85	\$ 18.94	\$ 17.28
Ratio of earnings to fixed charges <sup>1</sup>	5.98	2.96	2.23	4.57	4.46
Debt ratio	45.0%	43.0%	38.0%	37.1%	41.4%
Weighted-average common shares outstanding (000,000)	5,368	5,801	5,928	5,913	5,900
Weighted-average common shares outstanding with dilution (000,000)	5,385	5,821	5,950	5,938	5,924
End of period common shares outstanding (000,000)	5,226	5,581	5,927	5,911	5,902
<b>Operating Data</b>					
Wireless subscribers (000) <sup>2</sup>	110,376	106,957	103,247	95,536	85,120
In-region network access lines in service (000) <sup>1</sup>	24,639	29,279	34,054	39,211	47,534
Broadband connections (000) <sup>3</sup>	16,425	16,390	16,427	16,309	15,789
Number of employees	243,360	241,810	256,420	266,590	282,720

<sup>1</sup> Prior-period amounts are restated to conform to current-period reporting methodology.<sup>2</sup> The number presented represents 100% of AT&T Mobility wireless subscribers.<sup>3</sup> Broadband connections include U-verse high speed Internet access, DSL lines and satellite broadband.

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

**RESULTS OF OPERATIONS**

**Consolidated Results** Our financial results are summarized in the table below. We then discuss factors affecting our overall results for the past three years. These factors are discussed in more detail in our "Segment Results" section. We also discuss our expected revenue and expense trends for 2014 in the "Operating Environment and Trends of the Business" section.

	2013	2012	2011	Percent Change	
				2013 vs. 2012	2012 vs. 2011
Operating Revenues	\$ 128,752	\$ 127,434	\$ 126,723	1.0%	0.6%
Operating expenses					
Cost of services and sales	51,464	55,228	54,904	(6.8)	0.6
Selling, general and administrative	28,414	41,066	41,314	(30.8)	(0.6)
Impairment of intangible assets	-	-	2,910	-	-
Depreciation and amortization	18,395	18,143	18,377	1.4	(1.3)
Total Operating Expenses	98,273	114,437	117,505	(14.1)	(2.6)
Operating Income	30,479	12,997	9,218	-	41.0
Interest expense	3,940	3,444	3,535	14.4	(2.6)
Equity in net income of affiliates	642	752	784	(14.6)	(4.1)
Other income (expense) – net	596	134	249	-	(46.2)
Income Before Income Taxes	27,777	10,439	6,716	-	55.4
Net Income	18,553	7,539	4,184	-	80.2
Net Income Attributable to AT&T	\$ 18,249	\$ 7,264	\$ 3,944	-	84.2%

**Overview**

**Operating income** increased \$17,482 in 2013 and \$3,779, or 41.0%, in 2012. Our operating margin was 23.7% in 2013, compared to 10.2% in 2012 and 7.3% in 2011. Operating income for 2013 increased \$17,578 due to a noncash actuarial gain of \$7,584 related to pension and postemployment benefit plans in 2013 and an actuarial loss of \$9,994 in 2012. Operating income for 2013 also reflects continued growth in wireless data revenue, and increased revenues from AT&T U-verse® (U-verse) and strategic business services. Partially offsetting these increases were continued declines in our traditional voice and data services, higher wireless equipment costs and increased expenses supporting U-verse subscriber growth. Operating income for 2012 included actuarial losses of \$9,994, and reflected a partial year's results for our sold Advertising Solutions segment. Operating income for 2011 included actuarial losses of \$6,280, charges of \$4,181 related to our decision to terminate the acquisition of T-Mobile USA, Inc. (T-Mobile) and noncash charges of \$2,910 related to impairments of directory intangible assets.

**Operating revenues** increased \$1,318, or 1.0%, in 2013 and \$711, or 0.6%, in 2012. The increases in 2013 and 2012 are primarily due to growth in wireless data and equipment revenues, reflecting the increasing percentage of wireless subscribers choosing smartphones. Higher wireline data revenues from U-verse residential customers and strategic business services also contributed to revenue growth. These increases were mostly offset by continued declines in wireline voice revenues for both years. The sale of our Advertising Solutions segment lowered revenues \$1,049 in 2013 and \$2,244 in 2012.

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The telecommunications industry is rapidly evolving from fixed location, voice-oriented services into an industry driven by customer demand for instantly available, data-based services (including video). Our products, services and plans are changing as we transition to sophisticated, high-speed, IP-based alternatives. We are also re-designing our networks to accommodate these new demands and to take advantage of related technological efficiencies. We expect continued growth in our wireless and wireline IP-based data revenues as we bundle and price plans with greater focus on data and video services. We expect continued declines in voice revenues and our basic wireline data services as customers choose these next-generation services.

**Cost of services and sales** expenses decreased \$3,764, or 6.8%, in 2013 and increased \$324, or 0.6%, in 2012. The 2013 expense decreased by \$4,822 as a result of recording actuarial gains in 2013 and actuarial losses in 2012. Lower interconnect and long-distance expenses, lower costs associated with Universal Service Fund (USF) fees and the sale of our Advertising Solutions segment also contributed to expense declines in 2013. These decreases were partially offset by increased wireless equipment costs related to device sales and increased wireline costs attributable to U-verse subscriber growth.

Expense increases in 2012 were primarily due to increased wireline costs attributable to growth in U-verse subscribers, higher wireless handset costs related to strong smartphone sales and a higher actuarial loss on benefit plans. These increases were partially offset by lower traffic compensation costs, the sale of our Advertising Solutions segment and lower other nonemployee-related charges.

**Selling, general and administrative** expenses decreased \$12,652, or 30.8%, in 2013 and \$248, or 0.6%, in 2012. The 2013 expense decreased by \$12,757 as a result of recording actuarial gains in 2013 and actuarial losses in 2012. Expense reductions in 2013 also reflect lower employee related Wireline costs, gains on spectrum transactions, lower financing-related costs associated with our pension and postretirement benefits (referred to as Pension/OPEB expenses) and the sale of our Advertising Solutions segment. These decreases were partially offset by increased charges for employee separations and higher selling and advertising expenses.

The 2012 expense decrease was primarily due to \$4,181 in 2011 expenses related to the termination of the T-Mobile merger and the sale of our Advertising Solutions segment, offset by a larger actuarial loss of \$3,454 and higher wireless commissions and administrative costs.

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

**Depreciation and amortization** expense increased \$252, or 1.4%, in 2013 and decreased \$234, or 1.3%, in 2012. The 2013 expense increase was primarily due to ongoing capital spending for network upgrades and expansion, partially offset by fully depreciated assets and lower amortization of intangibles for customer lists related to acquisitions and the sale of our Advertising Solutions segment.

The 2012 expense decrease was primarily due to the sale of our Advertising Solutions segment and lower amortization of intangibles for customer lists related to acquisitions, offset by increased depreciation associated with ongoing capital spending for network upgrades and expansion.

**Interest expense** increased \$496, or 14.4%, in 2013 and decreased \$91, or 2.6%, in 2012. The increase was due to a \$581 charge related to our debt tender offers in 2013, partially offset by charges associated with early debt redemptions in 2012. Lower average interest rates offset higher average debt balances.

The decrease in interest expense for 2012 was primarily due to lower average interest rates and average debt balances, partially offset by one-time charges associated with early debt redemptions.

**Equity in net income of affiliates** decreased \$110, or 14.6%, in 2013 and \$32, or 4.1%, in 2012. Decreased equity in net income of affiliates in both periods was due to lower earnings from América Móvil, S.A. de C.V. (América Móvil), and increased expenses in our mobile payment joint venture with other wireless carriers, marketed as the Isis Mobile Wallet™ (ISIS). These decreases were partially offset by earnings from YP Holdings LLC (YP Holdings).

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**Other income (expense) – net** We had other income of \$596 in 2013, \$134 in 2012 and \$249 in 2011. Results for 2013 included a net gain on the sale of América Móvil shares and other investments of \$498, interest and dividend income of \$68, and leveraged lease income of \$26.

Other income for 2012 included interest and dividend income of \$61, leveraged lease income of \$55 and net gains on the sale of investments of \$74. This income was partially offset by \$57 of investment impairments. Results for 2011 included interest and dividend income of \$73, leveraged lease income of \$80 and net gains on the sale of investments of \$97.

**Income tax expense** increased \$6,324 in 2013 and \$368 in 2012. Both increases were primarily due to an increase in income before income taxes. Our effective tax rate was 33.2% in 2013, 27.8% in 2012 and 37.7% in 2011 (see Note 11).

**Segment Results**

Our segments are strategic business units that offer different products and services over various technology platforms and are managed accordingly. Our operating segment results presented in Note 4 and discussed below for each segment follow our internal management reporting. We analyze our operating segments based on segment income before income taxes. We make our capital allocation decisions based on the strategic needs of the business, needs of the network (wireless or wireline) providing services and demands to provide emerging services to our customers. Actuarial gains and losses from pension and other postemployment benefits, interest expense and other income (expense) – net, are managed only on a total company basis and are, accordingly, reflected only in consolidated results. Therefore, these items are not included in each segment's percentage of our total segment income. Each segment's percentage of total segment operating revenue and income calculations is derived from our segment results, and income percentage may total more than 100 percent due to losses in one or more segments. We have three reportable segments: (1) Wireless, (2) Wireline and (3) Other. Our operating results prior to May 9, 2012, also included our sold Advertising Solutions segment (see Note 5).

The **Wireless segment** accounted for approximately 54% of our 2013 total segment operating revenues as compared to 52% in 2012 and 76% of our 2013 total segment income as compared to 70% in 2012. This segment uses our nationwide network to provide consumer and business customers with wireless data and voice communications services. This segment includes our portion of the results from our mobile payment joint venture ISIS, which is accounted for as an equity method investment.

The **Wireline segment** accounted for approximately 46% of our 2013 total segment operating revenues as compared to 47% in 2012 and 27% of our 2013 total segment income as compared to 31% in 2012. This segment uses our regional, national and global network to provide consumer and business customers with data and voice communications services, U-verse high-speed broadband, video, voice services and managed networking to business customers.

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

The **Other segment** accounted for less than 1% of our 2013 and 2012 total segment operating revenues. Since segment operating expenses exceeded revenue in both years, a segment loss was incurred in both 2013 and 2012. This segment includes results from our equity investments in América Móvil and YP Holdings, and costs to support corporate-driven activities and operations. Also included in the Other segment are impacts of corporate-wide decisions for which the individual operating segments are not being evaluated, including interest costs and expected return on plan assets for our pension and postretirement benefit plans.

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

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

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**Wireless****Segment Results**

	2013	2012	2011	Percent Change	
				2013 vs. 2012	2012 vs. 2011
Segment operating revenues					
Data	\$ 21,719	\$ 18,297	\$ 14,861	18.7%	23.1%
Voice, text and other service	39,833	40,889	41,865	(2.6)	(2.3)
Equipment	8,347	7,577	6,489	10.2	16.8
<b>Total Segment Operating Revenues</b>	<b>69,899</b>	<b>66,763</b>	<b>63,215</b>	<b>4.7</b>	<b>5.6</b>
Segment operating expenses					
Operations and support	44,508	43,296	41,282	2.8	4.9
Depreciation and amortization	7,468	6,873	6,329	8.7	8.6
<b>Total Segment Operating Expenses</b>	<b>51,976</b>	<b>50,169</b>	<b>47,611</b>	<b>3.6</b>	<b>5.4</b>
Segment Operating Income	17,923	16,594	15,604	8.0	6.3
Equity in Net Income (Loss) of Affiliates	(75)	(62)	(29)	(21.0)	-
<b>Segment Income</b>	<b>\$ 17,848</b>	<b>\$ 16,532</b>	<b>\$ 15,575</b>	<b>8.0%</b>	<b>6.1%</b>

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

(Subscribers in 000s)	2013	2012	2011	Percent Change	
				2013 vs. 2012	2012 vs. 2011
Wireless Subscribers <sup>1</sup>					
Postpaid smartphones <sup>2</sup>	51,874	47,076	39,376	10.2%	19.6%
Postpaid feature phones and data-centric devices	20,764	23,421	29,933	(11.3)	(21.8)
Postpaid	72,638	70,497	69,309	3.0	1.7
Prepaid	7,384	7,328	7,225	0.8	1.4
Reseller	14,028	14,875	13,644	(5.7)	9.0
Connected devices <sup>3</sup>	16,326	14,257	13,069	14.5	9.1
<b>Total Wireless Subscribers</b>	<b>110,376</b>	<b>106,957</b>	<b>103,247</b>	<b>3.2</b>	<b>3.6</b>
Net Additions <sup>4</sup>					
Postpaid <sup>2</sup>	1,776	1,438	1,429	23.5	0.6
Prepaid	(13)	128	674	-	(81.0)
Reseller	(1,074)	1,027	1,874	-	(45.2)
Connected devices	2,032	1,171	3,722	73.5	(68.5)
<b>Net Subscriber Additions</b>	<b>2,721</b>	<b>3,764</b>	<b>7,699</b>	<b>(27.7) %</b>	<b>(51.1) %</b>
Total Churn <sup>5</sup>	1.37%	1.35%	1.37%	2 BP	(2) BP
Postpaid Churn <sup>5</sup>	1.06%	1.09%	1.18%	(3) BP	(9) BP

<sup>1</sup> Represents 100% of AT&T Mobility wireless subscribers.<sup>2</sup> Includes approximately 1,534 smartphones sold in 2013 under the AT&T Next program.<sup>3</sup> Includes data-centric devices (eReaders and automobile monitoring systems). Excludes tablets, which are primarily included in postpaid.<sup>4</sup> Excludes merger and acquisition-related additions during the period.<sup>5</sup> Calculated by dividing the aggregate number of wireless subscribers who canceled service during a period divided by the total number of wireless subscribers at the beginning of that period. The churn rate for the period is equal to the average of the churn rate for each month of that period.

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**Wireless Subscriber Relationships**

As the wireless industry continues to mature, we believe that future wireless growth will increasingly depend on our ability to offer innovative services, plans and devices and a wireless network that has sufficient spectrum and capacity to support these innovations on as broad a geographic basis as possible. To attract and retain subscribers in a maturing market, we have launched a wide variety of service plans, including Mobile Share and AT&T Next (our program that allows for the purchase of devices on installment), and expect to launch additional plans during 2014. While we have focused on attracting and retaining postpaid subscribers, we have recently increased our focus on prepaid subscribers with our pending acquisition of Leap Wireless, which we expect to complete by the end of first quarter 2014.

In 2013, we continued to see an increasing number of our postpaid subscribers select smartphones rather than feature phones, which lack general Internet access. Of our total postpaid phone subscriber base, 76.6% (or 51.9 million subscribers) use smartphones, up from 69.6% (or 47.1 million subscribers) a year earlier and 58.5% (or 39.4 million subscribers) two years ago. As is common in the industry, most of our subscribers' phones are designed to work only with our wireless technology, requiring subscribers who desire to move to a new carrier with a different technology to purchase a new device. Our postpaid subscribers also continued to add more tablets, reflecting the popularity of our Mobile Share plan.

Our postpaid subscribers typically sign a two-year contract, which includes discounted handsets and early termination fees. About 90% of our postpaid smartphone subscribers are on FamilyTalk® plans (family plans), Mobile Share plans or business plans, which provide for service on multiple devices at reduced rates, and such subscribers tend to have higher retention and lower churn rates. During 2013, we introduced additional programs that allow for the purchase of handsets on installments and for reduced-price service plans. We also offer data plans at different price levels (usage-based data plans) to attract a wide variety of subscribers and to differentiate us from our competitors. Our postpaid subscribers on data plans increased 10.2% year over year. A growing percentage of our postpaid smartphone subscribers are on usage-based data plans, with 72.6% (or 37.7 million subscribers) on these plans as of December 31, 2013, up from 67.4% (or 31.7 million subscribers) as of December 31, 2012, and 56.0% (or 22.1 million subscribers) as of December 31, 2011. About 80% of subscribers on usage-based data plans have chosen the medium- and higher-data plans. Such offerings are intended to encourage existing subscribers to upgrade their current services and/or add connected devices, attract subscribers from other providers and minimize subscriber churn.

As of December 31, 2013, approximately 77% of our postpaid smartphone subscribers use a 4G-capable device (i.e., a device that would operate on our HSPA+ or LTE network), and more than 50% of our postpaid smartphone subscribers use an LTE device. Due to substantial increases in the demand for wireless service in the United States, AT&T is facing significant spectrum and capacity constraints on its wireless network in certain markets. We expect such constraints to increase and expand to additional markets in the coming years. While we are continuing to invest significant capital in expanding our network capacity, our capacity constraints could affect the quality of existing data and voice services and our ability to launch new, advanced wireless broadband services, unless we are able to obtain more spectrum. Any long-term spectrum solution will require that the Federal Communications Commission (FCC) make new or existing spectrum available to the wireless industry to meet the expanding needs of our subscribers. We will continue to attempt to address spectrum and capacity constraints on a market-by-market basis.

**Wireless Metrics**

**Subscriber Additions** As of December 31, 2013, we served 110.4 million wireless subscribers, an increase of 3.2% from 2012. Market maturity in traditional wireless subscribers continues to limit the rate of growth in the industry's subscriber base, contributing to a 1.4% decrease in our gross subscriber additions (gross additions) in 2013 and a decrease of 13.0% in 2012.

Net subscriber additions (net additions) in 2013 were lower primarily due to losses in low-revenue reseller accounts. Lower net additions in 2012, as compared to 2011, were primarily attributable to lower net connected device and reseller additions when compared to the prior year, which reflected higher churn rates for customers not using such devices (zero-revenue customers).

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**Average service revenue per user (ARPU) – Postpaid** increased 1.6% in 2013 and 1.9% in 2012, driven by increases in data services ARPU of 16.9% in 2013 and 17.9% in 2012, reflecting greater use of smartphones and data-centric devices by our subscribers.

The growth in postpaid data services ARPU in 2013 and 2012 was partially offset by a 5.0% decrease in postpaid voice and other service ARPU in 2013 and a 3.7% decrease in 2012. Voice and other service ARPU declined due to lower access and airtime charges, triggered in part by postpaid subscribers on our discount plans, and lower roaming revenues.

**ARPU – Total** increased 0.9% in 2013, reflecting growth in data services as more subscribers are using smartphones and tablets and choosing medium- and higher-priced usage-based data plans. Total ARPU decreased 1.6% in 2012, reflecting growth in connected device, tablet and reseller subscribers, which have lower-priced data-only plans compared with our postpaid smartphone plans. We expect continued revenue growth from data services as more subscribers use smartphones and data-centric devices. While price changes may impact revenue and service ARPU, going forward we expect to increase equipment sales under our AT&T Next installment program. Data services ARPU increased 15.1% in 2013 and 16.1% in 2012, reflecting increased smartphone and data-centric device use. Voice, text and other service ARPU declined 5.5% in 2013 and 7.9% in 2012 due to voice access and usage trends and a shift toward a greater percentage of data-centric devices. We expect continued pressure on voice, text and other service ARPU.

**Churn** The effective management of subscriber churn is critical to our ability to maximize revenue growth and to maintain and improve margins. While the postpaid churn rate was lower in 2013, the total churn rate was up slightly in 2013, reflecting increased competition, especially for price-conscious customers. Total and postpaid churn were down slightly in 2012, reflecting popularity of our reduced-rate family, Mobile Share, and business plans; however, the decrease was mostly offset by the disconnection of reseller low-revenue accounts.

**Operating Results**

Segment operating income margin was 25.6% in 2013, compared to 24.9% in 2012 and 24.7% in 2011. Our Wireless segment operating income increased \$1,329, or 8.0%, in 2013 and increased \$990, or 6.3%, in 2012. The operating income and margin increase in 2013 reflected continuing data revenue growth and operating efficiencies, partially offset by the high subsidies associated with growing smartphone sales. The margin increase in 2012 reflected higher data revenues generated by our postpaid subscribers, partially offset by higher equipment and selling costs associated with higher smartphone sales and handset upgrades. While we subsidize the sales prices of various smartphones, we expect that subscriber revenues generated over time from voice and data services will exceed the cost of those subsidies. We also expect our subsidies costs to be tempered in 2014 by the growing popularity of our AT&T Next program, as discussed below.

**Voice, text and other** service revenues decreased \$1,056, or 2.6%, in 2013 and \$976, or 2.3%, in 2012. While the number of wireless subscribers increased 3.2% in 2013, and 3.6% in 2012, these revenues continued to decline due to voice access and usage declines, as noted in the ARPU and subscriber relationships discussions above.

**Data** service revenues increased \$3,422, or 18.7%, in 2013 and \$3,436, or 23.1%, in 2012. The increases were primarily due to the increased number of subscribers using smartphones and data-centric devices, such as tablets, eReaders, and mobile navigation devices. Data service revenues accounted for approximately 35.3% of our wireless service revenues in 2013, compared to 30.9% in 2012 and 26.2% in 2011.

**Equipment** revenues increased \$770, or 10.2%, in 2013 and \$1,088, or 16.8%, in 2012. The increases were primarily due to year-over-year increases in smartphone sales as a percentage of total device sales to postpaid subscribers. Equipment revenues in 2013 also included incremental revenues from devices sold under our AT&T Next program. While we expect equipment revenues to increase under this program, we expect monthly services revenues to decline for subscribers to this program. The increase in 2012 was primarily due to the launch of a new iPhone model and increased handset upgrade fees.

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**Operations and support** expenses increased \$1,212, or 2.8%, in 2013 and \$2,014, or 4.9%, in 2012. The increase in 2013 was primarily due to the following:

- Equipment costs increased \$817, reflecting sales of more expensive smartphones, partially offset by the overall decline in upgrade activity and total device sales.
- Selling expenses (other than commissions) and administrative expenses increased \$712 due primarily to a \$265 increase in employee-related costs, a \$246 increase in advertising costs, \$187 increase in information technology costs in conjunction with ongoing support systems development, and \$107 increase in nonemployee-related costs, partially offset by an \$84 decrease in bad debt expense.
- Network system costs increased \$146 primarily due to higher network traffic, personnel-related network support costs and cell site related costs in conjunction with our network enhancement efforts.
- Commission expenses increased \$59 due to a year-over-year increase in smartphone sales as a percentage of total device sales, partially offset by the overall decline in handset upgrade activity and total device sales.

Partially offsetting these increases were the following:

- Interconnect and long-distance costs decreased \$353 due to third-party credits, lower usage costs and our ongoing network transition to more efficient Ethernet/IP-based technologies in 2013.
- USF fees decreased \$104 primarily due to USF rate decreases, which are offset by lower USF revenues.
- Incollect roaming fees decreased \$73 primarily due to rate declines and lower roaming use associated with the integration of previously acquired subscribers into our network.

The increase in 2012 was primarily due to the following:

- Commission expenses increased \$636 due to a year-over-year increase in smartphone sales as a percentage of total device sales, partially offset by the overall decline in handset upgrade activity and total device sales.
- Selling expenses (other than commissions) and administrative expenses increased \$526 due primarily to a \$181 increase in information technology costs in conjunction with ongoing support systems development, \$137 increase in employee-related costs, \$99 increase in nonemployee-related costs, and \$89 increase in bad debt expense, partially offset by a \$57 decline in advertising costs.
- Equipment costs increased \$507, reflecting sales of more expensive smartphones, partially offset by the overall decline in upgrade activity and total device sales.
- Network system, interconnect, and long-distance costs increased \$202 primarily due to higher network traffic, personnel-related network support costs and cell site related costs in conjunction with our network enhancement efforts and storm costs.
- USF fees increased \$166 primarily due to USF rate increases.
- Handset insurance cost increased \$141 due to claims on more expensive devices.

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

**Depreciation and amortization** expenses increased \$595, or 8.7%, in 2013 and \$544, or 8.6%, in 2012. In 2013, depreciation expense increased \$865, or 13.5%, primarily due to ongoing capital spending for network upgrades and expansions partially offset by certain network assets becoming fully depreciated. Amortization expense decreased \$270, or 55.3%, primarily due to lower amortization of intangibles for customer lists related to acquisitions.

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

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

**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

Dollars in millions except per share amounts

**Wireline****Segment Results**

	2013	2012	2011	Percent Change	
				2013 vs. 2012	2012 vs. 2011
Segment operating revenues					
Data	\$ 33,593	\$ 31,841	\$ 29,548	5.5%	7.8%
Voice	20,333	22,614	25,121	(10.1)	(10.0)
Other	4,888	5,118	5,480	(4.5)	(6.6)
Total Segment Operating Revenues	58,814	59,573	60,149	(1.3)	(1.0)
Segment operating expenses					
Operations and support	41,638	41,207	41,361	1.0	(0.4)
Depreciation and amortization	10,907	11,123	11,615	(1.9)	(4.2)
Total Segment Operating Expenses	52,545	52,330	52,976	0.4	(1.2)
Segment Operating Income	6,269	7,243	7,173	(13.4)	1.0
Equity in Net Income (Loss) of Affiliates	2	(1)	(2)	-	-
Segment Income	\$ 6,271	\$ 7,242	\$ 7,171	(13.4) %	1.0%

**Operating Results**

Our Wireline segment operating income margin was 10.7% in 2013, compared to 12.2% in 2012 and 11.9% in 2011. Our Wireline segment operating income decreased \$974, or 13.4%, in 2013 and increased \$70, or 1.0%, in 2012. The decrease in operating income and margin in 2013 was driven primarily by lower voice revenue and higher operations and support expense, partially offset by data revenue growth and lower depreciation and amortization expense. The increase in operating income and margins in 2012 was driven by data revenue growth and lower depreciation and amortization expense, partially offset by lower voice revenue. As we transition from basic voice and data services to sophisticated, high-speed, IP-based alternatives, we expect continued growth in our more advanced IP data products while traditional data and DSL revenues continue to decline.

**Data** revenues increased \$1,752, or 5.5%, in 2013 and \$2,293, or 7.8%, in 2012. Data revenues accounted for approximately 57% of wireline operating revenues in 2013, 53% in 2012 and 49% in 2011. Data revenues include IP, strategic business and traditional data services.

- IP data revenues (excluding strategic business services below) increased \$1,662, or 11.3%, in 2013 and \$1,781, or 13.8%, in 2012 primarily driven by higher U-verse penetration, customer additions, and migration from our legacy voice and DSL services. In 2013 and 2012 U-verse revenue from consumer customers increased \$1,289 and \$1,154 for broadband high-speed Internet access, \$995 and \$1,056 for video and \$282 and \$250 for voice, respectively. These increases were partially offset by a decrease of \$777 and \$628 in DSL revenue as customers continue to shift to our U-verse or competitors' high speed Internet access offerings.
- Strategic business services, which include VPN, Ethernet, hosting, IP conferencing, VoIP, Ethernet-access to Managed Internet Service (EaMIS), security services and U-verse provided to business customers, increased \$1,105, or 15.0%, in 2013 and \$1,029, or 16.2%, in 2012 primarily driven by migration from our legacy services. In 2013 and 2012, revenues from VPN increased \$360 and \$432, Ethernet increased \$310 and \$280, U-verse services increased \$143 and \$85, EaMIS increased \$126 and \$111 and VoIP increased \$93 and \$61, respectively.
- Traditional data revenues, which include transport (excluding Ethernet) and packet-switched data services, decreased \$1,016, or 10.4%, in 2013 and \$528, or 5.1%, in 2012. These decreases were primarily due to lower demand as customers continue to shift to more advanced IP-based technology such as VPN, Ethernet, U-verse high speed Internet access and managed Internet services.

**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

Dollars in millions except per share amounts

**Voice** revenues decreased \$2,281, or 10.1%, in 2013 and \$2,507, or 10.0%, in 2012 primarily due to declining demand for traditional voice services by our consumer and business customers. Included in voice revenues are revenues from local voice, long distance (including international) and local wholesale services. Voice revenues do not include VoIP revenues, which are included in data revenues.

- Local voice revenues decreased \$1,420, or 10.2%, in 2013 and \$1,526, or 9.9%, in 2012. The decrease in 2013 and 2012 was driven primarily by a 15.8% and 14.0% decline in switched access lines.
- Long-distance revenues decreased \$843, or 11.0%, in 2013 and \$965, or 11.2%, in 2012. Lower demand for long-distance service from our business and consumer customers decreased revenues \$709 in 2013 and \$801 in 2012. Additionally, expected declines in the number of national mass-market customers decreased revenues \$135 in 2013 and \$162 in 2012.

**Other** operating revenues decreased \$230, or 4.5%, in 2013 and \$362, or 6.6%, in 2012. Major items included in other operating revenues are integration services and customer premises equipment, government-related services and outsourcing, which account for approximately 60% of total other revenue in the years reported.

**Operations and support** expenses increased \$431, or 1.0%, in 2013 and decreased \$154, or 0.4%, in 2012. Operations and support expenses consist of costs incurred to provide our products and services, including costs of operating and maintaining our networks and personnel costs, such as compensation and benefits.

The 2013 increase was primarily due to increased cost of sales of \$680, primarily related to U-verse related expenses, advertising expenses of \$155 and contract services of \$125. These increases were partially offset by lower employee-related expense of \$437, reflecting workforce reduction initiatives, and USF fees of \$116, which were offset by lower USF revenue.

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

**Depreciation and amortization** expenses decreased \$216, or 1.9%, in 2013 and \$492, or 4.2%, in 2012. Both decreases were primarily related to lower amortization of intangibles for customer lists associated with acquisitions.

**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

Dollars in millions except per share amounts

**Supplemental Information****Wireline Broadband, Telephone and Video Connections Summary**

Our broadband, switched access lines and other services provided at December 31, 2013, 2012, and 2011 are shown below and trends are addressed throughout the preceding segment discussion.

(in 000s)	2013	2012	2011	Percent Change	
				2013 vs. 2012	2012 vs. 2011
U-verse high speed Internet	10,375	7,717	5,224	34.4%	47.7%
DSL and other broadband connections	6,050	8,673	11,203	(30.2)	(22.6)
<b>Total Wireline Broadband Connections<sup>1</sup></b>	<b>16,425</b>	<b>16,390</b>	<b>16,427</b>	<b>0.2</b>	<b>(0.2)</b>
<b>Total U-verse Video Connections</b>	<b>5,460</b>	<b>4,536</b>	<b>3,791</b>	<b>20.4</b>	<b>19.7</b>
Retail consumer switched access lines	12,403	15,707	18,952	(21.0)	(17.1)
U-verse consumer VoIP connections	3,848	2,905	2,278	32.5	27.5
<b>Total Retail Consumer Voice Connections<sup>2</sup></b>	<b>16,251</b>	<b>18,612</b>	<b>21,230</b>	<b>(12.7)</b>	<b>(12.3)</b>
<b>Switched Access Lines</b>					
Retail consumer	12,403	15,707	18,952	(21.0)	(17.1)
Retail business	10,364	11,484	12,750	(9.8)	(9.9)
<b>Retail Subtotal<sup>2</sup></b>	<b>22,767</b>	<b>27,191</b>	<b>31,702</b>	<b>(16.3)</b>	<b>(14.2)</b>
<b>Wholesale Subtotal<sup>2</sup></b>	<b>1,626</b>	<b>1,775</b>	<b>1,978</b>	<b>(8.4)</b>	<b>(10.3)</b>
<b>Total Switched Access Lines<sup>2,3</sup></b>	<b>24,639</b>	<b>29,279</b>	<b>34,054</b>	<b>(15.8) %</b>	<b>(14.0) %</b>

<sup>1</sup> Total wireline broadband connections include U-verse high speed Internet access, DSL lines and satellite broadband.

<sup>2</sup> Prior-period amounts are restated to conform to current-period reporting methodology.

<sup>3</sup> Total switched access lines include access lines provided to national mass markets and private payphone service providers of 246 at December 31, 2013, 313 at December 31, 2012, and 374 at December 31, 2011.

**Advertising Solutions****Segment Results**

	2013	2012	2011	Percent Change	
				2013 vs. 2012	2012 vs. 2011
Total Segment Operating Revenues	\$ -	\$ 1,049	\$ 3,293	-	(68.1)%
Segment operating expenses					
Operations and support	-	773	2,265	-	(65.9)
Impairment of intangible assets	-	-	2,910	-	-
Depreciation and amortization	-	106	386	-	(72.5)
Total Segment Operating Expenses	-	879	5,561	-	(84.2)
Segment Income (Loss)	\$ -	\$ 170	\$ (2,268)	-	-

On May 8, 2012, we completed the sale of our Advertising Solutions segment to an affiliate of Cerberus Capital Management, L.P. (see Note 5).

**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

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**Other****Segment Results**

	2013	2012	2011	Percent Change	
				2013 vs. 2012	2012 vs. 2011
Total Segment Operating Revenues	\$ 39	\$ 49	\$ 66	(20.4) %	(25.8) %
Total Segment Operating Expenses	1,336	1,065	5,077	25.4	(79.0)
Segment Operating Loss	(1,297)	(1,016)	(5,011)	(27.7)	79.7
Equity in Net Income of Affiliates	715	815	815	(12.3)	-
Segment Income (Loss)	\$ (582)	\$ (201)	\$ (4,196)	-	95.2%

The Other segment includes our ownership percentage of the results from América Móvil and YP Holdings, and costs to support corporate-driven activities and operations. Also included in the Other segment are impacts of corporate-wide decisions for which the individual operating segments are not being evaluated, including interest costs and expected return on plan assets for our pension and postretirement benefit plans.

**Segment operating revenues** decreased \$10, or 20.4%, in 2013 and \$17, or 25.8%, in 2012. The decrease was primarily due to reduced revenues from leased equipment programs.

**Segment operating expenses** increased \$271, or 25.4%, in 2013 and decreased \$4,012, or 79.0%, in 2012. The increase in 2013 was primarily related to higher charges for employee separations, increased new product development expenses and higher corporate support and capital leasing operations costs, partially offset by gains of \$293 associated with the transfers of Advanced Wireless Service (AWS) licenses as part of our 700 MHz spectrum acquisitions and decreased Pension/OPEB financing costs and other employee-related charges. The decrease in 2012 was due to charges incurred in 2011 related to the termination of the T-Mobile acquisition.

**Equity in net income of affiliates** decreased \$100, or 12.3%, in 2013 and remained flat for 2012. Decreased equity in net income of affiliates in 2013 was due to reduced earnings and foreign exchange impacts from América Móvil. In 2012 increased equity income of affiliates from YP Holdings earnings were offset by lower results at América Móvil.

Our equity in net income of affiliates by major investment is listed below:

	2013	2012	2011
América Móvil	\$ 532	\$ 686	\$ 720
YP Holdings	182	130	-
Telmex <sup>1</sup>	-	-	95
Other	1	(1)	-
Other Segment Equity in Net Income of Affiliates	\$ 715	\$ 815	\$ 815

<sup>1</sup> Acquired by América Móvil in 2011.

**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

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**OPERATING ENVIRONMENT AND TRENDS OF THE BUSINESS**

**2014 Revenue Trends** We expect our operating environment in 2014 to remain challenging as current uncertain economic conditions continue and competition continues to increase, especially in the wireless area. Despite these challenges, we expect our consolidated operating revenues in 2014 to grow, driven by continuing growth in our wireless data and IP-related wireline data services, including U-verse. We expect our primary driver of growth to be wireless data services from smartphones, tablets and other services (such as wireless home services and mobile navigation, including car-based services). While price changes may impact revenue and service ARPU, we expect to increase equipment sales under our AT&T Next installment program. We expect that all our major customer categories will continue to increase their use of Internet-based broadband/data services. We expect continuing declines in traditional access lines and in traditional telephone service revenues. Where available, our U-verse services have proved effective in stemming access line losses, and we expect to continue to expand our U-verse service offerings in 2014.

**2014 Expense Trends** We expect a stable consolidated operating income margin in 2014 with expanding wireless margins being offset by wireline margin pressure as a result of our IP broadband and video expansion and other initiatives to enhance business offerings, including cloud services. Expenses related to growth areas of our business, including wireless data, U-verse and strategic business services, will apply some pressure to our operating income margin.

**Market Conditions** During 2013, ongoing slow recovery in the general economy has continued to negatively affect our customers. Our business and residential customers have continued to purchase lower levels of traditional wireline services and we expect those trends to continue. These negative trends were partially offset by continued growth in our wireless data and IP-related services. We expect further pressure on pricing and margins as we compete for both wireline and wireless customers who have less discretionary income. We also may experience difficulty purchasing equipment in a timely manner or maintaining and replacing equipment under warranty from our suppliers.

Included on our consolidated balance sheets are assets held by benefit plans for the payment of future benefits. Our pension plans are subject to funding requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA). In September 2013, we made a voluntary contribution of a preferred equity interest in AT&T Mobility II LLC to the trust used to pay pension benefits. The trust is entitled to receive cumulative annual cash distributions of \$560, which will result in a \$560 contribution during 2014. We do not have significant additional contribution requirements to our pension plans for 2014. However, a weakness in the equity, fixed income and real asset markets could require us in future years to make contributions to the pension plans in order to maintain minimum funding requirements as established by ERISA. Investment returns on these assets depend largely on trends in the U.S. securities markets and the U.S. economy. In addition, our policy of recognizing actuarial gains and losses related to our pension and other postretirement plans in the period in which they arise subjects us to earnings volatility caused by changes in market conditions. Changes in our discount rate, which are tied to changes in the bond market, and changes in the performance of equity markets, may have significant impacts on the fair value of pension and other postretirement plans at the end of 2014 (see "Accounting Policies and Estimates").

**OPERATING ENVIRONMENT OVERVIEW**

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

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

**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

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

We provide wireless services in robustly competitive markets, but those services are subject to substantial and increasing governmental regulation. Wireless communications providers must obtain licenses from the FCC to provide communications services at specified spectrum frequencies within specified geographic areas and must comply with the FCC rules and policies governing the use of the spectrum. The FCC has recognized that the explosive growth of bandwidth-intensive wireless data services requires the U.S. Government to make more spectrum available. In February 2012, Congress set forth specific spectrum blocks to be auctioned and licensed by February 2015, and also authorized the FCC to conduct an "incentive auction," to make available for wireless broadband use certain spectrum that is currently used by broadcast television licensees. The FCC has initiated proceedings to establish rules that would govern this process. It also initiated a separate proceeding to review its policies governing mobile spectrum holdings and consider whether there should be limits on the amount of spectrum a wireless service provider may possess. We seek to ensure that we have the opportunity, through the incentive auction and otherwise, to obtain the spectrum we need to provide our customers with high-quality service. While wireless communications providers' prices and service offerings are generally not subject to state regulation, states sometimes attempt to regulate or legislate various aspects of wireless services, such as in the area of consumer protection.

On January 14, 2014, the D.C. Circuit released its decision on Verizon's appeal of the FCC's Net Neutrality rules. Those rules prohibited providers of fixed, mass market Internet access service from blocking access to lawful content, applications, services or non-harmful devices. The rules prohibited providers of mobile broadband Internet access service from blocking consumers from accessing lawful websites or applications that compete with the provider's own voice or video telephony services. The rules also imposed transparency requirements on providers of both fixed and mobile broadband Internet access services, requiring public disclosure of information regarding network management practices, performance and commercial terms of their service offerings. In addition, the rules prohibited providers of fixed (but not mobile) broadband Internet access service from unreasonably discriminating in their transmission of lawful network traffic.

In its decision, the court found the FCC had authority under section 706 of the Act (which directs the FCC and state commissions to promote broadband deployment) to adopt rules designed to preserve the open Internet, but vacated and remanded the antidiscrimination and no-blocking rules on the ground that they impermissibly imposed common carrier regulation on broadband Internet access service. The court held that, having declared broadband Internet access services to be information services, the FCC could not regulate them as telecommunications services. The court did not vacate the transparency rules.

The invalidation of the no-blocking and antidiscrimination rules means that broadband Internet access providers have greater flexibility in their provision of mass market services. However, the court's finding that section 706 provides the FCC independent authority to adopt rules to promote broadband deployment appears to give the FCC broad authority to regulate the Internet and, more generally, IP-based services, provided the FCC finds such regulation promotes deployment of broadband infrastructure. In addition, because section 706(a) grants authority to both the FCC and the states to adopt rules to promote broadband deployment, states could attempt to rely on that provision to regulate broadband services, although the states' authority to do so appears to be narrower than the FCC's. If the FCC were to reclassify broadband as a telecommunications service, or the FCC and/or the states were to impose additional regulation of the Internet or broadband services, it could have a material adverse impact on our broadband services and operating results.

**Expected Growth Areas**

We expect our wireless services and wireline IP-data products to remain the most significant growth portions of our business and have also discussed trends affecting the segments in which we report results for these products (see "Wireless Segment Results" and "Wireline Segment Results"). Over the next few years, we expect our growth to come from IP-based data services used by our wireless and wireline customers. Whether, or the extent to which, growth in these areas will offset declines in other areas of our business is not known.

**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

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**Wireless** We expect to deliver continued revenue growth in the coming years. We are in a period of rapid growth in wireless data usage and believe that there are substantial opportunities available for next-generation converged services that combine wireless, broadband, voice and video. For example, we have launched our innovative home monitoring service (Digital Life) and have announced plans for car-related security and entertainment services. We also participate in ISIS which has also begun its national rollout of mobile payment services.

In the United States, we now cover all major metropolitan areas and nearly 280 million people with our LTE technology. We expect to cover approximately 300 million people and to be essentially complete by the summer of 2014. We also provide 4G coverage using various other technologies (UMTS and HSPA+), and when combined with our upgraded backhaul, we are able to enhance our network capabilities and provide superior mobile broadband speeds for data and video services. Our wireless network also relies on other GSM digital transmission technologies for 3G and 2G data communications. As of December 31, 2013, we served more than 110 million subscribers. We continue to expand the number of locations, including airports and cafés, where customers can access broadband Internet connections using wireless fidelity (local radio frequency commonly referred to as Wi-Fi) technology.

As the wireless industry continues to mature, we believe that future wireless growth will increasingly depend on our ability to offer innovative data services and a wireless network that has sufficient spectrum and capacity to support these innovations. We are facing significant spectrum and capacity constraints on our wireless network in certain markets. We expect such constraints to increase and expand to additional markets in the coming years. While we are continuing to invest significant capital in expanding our network capacity, our capacity constraints could affect the quality of existing voice and data services and our ability to launch new, advanced wireless broadband services, unless we are able to obtain more spectrum. Any long-term spectrum solution will require that the FCC make new or existing spectrum available to the wireless industry to meet the expanding needs of our subscribers. We will continue to attempt to address spectrum and capacity constraints on a market-by-market basis. To that end, we closed more than 60 deals to acquire spectrum and wireless operations during 2013. Much of the recently acquired spectrum came from an innovative solution in which we obtained FCC approval to use Wireless Communication Services spectrum for mobile broadband for the first time.

**U-verse Services** During 2013, we continued to expand our offerings of U-verse high speed Internet and TV services. As of December 31, 2013, we are marketing U-verse services to approximately 27 million customer locations (locations eligible to receive U-verse service). As of December 31, 2013, we had 10.7 million total U-verse subscribers (high-speed Internet and video), including 10.4 million Internet and 5.5 million video subscribers (subscribers to both services are only counted once in the total). As part of Project Velocity IP (VIP), we plan to expand our IP-broadband service to approximately 57 million customer locations, including U-verse services to a total of 33 million customer locations. We expect to be substantially complete in the 2015 and 2016 timeframe.

We believe that our U-verse TV service is a "video service" under the Federal Communications Act. However, some cable providers and municipalities have claimed that certain IP services should be treated as a traditional cable service and therefore subject to the applicable state and local cable regulation. Petitions have been filed at the FCC alleging that the manner in which we provision "public, educational and governmental" (PEG) programming over our U-verse TV service conflicts with federal law, and a lawsuit has been filed in a California state superior court raising similar allegations under California law. If courts having jurisdiction where we have significant deployments of our U-verse services were to decide that federal, state and/or local cable regulation were applicable to our U-verse services, or if the FCC, state agencies or the courts were to rule that we must deliver PEG programming in a manner substantially different from the way we do today or in ways that are inconsistent with our current network architecture, it could have a material adverse effect on the cost and extent of our U-verse offerings.

**REGULATORY DEVELOPMENTS**

Set forth below is a summary of the most significant regulatory proceedings that directly affected our operations during 2013. Industry-wide regulatory developments are discussed above in Operating Environment Overview. While these issues may apply only to certain subsidiaries, the words "we," "AT&T" and "our" are used to simplify the discussion. The following discussions are intended as a condensed summary of the issues rather than as a comprehensive legal analysis and description of all of these specific issues.

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

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**Federal Regulation** A summary of significant 2013 federal regulatory developments follows.

**Intercarrier Compensation/Universal Service** In October 2011, the FCC adopted an order fundamentally overhauling its high-cost universal service program, through which it disburses approximately \$4,500 per year to carriers providing telephone service in high-cost areas, and its existing intercarrier compensation (ICC) rules, which govern payments between carriers for the exchange of traffic. The order adopts rules to address immediately certain practices that artificially increase ICC payments, as well as other practices to avoid such payments. The order also establishes a new ICC regime that will result in the elimination of virtually all terminating switched access charges and reciprocal compensation payments over a six-year transition. In the order, the FCC also repurposed its high-cost universal service program to encourage providers to deploy broadband facilities in unserved areas. To accomplish this goal, the FCC is transitioning support amounts disbursed through its existing high-cost program to its new Connect America Fund (CAF). In 2013, the FCC awarded us approximately \$100 in new CAF funding to deploy broadband in unserved areas. We support many aspects of the order and new rules. AT&T and other parties have filed appeals of the FCC's rules, which are pending in the Tenth Circuit Court of Appeals. Our appeal challenges only certain, narrow aspects of the order; AT&T intervened in support of the broad framework adopted by the order. Oral argument on the appeal took place November 19, 2013. A decision is possible in 2014. We do not expect the FCC's rules to have a material impact on our operating results.

**Transition to IP-Based Network** In conjunction with Project VIP, we filed a petition with the FCC asking it to open a proceeding to facilitate our transition to all IP-based networks and services to promote consumer interests and incent private investment in broadband infrastructure. On January 30, 2014, the FCC adopted an order authorizing a broad set of voluntary experiments to measure the impact on consumers of the IP transition. Among other things, the order invites providers to submit proposals for all-IP trials in discrete geographic areas. In the first quarter of 2014, AT&T expects to submit a detailed plan for two such trials. The FCC will put that detailed plan out for public comment, and expects to adopt an order regarding AT&T's plan by the end of the second quarter of 2014. We expect this transition to take several years.

**Net Neutrality** On January 14, 2014, the D.C. Circuit released its decision on Verizon's appeal of the FCC's Net Neutrality rules. As discussed above, although the court found that the FCC generally has authority to adopt Net Neutrality rules, the court vacated and remanded the FCC's antidiscrimination and no-blocking rules on the ground that they impermissibly imposed common carrier regulation on broadband Internet access service (the court upheld the transparency requirements). That decision means that broadband Internet access providers have greater flexibility in their provision of mass market services. But the court's finding that the FCC has authority to adopt rules to promote broadband deployment appears to give the FCC broad authority to regulate the Internet and, more generally, IP-based services. In addition, the court's rationale appears to give the states authority to adopt rules to promote broadband deployment, although their authority to do so appears to be narrower than the FCC's. If the FCC were to reclassify broadband as a telecommunications service, or the FCC and/or the states were to impose additional regulation of the Internet or broadband services, it could have a material adverse impact on our broadband services and operating results.

**COMPETITION**

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

**Wireless**

We face substantial and increasing competition in all aspects of our wireless business. Under current FCC rules, multiple licensees, including six or more PCS licensees, two cellular licensees and one or more enhanced specialized mobile radio licensee may operate in each of our service areas, which results in the potential presence of multiple competitors. Our competitors include brands such as Verizon Wireless, Sprint, T-Mobile, Metro PCS and Cricket Wireless, a larger number of regional providers of cellular, PCS and other wireless communications services and resellers of those services (see Note 5 for a discussion of our pending acquisition of Leap). In addition, we face competition from providers who offer voice, text messaging and other services as applications on data networks. More than 97 percent of the U.S. population lives in areas with at least three mobile telephone operators, and 90 percent of the population lives in areas with at least five competing carriers. We may experience significant competition from companies that provide similar services using other communications technologies and services. While some of these technologies and services are now operational, others are being developed or may be developed. We compete for customers based principally on service/device offerings, price, call quality, coverage area and customer service.

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The FCC may develop rules to auction or otherwise make available additional spectrum to the wireless industry. The FCC has indicated it plans to conduct an auction in 2014 under which up to 120 MHz of UHF TV spectrum could be reallocated for mobile wireless use. In addition, the FCC is required by law to auction up to 65 MHz of additional wireless spectrum in 2015. The FCC has yet to develop the rules under which this spectrum might be available.

**Wireline**

Our wireline subsidiaries will face continued competitive pressure in 2014 from multiple providers, including wireless, cable and other VoIP providers, interexchange carriers and resellers. In addition, economic pressures are leading customers to terminate their traditional local wireline service and use competitive wireless and Internet-based services, intensifying a pre-existing trend toward wireless and Internet use. In most markets, we compete, often on pricing of bundled services, with large cable companies, such as Comcast Corporation, Cox Communications Inc. and Time Warner Cable Inc., for local, high-speed Internet, video and voice services customers and other smaller telecommunications companies for both long-distance and local services customers.

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

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

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

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

**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

Dollars in millions except per share amounts

**ACCOUNTING POLICIES AND STANDARDS**

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

**Allowance for Doubtful Accounts** We maintain an allowance for doubtful accounts for estimated losses that result from the failure of our customers to make required payments. When determining the allowance, we consider the probability of recoverability based on past experience, taking into account current collection trends as well as general economic factors, including bankruptcy rates. Credit risks are assessed based on historical write-offs, net of recoveries, and an analysis of the aged accounts receivable balances with reserves generally increasing as the receivable ages. Accounts receivable may be fully reserved for when specific collection issues are known to exist, such as pending bankruptcy or catastrophes. The analysis of receivables is performed monthly, and the allowances for doubtful accounts are adjusted through expense accordingly. A 10% change in the amounts estimated to be uncollectible would result in a change in the provision for uncollectible accounts of approximately \$95.

**Pension and Postretirement Benefits** Our actuarial estimates of retiree benefit expense and the associated significant weighted-average assumptions are discussed in Note 12. Our assumed discount rate of 5.00% at December 31, 2013, reflects the hypothetical rate at which the projected benefit obligations could be effectively settled or paid out to participants. We determined our discount rate based on a range of factors, including a yield curve composed of the rates of return on several hundred high-quality, fixed income corporate bonds available at the measurement date and the related expected duration for the obligations. These bonds were all rated at least Aa3 or AA- by one of the nationally recognized statistical rating organizations, denominated in U.S. dollars, and neither callable, convertible nor index linked. For the year ended December 31, 2013, we increased our discount rate by 0.70%, resulting in a decrease in our pension plan benefit obligation of \$4,533 and a decrease in our postretirement benefit obligation of \$3,161. For the year ended December 31, 2012, we decreased our discount rate by 1.00%, resulting in an increase in our pension plan benefit obligation of \$7,030 and an increase in our postretirement benefit obligation of \$4,546.

Our expected long-term rate of return on plan assets assumption was 7.75% for the year ended December 31, 2013. Our expected return on plan assets is calculated using the actual fair value of plan assets. If all other factors were to remain unchanged, we expect that a 0.50% decrease in the expected long-term rate of return would cause 2014 combined pension and postretirement cost to increase \$262, which under our accounting policy would be recognized in the current year as part of our fourth-quarter remeasurement of our retiree benefit plans. In 2013, the actual return on our combined pension and postretirement plan assets was 14.1%, resulting in an actuarial gain of \$3,239.

We recognize gains and losses on pension and postretirement plan assets and obligations immediately in our operating results. These gains and losses are generally measured annually as of December 31 and accordingly will normally be recorded during the fourth quarter, unless an earlier remeasurement is required. Should actual experience differ from actuarial assumptions, the projected pension benefit obligation and net pension cost and accumulated postretirement benefit obligation and postretirement benefit cost would be affected in future years. Note 12 also discusses the effects of certain changes in assumptions related to medical trend rates on retiree healthcare costs.

**Depreciation** Our depreciation of assets, including use of composite group depreciation and estimates of useful lives, is described in Notes 1 and 6. We assign useful lives based on periodic studies of actual asset lives. Changes in those lives with significant impact on the financial statements must be disclosed, but no such changes have occurred in the three years ended December 31, 2013. However, if all other factors were to remain unchanged, we expect that a one-year increase in the useful lives of our plant in service would result in a decrease of approximately \$2,539 in our 2013 depreciation expense and that a one-year decrease would result in an increase of approximately \$3,763 in our 2013 depreciation expense.

**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

Dollars in millions except per share amounts

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

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

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

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

As shown in Note 7, all of our goodwill resides in the Wireless and Wireline segments. For each of those segments, we assess their fair values using an income approach (also known as a discounted cash flow) and a market multiple approach. The income approach utilizes a 10-year cash flow projection with a perpetuity value discounted using an appropriate Weighted Average Cost of Capital rate for each reporting unit. The market multiple approach uses a multiple of a company's Earnings Before Interest, Taxes, and Depreciation and Amortization expenses (EBITDA). We determined the multiples of the publicly traded companies whose services are comparable to those offered by the segment and then calculated a weighted-average of those multiples. Using those weighted averages, we then calculated fair values for each of those segments. In 2013, the calculated fair value of the reporting unit exceeded book value in all circumstances and no additional testing was necessary. In the event of a 10% drop in the fair values of the reporting units, the fair values would have still exceeded the book values of the reporting units and additional testing would still have not been necessary. As a result of our 2011 impairment test, we recorded a goodwill impairment charge in the Advertising Solutions segment due to declines in the value of our directory business and that industry (see Note 7). We also recorded a corresponding impairment to an indefinite-lived trade name used by the former Advertising Solutions segment.

Wireless FCC licenses are tested for impairment on an aggregate basis, consistent with the management of the business on a national scope. As in prior years, we performed our test of the fair values of FCC licenses using a discounted cash flow model (the Greenfield Approach). The Greenfield Approach assumes a company initially owns only the wireless FCC licenses, and then makes investments required to build an operation comparable to the one that currently utilizes the licenses. We utilized a 17-year discrete period to isolate cash flows attributable to the licenses, including modeling the hypothetical build-out. The projected cash flows are based on certain financial factors, including revenue growth rates, EBITDA margins and churn rates. For impairment testing purposes, we assumed wireless revenue growth to trend down from our 2013 growth rate of 4.7% to a long-term growth rate that reflects expected long-term inflation trends. We assumed our churn rates will decline in 2014 from our rate of 1.37% in 2013, in line with expected trends in the industry but at a rate comparable with industry-leading churn. EBITDA margins were assumed to continue to trend at least 40%.

**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

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This model then incorporates cash flow assumptions regarding investment in the network, development of distribution channels and the subscriber base, and other inputs for making the business operational. We based the assumptions, which underlie the development of the network, subscriber base and other critical inputs of the discounted cash flow model, on a combination of average marketplace participant data and our historical results, trends and business plans. We also used operating metrics such as capital investment per subscriber, acquisition costs per subscriber, minutes of use per subscriber, etc., to develop the projected cash flows. Since we included the cash flows associated with these other inputs in the annual cash flow projections, the present value of the unlevered free cash flows of the segment, after investment in the network, subscribers, etc., is attributable to the wireless FCC licenses. The terminal value of the segment, which incorporates an assumed sustainable growth rate, is also discounted and is likewise attributed to the licenses. We used a discount rate of 8.5%, based on the optimal long-term capital structure of a market participant and its associated cost of debt and equity, to calculate the present value of the projected cash flows. This discount rate is also consistent with rates we use to calculate the present value of the projected cash flows of licenses acquired from third parties.

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

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

We evaluate our investments to determine whether market declines are temporary and accordingly reflected in accumulated other comprehensive income, or other-than-temporary and recorded as an expense in other income (expense) in the consolidated income statements. This evaluation is based on the length of time and the severity of decline in the investment's value. In 2012 and 2011, we identified an immaterial other-than-temporary decline in the value of equity method investments and various cost investments.

**Income Taxes** Our estimates of income taxes and the significant items giving rise to the deferred assets and liabilities are shown in Note 11 and reflect our assessment of actual future taxes to be paid on items reflected in the financial statements, giving consideration to both timing and probability of these estimates. Actual income taxes could vary from these estimates due to future changes in income tax law or the final review of our tax returns by federal, state or foreign tax authorities.

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

**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

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**OTHER BUSINESS MATTERS**

**Atlantic Tele-Network, Inc. Transaction** In September 2013, we acquired Atlantic Tele-Network, Inc.'s U.S. retail wireless operations, operated under the Alltel brand, for \$806 in cash, which included closing adjustments. Under the terms of the agreement, we acquired wireless properties, including licenses, network assets, retail stores and approximately 550,000 subscribers. We expect to complete network upgrades and migrate customers to our network in the second half of 2014.

**Leap Acquisition** In July 2013, we announced an agreement to acquire Leap Wireless International, Inc. (Leap), a provider of prepaid wireless service under the Cricket brand name, for fifteen dollars per outstanding share of Leap's common stock, or approximately \$1,260, plus one nontransferable contingent value right (CVR) per share. The CVR will entitle each Leap stockholder to a pro rata share of the net proceeds of the future sale of the Chicago 700 MHz A-band FCC license held by Leap. As of September 30, 2013, Leap had approximately \$3,100 of debt, net of cash. Under the terms of the agreement, we will acquire all of Leap's stock and, thereby, acquire all of its wireless properties, including spectrum licenses, network assets, retail stores and approximately 4.6 million subscribers. Leap's spectrum licenses include Personal Communications Services (PCS) and AWS bands and are largely complementary to our licenses. Leap's network covers approximately 96 million people in 35 states and consists of a 3G CDMA network and an LTE network covering approximately 21 million people.

The agreement was approved by more than 99 percent of votes cast by Leap's stockholders on October 30, 2013. The transaction is subject to review by the FCC and Department of Justice (DOJ). The review process is underway at both agencies. The transaction is expected to close in the first quarter of 2014. The agreement provides both parties with certain termination rights if the transaction does not close by July 11, 2014, which can be extended until January 11, 2015 if certain conditions have not been met by that date. Under certain circumstances, Leap may be required to pay a termination fee or AT&T may be required to provide Leap with a three-year roaming agreement for LTE data coverage in certain Leap markets lacking LTE coverage, if the transaction does not close. If Leap enters into the roaming agreement, AT&T will then have the option within 30 days after entry into the roaming agreement to purchase certain specified Leap spectrum assets. If AT&T does not exercise its right to purchase all of the specified Leap spectrum assets, Leap can then within 60 days after expiration of AT&T's option require AT&T to purchase all of the specified spectrum assets.

**Spectrum Acquisitions** In September 2013, we acquired spectrum in the 700 MHz B band from Verizon Wireless for \$1,900 in cash and an assignment of AWS spectrum licenses in five markets. The 700 MHz licenses acquired by AT&T cover 42 million people in 18 states. In January 2014, we announced an agreement to purchase 49 AWS spectrum licenses, covering nearly 50 million people in 14 states, from Aloha Partners II, L.P. The transaction is subject to regulatory approval and we expect to close the transaction in the second half of 2014.

**Tower Transaction** On December 16, 2013, we closed our transaction with Crown Castle International Corp. (Crown Castle) in which Crown Castle will have the exclusive rights to lease and operate 9,048 and purchase 627 of our wireless towers for \$4,827 in cash. Under the terms of the leases, Crown Castle will have exclusive rights to lease and operate the towers over various terms with an average length of approximately 28 years. As the leases expire, Crown Castle will have fixed price purchase options for these towers totaling approximately \$4,200, based on their estimated fair market values at the end of the lease terms. We will sublease space on the towers from Crown Castle for a minimum of 10 years at current market rates, with options to renew. We accounted for the proceeds as a financing obligation.

**Connecticut Wireline Disposition** In December 2013, we agreed to sell our incumbent local exchange operations in Connecticut to Frontier Communications Corporation for \$2,000 in cash. These Connecticut operations represent approximately \$1,200 in annual revenues as of 2013. The transaction is subject to review by the U.S. Department of Justice, the FCC and the Connecticut Public Utilities Regulatory Authority and other state regulatory authorities. We expect the transaction to close in the second half of 2014, subject to customary closing conditions.

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

**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

Dollars in millions except per share amounts

**LIQUIDITY AND CAPITAL RESOURCES**

We had \$3,339 in cash and cash equivalents available at December 31, 2013. Cash and cash equivalents included cash of \$697 and money market funds and other cash equivalents of \$2,642. Cash and cash equivalents decreased \$1,529 since December 31, 2012. During 2013, cash inflows were primarily provided by cash receipts from operations, a net increase in our debt and cash received from our tower leasing arrangement with Crown Castle and other asset sales. These inflows were largely offset by cash used to meet the needs of the business, including but not limited to, payment of operating expenses, funding capital expenditures, dividends to stockholders, stock repurchases and the acquisition of wireless spectrum and operations. We discuss many of these factors in detail below.

**Cash Provided by or Used in Operating Activities**

During 2013, cash provided by operating activities was \$34,796, compared to \$39,176 in 2012. Lower operating cash flows in 2013 were due to higher cash tax payments and the timing of working capital payments and wireless device financing related to our AT&T Next program. We expect lower cash from operations in 2014, in part as the tax rules allowing companies to more rapidly deduct the cost of equipment have ended and our AT&T Next program continues to gain popularity with customers.

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

**Cash Used in or Provided by Investing Activities**

During 2013, cash used in investing activities consisted primarily of:

- \$20,944 in capital expenditures, excluding interest during construction.
- \$284 in interest during construction.
- \$4,050 purchase of wireless spectrum licenses and operations.

During 2013, cash provided by investing activities consisted primarily of:

- \$1,179 from the sale of a portion of our shares in América Móvil.
- \$712 from the sale of various properties.
- \$200 from the repayment of advances to YP Holdings.
- \$101 from the return of investment in YP Holdings.

Virtually all of our capital expenditures are spent on our wireless and wireline networks, our U-verse services and support systems for our communications services. Capital expenditures, excluding interest during construction, increased \$1,479 from 2012. Our Wireless segment represented 52% of our total spending and increased 3% in 2013. The Wireline segment, which includes U-verse services, represented 48% of the total capital expenditures and increased 13% in 2013, primarily reflecting our implementation of Project VIP.

We expect that our capital expenditures during 2014 will be in the \$21,000 range. We expect 2014 to be our peak investment year for Project VIP and anticipate our Wireless and Wireline segments' spend to be proportionally consistent to the previous year. Upon our completion of Project VIP, we expect capital investments to trend back to historic levels. The amount of capital investment is influenced by demand for services and products, continued growth and regulatory considerations.

**Cash Used in or Provided by Financing Activities**

We paid dividends of \$9,696 in 2013, \$10,241 in 2012, and \$10,172 in 2011, primarily reflecting the decline in shares outstanding due to our repurchase activity, partially offset by dividend rate increases. In December 2013, our Board of Directors approved a 2.2% increase in the quarterly dividend from \$0.45 to \$0.46 per share. This follows a 2.3% dividend increase approved by our Board in November 2012. Dividends declared by our Board of Directors totaled \$1.81 per share in 2013, \$1.77 per share in 2012, and \$1.73 per share in 2011. Our dividend policy considers the expectations and requirements of stockholders, internal requirements of AT&T and long-term growth opportunities. It is our intent to provide the financial flexibility to allow our Board of Directors to consider dividend growth and to recommend an increase in dividends to be paid in future periods. All dividends remain subject to declaration by our Board of Directors.

**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

Dollars in millions except per share amounts

In 2013, we continued to take advantage of lower market interest rates and undertook several activities related to our long-term debt which caused our weighted average interest rate of our entire long-term debt portfolio to decrease from 4.9% at December 31, 2012 to 4.5% at December 31, 2013. We had \$74,484 of total notes and debentures outstanding (see Note 9) at December 31, 2013, which included Euro, British pound sterling or Canadian dollar denominated debt of approximately \$18,206.

During 2013, we received net proceeds of \$12,040 from the issuance of \$12,108 in long-term debt in various markets, with an average weighted maturity of approximately 10 years and an average interest rate of 2.6%. Debt issued included:

- February 2013 issuance of \$1,000 of 0.900% global notes due 2016 and \$1,250 of floating rate notes due 2016. The floating rate is based upon the three-month London Interbank Offered Rate (LIBOR), reset quarterly, plus 38.5 basis points.
- March 2013 issuance of \$500 of 1.400% global notes due 2017.
- March 2013 issuance of €1,250 of 2.500% global notes due 2023 (equivalent to \$1,626 when issued) and €400 of 3.550% global notes due 2032 (equivalent to \$520 when issued).
- May 2013 issuance of £1,000 of 4.250% global notes due 2043 (equivalent to \$1,560 when issued).
- November 2013 issuance of €1,000 of 2.650% global notes due 2021 (equivalent to \$1,349 when issued) and €1,000 of 3.500% global notes due 2025 (equivalent to \$1,349 when issued).
- November 2013 issuance of CDN\$1,000 of 3.825% global notes due 2020 (equivalent to \$954 when issued).
- November 2013 issuance of \$1,600 of 2.375% global notes due 2018 and \$400 of floating rate notes due 2018. The floating rate is based upon the three-month LIBOR, reset quarterly, plus 91 basis points.

During 2013, we redeemed \$7,698 in debt, primarily consisting of the following repayments:

- March 2013 repayment of €1,250 4.375% notes (equivalent to \$1,641 when repaid) and \$147 of 6.5% notes.
- July 2013 early redemption of \$300 of 7.375% notes originally due in July 2043.
- October 2013 early redemption of \$550 of 6.625% notes originally due in October 2034.
- We also completed debt tender offers covering \$5,000 of various notes with stated rates of 5.20% to 8.75% for \$5,556 in cash payments.

At December 31, 2013, we had \$5,498 of debt maturing within one year, substantially all of which was related to long-term debt issuances. Debt maturing within one year includes the following notes that may be put back to us by the holders:

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

In December 2010, our Board of Directors authorized the repurchase of up to 300 million shares of AT&T common stock. We began buying back stock under this program in the first quarter of 2012 and completed the authorized repurchase that year. In July 2012, the Board of Directors approved a second authorization to repurchase 300 million shares, which we completed in May 2013. In March 2013, our Board of Directors approved a third authorization to repurchase 300 million shares of our common stock, which has no expiration date. During 2013, we repurchased 366 million shares for \$13,028 under the two most recent authorizations. At the end of 2013, we had approximately 163 million shares remaining on the March 2013 authorization. We expect to make future repurchases opportunistically.

The emphasis of our 2014 financing activities will be the payment of dividends, subject to approval by our Board of Directors, the repayment of debt and share repurchases. We plan to fund these activities through a combination of cash from operations, debt issuances, and asset sales. The timing and mix of debt issuance will be guided by credit market conditions and interest rate trends.

**Credit Facilities**

On December 11, 2013, we amended and extended for an additional two-year term our existing \$5,000 revolving credit agreement with a syndicate of banks until December 2018 (December 2018 Facility). We also have an existing \$3,000 revolving credit agreement that was entered into in 2012, with a syndicate of banks that is available until December 2017 (December 2017 Facility). In the event advances are made under either agreement, those advances would be used for general corporate purposes. Advances are not conditioned on the absence of a material adverse change. All advances must be repaid no later than the date on which lenders are no longer obligated to make any advances under each agreement. Under each agreement, we can terminate, in whole or in part, amounts committed by the lenders in excess of any outstanding advances; however, we cannot reinstate any such terminated commitments. At December 31, 2013, we had no advances outstanding under either agreement and were in compliance with all covenants under each agreement.

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

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

The Applicable Margin for both agreements will equal 0.565%, 0.680%, or 0.910% per annum, depending on AT&T's credit rating.

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

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

Defaults under both agreements permit the lenders to accelerate required repayment and would increase the Applicable Margin by 2.00% per annum. Defaults include noncompliance with the two covenants above, other representations and warranties and the following:

- We fail to pay principal or interest, or other amounts under the agreement beyond any grace period.
- We fail to pay when due other debt of \$400 or more that results in acceleration of that debt (commonly referred to as cross-acceleration) or a creditor commences enforcement proceedings within a specified period after a money judgment of \$400 or more has become final.
- A person acquires beneficial ownership of more than 50% of AT&T common shares or more than a majority of AT&T's directors change in any 24-month period other than as elected by the remaining directors.
- We fail to make certain minimum funding payments under the Employee Retirement Income Security Act of 1974, as amended (ERISA).
- Our bankruptcy or insolvency.

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

The obligations of the lenders under the December 2017 Facility to provide advances will terminate on December 11, 2017, unless prior to that date either: (i) AT&T, and if applicable, a Co-Borrower, reduce to \$0 the commitments of the lenders, or (ii) certain events of default occur. We and lenders representing more than 50% of the facility amount may agree to extend their commitments for two one-year periods beyond the December 11, 2017, termination date, under certain circumstances. We also can request the lenders to further increase their commitments (i.e., raise the available credit) up to an additional \$2,000 provided no event of default has occurred. The same provisions apply to the December 2018 Facility except that the applicable date is December 11, 2018.

**Other**

Our total capital consists of debt (long-term debt and debt maturing within one year) and stockholders' equity. Our capital structure does not include debt issued by América Móvil or YP Holdings. At December 31, 2013, our debt ratio was 45.0%, compared to 43.0% at December 31, 2012, and 38.0% at December 31, 2011. The debt ratio is affected by the same factors that affect total capital, and reflects our recent debt issuances and stock repurchases. Total capital increased \$3,731 in 2013 compared to a decrease of \$8,011 in 2012. The 2013 capital increase was primarily due to increases in net income due to actuarial gains on our pension and postretirement benefit plans, increases in accumulated other comprehensive income related to prior service credits resulting from amendments to our postretirement benefit plans and increases in debt balances partially offset by share repurchases.

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A significant amount of our cash outflows are related to tax items and benefits paid for current and former employees. Total taxes incurred, collected and remitted by AT&T during 2013, 2012, and 2011 were \$21,004, \$19,703 and \$19,224. These taxes include income, franchise, property, sales, excise, payroll, gross receipts and various other taxes and fees. Total health and welfare benefits provided to certain active and retired employees and their dependents totaled \$5,167 in 2013, with \$1,682 paid from plan assets. Of those benefits, \$4,254 related to medical and prescription drug benefits. During 2013, we paid \$3,966 of pension benefits out of plan assets.

During 2013, we also received approximately \$7,000 from monetization of various nonstrategic assets. A majority of that cash was attributable to the towers transaction (see Note 16) as well as sales of investments and real estate holdings. We plan to continue to explore similar opportunities in 2014.

In September 2013, we made a voluntary contribution of a preferred equity interest in AT&T Mobility II LLC (Mobility), the holding company for our wireless business, to the trust used to pay pension benefits under our qualified pension plans. The preferred equity interest had a value of \$9,104 on the contribution date, does not have any voting rights and has a liquidation value of \$8,000. The trust is entitled to receive cumulative cash distributions of \$560 per annum, which will be distributed quarterly in equal amounts. So long as we make the distributions, we will have no limitations on our ability to declare a dividend, or repurchase shares. At the time of the contribution of the preferred equity interest, we made an additional cash contribution of \$175 and have agreed to annual cash contributions of \$175 no later than the due date for our federal income tax return for each of 2014, 2015 and 2016. These contributions, combined with our existing pension assets, are essentially equivalent to the pension obligation at December 31, 2013.

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

On September 9, 2013, the Department of Labor (DOL) published a proposed exemption that authorizes retroactive approval of this voluntary contribution. The proposal was open for public comment and we are currently awaiting a final decision by the DOL. Our retirement benefit plans, including required contributions, are subject to the provisions of ERISA.

**CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENCIES**

Current accounting standards require us to disclose our material obligations and commitments to making future payments under contracts, such as debt and lease agreements, and under contingent commitments, such as debt guarantees. We occasionally enter into third-party debt guarantees, but they are not, nor are they reasonably likely to become, material. We disclose our contractual long-term debt repayment obligations in Note 9 and our operating lease payments in Note 6. Our contractual obligations do not include contributions associated with our voluntary contribution of the Mobility preferred equity interest, or expected pension and postretirement payments (we maintain pension funds and Voluntary Employee Beneficiary Association trusts to fully or partially fund these benefits) (see Note 12). In the ordinary course of business, we routinely enter into commercial commitments for various aspects of our operations, such as plant additions, inventory and office supplies. However, we do not believe that the commitments will have a material effect on our financial condition, results of operations or cash flows.

**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

Dollars in millions except per share amounts

Our contractual obligations as of December 31, 2013, are in the following table. The purchase obligations that follow are those for which we have guaranteed funds and will be funded with cash provided by operations or through incremental borrowings. The minimum commitment for certain obligations is based on termination penalties that could be paid to exit the contract. Other long-term liabilities are included in the table based on the year of required payment or an estimate of the year of payment. Such estimate of payment is based on a review of past trends for these items, as well as a forecast of future activities. Certain items were excluded from the following table, as the year of payment is unknown and could not be reliably estimated since past trends were not deemed to be an indicator of future payment.

Substantially all of our purchase obligations are in our Wireline and Wireless segments. The table does not include the fair value of our interest rate swaps. Our capital lease obligations and bank borrowings have been excluded from the table due to the insignificant amounts of such obligations at December 31, 2013. Many of our other noncurrent liabilities have been excluded from the following table due to the uncertainty of the timing of payments, combined with the absence of historical trending to be used as a predictor of such payments. Additionally, certain other long-term liabilities have been excluded since settlement of such liabilities will not require the use of cash. However, we have included, in the following table, obligations that primarily relate to benefit funding due to the certainty of the timing of these future payments. Our other long-term liabilities are: deferred income taxes (see Note 11) of \$36,308; postemployment benefit obligations of \$29,946; and other noncurrent liabilities of \$15,766.

Contractual Obligations	Payments Due By Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations <sup>1</sup>	\$ 75,500	\$ 5,472	\$ 13,181	\$ 11,057	\$ 45,790
Interest payments on long-term debt	53,219	3,350	6,035	5,328	38,506
Finance obligations <sup>2</sup>	3,945	221	454	473	2,797
Operating lease obligations	24,952	3,003	5,551	4,691	11,707
Unrecognized tax benefits <sup>3</sup>	2,332	265	-	-	2,067
Purchase obligations <sup>4</sup>	14,320	5,749	5,182	2,570	819
<b>Total Contractual Obligations</b>	<b>\$ 174,268</b>	<b>\$ 18,060</b>	<b>\$ 30,403</b>	<b>\$ 24,119</b>	<b>\$ 101,686</b>

<sup>1</sup> Represents principal or payoff amounts of notes and debentures at maturity or, for putable debt, the next put opportunity.

<sup>2</sup> Represents future minimum payments under the sublease arrangement for our tower transactions (see Note 16).

<sup>3</sup> The noncurrent portion of the UTBs is included in the "More than 5 Years" column, as we cannot reasonably estimate the timing or amounts of additional cash payments, if any, at this time. See Note 11 for additional information.

<sup>4</sup> We calculated the minimum obligation for certain agreements to purchase goods or services based on termination fees that can be paid to exit the contract. If we elect to exit these contracts, termination fees for all such contracts in the year of termination could be approximately \$489 in 2014, \$567 in the aggregate for 2015 and 2016, \$174 in the aggregate for 2017 and 2018, and \$8 in the aggregate thereafter. Certain termination fees are excluded from the above table, as the fees would not be paid every year and the timing of such payments, if any, is uncertain.

**MARKET RISK**

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

**Interest Rate Risk**

The majority of our financial instruments are medium- and long-term fixed-rate notes and debentures. Changes in interest rates can lead to significant fluctuations in the fair value of these instruments. The principal amounts by expected maturity, average interest rate and fair value of our liabilities that are exposed to interest rate risk are described in Notes 9 and 10. In managing interest expense, we control our mix of fixed and floating rate debt, principally through the use of interest rate swaps. We have established interest rate risk limits that we closely monitor by measuring interest rate sensitivities in our debt and interest rate derivatives portfolios.

**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

Dollars in millions except per share amounts

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

Following are our interest rate derivatives subject to material interest rate risk as of December 31, 2013. The interest rates illustrated below refer to the average rates we expect to pay based on current and implied forward rates and the average rates we expect to receive based on derivative contracts. The notional amount is the principal amount of the debt subject to the interest rate swap contracts. The fair value asset (liability) represents the amount we would receive (pay) if we had exited the contracts as of December 31, 2013.

	Maturity						Total	Fair Value 12/31/13
	2014	2015	2016	2017	2018	Thereafter		
<b>Interest Rate Derivatives</b>								
Interest Rate Swaps:								
Receive Fixed/Pay								
Variable Notional								
Amount Maturing	\$ 500	\$ 1,500	\$ -	\$ -	\$ 1,000	\$ 1,750	\$ 4,750	\$ 184
Weighted-Average								
Variable Rate Payable <sup>1</sup>	2.3%	3.2%	4.8%	5.9%	7.3%	7.9%		
Weighted-Average								
Fixed Rate Receivable	4.6%	5.1%	5.7%	5.7%	5.8%	5.8%		

<sup>1</sup> Interest payable based on current and implied forward rates for One, Three, or Six Month LIBOR plus a spread ranging between approximately 4 and 425 basis points.

**Foreign Exchange Risk**

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

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

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

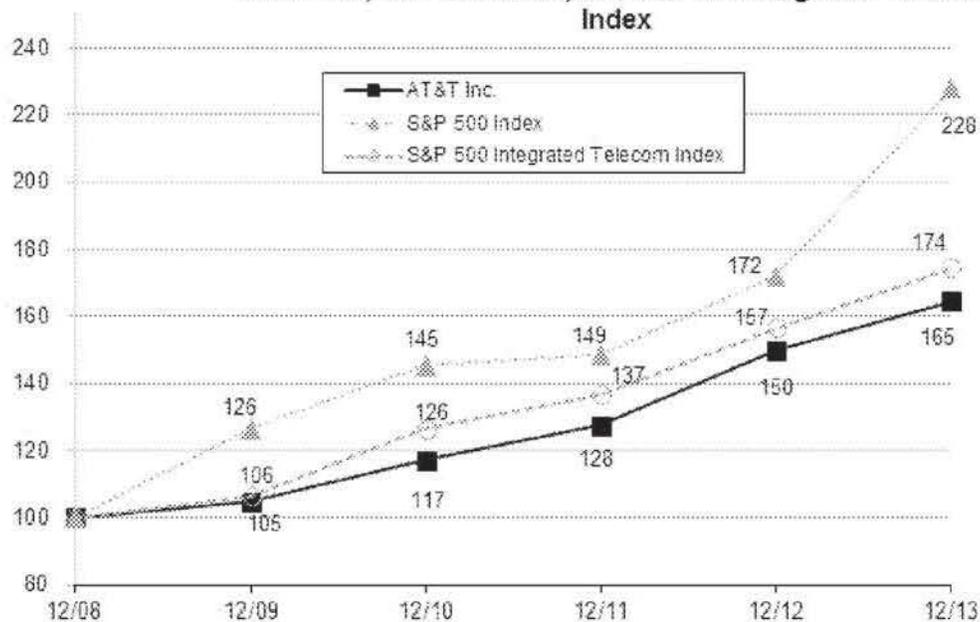
For the purpose of assessing specific risks, we use a sensitivity analysis to determine the effects that market risk exposures may have on the fair value of our financial instruments and results of operations. To perform the sensitivity analysis, we assess the risk of loss in fair values from the effect of a hypothetical 10% depreciation of the U.S. dollar against foreign currencies from the prevailing foreign currency exchange rates, assuming no change in interest rates. We had no foreign exchange forward contracts outstanding at December 31, 2013.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Dollars in millions except per share amounts

**STOCK PERFORMANCE GRAPH**

**Comparison of Five Year Cumulative Total Return  
AT&T Inc., S&P 500 Index, and S&P 500 Integrated Telecom  
Index**



The comparison above assumes \$100 invested on December 31, 2008, in AT&T common stock, Standard & Poor's 500 Index (S&P 500), and Standard & Poor's 500 Integrated Telecom Index (S&P 500 Integrated Telecom). Total return equals stock price appreciation plus reinvestment of dividends.

**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

Dollars in millions except per share amounts

**RISK FACTORS**

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

**The current U.S. economy has changed our customers' buying habits and a failure to adequately respond could materially adversely affect our business.**

We provide services and products to consumers and large and small businesses in the United States and to larger businesses throughout the world. The current slow economic recovery in the United States continues to pressure our customers' demand for and ability to pay for existing services, especially local landline service, and their interest in purchasing new services. Customers are changing their buying habits in response to both ongoing anemic economic conditions and technological advances. Should we fail to respond promptly to address these changes in customer demands, we are likely to experience greater pressure on pricing and margins as we continue to compete for customers who would have even less discretionary income.

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

Our costs to provide current benefits and funding for future benefits are subject to increases, primarily due to continuing increases in medical and prescription drug costs, and can be affected by lower returns on funds held by our pension and other benefit plans, which are reflected in our financial statements for that year. Investment returns on these funds depend largely on trends in the U.S. securities markets and the U.S. economy. We have experienced historically low interest rates during the last several years. While rates have increased recently, we expect relatively stable rates to continue for the next several years. Recent increases in the rates have led to better than assumed investment returns on our plan assets and to lower funding obligations. In calculating the costs included on our financial statements of providing benefits under our plans, we have made certain assumptions regarding future investment returns, medical costs and interest rates. If actual investment returns, medical costs and interest rates are worse than those previously assumed, our costs will increase.

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

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

While the global financial markets were stable during 2013, a continuing uncertainty surrounding global growth rates has resulted in periodic volatility in the credit, currency, equity and fixed income markets. Volatility in some areas, such as in emerging markets, may affect companies' access to the credit markets, leading to higher borrowing costs for companies or, in some cases, the inability of these companies to fund their ongoing operations. In addition, we contract with large financial institutions to support our own treasury operations, including contracts to hedge our exposure on interest rates and foreign exchange and the funding of credit lines and other short-term debt obligations, including commercial paper. These financial institutions also face new capital-related and other regulations in the United States and Europe, as well as ongoing legal and financial issues concerning their loan portfolios, which may hamper their ability to provide credit or raise the cost of providing such credit. A company's cost of borrowing is also affected by evaluations given by various credit rating agencies and these agencies have been applying tighter credit standards when evaluating a company's debt levels and future growth prospects. While we have been successful in continuing to access the credit and fixed income markets when needed, adverse changes in the financial markets could render us either unable to access these markets or able to access these markets only at higher interest costs and with restrictive financial or other conditions, severely affecting our business operations.

**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

Dollars in millions except per share amounts

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

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

**Changes to federal, state and foreign government regulations and decisions in regulatory proceedings could further increase our operating costs and/or alter customer perceptions of our operations, which could materially adversely affect us.**

Our wireline subsidiaries are subject to significant federal and state regulation while many of our competitors are not. In addition, our subsidiaries and affiliates operating outside the United States are also subject to the jurisdiction of national and supranational regulatory authorities in the market where service is provided. Our wireless subsidiaries are regulated to varying degrees by the FCC and some state and local agencies. Adverse rulings by the FCC relating to broadband issues could impede our ability to manage our networks and recover costs and lessen incentives to invest in our networks. The development of new technologies, such as IP-based services, also has created or potentially could create conflicting regulation between the FCC and various state and local authorities, which may involve lengthy litigation to resolve and may result in outcomes unfavorable to us. In addition, increased public focus on a variety of issues related to our operations, such as privacy issues, government requests or orders for customer data, and potential global climate changes, have led to proposals at state, federal and foreign government levels to change or increase regulation on our operations. Should customers decide that our competitors operate in a more customer-friendly environment, we could be materially adversely affected.

**Continuing growth in our wireless services will depend on continuing access to adequate spectrum, deployment of new technology and offering attractive services to customers.**

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

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

**Increasing competition for wireless customers could adversely affect our operating results.**

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

**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

Dollars in millions except per share amounts

**Increasing costs in our wireline operations could adversely affect wireline operating margins.**

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

**The continued success of Project VIP will depend on the development of our U-verse services and wireless initiatives; attractive and profitable broadband and video service offerings; the extent to which regulatory, franchise fees and build-out requirements apply to this initiative; the availability of content on reasonable terms and conditions, including price, and the availability and reliability of the various technologies required to provide such offerings.**

Telecommunications technology has shifted from the traditional circuit- and wire-based technology to IP-based technology. IP-based technology can transport voice and data, as well as video, from both wired and wireless networks. IP-based networks also potentially cost less to operate than traditional networks. Our competitors, many of which are newer companies, are deploying this IP-based technology. In order to continue to offer attractive and competitively priced services, we have deployed a new broadband network to offer IP-based voice, data and video services. Should regulatory requirements change, our deployment could be limited to only those geographical areas where regulation is not burdensome. In addition, should the delivery of services expected to be deployed on our network be delayed due to technological or regulatory constraints, performance of suppliers, or other reasons, or the cost of providing such services, including the availability and cost of content for our video offerings, becomes higher than expected, customers may decide to purchase services from our competitors, which would adversely affect our revenues and margins, and such effects could be material.

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

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

**Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

Dollars in millions except per share amounts

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

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

### CAUTIONARY LANGUAGE CONCERNING FORWARD-LOOKING STATEMENTS

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

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

- Adverse economic and/or capital access changes in the markets served by us or in countries in which we have significant investments, including the impact on customer demand and our ability and our suppliers’ ability to access financial markets at favorable rates and terms.
- Changes in available technology and the effects of such changes, including product substitutions and deployment costs.
- Increases in our benefit plans’ costs, including increases due to adverse changes in the United States and foreign securities markets, resulting in worse-than-assumed investment returns and discount rates; adverse medical cost trends, unfavorable or delayed implementation of healthcare legislation, regulations or related court decisions; and our inability to receive retroactive approval from the DOL of our voluntary contribution of a preferred interest in our wireless business.
- The final outcome of FCC and other federal or state agency proceedings (including judicial review, if any, of such proceedings) involving issues that are important to our business, including, without limit, intercarrier compensation, interconnection obligations, the transition from legacy technologies to IP-based infrastructure, universal service, broadband deployment, E911 services, competition policy, net neutrality, unbundled network elements and other wholesale obligations, availability of new spectrum from the FCC on fair and balanced terms, and wireless license awards and renewals.
- The final outcome of state and federal legislative efforts involving issues that are important to our business, including deregulation of IP-based services, relief from Carrier of Last Resort obligations, and elimination of state commission review of the withdrawal of services.
- Enactment of additional state, federal and/or foreign regulatory and tax laws and regulations pertaining to our subsidiaries and foreign investments, including laws and regulations that reduce our incentive to invest in our networks, resulting in lower revenue growth and/or higher operating costs.
- Our ability to absorb revenue losses caused by increasing competition, including offerings that use alternative technologies (e.g., cable, wireless and VoIP) and our ability to maintain capital expenditures.
- The extent of competition and the resulting pressure on customer and access line totals and wireline and wireless operating margins.
- Our ability to develop attractive and profitable product/service offerings to offset increasing competition in our wireless and wireline markets.
- The ability of our competitors to offer product/service offerings at lower prices due to lower cost structures and regulatory and legislative actions adverse to us, including state regulatory proceedings relating to unbundled network elements and nonregulation of comparable alternative technologies (e.g., VoIP).
- The continued development of attractive and profitable U-verse service offerings; the extent to which regulatory, franchise fees and build-out requirements apply to this initiative; and the availability, cost and/or reliability of the various technologies and/or content required to provide such offerings.
- Our continued ability to attract and offer a diverse portfolio of wireless devices, some on an exclusive basis.
- The availability and cost of additional wireless spectrum and regulations and conditions relating to spectrum use, licensing, obtaining additional spectrum, technical standards and deployment and usage, including network management rules.
- Our ability to manage growth in wireless data services, including network quality and acquisition of adequate spectrum at reasonable costs and terms.
- The outcome of pending, threatened or potential litigation, including patent and product safety claims by or against third parties.
- The impact on our networks and business from major equipment failures; security breaches related to the network or customer information; our inability to obtain handsets, equipment/software or have handsets, equipment/software serviced in a timely and cost-effective manner from suppliers; or severe weather conditions, natural disasters, pandemics, energy shortages, wars or terrorist attacks.
- The issuance by the Financial Accounting Standards Board or other accounting oversight bodies of new accounting standards or changes to existing standards.
- The issuance by the Internal Revenue Service and/or state tax authorities of new tax regulations or changes to existing standards and actions by federal, state or local tax agencies and judicial authorities with respect to applying applicable tax laws and regulations and the resolution of disputes with any taxing jurisdictions.
- Our ability to adequately fund our wireless operations, including payment for additional spectrum, network upgrades and technological advancements.
- Changes in our corporate strategies, such as changing network requirements or acquisitions and dispositions, which may require significant amounts of cash or stock, to respond to competition and regulatory, legislative and technological developments.
- The uncertainty surrounding further congressional action to address spending reductions, which may result in a significant reduction in government spending and reluctance of businesses and consumers to spend in general and on our products and services specifically, due to this fiscal uncertainty.

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

## AT&amp;T Inc.

## Consolidated Statements of Income

Dollars in millions except per share amounts

	2013	2012	2011
<b>Operating Revenues</b>	<b>\$ 128,752</b>	<b>\$ 127,434</b>	<b>\$ 126,723</b>
<b>Operating Expenses</b>			
Cost of services and sales (exclusive of depreciation and amortization shown separately below)	51,464	55,228	54,904
Selling, general and administrative	28,414	41,066	41,314
Impairment of intangible assets	-	-	2,910
Depreciation and amortization	18,395	18,143	18,377
Total operating expenses	98,273	114,437	117,505
<b>Operating Income</b>	<b>30,479</b>	<b>12,997</b>	<b>9,218</b>
<b>Other Income (Expense)</b>			
Interest expense	(3,940)	(3,444)	(3,535)
Equity in net income of affiliates	642	752	784
Other income (expense) – net	596	134	249
Total other income (expense)	(2,702)	(2,558)	(2,502)
<b>Income Before Income Taxes</b>	<b>27,777</b>	<b>10,439</b>	<b>6,716</b>
Income tax expense	9,224	2,900	2,532
<b>Net Income</b>	<b>18,553</b>	<b>7,539</b>	<b>4,184</b>
Less: Net Income Attributable to Noncontrolling Interest	(304)	(275)	(240)
<b>Net Income Attributable to AT&amp;T</b>	<b>\$ 18,249</b>	<b>\$ 7,264</b>	<b>\$ 3,944</b>
<b>Basic Earnings Per Share Attributable to AT&amp;T</b>	<b>\$ 3.39</b>	<b>\$ 1.25</b>	<b>\$ 0.66</b>
<b>Diluted Earnings Per Share Attributable to AT&amp;T</b>	<b>\$ 3.39</b>	<b>\$ 1.25</b>	<b>\$ 0.66</b>

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

## AT&amp;T Inc.

## Consolidated Statements of Comprehensive Income

Dollars in millions

	2013	2012	2011
Net income	\$ 18,553	\$ 7,539	\$ 4,184
Other comprehensive income, net of tax:			
Foreign Currency:			
Foreign currency translation adjustments (includes \$(2), \$0 and \$(1) attributable to noncontrolling interest), net of taxes of \$(78), \$48 and \$(117)	(140)	87	(219)
Reclassification adjustment included in net income, net of taxes of \$30, \$0 and \$183	55	-	341
Available-for-sale securities:			
Net unrealized gains (losses), net of taxes of \$137, \$64, and \$(21)	257	118	(41)
Reclassification adjustment included in net income, net of taxes of \$(42), \$(36) and \$(29)	(79)	(68)	(54)
Cash flow hedges:			
Net unrealized gains (losses), net of taxes of \$286, \$154 and \$(140)	525	283	(256)
Reclassification adjustment included in net income, net of taxes of \$16, \$15 and \$8	30	28	15
Defined benefit postretirement plans:			
Net actuarial loss from equity method investees arising during period, net of taxes of \$0, \$(32) and \$0	-	(53)	-
Reclassification adjustment included in net income, net of taxes of \$7, \$0 and \$0	11	-	-
Net prior service credit arising during period, net of taxes of \$1,695, \$1,378 and \$699	2,765	2,249	1,140
Amortization of net prior service credit included in net income, net of taxes of \$(480), \$(361) and \$(282)	(782)	(588)	(460)
Other	-	-	1
Other comprehensive income	2,642	2,056	467
Total comprehensive income	21,195	9,595	4,651
Less: Total comprehensive income attributable to noncontrolling interest	(302)	(275)	(239)
<b>Total Comprehensive Income Attributable to AT&amp;T</b>	<b>\$ 20,893</b>	<b>\$ 9,320</b>	<b>\$ 4,412</b>

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

## AT&amp;T Inc.

## Consolidated Balance Sheets

Dollars in millions except per share amounts

	December 31,	
	2013	2012
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,339	\$ 4,868
Accounts receivable - net of allowances for doubtful accounts of \$483 and \$547	12,918	12,657
Prepaid expenses	960	1,035
Deferred income taxes	1,199	1,036
Other current assets	4,780	3,110
Total current assets	23,196	22,706
<b>Property, Plant and Equipment – Net</b>	<b>110,968</b>	<b>109,767</b>
<b>Goodwill</b>	<b>69,273</b>	<b>69,773</b>
<b>Licenses</b>	<b>56,433</b>	<b>52,352</b>
<b>Customer Lists and Relationships – Net</b>	<b>763</b>	<b>1,391</b>
<b>Other Intangible Assets – Net</b>	<b>5,016</b>	<b>5,032</b>
<b>Investments in and Advances to Equity Affiliates</b>	<b>3,860</b>	<b>4,581</b>
<b>Other Assets</b>	<b>8,278</b>	<b>6,713</b>
<b>Total Assets</b>	<b>\$ 277,787</b>	<b>\$ 272,315</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Debt maturing within one year	\$ 5,498	\$ 3,486
Accounts payable and accrued liabilities	21,107	20,494
Advanced billings and customer deposits	4,212	4,225
Accrued taxes	1,774	1,026
Dividends payable	2,404	2,556
Total current liabilities	34,995	31,787
<b>Long-Term Debt</b>	<b>69,290</b>	<b>66,358</b>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes	36,308	28,491
Postemployment benefit obligation	29,946	41,392
Other noncurrent liabilities	15,766	11,592
Total deferred credits and other noncurrent liabilities	82,020	81,475
<b>Stockholders' Equity</b>		
Common stock (\$1 par value, 14,000,000,000 authorized at December 31, 2013 and 2012; issued 6,495,231,088 at December 31, 2013 and 2012)	6,495	6,495
Additional paid-in capital	91,091	91,038
Retained earnings	31,141	22,481
Treasury stock (1,268,914,913 at December 31, 2013 and 913,836,325 at December 31, 2012, at cost)	(45,619)	(32,888)
Accumulated other comprehensive income	7,880	5,236
Noncontrolling interest	494	333
Total stockholders' equity	91,482	92,695
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 277,787</b>	<b>\$ 272,315</b>

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

## AT&amp;T Inc.

## Consolidated Statements of Cash Flows

Dollars in millions

	2013	2012	2011
<b>Operating Activities</b>			
Net income	\$ 18,553	\$ 7,539	\$ 4,184
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	18,395	18,143	18,377
Undistributed earnings from investments in equity affiliates	(324)	(615)	(623)
Provision for uncollectible accounts	954	1,117	1,136
Deferred income tax expense	6,242	1,747	2,929
Net (gain) loss from sale of investments, net of impairments	(492)	(19)	(89)
Impairment of intangible assets	-	-	2,910
Actuarial (gain) loss on pension and postretirement benefits	(7,584)	9,994	6,280
Changes in operating assets and liabilities:			
Accounts receivable	(1,329)	(1,365)	(1,164)
Other current assets	412	1,017	(397)
Accounts payable and accrued liabilities	(152)	1,798	(341)
Retirement benefit funding	(209)	-	(1,000)
Other – net	330	(180)	2,541
Total adjustments	16,243	31,637	30,559
<b>Net Cash Provided by Operating Activities</b>	<b>34,796</b>	<b>39,176</b>	<b>34,743</b>
<b>Investing Activities</b>			
Construction and capital expenditures:			
Capital expenditures	(20,944)	(19,465)	(20,110)
Interest during construction	(284)	(263)	(162)
Acquisitions, net of cash acquired	(4,113)	(828)	(2,368)
Dispositions	1,923	812	1,301
Sales (purchases) of securities, net	-	65	62
Return of advances to and investments in equity affiliates	301	-	-
Other	(7)	(1)	27
<b>Net Cash Used in Investing Activities</b>	<b>(23,124)</b>	<b>(19,680)</b>	<b>(21,250)</b>
<b>Financing Activities</b>			
Net change in short-term borrowings with original maturities of			
three months or less	20	1	(1,625)
Issuance of other short-term borrowings	1,476	-	-
Repayment of other short-term borrowings	(1,476)	-	(28)
Issuance of long-term debt	12,040	13,486	7,936
Repayment of long-term debt	(7,698)	(8,733)	(7,574)
Issuance of other long-term financing obligations	4,796	-	-
Purchase of treasury stock	(13,028)	(12,752)	-
Issuance of treasury stock	114	477	237
Dividends paid	(9,696)	(10,241)	(10,172)
Other	251	89	(423)
<b>Net Cash Used in Financing Activities</b>	<b>(13,201)</b>	<b>(17,673)</b>	<b>(11,649)</b>
Net (decrease) increase in cash and cash equivalents	(1,529)	1,823	1,844
Cash and cash equivalents beginning of year	4,868	3,045	1,201
<b>Cash and Cash Equivalents End of Year</b>	<b>\$ 3,339</b>	<b>\$ 4,868</b>	<b>\$ 3,045</b>

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

## AT&amp;T Inc.

## Consolidated Statements of Changes in Stockholders' Equity

Dollars and shares in millions except per share amounts

	2013		2012		2011	
	Shares	Amount	Shares	Amount	Shares	Amount
<b>Common Stock</b>						
Balance at beginning of year	6,495	\$ 6,495	6,495	\$ 6,495	6,495	\$ 6,495
Issuance of stock	-	-	-	-	-	-
Balance at end of year	6,495	\$ 6,495	6,495	\$ 6,495	6,495	\$ 6,495
<b>Additional Paid-In Capital</b>						
Balance at beginning of year		\$ 91,038		\$ 91,156		\$ 91,731
Issuance of treasury stock		(8)		120		132
Share-based payments		62		(78)		(118)
Share of equity method investee capital transactions		-		(160)		(290)
Change related to acquisition of interests held by noncontrolling owners		(1)		-		(299)
Balance at end of year		\$ 91,091		\$ 91,038		\$ 91,156
<b>Retained Earnings</b>						
Balance at beginning of year		\$ 22,481		\$ 25,453		\$ 31,792
Net income attributable to AT&T (\$3.39, \$1.25 and \$0.66 per diluted share)		18,249		7,264		3,944
Dividends to stockholders (\$1.81, \$1.77 and \$1.73 per share)		(9,589)		(10,236)		(10,283)
Balance at end of year		\$ 31,141		\$ 22,481		\$ 25,453
<b>Treasury Stock</b>						
Balance at beginning of year	(914)	\$ (32,888)	(568)	\$ (20,750)	(584)	\$ (21,083)
Repurchase of common stock	(366)	(13,028)	(371)	(12,752)	-	-
Issuance of treasury stock	11	297	25	614	16	333
Balance at end of year	(1,269)	\$ (45,619)	(914)	\$ (32,888)	(568)	\$ (20,750)

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

## AT&amp;T Inc.

## Consolidated Statements of Changes in Stockholders' Equity (continued)

Dollars and shares in millions except per share amounts

	2013	2012	2011
	Amount	Amount	Amount
<b>Accumulated Other Comprehensive Income</b>			
<i>Attributable to AT&amp;T, net of tax:</i>			
Balance at beginning of year	\$ 5,236	\$ 3,180	\$ 2,712
Other comprehensive income attributable to AT&T	2,644	2,056	468
<b>Balance at end of year</b>	<b>\$ 7,880</b>	<b>\$ 5,236</b>	<b>\$ 3,180</b>
<b>Noncontrolling Interest:</b>			
Balance at beginning of year	\$ 333	\$ 263	\$ 303
Net income attributable to noncontrolling interest	304	275	240
Distributions	(231)	(205)	(220)
Contributions	51	-	-
Acquisitions of noncontrolling interests	44	-	-
Acquisition of interests held by noncontrolling owners	(5)	-	(59)
Translation adjustments attributable to noncontrolling interest, net of taxes	(2)	-	(1)
<b>Balance at end of year</b>	<b>\$ 494</b>	<b>\$ 333</b>	<b>\$ 263</b>
<b>Total Stockholders' Equity at beginning of year</b>	<b>\$ 92,695</b>	<b>\$ 105,797</b>	<b>\$ 111,950</b>
<b>Total Stockholders' Equity at end of year</b>	<b>\$ 91,482</b>	<b>\$ 92,695</b>	<b>\$ 105,797</b>

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

**Notes to Consolidated Financial Statements**

Dollars in millions except per share amounts

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation** Throughout this document, AT&T Inc. is referred to as "AT&T," "we" or the "Company." The consolidated financial statements include the accounts of the Company and our majority-owned subsidiaries and affiliates. Our subsidiaries and affiliates operate in the communications services industry both domestically and internationally, providing wireless communications services, traditional wireline voice services, data/broadband and Internet services, video services, telecommunications equipment, managed networking and wholesale services.

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 8). We also record our proportionate share of our equity method investees' other comprehensive income (OCI) items, including actuarial gains and losses on pension and other postretirement benefit obligations.

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

**Income Taxes** We provide deferred income taxes for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the computed tax basis of those assets and liabilities. We provide valuation allowances against the deferred tax assets 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 revenues from transactions between us and our customers net of taxes imposed by government authorities in our consolidated statements of income.

**Cash and Cash Equivalents** Cash and cash equivalents include all highly liquid investments with original maturities of three months or less. The carrying amounts approximate fair value. At December 31, 2013, we held \$697 in cash and \$2,642 in money market funds and other cash equivalents.

**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/bytes of data processed), period of time (e.g., monthly service fees) or other established fee schedules. Our service revenues are billed either in advance, arrears or are prepaid.

We record revenue reductions for estimated future adjustments to customer accounts, other than bad debt expense, at the time revenue is recognized based on historical experience. Service revenues 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. 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 selling price, subject to the requirement that revenue recognized is limited to the amounts received from the customer that are not contingent upon the delivery of additional products or services to the customer in the future. We record the sale of equipment to customers as gross revenue when we are the principal 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 principal in the arrangement, we record the revenue net of the associated costs incurred.

We offer to our customers the option to purchase certain devices in installments over a period of up to 26 months, with the right to trade in for a new device after a specified period of time and have the remaining unpaid balance waived for the original device. For customers that elect these trade-in programs, we recognize revenue for the entire amount of the customer receivable, net of the fair value of the trade-in right guarantee and imputed interest. As of December 31, 2013, total equipment installment plan receivables of \$863 were recorded in "Accounts receivable" or "Other assets" on our consolidated balance sheets.

**Notes to Consolidated Financial Statements (continued)**

Dollars in millions except per share amounts

**Allowance for Doubtful Accounts** We record expense to maintain an allowance for doubtful accounts for estimated losses that result from the failure or inability of our customers to make required payments deemed collectable from the customer when the service was provided or product was delivered. When determining the allowance, we consider the probability of recoverability of accounts receivable based on past experience, taking into account current collection trends as well as general economic factors, including bankruptcy rates. Credit risks are assessed based on historical write-offs, net of recoveries, as well as an analysis of the aged accounts receivable balances with allowances generally increasing as the receivable ages. Accounts receivable may be fully reserved for when specific collection issues are known to exist, such as pending bankruptcy or catastrophes.

**Inventory** Inventories, which are included in "Other current assets" on our consolidated balance sheets, were \$1,148 at December 31, 2013, and \$1,036 at December 31, 2012. Wireless devices and accessories, which are valued at the lower of cost or market (determined using current replacement cost) were \$1,031 at December 31, 2013, and \$888 at December 31, 2012.

**Property, Plant and Equipment** Property, plant and equipment is stated at cost, except for assets acquired using acquisition accounting, which are initially recorded at fair value (see Note 6). The balance as of December 31, 2013, excluded amounts classified as held for sale (see Note 5). The cost of additions and substantial improvements to property, plant and equipment is capitalized, and includes internal compensation costs for these projects; however, noncash actuarial gains or losses included in compensation costs are excluded from our capital expenditures reported on the consolidated statements of cash flows. The cost of maintenance and repairs of property, plant and equipment is charged to operating expenses. Property, plant and equipment costs are depreciated using straight-line methods over their estimated economic lives. Certain subsidiaries follow composite group depreciation methodology. Accordingly, when a portion of their depreciable property, plant and equipment is retired in the ordinary course of business, the gross book value is reclassified to accumulated depreciation, and no gain or loss is recognized on the disposition of these assets.

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

The 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, we recognize period-to-period changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate. The increase in the carrying value of the associated long-lived asset is depreciated over the corresponding estimated economic life.

**Software Costs** 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. In addition, there is certain network software that allows the equipment to provide the features and functions unique to the AT&T network, which we include in the cost of the equipment categories for financial reporting purposes.

**Goodwill and Other Intangible Assets** AT&T has four major classes of intangible assets: goodwill, Federal Communications Commission (FCC) licenses, other indefinite-lived intangible assets, made up predominately of the AT&T brand, and various other finite-lived intangible assets (see Note 7).

Goodwill represents the excess of consideration paid over the fair value of net assets acquired in business combinations. FCC licenses 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 period of 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. We acquired the rights to the AT&T and other brand names in previous acquisitions. We have the effective ability to retain these exclusive rights permanently at a nominal cost.

Goodwill, FCC licenses and other indefinite-lived intangible assets are not amortized but are tested at least annually for impairment. The testing is performed on the value as of October 1 each year, and compares the book value of the assets to their fair value. Goodwill is tested by comparing the book value of each reporting unit, deemed to be our principal operating segments (Wireless and Wireline), to the fair value of those reporting units calculated under a discounted cash flow approach as well as a market multiple approach. FCC licenses are tested for impairment on an aggregate basis, consistent with the management of the business on a national scope. We perform our test of the fair values of FCC licenses using a discounted cash flow approach. Brand names are tested by comparing the book value to a fair value calculated using a discounted cash flow approach on a presumed royalty rate derived from the revenues related to the brand name. The fair value measurements used are considered Level 3 under the Fair Value Measurement and Disclosure framework (see Note 10).

**Notes to Consolidated Financial Statements**

Dollars in millions except per share amounts

Intangible assets that have finite useful lives are amortized over their useful lives (see Note 7). Customer lists and relationships are amortized using primarily the sum-of-the-months-digits method of amortization over the period in which those relationships are expected to contribute to our future cash flows. The remaining finite-lived intangible assets are generally amortized using the straight-line method.

**Advertising Costs** We expense advertising costs for advertising products and services or for promoting our corporate image as we incur them (see Note 15).

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

**Foreign Currency Translation** We are exposed to foreign currency exchange risk through our foreign affiliates and equity investments in foreign companies. Our foreign subsidiaries and foreign investments generally report their earnings in their local currencies. We translate 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 (accumulated OCI) 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 portion of the foreign currency exchange risk involved in anticipation of highly probable foreign currency-denominated transactions, which we explain further in our discussion of our methods of managing our foreign currency risk (see Note 10).

**Employee Separations** 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. During 2013, due to initiatives to streamline the business, we accrued \$251 of anticipated employee separation costs. At December 31, 2013, we have severance accruals of \$349, and at December 31, 2012, we had severance accruals of \$120.

**Pension and Other Postretirement Benefits** See Note 12 for a comprehensive discussion of our pension and postretirement benefit expense, including a discussion of the actuarial assumptions and our policy for recognizing the associated gains and losses.

## Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

## NOTE 2. EARNINGS PER SHARE

A reconciliation of the numerators and denominators of basic earnings per share and diluted earnings per share for net income for the years ended December 31, 2013, 2012 and 2011, is shown in the table below:

Year Ended December 31,	2013	2012	2011
<b>Numerators</b>			
Numerator for basic earnings per share:			
Net income	\$ 18,553	\$ 7,539	\$ 4,184
Net income attributable to noncontrolling interest	(304)	(275)	(240)
Net income attributable to AT&T	18,249	7,264	3,944
Dilutive potential common shares:			
Share-based payment	12	12	11
Numerator for diluted earnings per share	\$ 18,261	\$ 7,276	\$ 3,955
<b>Denominators (000,000)</b>			
Denominator for basic earnings per share:			
Weighted-average number of common shares outstanding	5,368	5,801	5,928
Dilutive potential common shares:			
Share-based payment (in shares)	17	20	22
Denominator for diluted earnings per share	5,385	5,821	5,950
<b>Basic earnings per share attributable to AT&amp;T</b>	<b>\$ 3.39</b>	<b>\$ 1.25</b>	<b>\$ 0.66</b>
<b>Diluted earnings per share attributable to AT&amp;T</b>	<b>\$ 3.39</b>	<b>\$ 1.25</b>	<b>\$ 0.66</b>

At December 31, 2013, 2012 and 2011, we had issued and outstanding options to purchase approximately 12 million, 17 million, and 66 million shares of AT&T common stock. The exercise prices of 3 million, 3 million, and 40 million shares in 2013, 2012, and 2011 were above the average market price of AT&T stock for the respective periods. Accordingly, we did not include these amounts in determining the dilutive potential common shares.

**Notes to Consolidated Financial Statements (continued)**

Dollars in millions except per share amounts

**NOTE 3. OTHER COMPREHENSIVE INCOME**

Changes in the balances of each component included in accumulated OCI for the year ended December 31, 2013, are presented below. All amounts are net of tax and exclude noncontrolling interest.

	Foreign Currency Translation Adjustment <sup>5</sup>	Net Unrealized Gains (Losses) on Available- for-Sale Securities <sup>5</sup>	Net Unrealized Gains (Losses) on Cash Flow Hedges <sup>5</sup>	Defined Benefit Postretirement Plans <sup>5</sup>	Accumulated Other Comprehensive Income <sup>5</sup>
Balance as of December 31, 2012	\$ (284)	\$ 272	\$ (110)	\$ 5,358	\$ 5,236
Other comprehensive income (loss) before reclassifications	(138)	257	525	2,765	3,409
Amounts reclassified from accumulated OCI	55 <sup>1</sup>	(79) <sup>2</sup>	30 <sup>3</sup>	(771) <sup>4</sup>	(765)
Net other comprehensive income (loss)	(83)	178	555	1,994	2,644
<b>Balance as of December 31, 2013</b>	<b>\$ (367)</b>	<b>\$ 450</b>	<b>\$ 445</b>	<b>\$ 7,352</b>	<b>\$ 7,880</b>

<sup>1</sup> Pre-tax translation loss reclassifications are included in Other income (expense) - net in the consolidated statements of income.

<sup>2</sup> Realized gains are included in Other income (expense) - net in the consolidated statements of income.

<sup>3</sup> Realized (gains) losses are included in interest expense in the consolidated statements of income. See Note 10 for additional information.

<sup>4</sup> The amortization of prior service credits associated with postretirement benefits, net of amounts capitalized as part of construction labor, are included in Cost of services and sales and Selling, general and administrative in the consolidated statements of income (see Note 12). Actuarial loss reclassifications related to our equity method investees are included in Other income (expense) - net in the consolidated statements of income.

<sup>5</sup> The balance at December 31, 2011 for each component of accumulated OCI, respectively, was \$(371), \$222, \$(421), and \$3,750, for a total of \$3,180.

**NOTE 4. SEGMENT INFORMATION**

Our segments are strategic business units that offer different products and services over various technology platforms and are managed accordingly. We analyze our operating segments based on segment income before income taxes. We make our capital allocation decisions based on the strategic needs of the business, needs of the network (wireless or wireline) providing services and demands to provide emerging services to our customers. Actuarial gains and losses from pension and other postretirement benefits, interest expense and other income (expense) - net, are managed only on a total company basis and are, accordingly, reflected only in consolidated results. Therefore, these items are not included in each reportable segment's results. The customers and long-lived assets of our reportable segments are predominantly in the United States. We have three reportable segments: (1) Wireless, (2) Wireline and (3) Other. Our operating results prior to May 9, 2012, also included our sold Advertising Solutions segment.

The Wireless segment uses our nationwide network to provide consumer and business customers with wireless data and voice communications services. This segment includes our portion of the results from our mobile payment joint venture marketed as the Isis Mobile Wallet™ (ISIS), which is accounted for as an equity method investment.

The Wireline segment uses our regional, national and global network to provide consumer and business customers with data and voice communications services, AT&T U-verse® high-speed broadband, video and voice services and managed networking to business customers.

The Other segment includes our portion of the results from equity method investments in América Móvil, S.A. de C.V. (América Móvil), and YP Holdings LLC (YP Holdings), and costs to support corporate-driven activities and operations. Also included in the Other segment are impacts of corporate-wide decisions for which the individual operating segments are not being evaluated, including interest costs and expected return on plan assets for our pension and postretirement benefit plans.

## Notes to Consolidated Financial Statements (continued)

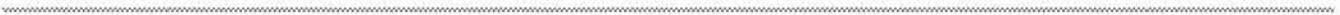
Dollars in millions except per share amounts

Segment Results, including a reconciliation to AT&amp;T consolidated results, for 2013, 2012, and 2011 are as follows:

At December 31, 2013 and for the year ended	Wireless	Wireline	Advertising Solutions	Other	Consolidations	Consolidated Results
Data	\$ 21,719	\$ 33,593	\$ -	\$ -	\$ -	\$ 55,312
Voice, text and other	39,833	20,333	-	-	-	60,166
Equipment and other	8,347	4,888	-	39	-	13,274
Total segment operating revenues	69,899	58,814	-	39	-	128,752
Operations and support expenses	44,508	41,638	-	1,316	(7,584)	79,878
Depreciation and amortization expenses	7,468	10,907	-	20	-	18,395
Total segment operating expenses	51,976	52,545	-	1,336	(7,584)	98,273
Segment operating income (loss)	17,923	6,269	-	(1,297)	7,584	30,479
Interest expense	-	-	-	-	3,940	3,940
Equity in net income (loss) of affiliates	(75)	2	-	715	-	642
Other income (expense) – net	-	-	-	-	596	596
Segment income (loss) before income taxes	\$ 17,848	\$ 6,271	\$ -	\$ (582)	\$ 4,240	\$ 27,777
Segment Assets	\$ 141,196	\$ 123,714	\$ -	\$ 12,875	\$ 2	\$ 277,787
Investments in and advances to equity method affiliates	61	-	-	3,799	-	3,860
Expenditures for additions to long-lived assets	11,191	10,036	-	1	-	21,228

At December 31, 2012 and for the year ended	Wireless	Wireline	Advertising Solutions	Other	Consolidations	Consolidated Results
Data	\$ 18,297	\$ 31,841	\$ -	\$ -	\$ -	\$ 50,138
Voice, text and other	40,889	22,614	-	-	-	63,503
Equipment and other	7,577	5,118	1,049	49	-	13,793
Total segment operating revenues	66,763	59,573	1,049	49	-	127,434
Operations and support expenses	43,296	41,207	773	1,024	9,994	96,294
Depreciation and amortization expenses	6,873	11,123	106	41	-	18,143
Total segment operating expenses	50,169	52,330	879	1,065	9,994	114,437
Segment operating income (loss)	16,594	7,243	170	(1,016)	(9,994)	12,997
Interest expense	-	-	-	-	3,444	3,444
Equity in net income (loss) of affiliates	(62)	(1)	-	815	-	752
Other income (expense) – net	-	-	-	-	134	134
Segment income (loss) before income taxes	\$ 16,532	\$ 7,242	\$ 170	\$ (201)	\$ (13,304)	\$ 10,439
Segment Assets	\$ 132,556	\$ 125,340	\$ -	\$ 14,416	\$ 3	\$ 272,315
Investments in and advances to equity method affiliates	41	-	-	4,540	-	4,581
Expenditures for additions to long-lived assets	10,795	8,914	13	6	-	19,728

For the year ended December 31, 2011	Wireless	Wireline	Advertising Solutions	Other	Consolidations	Consolidated Results
Data	\$ 14,861	\$ 29,548	\$ -	\$ -	\$ -	\$ 44,409
Voice, text and other	41,865	25,121	-	-	-	66,986
Equipment and other	6,489	5,480	3,293	66	-	15,328
Total segment operating revenues	63,215	60,149	3,293	66	-	126,723
Operations and support expenses	41,282	41,361	5,175	5,030	6,280	99,128
Depreciation and amortization expenses	6,329	11,615	386	47	-	18,377
Total segment operating expenses	47,611	52,976	5,561	5,077	6,280	117,505
Segment operating income (loss)	15,604	7,173	(2,268)	(5,011)	(6,280)	9,218
Interest expense	-	-	-	-	3,535	3,535
Equity in net income (loss) of affiliates	(29)	(2)	-	815	-	784
Other income (expense) – net	-	-	-	-	249	249
Segment income (loss) before income taxes	\$ 15,575	\$ 7,171	\$ (2,268)	\$ (4,196)	\$ (9,566)	\$ 6,716



**Notes to Consolidated Financial Statements (continued)**

Dollars in millions except per share amounts

**NOTE 5. ACQUISITIONS, DISPOSITIONS AND OTHER ADJUSTMENTS****Acquisitions**

**Spectrum Acquisitions** During 2013, we acquired \$895 of wireless spectrum and operations from various companies, not including the 700 MHz, Atlantic Tele-Network Inc. (ATNI), and NextWave purchases discussed below. During 2012, we acquired \$855 of wireless spectrum from various companies. During 2011, we acquired \$33 of wireless spectrum from various companies, not including the Qualcomm spectrum purchase discussed below.

**700 MHz Spectrum** In September 2013, we acquired spectrum in the 700 MHz B band from Verizon Wireless for \$1,900 in cash and an assignment of Advanced Wireless Service (AWS) spectrum licenses in five markets. The 700 MHz licenses acquired by AT&T cover 42 million people in 18 states. We recognized a gain of approximately \$293 on this and other spectrum transactions.

**Atlantic Tele-Network** In September 2013, we acquired ATNI's U.S. retail wireless operations, operated under the Alltel brand, for \$806 in cash, which included closing adjustments. Under the terms of the agreement, we acquired wireless properties, with a value of \$322 in licenses and \$296 of goodwill.

**NextWave** In January 2013, we completed the acquisition of NextWave Wireless Inc. (NextWave), which held wireless licenses in the Wireless Communication Services and AWS bands. We acquired all the equity and purchased a portion of the debt of NextWave for \$605. The transaction was accounted for as an asset acquisition of spectrum.

**Qualcomm Spectrum Purchase** In December 2011, we completed our purchase of spectrum licenses in the Lower 700 MHz frequency band from Qualcomm Incorporated for approximately \$1,925 in cash. The spectrum covers more than 300 million people total nationwide, including 12 MHz of Lower 700 MHz D and E block spectrum covering more than 70 million people in five of the top 15 metropolitan areas and 6 MHz of Lower 700 MHz D block spectrum covering more than 230 million people across the rest of the United States.

**Purchase of Wireless Partnership Minority Interest** In July 2011, we completed the acquisition of Convergys Corporation's minority interest in the Cincinnati SMSA Limited Partnership and an associated cell tower holding company for approximately \$320 in cash.

**Pending Acquisitions**

**Leap** In July 2013, we announced an agreement to acquire Leap Wireless International, Inc. (Leap), a provider of prepaid wireless service, for fifteen dollars per outstanding share of Leap's common stock, or approximately \$1,260, plus one nontransferable contingent value right (CVR) per share. The CVR will entitle each Leap stockholder to a pro rata share of the net proceeds of the future sale of the Chicago 700 MHz A-band FCC license held by Leap. As of September 30, 2013, Leap had approximately \$3,100 of debt, net of cash. Under the terms of the agreement, we will acquire all of Leap's stock and, thereby, acquire all of its wireless properties, including spectrum licenses, network assets, retail stores and subscribers.

The agreement was approved by Leap's stockholders on October 30, 2013. The transaction is subject to review by the FCC and Department of Justice (DOJ). The review process is underway at both agencies. The transaction is expected to close in the first quarter of 2014. The agreement provides both parties with certain termination rights if the transaction does not close by July 11, 2014, which can be extended until January 11, 2015, if certain conditions have not been met by that date. Under certain circumstances, Leap may be required to pay a termination fee or AT&T may be required to provide Leap with a three-year roaming agreement for LTE data coverage in certain Leap markets lacking LTE coverage, if the transaction does not close. If Leap enters into the roaming agreement, AT&T will then have the option within 30 days after entry into the roaming agreement to purchase certain specified Leap spectrum assets. If AT&T does not exercise its right to purchase all of the specified Leap spectrum assets, Leap can then within 60 days after expiration of AT&T's option require AT&T to purchase all of the specified spectrum assets.

**Dispositions**

**América Móvil** In 2013, we sold a portion of our shares in América Móvil for approximately \$1,179. We sold the shares to maintain our historical ownership percentage in conjunction with América Móvil's repurchase activity. (See Note 8)

**Notes to Consolidated Financial Statements (continued)**

Dollars in millions except per share amounts

**Advertising Solutions** On May 8, 2012, we completed the sale of our Advertising Solutions segment to an affiliate of Cerberus Capital Management, L.P. for approximately \$740 in cash after closing adjustments, a \$200 advance, which was repaid in 2013, and a 47 percent equity interest in the new entity, YP Holdings. Our operating results include the results of the Advertising Solutions segment through May 8, 2012.

**Tender of Telmex Shares** In August 2011, the Board of Directors of América Móvil approved a tender offer for the remaining outstanding shares of Telefonos de México, S.A. de C.V. (Telmex) that were not already owned by América Móvil. We tendered all of our shares of Telmex for \$1,197 of cash. Telmex was accounted for as an equity method investment (see Note 8).

**Pending Disposition**

**Connecticut Wireline** In December 2013, we entered into an agreement to sell our incumbent local exchange operations in Connecticut for \$2,000 in cash. The transaction is subject to review by the DOJ, the FCC and the Connecticut Public Utilities Regulatory Authority and other state regulatory authorities. We expect the deal to close in the second half of 2014, subject to customary closing conditions.

These Connecticut operations represent approximately \$1,200 in annual revenues as of 2013. We applied held-for-sale treatment to the assets and liabilities of the Connecticut operations, and, accordingly, included the assets in "Other current assets," and the related liabilities in "Accounts payable and accrued liabilities," on our consolidated balance sheets. However, the business will not qualify as discontinued operations as we expect significant continuing direct cash flows related to the disposed operations. Assets and liabilities of the Connecticut operations included the following as of December 31, 2013:

**Assets held for sale:**

Current assets	\$	155
Property, plant and equipment - net		1,289
Goodwill		799
Other assets		17
<b>Total assets</b>	<b>\$</b>	<b>2,260</b>

**Liabilities related to assets held for sale:**

Current liabilities	\$	128
Noncurrent liabilities		480
<b>Total liabilities</b>	<b>\$</b>	<b>608</b>

**Other**

**T-Mobile** In March 2011, we agreed to acquire from Deutsche Telekom AG (Deutsche Telekom) all shares of T-Mobile USA, Inc. (T-Mobile) for approximately \$39,000, subject to certain adjustments. In December 2011, in light of opposition to the merger from the DOJ and FCC, we and Deutsche Telekom agreed to terminate the transaction. Pursuant to the purchase agreement, we paid a breakup fee of \$3,000, entered into a broadband roaming agreement and transferred certain wireless spectrum with a book value of \$962. These agreement termination charges were included in "Selling, general and administrative" expenses in our Other segment.

**Notes to Consolidated Financial Statements (continued)**

Dollars in millions except per share amounts

**NOTE 6. PROPERTY, PLANT AND EQUIPMENT**

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

	Lives (years)	2013	2012
Land	-	\$ 1,523	\$ 1,689
Buildings and improvements	10-44	31,485	28,939
Central office equipment <sup>1</sup>	3-10	86,370	86,185
Cable, wiring and conduit	15-50	76,107	80,338
Other equipment	3-15	67,887	61,387
Software	3	8,150	7,957
Under construction	-	3,276	4,412
		274,798	270,907
Accumulated depreciation and amortization		163,830	161,140
Property, plant and equipment - net		\$ 110,968	\$ 109,767

<sup>1</sup> Includes certain network software.

Our depreciation expense was \$17,722 in 2013, \$16,933 in 2012 and \$16,368 in 2011. Depreciation expense included amortization of software totaling \$2,142 in 2013, \$2,130 in 2012 and \$2,243 in 2011.

Certain facilities and equipment used in operations are leased under operating or capital leases. Rental expenses under operating leases were \$3,683 for 2013, \$3,507 for 2012, and \$3,414 for 2011. At December 31, 2013, the future minimum rental payments under noncancelable operating leases for the years 2014 through 2018 were \$3,003, \$2,857, \$2,694, \$2,458, and \$2,233, with \$11,707 due thereafter. Certain real estate operating leases contain renewal options that may be exercised. Capital leases are not significant.

**NOTE 7. GOODWILL AND OTHER INTANGIBLE ASSETS**

Changes in the carrying amounts of goodwill, by segment (which is the same as the reporting unit for Wireless, Wireline and Advertising Solutions), for the years ended December 31, 2013 and 2012, were as follows:

	Wireless	Wireline	Advertising Solutions	Other	Total
Balance as of January 1, 2012	\$ 35,755	\$ 33,638	\$ 1,059	\$ 390	\$ 70,842
Goodwill acquired	13	5	-	-	18
Other	35	327	(1,059)	(390)	(1,087)
Balance as of December 31, 2012	35,803	33,970	-	-	69,773
Goodwill acquired	305	-	-	-	305
Held for sale	-	(799)	-	-	(799)
Other	(2)	(4)	-	-	(6)
<b>Balance as of December 31, 2013</b>	<b>\$ 36,106</b>	<b>\$ 33,167</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 69,273</b>

The held for sale adjustment to goodwill in 2013 was the result of a goodwill allocation in conjunction with our pending sale of our Connecticut operations. Our goodwill acquired during 2013 primarily related to our acquisition of ATNI (see Note 5). Changes to goodwill during 2012 primarily resulted from the sale of the Advertising Solutions segment (see Note 5). Changes in goodwill during 2012 also included a reclassification of goodwill due to segment reclassification to better align goodwill with operations.

In 2011, we recorded a \$2,745 goodwill impairment in the Advertising Solutions segment, triggered by declining revenues in our directory business and the directory industry as a whole, and we also recorded a \$165 impairment for a trade name.

**Notes to Consolidated Financial Statements (continued)**

Dollars in millions except per share amounts

Our other intangible assets are summarized as follows:

	December 31, 2013		December 31, 2012	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Other Intangible Assets</b>				
Amortized intangible assets:				
Customer lists and relationships:				
AT&T Mobility LLC	\$ 982	\$ 771	\$ 6,760	\$ 6,335
BellSouth Corporation	5,825	5,317	5,825	4,994
AT&T Corp.	2,482	2,438	2,490	2,356
Other	-	-	351	350
Subtotal	9,289	8,526	15,426	14,035
Other	284	169	304	174
<b>Total</b>	<b>\$ 9,573</b>	<b>\$ 8,695</b>	<b>\$ 15,730</b>	<b>\$ 14,209</b>
Indefinite-lived intangible assets not subject to amortization:				
Licenses	\$ 56,433		\$ 52,352	
Trade names	4,901		4,902	
<b>Total</b>	<b>\$ 61,334</b>		<b>\$ 57,254</b>	

As discussed in Note 5, most of our license additions in 2013 were related to a spectrum swap and various business acquisitions, with the remainder originating from various spectrum license purchases.

Amortized intangible assets are definite-life assets, and as such, we record amortization expense based on a method that most appropriately reflects our expected cash flows from these assets, over a weighted-average of 9.8 years (9.7 years for customer lists and relationships and 12.2 years for other). Amortization expense for definite-life intangible assets was \$672 for the year ended December 31, 2013, \$1,210 for the year ended December 31, 2012, and \$2,009 for the year ended December 31, 2011. Amortization expense is estimated to be \$364 in 2014, \$224 in 2015, \$127 in 2016, \$60 in 2017, and \$34 in 2018. In 2013, we wrote off approximately \$6,217 of fully amortized intangible assets (primarily customer lists). In 2012, we wrote off approximately \$191 in fully amortized intangible assets (primarily patents) and \$3,187 of customer lists due to the sale of our Advertising Solutions segment (see Note 5). We review other amortizing intangible assets for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable over the remaining life of the asset or asset group.

We review indefinite-lived intangible assets for impairment annually (see Note 1). Licenses include wireless FCC licenses of \$56,399 at December 31, 2013 and \$52,318 at December 31, 2012, that provide us with the exclusive right to utilize certain radio frequency spectrum to provide wireless communications services.

**NOTE 8. EQUITY METHOD INVESTMENTS**

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

Our investments in equity affiliates primarily include our international equity investment, América Móvil, and our interest in YP Holdings. Investments in equity affiliates also include our investment in our mobile payment joint venture, marketed as ISIS.

**YP Holdings** We hold a 47% interest in YP Holdings, an online advertising company and directory publisher. During 2013, we received \$200 from the repayment of advances to YP Holdings and \$101 from the return of investment in YP Holdings.

**Notes to Consolidated Financial Statements (continued)**

Dollars in millions except per share amounts

**América Móvil** América Móvil is primarily a wireless provider in Mexico with telecommunications investments in the United States, Latin America and Europe. We 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. During 2013, we sold a portion of our shares in América Móvil, to maintain our historical ownership percentage in conjunction with América Móvil's repurchase activity. At December 31, 2013, the fair value of our 8.7% investment in América Móvil, based on the equivalent value of América Móvil L shares, was \$7,166.

**Telmex Transaction** During 2011, the Board of Directors of América Móvil approved and completed a tender offer for the remaining outstanding shares of Telmex that were not already owned by América Móvil. In conjunction with the tender of our shares, we have recorded our portion of América Móvil's resulting equity adjustments.

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

	2013	2012
Beginning of year	\$ 4,581	\$ 3,718
Additional investments	111	405
Equity in net income of affiliates	642	752
Dividends and Distributions received	(318)	(137)
Currency translation adjustments	61	95
Sale of América Móvil shares	(781)	-
Return of advances to and investments in YP Holdings	(301)	-
América Móvil equity adjustments	(124)	(260)
Other adjustments	(11)	8
End of year	\$ 3,860	\$ 4,581

Undistributed earnings from equity affiliates were \$6,699 and \$6,375 at December 31, 2013 and 2012.

**NOTE 9. DEBT**

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

	2013	2012
Notes and debentures		
Interest Rates		
Maturities <sup>1</sup>		
0.60% – 2.99%      2015 – 2022	\$ 18,774	\$ 13,969
3.00% – 4.99%      2013 – 2045	22,327	14,590
5.00% – 6.99%      2013 – 2095	28,513	35,226
7.00% – 9.10%      2013 – 2097	6,268	7,059
Other	1	2
Fair value of interest rate swaps recorded in debt	154	267
	76,037	71,113
Unamortized (discount) premium - net	(1,553)	(1,535)
Total notes and debentures	74,484	69,578
Capitalized leases	283	265
Total long-term debt, including current maturities	74,767	69,843
Current maturities of long-term debt	(5,477)	(3,485)
Total long-term debt	\$ 69,290	\$ 66,358

<sup>1</sup> Maturities assume putable debt is redeemed by the holders at the next opportunity.

**Notes to Consolidated Financial Statements (continued)**

Dollars in millions except per share amounts

We had outstanding Euro, British pound sterling or Canadian dollar denominated debt of approximately \$18,206 and \$11,951 at December 31, 2013 and 2012. The weighted average interest rate of our entire long-term debt portfolio decreased from 4.9% at December 31, 2012 to 4.5% at December 31, 2013.

Current maturities of long-term debt include debt that may be put back to us by the holders in 2014. We have \$1,000 of annual put reset securities that may be put each April until maturity in 2021. If the holders do not require us to repurchase the securities, the interest rate will be reset based on current market conditions. Likewise, we have an accreting zero-coupon note that may be redeemed each May, until maturity in 2022. If the zero-coupon note (issued for principal of \$500 in 2007) is held to maturity, the redemption amount will be \$1,030.

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

	2013	2012
Current maturities of long-term debt	\$ 5,477	\$ 3,485
Commercial paper	20	-
Bank borrowings <sup>1</sup>	1	1
Total	\$ 5,498	\$ 3,486

<sup>1</sup> Outstanding balance of short-term credit facility of a foreign subsidiary.

**Debt Refinancing**

During 2013, we received net proceeds of \$12,040, from the issuance of \$12,108 in long-term debt in various markets, with an average weighted maturity of approximately 10 years and an average interest rate of 2.6%. We redeemed \$7,698 in borrowings, including debt tender offers covering \$5,000 of various notes with stated rates of 5.20% to 8.75% for \$5,556 in cash payments and early redemptions of \$300 and \$550 with stated rates of 7.375% and 6.625%, respectively.

As of December 31, 2013 and 2012, we were in compliance with all covenants and conditions of instruments governing our debt. Substantially all of our outstanding long-term debt is unsecured. Maturities of outstanding long-term notes and debentures, as of December 31, 2013, and the corresponding weighted-average interest rate scheduled for repayment are as follows:

	2014	2015	2016	2017	2018	Thereafter
Debt repayments <sup>1</sup>	\$ 5,472	\$ 6,514	\$ 6,667	\$ 5,257	\$ 5,800	\$ 45,790
Weighted-average interest rate	4.9%	3.2%	2.7%	2.4%	4.6%	5.1%

<sup>1</sup> Debt repayments assume puttable debt is redeemed by the holders at the next opportunity.

**Credit Facilities**

On December 11, 2013, we amended and extended for an additional two-year term our existing \$5,000 revolving credit agreement with a syndicate of banks until December 2018 (December 2018 Facility). We also have an existing \$3,000 revolving credit agreement that was entered into in 2012, with a syndicate of banks that is available until December 2017 (December 2017 Facility). In the event advances are made under either agreement, those advances would be used for general corporate purposes. Advances are not conditioned on the absence of a material adverse change. All advances must be repaid no later than the date on which lenders are no longer obligated to make any advances under each agreement. Under each agreement, we can terminate, in whole or in part, amounts committed by the lenders in excess of any outstanding advances; however, we cannot reinstate any such terminated commitments. At December 31, 2013, we had no advances outstanding under either agreement and were in compliance with all covenants under each agreement.

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

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

**Notes to Consolidated Financial Statements (continued)**

Dollars in millions except per share amounts

The Applicable Margin for both agreements will equal 0.565%, 0.680%, or 0.910% per annum, depending on AT&T's credit rating.

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

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

Defaults under both agreements permit the lenders to accelerate required repayment and would increase the Applicable Margin by 2.00% per annum. Defaults include noncompliance with the two covenants above, other representations and warranties and the following:

- We fail to pay principal or interest, or other amounts under the agreement beyond any grace period.
- We fail to pay when due other debt of \$400 or more that results in acceleration of that debt (commonly referred to as cross-acceleration) or a creditor commences enforcement proceedings within a specified period after a money judgment of \$400 or more has become final.
- A person acquires beneficial ownership of more than 50% of AT&T common shares or more than a majority of AT&T's directors change in any 24-month period other than as elected by the remaining directors.
- We fail to make certain minimum funding payments under ERISA.
- Our bankruptcy or insolvency.

Both agreements permit subsidiaries to be added as additional borrowers, with or without a guarantee by AT&T. The terms of the guarantee are set forth in the agreements.

The obligations of the lenders under the December 2017 Facility to provide advances will terminate on December 11, 2017, unless prior to that date either: (i) AT&T, and if applicable, a Co-Borrower, reduce to \$0 the commitments of the lenders, or (ii) certain events of default occur. We and lenders representing more than 50% of the facility amount may agree to extend their commitments for two one-year periods beyond the December 11, 2017, termination date, under certain circumstances. We also can request the lenders to further increase their commitments (i.e., raise the available credit) up to an additional \$2,000 provided no event of default has occurred. The same provisions apply to the December 2018 Facility except that the applicable date is December 11, 2018.

**NOTE 10. FAIR VALUE MEASUREMENTS AND DISCLOSURE**

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

- |         |  |
|---------|--|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that we have the ability to access.   |
| Level 2 | Inputs to the valuation methodology include: <ul style="list-style-type: none"> <li>• Quoted prices for similar assets and liabilities in active markets.</li> <li>• Quoted prices for identical or similar assets or liabilities in inactive markets.</li> <li>• Inputs other than quoted market prices that are observable for the asset or liability.</li> <li>• Inputs that are derived principally from or corroborated by observable market data by correlation or other means.</li> </ul> |
| Level 3 | Inputs to the valuation methodology are unobservable and significant to the fair value measurement. <ul style="list-style-type: none"> <li>• Fair value is often based on developed models in which there are few, if any, external observations.</li> </ul>   |

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

**Notes to Consolidated Financial Statements (continued)**

Dollars in millions except per share amounts

The valuation methodologies described above may produce a fair value calculation that may not be indicative of future net realizable value or reflective of future fair values. We believe our valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used since December 31, 2012.

**Long-Term Debt and Other Financial Instruments**

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

	December 31, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Notes and debentures	\$ 74,484	\$ 79,309	\$ 69,578	\$ 81,310
Commercial paper	20	20	-	-
Bank borrowings	1	1	1	1
Investment securities	2,450	2,450	2,218	2,218

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

**Investment Securities**

Our investment securities include equities, fixed income bonds and other securities. A substantial portion of the fair values of our available-for-sale securities was estimated based on quoted market prices. Investments in securities not traded on a national securities exchange are valued using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Realized gains and losses on securities are included in "Other income (expense) – net" in the consolidated statements of income using the specific identification method. Unrealized gains and losses, net of tax, on available-for-sale securities are recorded in accumulated OCI. Unrealized losses that are considered other than temporary are recorded in "Other income (expense) – net" with the corresponding reduction to the carrying basis of the investment. Fixed income investments of \$106 have maturities of less than one year, \$279 within one to three years, \$109 within three to five years, and \$265 for five or more years.

Our short-term investments (including money market securities) and customer deposits are recorded at amortized cost, and the respective carrying amounts approximate fair values. Our investment securities are recorded in "Other Assets" on the consolidated balance sheets.

**Notes to Consolidated Financial Statements (continued)**

Dollars in millions except per share amounts

Following is the fair value leveling for available-for-sale securities and derivatives as of December 31, 2013, and December 31, 2012:

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Available-for-Sale Securities				
Domestic equities	\$ 1,049	\$ -	\$ -	\$ 1,049
International equities	563	-	-	563
Fixed income bonds	-	759	-	759
Asset Derivatives <sup>1</sup>				
Interest rate swaps	-	191	-	191
Cross-currency swaps	-	1,951	-	1,951
Liability Derivatives <sup>1</sup>				
Interest rate swaps	-	(7)	-	(7)
Cross-currency swaps	-	(519)	-	(519)
	December 31, 2012			
	Level 1	Level 2	Level 3	Total
Available-for-Sale Securities				
Domestic equities	\$ 873	\$ -	\$ -	\$ 873
International equities	469	-	-	469
Fixed income bonds	-	837	-	837
Asset Derivatives <sup>1</sup>				
Interest rate swaps	-	287	-	287
Cross-currency swaps	-	752	-	752
Foreign exchange contracts	-	1	-	1
Liability Derivatives <sup>1</sup>				
Cross-currency swaps	-	(672)	-	(672)

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

**Derivative Financial Instruments**

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

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

*Fair Value Hedging* We designate our fixed-to-floating interest rate swaps as fair value hedges. The purpose of these swaps is to manage interest rate risk by managing our mix of fixed-rate and floating-rate debt. These swaps involve the receipt of fixed-rate amounts for floating interest rate payments over the life of the swaps without exchange of the underlying principal amount. Accrued and realized gains or losses from interest rate swaps impact interest expense in the consolidated statements of income. Unrealized gains on interest rate swaps are recorded at fair market value as assets, and unrealized losses on interest rate swaps are recorded at fair market value as liabilities. Changes in the fair values of the interest rate swaps are exactly offset by changes in the fair value of the underlying debt. Gains or losses realized upon early termination of our fair value hedges are recognized in interest expense. In the years ended December 31, 2013, and December 31, 2012, no ineffectiveness was measured on interest rate swaps designated as fair value hedges.

**Notes to Consolidated Financial Statements (continued)**

Dollars in millions except per share amounts

*Cash Flow Hedging* We designate our cross-currency swaps as cash flow hedges. We have entered into multiple cross-currency swaps to hedge our exposure to variability in expected future cash flows that are attributable to foreign currency risk generated from the issuance of our Euro, British pound sterling and Canadian dollar 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.

Unrealized gains on derivatives designated as cash flow hedges are recorded at fair value as assets, and unrealized losses on derivatives designated as cash flow hedges are recorded at fair value as liabilities, both for the period they are outstanding. For derivative instruments designated as cash flow hedges, the effective portion is reported as a component of accumulated OCI until reclassified into interest expense in the same period the hedged transaction affects earnings. The gain or loss on the ineffective portion is recognized as other income or expense in each period. We evaluate the effectiveness of our cross-currency swaps each quarter. In the years ended December 31, 2013, and December 31, 2012, no 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 "Other income (expense) – net" in the consolidated statements of income. Over the next 12 months, we expect to reclassify \$44 from accumulated OCI to interest expense due to the amortization of net losses on historical interest rate locks.

We hedge a portion of the exchange risk involved in anticipation of highly probable foreign currency-denominated transactions. In anticipation of these transactions, we often enter into foreign exchange contracts to provide currency at a fixed rate. Some of these instruments are designated as cash flow hedges while others remain nondesignated, 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 in the same period the hedged transaction affects earnings, except where an amount is deemed to be ineffective, which would be immediately reclassified to other income (expense) in the consolidated income statement. In the years ended December 31, 2013, and December 31, 2012, no ineffectiveness was measured.

*Collateral and Credit-Risk Contingency* We have entered into agreements with our derivative counterparties establishing collateral thresholds based on respective credit ratings and netting agreements. At December 31, 2013, we had posted collateral of \$8 (a deposit asset) and held collateral of \$1,600 (a receipt liability). Under the agreements, if our credit rating had been downgraded one rating level by Moody's Investor Service and Standards & Poor's and two rating levels by Fitch, Inc. before the final collateral exchange in December, we would have been required to post additional collateral of \$54. At December 31, 2012, we had posted collateral of \$22 (a deposit asset) and held collateral of \$543 (a receipt liability). We do not offset the fair value of collateral, whether the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable), against the fair value of the derivative instruments.

**Notes to Consolidated Financial Statements (continued)**

Dollars in millions except per share amounts

Following is the notional amount of our outstanding derivative positions at December 31:

	2013	2012
Interest rate swaps	\$ 4,750	\$ 3,000
Cross-currency swaps	17,787	12,071
Foreign exchange contracts	-	51
<b>Total</b>	<b>\$ 22,537</b>	<b>\$ 15,122</b>

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

**Effect of Derivatives in the Consolidated Statements of Income**

Fair Value Hedging Relationships			
For the years ended December 31,			
	2013	2012	2011
Interest rate swaps (Interest expense):			
Gain (Loss) on interest rate swaps	\$ (113)	\$ (179)	\$ 10
Gain (Loss) on long-term debt	113	179	(10)

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

Cash Flow Hedging Relationships			
For the year ended December 31,			
	2013	2012	2011
Cross-currency swaps:			
Gain (Loss) recognized in accumulated OCI	\$ 813	\$ 432	\$ (219)
Interest rate locks:			
Gain (Loss) recognized in accumulated OCI	-	-	(167)
Interest income (expense) reclassified from accumulated OCI into income	(46)	(43)	(23)
Foreign exchange contracts:			
Gain (Loss) recognized in accumulated OCI	(2)	5	(10)

**NOTE 11. INCOME TAXES**

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

	2013	2012
Depreciation and amortization	\$ 43,623	\$ 41,411
Intangibles (nonamortizable)	1,874	1,874
Employee benefits	(9,072)	(13,350)
Net operating loss and other carryforwards	(2,272)	(2,167)
Other – net	29	(1,199)
Subtotal	34,182	26,569
Deferred tax assets valuation allowance	927	886
<b>Net deferred tax liabilities</b>	<b>\$ 35,109</b>	<b>\$ 27,455</b>
Net long-term deferred tax liabilities	\$ 36,308	\$ 28,491
Less: Net current deferred tax assets	(1,199)	(1,036)
<b>Net deferred tax liabilities</b>	<b>\$ 35,109</b>	<b>\$ 27,455</b>

**Notes to Consolidated Financial Statements (continued)**

Dollars in millions except per share amounts

At December 31, 2013, we had combined net operating and capital loss carryforwards (tax effected) for federal income tax purposes of \$866 and for state and foreign income tax purposes of \$890, expiring through 2032. Additionally, we had state credit carryforwards of \$515, expiring primarily through 2033.

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, 2013 and 2012, relate primarily to state net operating losses and state credit carryforwards.

We recognize the financial statement effects of a tax return position when it is more likely than not, based on the technical merits, that the position will ultimately be sustained. For tax positions that meet this recognition threshold, we apply our judgment, taking into account applicable tax laws, our experience in managing tax audits and relevant GAAP, to determine the amount of tax benefits to recognize in our financial statements. For each position, the difference between the benefit realized on our tax return and the benefit reflected in our financial statements is recorded on our consolidated balance sheets as an unrecognized tax benefit (UTB). We update our UTBs at each financial statement date to reflect the impacts of audit settlements and other resolutions of audit issues, the expiration of statutes of limitation, developments in tax law and ongoing discussions with taxing authorities. A reconciliation of the change in our UTB balance from January 1 to December 31 for 2013 and 2012 is as follows:

<b>Federal, State and Foreign Tax</b>	<b>2013</b>	<b>2012</b>
Balance at beginning of year	\$ 4,793	\$ 4,541
Increases for tax positions related to the current year	255	791
Increases for tax positions related to prior years	488	991
Decreases for tax positions related to prior years	(1,238)	(1,426)
Lapse of statute of limitations	(24)	(29)
Settlements	(47)	(75)
Balance at end of year	4,227	4,793
Accrued interest and penalties	1,034	977
Gross unrecognized income tax benefits	5,261	5,770
Less: Deferred federal and state income tax benefits	(481)	(610)
Less: Tax attributable to timing items included above	(2,121)	(2,448)
Total UTB that, if recognized, would impact the effective income tax rate as of the end of the year	\$ 2,659	\$ 2,712

Periodically we make deposits to taxing jurisdictions which reduce our UTB balance but are not included in the reconciliation above. The amount of deposits that reduced our UTB balance was \$2,303 at December 31, 2013, and \$2,372 at December 31, 2012.

Accrued interest and penalties included in UTBs were \$1,034 as of December 31, 2013, and \$977 as of December 31, 2012. We record interest and penalties related to federal, state and foreign UTBs in income tax expense. The net interest and penalty expense (benefit) included in income tax expense was \$35 for 2013, \$(74) for 2012, and \$(65) for 2011.

We file income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions. As a large taxpayer, our income tax returns are regularly audited by the Internal Revenue Service (IRS) and other taxing authorities. The IRS has completed field examinations of our tax returns through 2008. All audit periods prior to 2003 are closed for federal examination purposes. We are engaged with the IRS Appeals Division in resolving issues related to our 2003 through 2008 returns; we are unable to estimate the impact the resolution of these issues may have on our UTBs.

**Notes to Consolidated Financial Statements (continued)**

Dollars in millions except per share amounts

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

	2013	2012	2011
Federal:			
Current	\$ 3,043	\$ 451	\$ (420)
Deferred – net	5,692	2,256	2,555
	8,735	2,707	2,135
State, local and foreign:			
Current	(61)	702	23
Deferred – net	550	(509)	374
	489	193	397
Total	\$ 9,224	\$ 2,900	\$ 2,532

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

	2013	2012	2011
Taxes computed at federal statutory rate	\$ 9,722	\$ 3,654	\$ 2,351
Increases (decreases) in income taxes resulting from:			
State and local income taxes – net of federal income tax benefit	294	85	210
Goodwill Impairment	-	-	961
Other – net	(792)	(839)	(990)
Total	\$ 9,224	\$ 2,900	\$ 2,532
Effective Tax Rate	33.2%	27.8%	37.7%

**NOTE 12. PENSION AND POSTRETIREMENT BENEFITS****Pension Benefits and Postretirement Benefits**

Substantially all of our U.S. employees are covered by one of our noncontributory pension plans. The majority of our newly hired employees, longer-service management and some nonmanagement employees participate in cash balance pension programs that include annual or monthly credits based on salary as well as an interest credit. Other longer-service management employees participate in pension programs that have a traditional pension formula (i.e., a stated percentage of employees' adjusted career income). Other longer-service nonmanagement employees' pension benefits are generally calculated using one of two formulas: a flat dollar amount applied to years of service according to job classification or a cash balance plan with negotiated annual pension band credits as well as interest credits. Most nonmanagement employees can elect to receive their pension benefits in either a lump sum payment or an annuity.

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.

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

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

**Notes to Consolidated Financial Statements (continued)**

Dollars in millions except per share amounts

During 2012, approximately 90,000 collectively bargained employees ratified new agreements. For the vast majority of covered employees, the agreements provided for a pension band increase of 1 percent for each year of the agreement. These agreements also provide for continued healthcare coverage with a modest increase to employee costs over the agreement term. There were also modest increases to retiree costs for continued healthcare coverage for retirees.

During 2012, we transferred the funding of the payment of postretirement death benefits not already in the Voluntary Employee Benefit Association (VEBA) trust from the pension trust to the postretirement VEBA trust.

**Obligations and Funded Status**

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

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

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

	Pension Benefits		Postretirement Benefits	
	2013	2012	2013	2012
Benefit obligation at beginning of year	\$ 58,911	\$ 56,110	\$ 37,431	\$ 34,953
Service cost - benefits earned during the period	1,321	1,216	352	336
Interest cost on projected benefit obligation	2,429	2,800	1,532	1,725
Amendments	-	(905)	(4,460)	(2,768)
Actuarial (gain) loss	(2,390)	6,707	(2,098)	4,844
Special termination benefits	255	12	1	5
Benefits paid	(3,966)	(5,729)	(2,473)	(2,608)
Transfer for sale of Advertising Solutions segment	-	(149)	-	(207)
Plan transfers	-	(1,151)	-	1,151
Benefit obligation at end of year	\$ 56,560	\$ 58,911	\$ 30,285	\$ 37,431

**Notes to Consolidated Financial Statements (continued)**

Dollars in millions except per share amounts

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	
	2013	2012	2013	2012
Fair value of plan assets at beginning of year	\$ 45,060	\$ 45,907	\$ 9,295	\$ 9,890
Actual return on plan assets	5,935	5,041	1,347	1,266
Benefits paid <sup>1</sup>	(3,966)	(5,729)	(1,682)	(1,842)
Contributions	209	3	-	-
Transfer for sale of Advertising Solutions segment	-	(165)	-	(19)
Other	-	3	-	-
Fair value of plan assets at end of year <sup>3</sup>	47,238	45,060	8,960	9,295
Unfunded status at end of year <sup>2</sup>	\$ (9,322)	\$ (13,851)	\$ (21,325)	\$ (28,136)

<sup>1</sup> At our discretion, certain postretirement benefits may be paid from AT&T cash accounts, which does not reduce VEBA assets. Future benefit payments may be made from VEBA trusts and thus reduce those asset balances.

<sup>2</sup> 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 ERISA regulations.

<sup>3</sup> Net assets available for benefits at December 31, 2013 were \$56,447 and include a \$9,209 preferred equity interest in AT&T Mobility II LLC, as discussed below.

On September 9, 2013, we made a voluntary contribution of a preferred equity interest in AT&T Mobility II LLC (Mobility), the holding company for our wireless business, to the trust used to pay pension benefits under our qualified pension plans. The preferred equity interest had a value of \$9,104 on the contribution date and was valued at \$9,209 at December 31, 2013. The trust is entitled to receive cumulative cash distributions of \$560 per annum, which will be distributed quarterly in equal amounts and will be accounted for as contributions. So long as we make the distributions, we will have no limitations on our ability to declare a dividend, or repurchase shares. This preferred equity interest is a plan asset under ERISA and is recognized as such in the plan's separate financial statements. However, because the preferred equity interest is not unconditionally transferable to an unrelated party, it is not reflected in plan assets in our consolidated financial statements and instead has been eliminated in consolidation. At the time of the contribution of the preferred equity interest, we made an additional cash contribution of \$175 and have agreed to annual cash contributions of \$175 no later than the due date for our federal income tax return for each of 2014, 2015 and 2016. These contributions combined with our existing pension assets are essentially equivalent to the pension obligation at December 31, 2013.

On September 9, 2013, the Department of Labor (DOL) published a proposed exemption that authorized retroactive approval of this voluntary contribution. The proposal was open for public comment and we are currently awaiting a final decision by the DOL. Our retirement benefit plans, including required contributions, are subject to the provisions of ERISA.

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

	2013	2012
Plan assets recognized in the consolidated financial statements	\$ 47,238	\$ 45,060
Preferred equity interest in Mobility	9,209	-
Net assets available for benefits	\$ 56,447	\$ 45,060

**Notes to Consolidated Financial Statements (continued)**

Dollars in millions except per share amounts

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

	Pension Benefits		Postretirement Benefits	
	2013	2012	2013	2012
Current portion of employee benefit obligation <sup>1</sup>	\$ -	\$ -	\$ (1,949)	\$ (2,116)
Employee benefit obligation <sup>2</sup>	(9,322)	(13,851)	(19,376)	(26,020)
Net amount recognized	\$ (9,322)	\$ (13,851)	\$ (21,325)	\$ (28,136)

<sup>1</sup> Included in "Accounts payable and accrued liabilities."<sup>2</sup> Included in "Postemployment benefit obligation."

The accumulated benefit obligation for our pension plans represents the actuarial present value of benefits based on employee service and compensation as of a certain date and does not include an assumption about future compensation levels. The accumulated benefit obligation for our pension plans was \$55,077 at December 31, 2013, and \$57,010 at December 31, 2012.

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

Our combined net pension and postretirement (credit) cost recognized in our consolidated statements of income was \$(7,390), \$10,257 and \$7,288 for the years ended December 31, 2013, 2012 and 2011. A portion of pension and postretirement benefit costs is capitalized as part of the benefit load on internal construction and capital expenditures, providing a small reduction in the net expense recorded. The following table presents the components of net periodic benefit cost:

	Pension Benefits			Postretirement Benefits		
	2013	2012	2011	2013	2012	2011
Service cost – benefits earned during the period	\$ 1,321	\$ 1,216	\$ 1,186	\$ 352	\$ 336	\$ 362
Interest cost on projected benefit obligation	2,429	2,800	2,958	1,532	1,725	2,051
Expected return on assets	(3,312)	(3,520)	(3,690)	(706)	(811)	(1,040)
Amortization of prior service credit	(94)	(15)	(15)	(1,161)	(927)	(694)
Actuarial (gain) loss	(5,013)	5,206	4,498	(2,738)	4,247	1,672
Net pension and postretirement (credit) cost	\$ (4,669)	\$ 5,687	\$ 4,937	\$ (2,721)	\$ 4,570	\$ 2,351

*Other Changes in Benefit Obligations Recognized in Other Comprehensive Income*

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

	Pension Benefits			Postretirement Benefits		
	2013	2012	2011	2013	2012	2011
Balance at beginning of year	\$ 641	\$ 92	\$ 102	\$ 4,766	\$ 3,655	\$ 2,951
Prior service (cost) credit	-	559	-	2,765	1,686	1,134
Amortization of prior service credit	(58)	(10)	(10)	(719)	(575)	(430)
Total recognized in other comprehensive (income) loss	(58)	549	(10)	2,046	1,111	704
Balance at end of year	\$ 583	\$ 641	\$ 92	\$ 6,812	\$ 4,766	\$ 3,655

The estimated prior service credits that will be amortized from accumulated OCI into net periodic benefit cost over the next fiscal year is \$94 (\$58 net of tax) for pension and \$1,448 (\$898 net of tax) for postretirement benefits.

**Notes to Consolidated Financial Statements (continued)**

Dollars in millions except per share amounts

**Assumptions**

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

	2013	2012	2011
Discount rate for determining projected benefit obligation at December 31	5.00%	4.30%	5.30%
Discount rate in effect for determining net cost	4.30%	5.30%	5.80%
Long-term rate of return on plan assets	7.75%	8.25%	8.25%
Composite rate of compensation increase for determining projected benefit obligation	3.00%	3.00%	4.00%
Composite rate of compensation increase for determining net pension cost (benefit)	3.00%	4.00%	4.00%

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

**Discount Rate** Our assumed discount rate of 5.00% at December 31, 2013, reflects the hypothetical rate at which the projected benefit obligations could be effectively settled or paid out to participants. We determined our discount rate based on a range of factors, including a yield curve composed of the rates of return on several hundred high-quality, fixed income corporate bonds available at the measurement date and the related expected duration for the obligations. These bonds were all rated at least Aa3 or AA- by one of the nationally recognized statistical rating organizations, denominated in U.S. dollars, and neither callable, convertible nor index linked. For the year ended December 31, 2013, we increased our discount rate by 0.70%, resulting in a decrease in our pension plan benefit obligation of \$4,533 and a decrease in our postretirement benefit obligation of \$3,161. For the year ended December 31, 2012, we decreased our discount rate by 1.00%, resulting in an increase in our pension plan benefit obligation of \$7,030 and an increase in our postretirement benefit obligation of \$4,546.

**Expected Long-Term Rate of Return** Our expected long-term rate of return on plan assets of 7.75% for 2014 and 2013 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. We consider many factors that include, but are not limited to, historical returns on plan assets, current market information on long-term returns (e.g., long-term bond rates) and current and target asset allocations between asset categories. The target asset allocation is determined based on consultations with external investment advisers. If all other factors were to remain unchanged, we expect that a 0.50% decrease in the expected long-term rate of return would cause 2014 combined pension and postretirement cost to increase \$262. However, any differences in the rate and actual returns will be included with the actuarial gain or loss recorded in the fourth quarter when our plans are remeasured.

**Composite Rate of Compensation Increase** Our expected composite rate of compensation increase cost of 3.00% in 2014 and 2013 reflects the long-term average rate of salary increases.

**Mortality Tables** At December 31, 2013 we updated our assumed mortality rates to better predict future mortality improvements, creating an increase of \$1,986 in our pension obligation and \$679 in our postretirement obligations.

**Healthcare Cost Trend** Our healthcare cost trend assumptions are developed based on historical cost data, the near-term outlook and an assessment of likely long-term trends. In addition to the healthcare cost trend in 2013, we assumed an annual 2.50% growth in administrative expenses and an annual 3.00% growth in dental claims. Our assumed annual healthcare cost trend rate for 2014 and 2013 is 5.00% and our ultimate trend rate is 5.00%.

**Notes to Consolidated Financial Statements (continued)**

Dollars in millions except per share amounts

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	\$ 207	\$ (179)
Increase (decrease) in accumulated postretirement benefit obligation	1,010	(878)

**Plan Assets**

Plan assets consist primarily of private and public equity, government and corporate bonds, and real assets (real estate and natural resources). The asset allocations of the pension plans are maintained to meet ERISA requirements. Any plan contributions, as determined by ERISA regulations, are made to a pension trust for the benefit of plan participants. As part of our voluntary contribution of the Mobility preferred equity interest, we will contribute \$560 of cash distributions during 2014. We do not have additional significant required contributions to our pension plans for 2014.

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

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

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

	Pension Assets			Postretirement (VEBA) Assets		
	Target	2013	2012	Target	2013	2012
Equity Securities:						
Domestic	25%	35%	25%	20%	30%	37%
International	10%	16	16	15%	20	33
Fixed income securities	30%	33	34	19%	24	24
Real assets	6%	11	11	0%	1	1
Private equity	4%	12	13	0%	4	4
Other	0%	3	-	21%	26	1
Total		100%	100%		100%	100%

At December 31, 2013, AT&T securities represented less than 0.5% of assets held by our pension plans and VEBA trusts included in these financial statements.

**Investment Valuation**

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

**Notes to Consolidated Financial Statements (continued)**

Dollars in millions except per share amounts

Investments in securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the year. If no sale was reported on that date, they are valued at the last reported bid price. Investments in securities not traded on a national securities exchange are valued using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Shares of registered investment companies are valued based on quoted market prices, which represent the net asset value of shares held at year-end. Over-the-counter (OTC) securities 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 valuation techniques, such as the Black-Scholes option pricing model, simulation models or a combination of various models.

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

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

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

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

***Fair Value Measurements***

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

## Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

The following table sets forth by level, within the fair value hierarchy, the pension and postretirement assets and liabilities at fair value as of December 31, 2013:

Pension Assets and Liabilities at Fair Value as of December 31, 2013				
	Level 1	Level 2	Level 3	Total
Non-interest bearing cash	\$ 65	\$ -	\$ -	\$ 65
Interest bearing cash	-	324	-	324
Foreign currency contracts	-	3	-	3
Equity securities:				
Domestic equities	9,841	3	-	9,844
International equities	6,431	7	-	6,438
Fixed income securities:				
Asset-backed securities	-	553	3	556
Mortgage-backed securities	-	2,470	-	2,470
Collateralized mortgage-backed securities	-	364	-	364
Collateralized mortgage obligations/REMICS	-	514	-	514
Other Corporate and other bonds and notes	154	5,147	540	5,841
Government and municipal bonds	15	4,566	-	4,581
Private equity funds	-	-	5,724	5,724
Real estate and real assets	-	-	5,194	5,194
Commingled funds	-	6,358	4	6,362
Securities lending collateral	390	3,074	-	3,464
Receivable for variation margin	12	-	-	12
Assets at fair value	16,908	23,383	11,465	51,756
Investments sold short and other liabilities at fair value	(619)	(5)	-	(624)
Total plan net assets at fair value	\$ 16,289	\$ 23,378	\$ 11,465	\$ 51,132
Other assets (liabilities) <sup>1</sup>				(3,894)
<b>Total Plan Net Assets</b>				<b>\$ 47,238</b>

<sup>1</sup> Other assets (liabilities) include amounts receivable, accounts payable and net adjustment for securities lending payable.

## Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

Postretirement Assets and Liabilities at Fair Value as of December 31, 2013				
	Level 1	Level 2	Level 3	Total
Interest bearing cash	\$ 405	\$ 2,073	\$ -	\$ 2,478
Equity securities:				
Domestic equities	1,609	-	-	1,609
International equities	1,527	-	-	1,527
Fixed income securities:				
Asset-backed securities	-	35	2	37
Collateralized mortgage-backed securities	-	110	-	110
Collateralized mortgage obligations	-	53	3	56
Other Corporate and other bonds and notes	-	367	18	385
Government and municipal bonds	-	558	1	559
Commingled funds	-	1,899	2	1,901
Private equity assets	-	-	309	309
Real assets	-	-	111	111
Securities lending collateral	19	372	-	391
Foreign exchange contracts receivable	3	-	-	3
Assets at fair value	3,563	5,467	446	9,476
Foreign exchange contracts payable	3	-	-	3
Liabilities at fair value	3	-	-	3
Total plan net assets at fair value	\$ 3,560	\$ 5,467	\$ 446	\$ 9,473
Other assets (liabilities) <sup>1</sup>				(513)
<b>Total Plan Net Assets</b>				<b>\$ 8,960</b>

<sup>1</sup> Other assets (liabilities) include amounts receivable, accounts payable and net adjustment for securities lending payable.

## Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

The tables below set forth a summary of changes in the fair value of the Level 3 pension and postretirement assets for the year ended December 31, 2013:

<b>Pension Assets</b>	<b>Equities</b>	<b>Fixed Income Funds</b>	<b>Private Equity Funds</b>	<b>Real Estate and Real Assets</b>	<b>Total</b>
Balance at beginning of year	\$ -	\$ 1,042	\$ 5,797	\$ 4,766	\$ 11,605
Realized gains (losses)	(3)	53	390	122	562
Unrealized gains (losses)	3	(8)	546	525	1,066
Transfers in	-	5	-	-	5
Transfers out	-	(442)	-	-	(442)
Purchases	-	75	1,214	354	1,643
Sales	-	(178)	(2,223)	(573)	(2,974)
<b>Balance at end of year</b>	<b>\$ -</b>	<b>\$ 547</b>	<b>\$ 5,724</b>	<b>\$ 5,194</b>	<b>\$ 11,465</b>

<b>Postretirement Assets</b>	<b>Fixed Income Funds</b>	<b>Private Equity Funds</b>	<b>Real Assets</b>	<b>Total</b>
Balance at beginning of year	\$ 21	\$ 343	\$ 110	\$ 474
Realized gains (losses)	-	2	12	14
Unrealized gains (losses)	1	58	4	63
Transfers in	1	-	-	1
Transfers out	(1)	-	-	(1)
Purchases	5	89	27	121
Sales	(1)	(183)	(42)	(226)
<b>Balance at end of year</b>	<b>\$ 26</b>	<b>\$ 309</b>	<b>\$ 111</b>	<b>\$ 446</b>

## Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

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, 2012:

Pension Assets and Liabilities at Fair Value as of December 31, 2012				
	Level 1	Level 2	Level 3	Total
Non-interest bearing cash	\$ 144	\$ -	\$ -	\$ 144
Interest bearing cash	56	235	-	291
Foreign currency contracts	-	1	-	1
Equity securities:				
Domestic equities	8,291	-	-	8,291
International equities	6,361	29	-	6,390
Fixed income securities:				
Asset-backed securities	-	543	14	557
Mortgage-backed securities	-	2,324	-	2,324
Collateralized mortgage-backed securities	-	311	-	311
Collateralized mortgage obligations/REMICS	-	523	1	524
Other Corporate and other bonds and notes	140	4,903	600	5,643
Government and municipal bonds	50	5,301	-	5,351
Private equity funds	-	-	5,797	5,797
Real estate and real assets	-	-	4,766	4,766
Commingled funds	-	4,927	426	5,353
Securities lending collateral	868	1,930	1	2,799
Receivable for variation margin	72	-	-	72
Assets at fair value	15,982	21,027	11,605	48,614
Investments sold short and other liabilities at fair value	(563)	(7)	-	(570)
Total plan net assets at fair value	\$ 15,419	\$ 21,020	\$ 11,605	\$ 48,044
Other assets (liabilities) <sup>1</sup>				(2,984)
Total Plan Net Assets				\$ 45,060

<sup>1</sup> Other assets (liabilities) include amounts receivable, accounts payable and net adjustment for securities lending payable.

## Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

Postretirement Assets and Liabilities at Fair Value as of December 31, 2012				
	Level 1	Level 2	Level 3	Total
Interest bearing cash	\$ 169	\$ 243	\$ -	\$ 412
Equity securities:				
Domestic equities	2,575	-	-	2,575
International equities	2,685	1	-	2,686
Fixed income securities:				
Asset-backed securities	-	29	-	29
Collateralized mortgage-backed securities	-	79	-	79
Collateralized mortgage obligations	-	46	-	46
Other Corporate and other bonds and notes	1	383	17	401
Government and municipal bonds	22	598	-	620
Commingled funds	82	2,038	4	2,124
Private equity assets	-	-	343	343
Real assets	-	-	110	110
Securities lending collateral	544	81	-	625
Assets at fair value	6,078	3,498	474	10,050
Total plan net assets at fair value	\$ 6,078	\$ 3,498	\$ 474	\$ 10,050
Other assets (liabilities) <sup>1</sup>				(755)
Total Plan Net Assets				\$ 9,295

<sup>1</sup> Other assets (liabilities) include amounts receivable, accounts payable and net adjustment for securities lending payable.

The tables below set forth a summary of changes in the fair value of the Level 3 pension and postretirement assets for the year ended December 31, 2012:

Pension Assets	Equities	Fixed Income Funds	Private Equity Funds	Real Estate and Real Assets	Total
Balance at beginning of year	\$ 4	\$ 824	\$ 5,931	\$ 5,213	\$ 11,972
Realized gains (losses)	(1)	16	459	165	639
Unrealized gains (losses)	1	33	32	10	76
Transfers in	-	120	12	24	156
Transfers out	-	(2)	-	-	(2)
Purchases	-	142	610	918	1,670
Sales	(4)	(91)	(1,247)	(1,564)	(2,906)
Balance at end of year	\$ -	\$ 1,042	\$ 5,797	\$ 4,766	\$ 11,605

Postretirement Assets	Fixed Income Funds	Private Equity Funds	Real Assets	Total
Balance at beginning of year	\$ 24	\$ 437	\$ 124	\$ 585
Realized gains (losses)	-	58	16	74
Unrealized gains (losses)	-	(39)	(5)	(44)
Purchases	-	20	33	53
Sales	-	(133)	(58)	(194)
Balance at end of year	\$ 21	\$ 343	\$ 110	\$ 474

## Estimated Future Benefit Payments

Expected benefit payments are estimated using the same assumptions used in determining our benefit obligation at December 31, 2013. Because benefit payments will depend on future employment and compensation levels, average years employed, average life spans, and payment elections, among other factors, changes in any of these factors could significantly affect these expected amounts. Due to our move to a group prescription drug provider plan in 2013 for certain of our Medicare eligible retirees and the move to a private exchange market for all remaining Medicare eligible retirees receiving subsidized drug coverage in 2015, AT&T does not expect to be receiving any direct Medicare Part D subsidies for years 2015 and beyond. The following table provides expected benefit payments under our pension and postretirement plans:

**Notes to Consolidated Financial Statements (continued)**

Dollars in millions except per share amounts

	Pension Benefits	Postretirement Benefits	Medicare Subsidy Receipts
2014	\$ 7,376	\$ 2,265	\$ (19)
2015	4,294	2,271	-
2016	4,197	2,222	-
2017	4,115	2,171	-
2018	4,029	2,129	-
Years 2019 - 2023	19,589	9,921	-

**Supplemental Retirement Plans**

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

We use the same significant assumptions for the 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 are recorded as "Other noncurrent liabilities" on our consolidated balance sheets.

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

	2013	2012
Projected benefit obligation	\$ (2,280)	\$ (2,456)
Accumulated benefit obligation	(2,227)	(2,392)
Fair value of plan assets	-	-

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

<b>Net Periodic Benefit Cost</b>	2013	2012	2011
Service cost – benefits earned during the period	\$ 9	\$ 10	\$ 14
Interest cost on projected benefit obligation	101	116	126
Amortization of prior service cost (credit)	-	-	2
Actuarial (gain) loss	(106)	230	81
Net supplemental retirement pension cost	\$ 4	\$ 356	\$ 223

<b>Other Changes Recognized in Other Comprehensive Income</b>	2013	2012	2011
Prior service (cost) credit	\$ (1)	\$ (1)	\$ 6
Amortization of prior service cost (credit)	-	-	1
Total recognized in other comprehensive (income) loss (net of tax)	\$ (1)	\$ (1)	\$ 7

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

**Notes to Consolidated Financial Statements (continued)**

Dollars in millions except per share amounts

Deferred compensation expense was \$122 in 2013, \$118 in 2012 and \$96 in 2011. Our deferred compensation liability, included in "Other noncurrent liabilities," was \$1,118 at December 31, 2013, and \$1,061 at December 31, 2012.

**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 \$654, \$634 and \$636 for the years ended December 31, 2013, 2012 and 2011.

**NOTE 13. SHARE-BASED PAYMENTS**

Under our various plans, senior and other management employees and nonemployee directors have received nonvested stock and stock units. We grant performance stock units, which are nonvested stock units, based upon our stock price at the date of grant and award them in the form of AT&T common stock and cash at the end of a three-year period, subject to the achievement of certain performance goals. We treat the cash portion of these awards as a liability. We grant forfeitable restricted stock and stock units, which are valued at the market price of our common stock at the date of grant and vest typically over a two- to seven-year period. We also grant other nonvested stock units and award them in cash at the end of a three-year period, subject to the achievement of certain market based conditions. As of December 31, 2013, we were authorized to issue up to 128 million shares of common stock (in addition to shares that may be issued upon exercise of outstanding options or upon vesting of performance stock units or other nonvested stock units) to officers, employees and directors pursuant to these various plans.

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

The compensation cost recognized for those plans was included in operating expenses in our consolidated statements of income, as reflected in the table below. The total income tax benefit recognized in the consolidated statements of income for share-based payment arrangements was \$175 for 2013, compared to \$195 for 2012 and \$187 for 2011.

	2013		2012		2011	
Performance stock units	\$	381	\$	397	\$	388
Restricted stock and stock units		80		102		91
Other nonvested stock units		(3)		12		4
Other		-		-		6
Total	\$	458	\$	511	\$	489

**Notes to Consolidated Financial Statements (continued)**

Dollars in millions except per share amounts

A summary of the status of our nonvested stock units as of December 31, 2013, 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, 2013	26	\$ 28.55
Granted	11	35.36
Vested	(12)	27.99
Forfeited	(1)	31.10
<b>Nonvested at December 31, 2013</b>	<b>24</b>	<b>\$ 31.93</b>

As of December 31, 2013, there was \$348 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 1.95 years. The total fair value of shares vested during the year was \$336 for 2013, compared to \$333 for 2012 and \$360 for 2011.

It is our policy to satisfy share option exercises using our treasury stock. Cash received from stock option exercises was \$135 for 2013, \$517 for 2012 and \$250 for 2011.

**NOTE 14. STOCKHOLDERS' EQUITY**

**Stock Repurchase Program** From time to time, we repurchase shares of common stock for distribution through our employee benefit plans or in connection with certain acquisitions. In December 2010, our Board of Directors authorized the repurchase of 300 million shares of our common stock. We began buying back stock under this program in 2012 and completed the purchase of authorized shares that year. In July 2012, our Board of Directors approved a second authorization to repurchase 300 million shares and we completed that program in May 2013. In March 2013, our Board of Directors approved a third authorization to repurchase 300 million shares, under which we are currently purchasing shares. For the year ended December 31, 2013, we had repurchased approximately 366 million shares totaling \$13,028 under these authorizations. For the year ended December 31, 2012, we had repurchased approximately 371 million shares totaling \$12,752 under these authorizations. We expect to make future repurchases opportunistically.

To implement these authorizations, we use open market repurchase programs, relying on Rule 10b5-1 of the Securities Exchange Act of 1934 where feasible. We also use accelerated share repurchase programs with large financial institutions to repurchase our stock.

**Authorized Shares** There are 14 billion authorized common shares of AT&T stock and 10 million authorized preferred shares of AT&T stock. As of December 31, 2013 and 2012, no preferred shares were outstanding.

**Dividend Declarations** In December 2013, the Company declared an increase in its quarterly dividend to \$0.46 per share of common stock. In November 2012, the Company declared a quarterly dividend of \$0.45 per share of common stock, which reflected an increase from the \$0.44 quarterly dividend declared in December 2011.

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

**Notes to Consolidated Financial Statements (continued)**

Dollars in millions except per share amounts

**NOTE 15. ADDITIONAL FINANCIAL INFORMATION**

<b>Consolidated Balance Sheets</b>	December 31,		
	2013	2012	
Accounts payable and accrued liabilities:			
Accounts payable	\$ 11,561	\$	12,076
Accrued payroll and commissions	1,985		2,332
Current portion of employee benefit obligation	1,949		2,116
Accrued interest	1,559		1,588
Other	4,053		2,382
<b>Total accounts payable and accrued liabilities</b>	<b>\$ 21,107</b>	<b>\$</b>	<b>20,494</b>
<b>Consolidated Statements of Income</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Advertising expense	\$ 3,268	\$ 2,910	\$ 3,135
Interest expense incurred	4,224	3,707	3,697
Capitalized interest	(284)	(263)	(162)
<b>Total interest expense</b>	<b>\$ 3,940</b>	<b>\$ 3,444</b>	<b>\$ 3,535</b>
<b>Consolidated Statements of Cash Flows</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Cash paid during the year for:			
Interest	\$ 4,302	\$ 3,714	\$ 3,691
Income taxes, net of refunds	1,985	458	32

No customer accounted for more than 10% of consolidated revenues in 2013, 2012 or 2011.

A majority of our employees are represented by labor unions as of year-end 2013.

**NOTE 16. TOWER TRANSACTION**

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

**Notes to Consolidated Financial Statements (continued)**

Dollars in millions except per share amounts

We determined our continuing involvement with the tower assets prevented us from achieving sale-leaseback accounting for the transaction, and we accounted for the cash proceeds from Crown Castle as a financing obligation on our consolidated balance sheet. We record interest on the financing obligation using the effective interest method at a rate of approximately 3.90%. The financing obligation is increased by interest expense and estimated future net cash flows generated and retained by Crown Castle from operation of the tower sites, and reduced by our contractual payments. We continue to include the tower assets in Property, plant and equipment in our consolidated balance sheets and depreciate them accordingly. At December 31, 2013, the tower assets had a balance of \$1,039. The impact of the transaction on our operating results for the year ended December 31, 2013, was not material.

The future minimum payments under the sublease arrangement are \$221 for 2014, \$225 for 2015, \$229 for 2016, \$234 for 2017, \$239 for 2018, and \$2,797 thereafter.

**NOTE 17. CONTINGENT LIABILITIES**

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

We have contractual obligations to purchase certain goods or services from various other parties. Our purchase obligations are expected to be approximately \$5,749 in 2014, \$5,182 in total for 2015 and 2016, \$2,570 in total for 2017 and 2018 and \$819 in total for years thereafter.

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

## Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

## NOTE 18. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following tables represent our quarterly financial results:

	2013 Calendar Quarter				
	First	Second	Third	Fourth <sup>2</sup>	Annual
Total Operating Revenues	\$ 31,356	\$ 32,075	\$ 32,158	\$ 33,163	\$ 128,752
Operating Income	5,940	6,113	6,188	12,238	30,479
Net Income	3,773	3,880	3,905	6,995	18,553
Net Income Attributable to AT&T	3,700	3,822	3,814	6,913	18,249
Basic Earnings Per Share Attributable to AT&T <sup>1</sup>	\$ 0.67	\$ 0.71	\$ 0.72	\$ 1.31	\$ 3.39
Diluted Earnings Per Share Attributable to AT&T <sup>1</sup>	\$ 0.67	\$ 0.71	\$ 0.72	\$ 1.31	\$ 3.39
Stock Price					
High	\$ 36.87	\$ 39.00	\$ 36.31	\$ 36.80	
Low	32.76	34.10	33.19	33.09	
Close	36.69	35.40	33.82	35.16	

<sup>1</sup> 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.

<sup>2</sup> Includes an actuarial gain on pension and postretirement benefit plans (Note 12), special termination charges (Note 12) and charges for employee separations (Note 1).

	2012 Calendar Quarter				
	First	Second	Third	Fourth <sup>2</sup>	Annual
Total Operating Revenues	\$ 31,822	\$ 31,575	\$ 31,459	\$ 32,578	\$ 127,434
Operating Income (Loss)	6,101	6,817	6,037	(5,958)	12,997
Net Income (Loss)	3,652	3,965	3,701	(3,779)	7,539
Net Income (Loss) Attributable to AT&T	3,584	3,902	3,635	(3,857)	7,264
Basic Earnings (Loss) Per Share Attributable to AT&T <sup>1</sup>	\$ 0.60	\$ 0.67	\$ 0.63	\$ (0.68)	\$ 1.25
Diluted Earnings (Loss) Per Share Attributable to AT&T <sup>1</sup>	\$ 0.60	\$ 0.66	\$ 0.63	\$ (0.68)	\$ 1.25
Stock Price					
High	\$ 31.97	\$ 36.00	\$ 38.58	\$ 38.43	
Low	29.02	29.95	34.24	32.71	
Close	31.23	35.66	37.70	33.71	

<sup>1</sup> 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.

<sup>2</sup> Includes an actuarial loss on pension and postretirement benefit plans (Note 12).

### Report of Management

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, 2013. 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* (1992 framework). Based on its assessment, AT&T management believes that, as of December 31, 2013, 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.

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

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

**Report of Independent Registered Public Accounting Firm**

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

We have audited the accompanying consolidated balance sheets of AT&T Inc. (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. 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, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

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, 2013, based on criteria established in Internal Control-Integrated Framework (1992 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 21, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
Dallas, Texas  
February 21, 2014

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

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

We have audited AT&T Inc.'s (the Company) internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework (1992 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, 2013, 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, 2013 and 2012, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013 and our report dated February 21, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Dallas, Texas

February 21, 2014



Exhibit 21

**PRINCIPAL SUBSIDIARIES OF**  
**AT&T INC., AS OF DECEMBER 31, 2013**  
**2013 AT&T INC. REPORT TO STOCKHOLDERS**  
**SECURITIES AND EXCHANGE COMMISSION ("SEC")**  
**FORM 10-K filed February 21, 2014**

<u>Legal Name</u>	<u>State of Incorporation/Formation</u>	<u>Conducts Business Under</u>
Illinois Bell Telephone Company	Illinois	AT&T Illinois; AT&T Wholesale
Indiana Bell Telephone Company, Incorporated	Indiana	AT&T Indiana; AT&T Wholesale
Michigan Bell Telephone Company	Michigan	AT&T Michigan; AT&T Wholesale
Nevada Bell Telephone Company	Nevada	AT&T Nevada; AT&T Wholesale
Pacific Bell Telephone Company	California	AT&T California; AT&T Wholesale; AT&T DataComm
AT&T International, Inc.	Delaware	AT&T International
SBC Internet Services, LLC	California	AT&T Internet Services
SBC Long Distance, LLC	Delaware	AT&T Long Distance
AT&T Teleholdings, Inc.	Delaware	AT&T Midwest; AT&T West; AT&T East
Southwestern Bell Telephone Company	Delaware	AT&T Arkansas; AT&T Kansas; AT&T Missouri; AT&T Oklahoma; AT&T Texas; AT&T Southwest; AT&T DataComm; AT&T Wholesale
The Ohio Bell Telephone Company	Ohio	AT&T Ohio; AT&T Wholesale
The Southern New England Telephone Company	Connecticut	AT&T Connecticut
Wisconsin Bell, Inc.	Wisconsin	AT&T Wisconsin; AT&T Wholesale
AT&T Corp.	New York	AT&T Corp.; ACC Business; AT&T Wholesale; Lucky Dog Phone Co.; AT&T Business Solutions; AT&T Advanced Solutions; SNET Diversified Group
AT&T Communications of New York, Inc.	New York	same
Teleport Communications New York	New York	same
BellSouth Corporation	Georgia	AT&T South
BellSouth Telecommunications, LLC	Georgia	AT&T Alabama AT&T Florida

		AT&T Georgia
		AT&T Kentucky
		AT&T Louisiana
		AT&T Mississippi
		AT&T North Carolina
		AT&T South Carolina
		AT&T Tennessee
		AT&T Southeast
AT&T Mobility LLC	Delaware	AT&T Mobility
AT&T Mobility II LLC	Delaware	AT&T Mobility
New Cingular Wireless Services, Inc.	Delaware	AT&T Mobility

## Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in this Annual Report (Form 10-K) of AT&T Inc. (AT&T) of our reports dated February 21, 2014, with respect to the consolidated financial statements of AT&T and the effectiveness of internal control over financial reporting of AT&T, included in the 2013 Annual Report to Stockholders of AT&T.

Our audits also included the financial statement schedule of AT&T listed in Item 15(a). This schedule is the responsibility of AT&T's management. Our responsibility is to express an opinion based on our audits. In our opinion, as to which the date is February 21, 2014, the 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 set forth therein.

We consent to the incorporation by reference of our reports dated February 21, 2014, with respect to the consolidated financial statements and schedule of AT&T and the effectiveness of internal control over financial reporting of AT&T included in this Annual Report (Form 10-K) of AT&T for the year ended December 31, 2013, in the following Registration Statements:

- (1) Registration Statement (Form S-8 No. 333-34062) pertaining to the Stock Savings Plan,
- (2) Registration Statement (Form S-8 No. 333-120894) pertaining to the AT&T Stock Purchase and Deferral Plan and Cash Deferral Plan,
- (3) Registration Statement (Form S-8 No. 333-129814) pertaining to the AT&T Savings Plan and certain other plans,
- (4) Registration Statement (Form S-3 No. 333-187350) of AT&T and the related Prospectuses,
- (5) Registration Statement (Form S-8 No. 333-135517) pertaining to the 2006 Incentive Plan,
- (6) Registration Statement (Form S-8 No. 333-139749) pertaining to the BellSouth Retirement Savings Plan and certain other BellSouth plans,
- (7) Registration Statement (Form S-8 No. 333-173078) pertaining to the AT&T Savings Plan, AT&T Savings and Security Plan, AT&T Long Term Savings and Security Plan, AT&T Retirement Savings Plan, AT&T Puerto Rico Savings Plan, AT&T Puerto Rico Retirement Savings Plan, AT&T of Puerto Rico, Inc. Long Term Savings and Security Plan, and the BellSouth Savings and Security Plan,
- (8) Registration Statement (Form S-8 No. 333-152822) pertaining to the AT&T Non-Employee Director Stock Purchase Plan,
- (9) Registration Statement (Form S-8 No. 333-173079) pertaining to the AT&T 2011 Incentive Plan
- (10) Registration Statement (Form S-8 No. 333-188384) pertaining to the AT&T Stock Purchase and Deferral Plan and Cash Deferral Plan, and
- (11) Registration Statement (Form S-8 No. 333-189789) pertaining to the AT&T Savings and Security Plan, the AT&T Puerto Rico Retirement Savings Plan, the AT&T Retirement Savings Plan, and the BellSouth Savings and Security Plan.

/s/ Ernst & Young LLP

Dallas, Texas  
February 21, 2014

Exhibit 24

**POWER OF ATTORNEY**

KNOW ALL MEN BY THESE PRESENTS:

THAT, AT&T INC., a Delaware corporation, hereinafter referred to as the "Corporation," proposes to file with the Securities and Exchange Commission at Washington, D.C., under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K; and

NOW, THEREFORE, each of the undersigned hereby constitutes and appoints Jonathan P. Klug, John J. Stephens, Paul W. Stephens, Wayne Watts, or any one of them, all of the City of Dallas and State of Texas, the attorneys for the undersigned and in the undersigned's name, place and stead, and in the undersigned's office and capacity in the Corporation, to execute and file such annual report, and thereafter to execute and file any amendment or amendments thereto, hereby giving and granting to said attorneys full power and authority to do and perform each and every act and thing whatsoever requisite and necessary to be done in and concerning the premises, as fully to all intents and purposes as the undersigned might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, each of the undersigned has hereunto set his or her hand the date set forth opposite their name.

January 31, 2014

Date

/s/ Randall L. Stephenson

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

Exhibit 24

**POWER OF ATTORNEY**

KNOW ALL MEN BY THESE PRESENTS:

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NOW, THEREFORE, each of the undersigned hereby constitutes and appoints Randall L. Stephenson, Jonathan P. Klug, John J. Stephens, Paul W. Stephens, Wayne Watts, or any one of them, all of the City of Dallas and State of Texas, the attorneys for the undersigned and in the undersigned's name, place and stead, and in the undersigned's office and capacity in the Corporation, to execute and file such annual report, and thereafter to execute and file any amendment or amendments thereto, hereby giving and granting to said attorneys full power and authority to do and perform each and every act and thing whatsoever requisite and necessary to be done in and concerning the premises, as fully to all intents and purposes as the undersigned might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, each of the undersigned has hereunto set his or her hand the date set forth opposite their name.

January 31, 2014

Date

/s/ Reuben V. Anderson

Reuben V. Anderson

Director

Exhibit 24

**POWER OF ATTORNEY**

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IN WITNESS WHEREOF, each of the undersigned has hereunto set his or her hand the date set forth opposite their name.

January 31, 2014

Date

/s/ James H. Blanchard

James H. Blanchard

Director

Exhibit 24

**POWER OF ATTORNEY**

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IN WITNESS WHEREOF, each of the undersigned has hereunto set his or her hand the date set forth opposite their name.

January 31, 2014

Date

/s/ Jaime Chico Pardo

Jaime Chico Pardo

Director

Exhibit 24

**POWER OF ATTORNEY**

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IN WITNESS WHEREOF, each of the undersigned has hereunto set his or her hand the date set forth opposite their name.

January 31, 2014

Date

/s/ Scott T. Ford

Scott T. Ford

Director

Exhibit 24

**POWER OF ATTORNEY**

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IN WITNESS WHEREOF, each of the undersigned has hereunto set his or her hand the date set forth opposite their name.

February 1, 2014

Date

/s/ James P. Kelly

James P. Kelly

Director

Exhibit 24

**POWER OF ATTORNEY**

KNOW ALL MEN BY THESE PRESENTS:

THAT, AT&T INC., a Delaware corporation, hereinafter referred to as the "Corporation," proposes to file with the Securities and Exchange Commission at Washington, D.C., under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K; and

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IN WITNESS WHEREOF, each of the undersigned has hereunto set his or her hand the date set forth opposite their name.

January 31, 2014

Date

/s/ Jon C. Madonna

Jon C. Madonna

Director

Exhibit 24

**POWER OF ATTORNEY**

KNOW ALL MEN BY THESE PRESENTS:

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IN WITNESS WHEREOF, each of the undersigned has hereunto set his or her hand the date set forth opposite their name.

January 31, 2014

Date

/s/ Michael B. McCallister

Michael B. McCallister

Director

Exhibit 24

**POWER OF ATTORNEY**

KNOW ALL MEN BY THESE PRESENTS:

THAT, AT&T INC., a Delaware corporation, hereinafter referred to as the "Corporation," proposes to file with the Securities and Exchange Commission at Washington, D.C., under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K; and

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IN WITNESS WHEREOF, each of the undersigned has hereunto set his or her hand the date set forth opposite their name.

January 31, 2014

Date

/s/ John B. McCoy

John B. McCoy

Director

Exhibit 24

**POWER OF ATTORNEY**

KNOW ALL MEN BY THESE PRESENTS:

THAT, AT&T INC., a Delaware corporation, hereinafter referred to as the "Corporation," proposes to file with the Securities and Exchange Commission at Washington, D.C., under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K; and

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IN WITNESS WHEREOF, each of the undersigned has hereunto set his or her hand the date set forth opposite their name.

February 5, 2014

Date

/s/ Beth E. Mooney

Beth E. Mooney

Director

Exhibit 24

**POWER OF ATTORNEY**

KNOW ALL MEN BY THESE PRESENTS:

THAT, AT&T INC., a Delaware corporation, hereinafter referred to as the "Corporation," proposes to file with the Securities and Exchange Commission at Washington, D.C., under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K; and

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IN WITNESS WHEREOF, each of the undersigned has hereunto set his or her hand the date set forth opposite their name.

January 31, 2014

Date

/s/ Joyce M. Roché

Joyce M. Roché

Director

Exhibit 24

**POWER OF ATTORNEY**

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IN WITNESS WHEREOF, each of the undersigned has hereunto set his or her hand the date set forth opposite their name.

January 31, 2014

Date

/s/ Matthew K. Rose

Matthew K. Rose

Director

Exhibit 24

**POWER OF ATTORNEY**

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IN WITNESS WHEREOF, each of the undersigned has hereunto set his or her hand the date set forth opposite their name.

January 31, 2014

Date

/s/ Cynthia B. Taylor

Cynthia B. Taylor

Director

Exhibit 24

**POWER OF ATTORNEY**

KNOW ALL MEN BY THESE PRESENTS:

THAT, AT&T INC., a Delaware corporation, hereinafter referred to as the "Corporation," proposes to file with the Securities and Exchange Commission at Washington, D.C., under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K; and

NOW, THEREFORE, each of the undersigned hereby constitutes and appoints Randall L. Stephenson, Jonathan P. Klug, John J. Stephens, Paul W. Stephens, Wayne Watts, or any one of them, all of the City of Dallas and State of Texas, the attorneys for the undersigned and in the undersigned's name, place and stead, and in the undersigned's office and capacity in the Corporation, to execute and file such annual report, and thereafter to execute and file any amendment or amendments thereto, hereby giving and granting to said attorneys full power and authority to do and perform each and every act and thing whatsoever requisite and necessary to be done in and concerning the premises, as fully to all intents and purposes as the undersigned might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, each of the undersigned has hereunto set his or her hand the date set forth opposite their name.

January 31, 2014

Date

/s/ Laura D'Andrea Tyson

Laura D'Andrea Tyson

Director



Exhibit 31.1

CERTIFICATION

I, Randall Stephenson, certify that:

1. I have reviewed this report on Form 10-K of AT&T Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 21, 2014

/s/ Randall Stephenson

Randall Stephenson

Chairman of the Board,

Chief Executive Officer and President

Exhibit 31.2

CERTIFICATION

I, John J. Stephens, certify that:

1. I have reviewed this report on Form 10-K of AT&T Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 21, 2014

/s/ John J. Stephens

John J. Stephens

Senior Executive Vice President  
and Chief Financial Officer

Exhibit 32

Certification of Periodic Financial Reports

Pursuant to 18 U.S.C. Section 1350, each of the undersigned officers of AT&T Inc. (the "Company") hereby certifies that the Company's Annual Report on Form 10-K for the year ended December 31, 2013 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 21, 2014

February 21, 2014

By: /s/ Randall Stephenson  
Randall Stephenson  
Chairman of the Board, Chief Executive  
Officer  
and President

By: /s/ John J. Stephens  
John J. Stephens  
Senior Executive Vice President  
and Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document. This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 ("Exchange Act") or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act except to the extent this Exhibit 32 is expressly and specifically incorporated by reference in any such filing.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to AT&T Inc. and will be retained by AT&T Inc. and furnished to the Securities and Exchange Commission or its staff upon request.



**Exhibit 66.c.12 - 66.c.25: Redacted.**



NEWS

For Immediate Release:

## TIME WARNER CABLE REPORTS 2014 FIRST-QUARTER RESULTS

*Best Residential Subscriber Performance in Five Years  
Highlighted by Net Addition of 148,000 Customer Relationships*

*Diluted EPS Increased 27% to \$1.70 per Share*

*"TWC Maxx" Rollout Has Begun in Parts of NYC and LA*

\*\*\*

**NEW YORK, April 24, 2014** – Time Warner Cable Inc. (NYSE: TWC) today reported financial results for its first quarter ended March 31, 2014.

Time Warner Cable Chief Executive Officer Rob Marcus said: "I'm very pleased with our performance this quarter. Our residential subscriber growth was the best in five years and our business services revenue growth was close to 25 percent. These results underscore our commitment to deliver on our financial and operating plan as we prepare for our merger with Comcast."

### SELECTED CONSOLIDATED FINANCIAL RESULTS

(in millions, except per share data; unaudited)

	1st Quarter			
	2014	2013	Change	
			\$	%
Revenue	\$ 5,582	\$ 5,475	\$ 107	2.0%
Adjusted OIBDA <sup>(a)</sup>	\$ 1,980	\$ 1,912	\$ 68	3.6%
Operating Income <sup>(b)</sup>	\$ 1,092	\$ 1,060	\$ 32	3.0%
Diluted EPS <sup>(c)</sup>	\$ 1.70	\$ 1.34	\$ 0.36	26.9%
Adjusted Diluted EPS <sup>(a)</sup>	\$ 1.78	\$ 1.41	\$ 0.37	26.2%
Cash provided by operating activities <sup>(b)</sup>	\$ 1,397	\$ 1,394	\$ 3	0.2%
Capital expenditures	\$ 834	\$ 770	\$ 64	8.3%
Free Cash Flow <sup>(a)(b)</sup>	\$ 629	\$ 661	\$ (32)	(4.8%)

<sup>(a)</sup> Refer to Note 4 to the accompanying consolidated financial statements for definitions of Adjusted OIBDA, Adjusted Diluted EPS and Free Cash Flow and below for reconciliations.

<sup>(b)</sup> Operating Income is reduced by merger-related and restructuring costs of \$80 million and \$31 million for the first quarters of 2014 and 2013, respectively. Cash provided by operating activities and Free Cash Flow are reduced by merger-related and restructuring payments of \$58 million and \$29 million for the first quarters of 2014 and 2013, respectively.

<sup>(c)</sup> Diluted EPS represents net income per diluted common share attributable to TWC common shareholders.

## HIGHLIGHTS

### *Financial Highlights*

- First-quarter 2014 revenue grew 2.0% year over year, driven primarily by growth of 24.4% in business services revenue and 10.8% growth in residential high-speed data revenue.
- Adjusted OIBDA increased 3.6% to nearly \$2.0 billion. Operating Income increased 3.0% to nearly \$1.1 billion.
- Adjusted Diluted EPS increased 26.2% to \$1.78. Diluted EPS increased 26.9% to \$1.70.
- First-quarter 2014 average monthly revenue per residential customer relationship (ARPU) grew 0.6% to \$105.45. Residential high-speed data ARPU increased 8.7% to \$46.32.

### *Operational Highlights*

- Overall first-quarter residential subscriber performance was the best in five years.
  - Residential customer relationship net additions of 148,000 – most in over seven years
  - Residential triple play net additions of 82,000 – most since first quarter 2012
  - Residential high-speed data net additions of 269,000 – most since first quarter 2008
  - Residential voice net additions of 107,000 – most since first quarter 2012
  - Residential video net loss of 34,000 – least in five years
- “TWC Maxx” rollout, including high-speed data speed increases to as much as 300 Mbps, has now begun in parts of New York City and Los Angeles.
- TWC’s cloud-based guide with an advanced VOD portal was installed on 4.3 million set-top boxes at the end of the first quarter.
- IntelligentHome net additions of 13,000 marked the best quarter ever; 57,000 customers at the end of the first quarter.

## CHANGES IN BASIS OF PRESENTATION

Effective in the first quarter of 2014, the Company determined it has three reportable segments: Residential Services, Business Services and Other Operations. Additionally, during the first quarter of 2014, the Company revised its categorization of operating costs and expenses to be consistent with how such costs and expenses are presented to management and to provide a more meaningful presentation. The Company has recast its financial information and disclosures for prior periods to include (i) disclosure of segment results, which are discussed further below in “Detailed Segment Results” and Note 3 to the accompanying consolidated financial statements, and (ii) the revised categorization of operating costs and expenses, which had no impact on total operating costs and expenses, Operating Income or net income attributable to TWC shareholders for any period presented.

## CONSOLIDATED REVENUE AND PROFITABILITY RESULTS

**Revenue** for the first quarter of 2014 increased 2.0% year over year primarily as a result of revenue growth at the Business Services and Other Operations segments, partially offset by a decrease at the Residential Services segment.

**Adjusted Operating Income before Depreciation and Amortization (“Adjusted OIBDA”)** for the first quarter of 2014 increased 3.6% driven by revenue growth, partially offset by a 1.1% year-over-year increase in operating expenses.

	1st Quarter			
	2014	2013	Change	
			\$	%
<i>(in millions; unaudited)</i>				
Operating costs and expenses:				
Programming and content	\$ 1,309	\$ 1,275	\$ 34	2.7%
Sales and marketing	555	473	82	17.3%
Technical operations	371	372	(1)	(0.3%)
Customer care	205	197	8	4.1%
Other operating	1,162	1,246	(84)	(6.7%)
Total operating costs and expenses	\$ 3,602	\$ 3,563	\$ 39	1.1%

The increase in operating expenses was primarily due to increased sales and marketing costs at the Residential Services and Business Services segments; higher programming costs at the Residential Services segment; and growth in costs associated with advertising inventory sold on behalf of other video distributors at the Other Operations segment; partially offset by a decline in voice costs at the Residential Services and Business Services segments and lower costs associated with the Company’s shared functions. The growth in total operating expenses also benefited from a \$34 million decrease in pension expense.

Average monthly programming costs per total video subscriber grew 10.1% year over year to \$36.51 for the first quarter of 2014.

**Operating Income** for the first quarter of 2014 increased 3.0% primarily due to higher Adjusted OIBDA and lower depreciation expense, partially offset by higher merger-related and restructuring costs. Merger-related and restructuring costs for the first quarter of 2014 included Comcast merger-related costs of \$62 million (employee retention costs of \$29 million and advisory and legal fees of \$33 million), DukeNet Communications merger-related costs of \$1 million and \$17 million of restructuring costs primarily associated with employee terminations and other exit costs.

## DETAILED SEGMENT RESULTS

### Residential Services

Residential Services revenue declined as a result of decreases in video and voice revenue, partially offset by an increase in high-speed data revenue.

- Residential video revenue decreased primarily due to a year-over-year decline in video subscribers.
- The growth in residential high-speed data revenue was the result of an increase in average revenue per subscriber, primarily due to increases in prices and equipment rental charges and a greater percentage of subscribers purchasing higher-priced tiers of service, as well as growth in high-speed data subscribers.
- Residential voice revenue decreased due to lower average revenue per subscriber and fewer voice subscribers compared to the prior year.

### Selected Residential Services Financial Results

	1st Quarter			
	2014	2013	Change	
			\$	%
<i>(in millions; unaudited)</i>				
Revenue:				
Video	\$ 2,495	\$ 2,671	\$ (176)	(6.6%)
High-speed data	1,558	1,406	152	10.8%
Voice	496	519	(23)	(4.4%)
Other	19	15	4	26.7%
Total revenue	\$ 4,568	\$ 4,611	\$ (43)	(0.9%)
Adjusted OIBDA <sup>(a)</sup>	\$ 2,132	\$ 2,171	\$ (39)	(1.8%)

<sup>(a)</sup> Refer to Note 4 to the accompanying consolidated financial statements for a definition of Adjusted OIBDA.

The decrease in Adjusted OIBDA was driven by the decrease in revenue discussed above, partially offset by a 0.2% decrease in operating costs and expenses as a result of lower other operating costs, partially offset by increases in sales and marketing costs and programming costs.

- Sales and marketing costs increased 19.9% to \$385 million primarily due to increased marketing activities as well as headcount growth and higher compensation costs per employee, particularly in retention.
- Programming costs (which include intercompany expense from the Other Operations segment for programming costs associated with the Company's Los Angeles Lakers' regional sports networks, local sports, news and lifestyle channels and, beginning in 2014, SportsNet LA, a third-party regional sports network carrying the Los Angeles Dodgers' baseball games and other sports programming) grew 2.9% to \$1.3 billion primarily due to an increase in average monthly programming costs per video subscriber, partially offset by a decline in video subscribers. Average monthly programming costs per residential video subscriber grew 10.2% year over year to \$37.69 for the first quarter of 2014, primarily driven by contractual rate increases.
- Other operating costs decreased 34.8% to \$167 million primarily due to declines in voice costs and bad debt expense. Voice costs were down \$61 million due to the in-sourcing of voice transport, switching and interconnection services, as well as a year-over-year decline in voice subscribers.

### Residential Services Subscriber Metrics

	12/31/2013	Net	3/31/2014
		Additions (Declines)	
<i>(in thousands)</i>			
Video	11,197	(34)	11,163
High-speed data	11,089	269	11,358
Voice	4,806	107	4,913
Single play	5,660	35	5,695
Double play	4,741	31	4,772
Triple play	3,983	82	4,065
Customer relationships	14,384	148	14,532

For definitions related to the Company's subscriber metrics, refer to the Trending Schedules posted on the Company's website at [www.twc.com/investors](http://www.twc.com/investors).

## Business Services

Business Services revenue growth was primarily due to increases in high-speed data and voice subscribers, organic growth in cell tower backhaul revenue and \$29 million of revenue from DukeNet, which was acquired on December 31, 2013.

### **Selected Business Services Financial Results**

	1st Quarter			
	2014	2013	Change	
			\$	%
<i>(in millions; unaudited)</i>				
Revenue:				
Video	\$ 89	\$ 84	\$ 5	6.0%
High-speed data	306	256	50	19.5%
Voice	118	96	22	22.9%
Wholesale transport	101	55	46	83.6%
Other	54	46	8	17.4%
Total revenue	\$ 668	\$ 537	\$ 131	24.4%
Adjusted OIBDA <sup>(a)</sup>	\$ 402	\$ 312	\$ 90	28.8%

<sup>(a)</sup> Refer to Note 4 to the accompanying consolidated financial statements for a definition of Adjusted OIBDA.

The increase in Adjusted OIBDA was driven by growth in revenue, partially offset by a 18.2% increase in operating costs and expenses, primarily as a result of an increase in sales and marketing costs due to increased headcount and higher compensation costs per employee, including increased commissions. This increase was partially offset by lower voice costs due to the in-sourcing of voice transport, switching and interconnection services.

### **Business Services Subscriber Metrics**

	Net		
	12/31/2013	Additions	3/31/2014
<i>(in thousands)</i>			
Video	196	—	196
High-speed data	517	14	531
Voice	275	14	289
Single play	327	1	328
Double play	230	9	239
Triple play	67	3	70
Customer relationships	624	13	637

For definitions related to the Company's subscriber metrics, refer to the Trending Schedules posted on the Company's website at [www.twc.com/investors](http://www.twc.com/investors).

## Other Operations

Advertising revenue increased primarily due to growth in political advertising revenue as well as non-political advertising revenue from advertising inventory sold on behalf of other video distributors. Other revenue increased primarily due to affiliate fees from the Residential Services segment as well as other distributors of the Los Angeles regional sports networks.

### Selected Other Operations Financial Results

	1st Quarter			
	2014	2013	Change	
			\$	%
<i>(in millions; unaudited)</i>				
Revenue:				
Advertising	\$ 247	\$ 228	\$ 19	8.3%
Other	153	149	4	2.7%
Total revenue	\$ 400	\$ 377	\$ 23	6.1%
Adjusted OIBDA <sup>(a)</sup>	\$ 173	\$ 165	\$ 8	4.8%

<sup>(a)</sup> Refer to Note 4 to the accompanying consolidated financial statements for a definition of Adjusted OIBDA.

The increase in Adjusted OIBDA was driven by growth in revenue, partially offset by a 7.1% increase in operating costs and expenses, primarily related to growth in costs associated with advertising inventory sold on behalf of other video distributors.

### Shared Functions

Operating costs associated with broad “corporate” functions (e.g., accounting and finance, information technology, executive management, legal and human resources) or functions supporting more than one reportable segment that are centrally managed (e.g., facilities, network operations, vehicles and procurement) as well as other activities not directly attributable to a reportable segment decreased 1.2% year over year to \$727 million for the first quarter of 2014. This decrease was driven by operating efficiencies, including decreased headcount, particularly in information technology.

### CONSOLIDATED NET INCOME

**Net Income Attributable to TWC Shareholders** was \$479 million, or \$1.71 per basic common share and \$1.70 per diluted common share, for the first quarter of 2014 compared to \$401 million, or \$1.35 per basic common share and \$1.34 per diluted common share, for the first quarter of 2013.

**Adjusted Net Income Attributable to TWC Shareholders and Adjusted Diluted EPS**, which exclude certain items affecting the comparability of TWC’s results for 2014 and 2013 detailed in Note 2 to the accompanying consolidated financial statements, were \$503 million and \$1.78, respectively, for the first quarter of 2014 compared to \$423 million and \$1.41, respectively, for the first quarter of 2013. Adjusted Diluted EPS for the first quarter of 2014 benefited from lower average common shares outstanding as a result of share repurchases under the Company’s stock repurchase program.

(in millions, except per share data; unaudited)

	1st Quarter			
	2014	2013	Change	
			\$	%
Net income attributable to TWC shareholders	\$ 479	\$ 401	\$ 78	19.5%
Adjusted net income attributable to TWC shareholders <sup>(a)</sup>	\$ 503	\$ 423	\$ 80	18.9%
Net income per common share attributable to TWC common shareholders:				
Basic	\$ 1.71	\$ 1.35	\$ 0.36	26.7%
Diluted	\$ 1.70	\$ 1.34	\$ 0.36	26.9%
Adjusted Diluted EPS <sup>(a)</sup>	\$ 1.78	\$ 1.41	\$ 0.37	26.2%

<sup>(a)</sup> Refer to Note 4 to the accompanying consolidated financial statements for a definition of Adjusted net income attributable to TWC shareholders and Adjusted Diluted EPS.

## SELECTED BALANCE SHEET AND CASH FLOW INFORMATION

**Free Cash Flow** for the first three months of 2014 decreased 4.8% to \$629 million from \$661 million in the first three months of 2013, due mainly to an increase in capital expenditures. **Capital Expenditures**, which totaled \$834 million for the first three months of 2014, increased primarily due to the Company's investments to improve network reliability, upgrade older customer premise equipment and expand its network to additional residences, commercial buildings and cell towers. **Cash Provided by Operating Activities** for the first three months of 2014 was \$1.4 billion, a 0.2% increase from the first three months of 2013. This slight increase was primarily driven by higher Adjusted OIBDA and lower net interest payments, partially offset by an increase in working capital requirements.

(in millions; unaudited)

	1st Quarter			
	2014	2013	Change	
			\$	%
Adjusted OIBDA <sup>(a)</sup>	\$ 1,980	\$ 1,912	\$ 68	3.6%
Net interest payments	(415)	(457)	42	(9.2%)
Net income tax payments	2	(17)	19	(111.8%)
All other, net, including working capital changes <sup>(b)</sup>	(170)	(44)	(126)	286.4%
Cash provided by operating activities <sup>(b)</sup>	1,397	1,394	3	0.2%
Add: Excess tax benefit from exercise of stock options	78	49	29	59.2%
Less:				
Capital expenditures	(834)	(770)	(64)	8.3%
Cash paid for other intangible assets	(12)	(12)	—	—
Free Cash Flow <sup>(a)(b)</sup>	629	661	(32)	(4.8%)
Economic Stimulus Act impacts <sup>(c)</sup>	—	—	—	NM
Free Cash Flow excluding Economic Stimulus Act impacts	\$ 629	\$ 661	\$ (32)	(4.8%)

NM—Not meaningful.

<sup>(a)</sup> Refer to Note 4 to the accompanying consolidated financial statements for a definition of Adjusted OIBDA and Free Cash Flow.

<sup>(b)</sup> All other, net, including working capital changes includes merger-related and restructuring payments of \$58 million and \$29 million for the first quarters of 2014 and 2013, respectively, which reduced cash provided by operating activities and Free Cash Flow for the respective periods.

<sup>(c)</sup> As the Company made no federal income tax payments during the first quarter of 2014 and 2013, the Economic Stimulus Acts had no impact on Free Cash Flow for each period. Additional information on the Economic Stimulus Acts is available in the Trending Schedules posted on the Company's website at [www.twc.com/investors](http://www.twc.com/investors).

**Net Debt**, which totaled \$24.3 billion as of March 31, 2014, decreased from December 31, 2013 as Free Cash Flow more than offset the cash used for share repurchases and dividends.

<i>(in millions; unaudited)</i>	<u>3/31/2014</u>	<u>12/31/2013</u>
Long-term debt	\$ 22,792	\$ 23,285
Debt due within one year	3,062	1,767
Total debt	25,854	25,052
Cash and equivalents	(1,557)	(525)
Net debt <sup>(a)</sup>	\$ 24,297	\$ 24,527

<sup>(a)</sup> Net debt is defined as total debt less cash and equivalents.

## RETURN OF CAPITAL

Time Warner Cable returned \$422 million to shareholders during the first quarter of 2014. During the first quarter of 2014, share repurchases totaled \$208 million or 1.5 million shares of common stock prior to the suspension of the TWC stock repurchase program on February 13, 2014 as a result of the Company's entry into the merger agreement with Comcast. As of March 31, 2014, \$2.7 billion remained under the Company's share repurchase authorization. Time Warner Cable also paid a regular dividend of \$0.75 per share of common stock, \$214 million in aggregate, during the first quarter of 2014.

## Non-GAAP Financial Measures

The Company refers to certain financial measures that are not presented in accordance with U.S. generally accepted accounting principles ("GAAP"), including OIBDA, Adjusted OIBDA, Adjusted net income attributable to TWC shareholders, Adjusted Diluted EPS and Free Cash Flow. Refer to Note 4 to the accompanying consolidated financial statements for a discussion of the Company's use of non-GAAP financial measures.

## About Time Warner Cable

Time Warner Cable Inc. (NYSE: TWC) is among the largest providers of video, high-speed data and voice services in the United States, connecting 15 million customers to entertainment, information and each other. Time Warner Cable Business Class offers data, video and voice services to businesses of all sizes, cell tower backhaul services to wireless carriers and enterprise-class, cloud-enabled hosting, managed applications and services. Time Warner Cable Media, the advertising arm of Time Warner Cable, offers national, regional and local companies innovative advertising solutions. More information about the services of Time Warner Cable is available at [www.twc.com](http://www.twc.com), [www.twcbc.com](http://www.twcbc.com) and [www.twcmedia.com](http://www.twcmedia.com).

Additional details on financial and subscriber metrics are included in the Trending Schedules and Presentation Slides posted on the Company's Investor Relations website at [www.twc.com/investors](http://www.twc.com/investors).

## Information on Conference Call

Time Warner Cable's earnings conference call can be heard live at 8:30 am ET on Thursday, April 24, 2014. To listen to the call, visit [www.twc.com/investors](http://www.twc.com/investors).

**FORWARD-LOOKING STATEMENTS AND DISCLAIMERS**

This document includes certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and Time Warner Cable intends that all such statements be covered by the safe harbor provisions of the federal securities laws. Statements herein regarding future financial and operating results and any other statements about future expectations, including any statements related to the proposed acquisition of Time Warner Cable by Comcast Corporation (“Comcast”), constitute “forward-looking statements.” These forward-looking statements may be identified by words such as “believe,” “expects,” “anticipates,” “projects,” “intends,” “should,” “estimates” or similar expressions. These statements are based on management’s current expectations or beliefs and may involve estimates and assumptions that are subject to risks, uncertainties and other factors, and are subject to uncertainty and changes in circumstances. Actual results may vary materially from those expressed or implied by the statements herein due to changes in economic, business, competitive, technological, strategic and/or regulatory factors, and other factors affecting the operations of Time Warner Cable, including the proposed acquisition by Comcast. Additional information concerning these and other factors can be found in Time Warner Cable’s and Comcast’s respective filings with the Securities and Exchange Commission (the “SEC”), including Time Warner Cable’s and Comcast’s most recent Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. Time Warner Cable and Comcast assume no obligation to, and expressly disclaim any such obligation to, update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date hereof.

**ADDITIONAL INFORMATION**

Time Warner Cable filed a preliminary proxy statement for its 2014 annual meeting of stockholders with the SEC on April 8, 2014 and expects to provide any definitive proxy statement to its security holders. INVESTORS AND SECURITY HOLDERS OF TIME WARNER CABLE ARE URGED TO READ THIS DOCUMENT AND ANY OTHER DOCUMENTS FILED BY TIME WARNER CABLE WITH THE SEC CAREFULLY IN THEIR ENTIRETY IF AND WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION. Investors and security holders will be able to obtain free copies of the definitive proxy statement (when available) and any other documents filed with the SEC by Time Warner Cable through the web site maintained by the SEC at <http://www.sec.gov>.

In connection with the proposed transaction between Comcast and Time Warner Cable, on March 20, 2014, Comcast filed with the SEC, a registration statement on Form S-4 that includes a preliminary joint proxy statement of Comcast and Time Warner Cable that also constitutes a preliminary prospectus of Comcast. The registration statement has not yet become effective. After the registration statement is declared effective by the SEC, a definitive joint proxy statement/prospectus will be mailed to shareholders of Comcast and Time Warner Cable. INVESTORS AND SECURITY HOLDERS OF COMCAST AND TIME WARNER CABLE ARE URGED TO READ THE JOINT PROXY STATEMENT/PROSPECTUS AND OTHER DOCUMENTS FILED OR THAT WILL BE FILED WITH THE SEC CAREFULLY AND IN THEIR ENTIRETY BECAUSE THEY CONTAIN OR WILL CONTAIN IMPORTANT INFORMATION. Investors and security holders may obtain free copies of the registration statement and the joint proxy statement/prospectus and other documents filed with the SEC by Comcast or Time Warner Cable through the website maintained by the SEC at <http://www.sec.gov>. Copies of the documents filed with the SEC by Comcast are available free of charge on Comcast’s website at <http://cmcsa.com> or by contacting Comcast’s Investor Relations Department at 866-281-2100. Copies of the documents filed with the SEC by Time Warner Cable will be available free of charge on Time Warner Cable’s website at <http://ir.timewarnercable.com> or by contacting Time Warner Cable’s Investor Relations Department at 877-446-3689.

**CERTAIN INFORMATION REGARDING PARTICIPANTS**

Comcast, Time Warner Cable, their respective directors and certain of their respective executive officers may be considered participants in the solicitation of proxies in connection with the proposed Time Warner Cable/Comcast transaction and, with respect to Time Warner Cable and certain of its affiliates, in the solicitation of proxies in connection with Time Warner Cable's 2014 annual meeting of stockholders. Information about the directors and executive officers of Time Warner Cable is set forth in its Annual Report on Form 10-K for the year ended December 31, 2013, which was filed with the SEC on February 18, 2014, and its preliminary proxy statement for its 2014 annual meeting of stockholders, which was filed with the SEC on April 8, 2014. Information about the directors and executive officers of Comcast is set forth in its Annual Report on Form 10-K for the year ended December 31, 2013, which was filed with the SEC on February 12, 2014, and its proxy statement for its 2014 annual meeting of stockholders, which was filed with the SEC on April 11, 2014. These documents can be obtained free of charge from the sources indicated above. Additional information regarding the participants in the proxy solicitations and a description of their direct and indirect interests, by security holdings or otherwise, are contained in the preliminary joint proxy statement/prospectus filed with the SEC and Time Warner Cable's preliminary proxy statement and will be contained in the definitive joint proxy statement/prospectus, definitive proxy statement and other relevant materials to be filed with the SEC when they become available.

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###

**TIME WARNER CABLE INC.**  
**CONSOLIDATED BALANCE SHEET**  
(Unaudited)

	March 31, 2014	December 31, 2013
	(in millions)	
<b>ASSETS</b>		
Current assets:		
Cash and equivalents .....	\$ 1,557	\$ 525
Receivables, less allowances of \$81 million and \$77 million as of March 31, 2014 and December 31, 2013, respectively .....	836	954
Deferred income tax assets .....	326	334
Other current assets .....	395	331
<b>Total current assets</b> .....	<b>3,114</b>	<b>2,144</b>
Investments .....	64	56
Property, plant and equipment, net .....	15,077	15,056
Intangible assets subject to amortization, net .....	600	552
Intangible assets not subject to amortization .....	26,012	26,012
Goodwill .....	3,138	3,196
Other assets .....	1,148	1,257
<b>Total assets</b> .....	<b>\$ 49,153</b>	<b>\$ 48,273</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable .....	\$ 445	\$ 565
Deferred revenue and subscriber-related liabilities .....	193	188
Accrued programming and content expense .....	907	869
Current maturities of long-term debt .....	3,062	1,767
Other current liabilities .....	1,792	1,837
<b>Total current liabilities</b> .....	<b>6,399</b>	<b>5,226</b>
Long-term debt .....	22,792	23,285
Deferred income tax liabilities, net .....	12,101	12,098
Other liabilities .....	763	717
TWC shareholders' equity:		
Common stock, \$0.01 par value, 278.6 million and 277.9 million shares issued and outstanding as of March 31, 2014 and December 31, 2013, respectively .....	3	3
Additional paid-in capital .....	6,838	6,951
Retained earnings (accumulated deficit) .....	255	(55)
Accumulated other comprehensive income (loss), net .....	(2)	44
<b>Total TWC shareholders' equity</b> .....	<b>7,094</b>	<b>6,943</b>
Noncontrolling interests .....	4	4
<b>Total equity</b> .....	<b>7,098</b>	<b>6,947</b>
<b>Total liabilities and equity</b> .....	<b>\$ 49,153</b>	<b>\$ 48,273</b>

See accompanying notes.

TIME WARNER CABLE INC.  
CONSOLIDATED STATEMENT OF OPERATIONS  
(Unaudited)

	Three Months Ended March 31,	
	2014	2013 (recast)
	(in millions, except per share data)	
Revenue.....	\$ 5,582	\$ 5,475
Costs and expenses:		
Programming and content.....	1,309	1,275
Sales and marketing.....	555	473
Technical operations.....	371	372
Customer care.....	205	197
Other operating .....	1,162	1,246
Depreciation .....	775	789
Amortization .....	33	32
Merger-related and restructuring costs .....	80	31
Total costs and expenses.....	<u>4,490</u>	<u>4,415</u>
Operating Income.....	1,092	1,060
Interest expense, net.....	(364)	(398)
Other income (expense), net.....	15	(1)
Income before income taxes .....	743	661
Income tax provision .....	(264)	(260)
Net income .....	479	401
Less: Net income attributable to noncontrolling interests.....	—	—
Net income attributable to TWC shareholders .....	<u>\$ 479</u>	<u>\$ 401</u>
Net income per common share attributable to TWC common shareholders:		
Basic.....	<u>\$ 1.71</u>	<u>\$ 1.35</u>
Diluted .....	<u>\$ 1.70</u>	<u>\$ 1.34</u>
Average common shares outstanding:		
Basic.....	<u>277.8</u>	<u>295.1</u>
Diluted .....	<u>281.8</u>	<u>299.4</u>
Cash dividends declared per share of common stock .....	<u>\$ 0.75</u>	<u>\$ 0.65</u>

See accompanying notes.

TIME WARNER CABLE INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(Unaudited)

	Three Months Ended March 31,	
	2014	2013
	(in millions)	
<b>OPERATING ACTIVITIES</b>		
Net income .....	\$ 479	\$ 401
Adjustments for noncash and nonoperating items:		
Depreciation .....	775	789
Amortization .....	33	32
(Income) loss from equity-method investments, net of cash distributions.....	(7)	1
Deferred income taxes.....	40	113
Equity-based compensation expense .....	50	42
Excess tax benefit from equity-based compensation .....	(78)	(49)
Changes in operating assets and liabilities, net of acquisitions and dispositions:		
Receivables .....	105	132
Accounts payable and other liabilities .....	64	(38)
Other changes.....	(64)	(29)
Cash provided by operating activities .....	<u>1,397</u>	<u>1,394</u>
<b>INVESTING ACTIVITIES</b>		
Capital expenditures.....	(834)	(770)
Purchases of investments.....	(2)	(325)
Return of capital from investees .....	—	7
Proceeds from sale, maturity and collection of investments.....	18	—
Acquisition of intangible assets .....	(12)	(12)
Other investing activities.....	11	7
Cash used by investing activities .....	<u>(819)</u>	<u>(1,093)</u>
<b>FINANCING ACTIVITIES</b>		
Short-term borrowings, net.....	1,544	—
Repayments of long-term debt .....	(750)	—
Repurchases of common stock.....	(259)	(660)
Dividends paid .....	(214)	(195)
Proceeds from exercise of stock options.....	79	54
Excess tax benefit from equity-based compensation.....	78	49
Taxes paid in cash in lieu of shares issued for equity-based compensation .....	(66)	(51)
Net collateral received on derivative financial instruments.....	43	—
Other financing activities.....	(1)	(9)
Cash provided (used) by financing activities .....	<u>454</u>	<u>(812)</u>
Increase (decrease) in cash and equivalents .....	1,032	(511)
Cash and equivalents at beginning of period .....	525	3,304
Cash and equivalents at end of period .....	<u>\$ 1,557</u>	<u>\$ 2,793</u>

See accompanying notes.

TIME WARNER CABLE INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

## 1. COMCAST MERGER

On February 12, 2014, Time Warner Cable Inc. ("TWC" or the "Company") entered into an Agreement and Plan of Merger with Comcast Corporation ("Comcast") whereby the Company agreed to merge with and into a 100% owned subsidiary of Comcast (the "Comcast merger"). Upon completion of the Comcast merger, all of the outstanding shares of the Company will be cancelled and each issued and outstanding share will be converted into the right to receive 2.875 shares of Class A common stock of Comcast. The Comcast merger, which is expected to close by the end of 2014, is subject to the approval of the Company's and Comcast's stockholders, regulatory approvals and certain other closing conditions. Charter Communications, Inc., which in January 2014 disclosed an unsolicited bid to acquire the Company, has indicated that it intends to solicit proxies from the Company's stockholders in opposition to the Comcast merger.

## 2. ITEMS AFFECTING COMPARABILITY

The following items affected the comparability of TWC's results for the three months ended March 31, 2014 and 2013:

(in millions, except per share data)

	OIBDA <sup>(a)</sup>	D&A <sup>(a)</sup>	Operating Income	Other <sup>(a)</sup>	Income Tax Provision	TWC Net Income <sup>(a)</sup>	Diluted EPS <sup>(a)</sup>
<b>1st Quarter 2014:</b>							
As reported	\$ 1,900	\$ (808)	\$ 1,092	\$ (349)	\$ (264)	\$ 479	\$ 1.70
<i>Year-over-year change, as reported:</i>							
\$	\$ 19	\$ 13	\$ 32	\$ 50	\$ (4)	\$ 78	\$ 0.36
%	1.0%	(1.6%)	3.0%	(12.5%)	1.5%	19.5%	26.9%
<i>Items affecting comparability:</i>							
Merger-related and restructuring costs	80	—	80	—	(31)	49	0.17
Gain on equity award reimbursement obligation to Time Warner <sup>(b)</sup>	—	—	—	(1)	—	(1)	—
Impact of certain state and local tax matters <sup>(c)</sup>	—	—	—	—	(24)	(24)	(0.09)
As adjusted	\$ 1,980	\$ (808)	\$ 1,172	\$ (350)	\$ (319)	\$ 503	\$ 1.78
<i>Year-over-year change, as adjusted:</i>							
\$	\$ 68	\$ 13	\$ 81	\$ 44	\$ (45)	\$ 80	\$ 0.37
%	3.6%	(1.6%)	7.4%	(11.2%)	16.4%	18.9%	26.2%
<b>1st Quarter 2013:</b>							
As reported	\$ 1,881	\$ (821)	\$ 1,060	\$ (399)	\$ (260)	\$ 401	\$ 1.34
<i>Items affecting comparability:</i>							
Merger-related and restructuring costs	31	—	31	—	(12)	19	0.06
Loss on equity award reimbursement obligation to Time Warner <sup>(b)</sup>	—	—	—	5	(2)	3	0.01
As adjusted	\$ 1,912	\$ (821)	\$ 1,091	\$ (394)	\$ (274)	\$ 423	\$ 1.41

<sup>(a)</sup> OIBDA represents Operating Income before Depreciation and Amortization. D&A represents depreciation and amortization. Other consists of interest expense, net, other income (expense), net, and net income attributable to noncontrolling interests. TWC net income represents net income attributable to TWC shareholders. Diluted EPS represents net income per diluted common share attributable to TWC common shareholders.

<sup>(b)</sup> Pursuant to an agreement with Time Warner Inc. ("Time Warner"), TWC is obligated to reimburse Time Warner for the cost of certain Time Warner equity awards held by TWC employees upon exercise of such awards. Amounts represent the change in the reimbursement obligation, which fluctuates primarily with the fair value and expected volatility of Time Warner common stock, and changes in fair value are recorded in other income (expense), net, in the period of change.

<sup>(c)</sup> Amount represents the impact of the passage of the New York State budget during the first quarter of 2014 that, in part, lowers the New York State business tax rate beginning in 2016.

TIME WARNER CABLE INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Unaudited)

### 3. RECONCILIATION OF ADJUSTED OIBDA TO OPERATING INCOME AND OTHER SEGMENT INFORMATION

Consolidated information for the three months ended March 31, 2014 and 2013 is as follows:

(in millions)	1st Quarter			
	2014	2013	Change	
			\$	%
Adjusted OIBDA <sup>(a)</sup>	\$ 1,980	\$ 1,912	\$ 68	3.6%
Adjusted OIBDA margin <sup>(b)</sup>	35.5%	34.9%		
Merger-related and restructuring costs	(80)	(31)	(49)	158.1%
OIBDA <sup>(a)</sup>	1,900	1,881	19	1.0%
Depreciation	(775)	(789)	14	(1.8%)
Amortization	(33)	(32)	(1)	3.1%
Operating Income	\$ 1,092	\$ 1,060	\$ 32	3.0%

<sup>(a)</sup> Refer to Note 4 for definitions of OIBDA and Adjusted OIBDA.

<sup>(b)</sup> Adjusted OIBDA margin is defined as Adjusted OIBDA as a percentage of total revenue.

Effective in the first quarter of 2014, the Company determined it has three reportable segments. The Company has recast its financial information and disclosures for the prior period to reflect the segment disclosures as if the current presentation had been in effect throughout all periods presented.

The Company classifies its operations into the following reportable segments:

- Residential Services, which principally consists of video, high-speed data and voice services provided to residential customers as well as other residential services, including home automation and monitoring.
- Business Services, which principally consists of data, video and voice services provided to business customers as well as other business services, including enterprise-class, cloud-enabled hosting, managed applications and services.
- Other Operations, which principally consists of (i) Time Warner Cable Media (“TWC Media”), the advertising arm of TWC, (ii) TWC-owned and/or operated regional sports networks (“RSNs”) and local sports, news and lifestyle channels (e.g., Time Warner Cable News NY1) and (iii) other operating revenues and costs, including those derived from the Advance/Newhouse Partnership and home shopping network-related services. The business units reflected in the Other Operations segment individually do not meet the thresholds to be reported as separate reportable segments.

In addition to the above reportable segments, the Company has shared functions (referred to as “Shared Functions”) that include activities not attributable to a specific reportable segment. Shared Functions consists of operating costs and expenses associated with broad “corporate” functions (e.g., accounting and finance, information technology, executive management, legal and human resources) or functions supporting more than one reportable segment that are centrally managed (e.g., facilities, network operations, vehicles and procurement) as well as other activities not attributable to a reportable segment. As such, the reportable segment results reflect how management views such segments in assessing financial performance and allocating resources and are not necessarily indicative of the results of operations that each segment would have achieved had they operated as stand-alone entities during the periods presented.

In evaluating the profitability of the Company’s segments, the components of net income (loss) below OIBDA, as defined below, are not separately evaluated by management at the segment level. Due to the nature

TIME WARNER CABLE INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Unaudited)

of the Company's operations, a majority of its assets, including its distribution systems, are utilized across the Company's operations and are not segregated by segment. In addition, segment assets are not reported to, or used by, management to allocate resources or assess the performance of the Company's segments. Accordingly, the Company has not disclosed asset information by segment.

Segment information for the three months ended March 31, 2014 and 2013 is as follows:

(in millions)

	1st Quarter 2014					
	Residential Services Segment	Business Services Segment	Other Operations Segment	Shared Functions	Intersegment Eliminations	Total Consolidated
Revenue <sup>(a)</sup>	\$ 4,568	\$ 668	\$ 400	\$ —	\$ (54)	\$ 5,582
Operating costs and expenses	(2,436)	(266)	(227)	(727)	54	(3,602)
Adjusted OIBDA <sup>(b)</sup>	2,132	402	173	(727)	—	1,980
Merger-related and restructuring costs	—	—	—	(80)	—	(80)
OIBDA <sup>(b)</sup>	<u>\$ 2,132</u>	<u>\$ 402</u>	<u>\$ 173</u>	<u>\$ (807)</u>	<u>\$ —</u>	<u>1,900</u>
Depreciation						(775)
Amortization						(33)
Operating Income						<u>\$ 1,092</u>

<sup>(a)</sup> All revenue included in Intersegment Eliminations is associated with the Other Operations segment.

<sup>(b)</sup> Refer to Note 4 for definitions of OIBDA and Adjusted OIBDA.

(in millions)

	1st Quarter 2013					
	Residential Services Segment	Business Services Segment	Other Operations Segment	Shared Functions	Intersegment Eliminations	Total Consolidated
Revenue <sup>(a)</sup>	\$ 4,611	\$ 537	\$ 377	\$ —	\$ (50)	\$ 5,475
Operating costs and expenses	(2,440)	(225)	(212)	(736)	50	(3,563)
Adjusted OIBDA <sup>(b)</sup>	2,171	312	165	(736)	—	1,912
Merger-related and restructuring costs	—	—	—	(31)	—	(31)
OIBDA <sup>(b)</sup>	<u>\$ 2,171</u>	<u>\$ 312</u>	<u>\$ 165</u>	<u>\$ (767)</u>	<u>\$ —</u>	<u>1,881</u>
Depreciation						(789)
Amortization						(32)
Operating Income						<u>\$ 1,060</u>

<sup>(a)</sup> All revenue included in Intersegment Eliminations is associated with the Other Operations segment.

<sup>(b)</sup> Refer to Note 4 for definitions of OIBDA and Adjusted OIBDA.

Intersegment Eliminations relates to the programming provided to the Residential Services and Business Services segments by the Company's RSNs and local sports, news and lifestyle channels. These services are reflected as programming expense for the Residential Services and Business Services segments and as revenue for the Other Operations segment.

TIME WARNER CABLE INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
 (Unaudited)

#### 4. USE OF NON-GAAP FINANCIAL MEASURES

In discussing its consolidated and segment performance, the Company may use certain measures that are not calculated and presented in accordance with U.S. generally accepted accounting principles (“GAAP”). These measures include OIBDA, Adjusted OIBDA, Adjusted net income attributable to TWC shareholders, Adjusted Diluted EPS and Free Cash Flow, which the Company defines as follows:

- *OIBDA (Operating Income before Depreciation and Amortization)* means Operating Income before depreciation of tangible assets and amortization of intangible assets.
- *Adjusted OIBDA* means OIBDA excluding the impact, if any, of noncash impairments of goodwill, intangible and fixed assets; gains and losses on asset sales; and merger-related and restructuring costs.
- *Adjusted net income attributable to TWC shareholders* means net income attributable to TWC shareholders (as defined under GAAP) excluding the impact, if any, of noncash impairments of goodwill, intangible and fixed assets and investments; gains and losses on asset sales; merger-related and restructuring costs; changes in the Company’s equity award reimbursement obligation to Time Warner; and certain changes to income tax provision; as well as the impact of taxes on the above items. Similarly, *Adjusted Diluted EPS* means net income per diluted common share attributable to TWC common shareholders excluding the above items.
- *Free Cash Flow* means cash provided by operating activities (as defined under GAAP) excluding the impact, if any, of cash provided or used by discontinued operations, plus (i) any income taxes paid on investment sales and (ii) any excess tax benefit from equity-based compensation, less (i) capital expenditures, (ii) cash paid for other intangible assets (excluding those associated with business combinations), (iii) partnership distributions to third parties and (iv) principal payments on capital leases.

Management uses OIBDA and Adjusted OIBDA, among other measures, in evaluating the Company’s consolidated and segment performance because they eliminate the effects of (i) considerable amounts of noncash depreciation and amortization and (ii) items not within the control of the Company’s operations managers (such as income tax provision, other income (expense), net, and interest expense, net). Adjusted OIBDA further eliminates the effects of certain noncash items identified in the definition of Adjusted OIBDA above. Management also uses these measures to allocate resources and capital to the segments. Adjusted OIBDA is also a significant performance measure used in the Company’s annual incentive compensation programs. Adjusted net income attributable to TWC shareholders and Adjusted Diluted EPS are considered important indicators of the operational strength of the Company as these measures eliminate amounts that do not reflect the fundamental performance of the Company. The Company utilizes Adjusted Diluted EPS, among other measures, to evaluate its performance both on an absolute basis and relative to its peers and the broader market. Management believes that Free Cash Flow is an important indicator of the Company’s ability to generate cash, reduce net debt, pay dividends, repurchase common stock and make strategic investments, after the payment of cash taxes, interest and other cash items. In addition, all of these measures are commonly used by analysts, investors and others in evaluating the Company’s performance and liquidity.

These measures have inherent limitations. For example, OIBDA and Adjusted OIBDA do not reflect capital expenditures or the periodic costs of certain capitalized assets used in generating revenue. To compensate for such limitations, management evaluates performance through Free Cash Flow, which reflects capital

TIME WARNER CABLE INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Unaudited)

expenditure decisions, and net income attributable to TWC shareholders, which reflects the periodic costs of capitalized assets. Adjusted OIBDA does not reflect any of the items noted as exclusions in the definition of Adjusted OIBDA above. To compensate for these limitations, management evaluates performance through OIBDA and net income attributable to TWC shareholders, which do reflect such items. OIBDA and Adjusted OIBDA also fail to reflect the significant costs borne by the Company for income taxes and debt servicing costs, the results of the Company's equity investments and other non-operational income or expense. Additionally, Adjusted net income attributable to TWC shareholders and Adjusted Diluted EPS do not reflect certain charges that affect the operating results of the Company and they involve judgment as to whether items affect fundamental operating performance. Management compensates for these limitations by using other analytics such as a review of net income attributable to TWC shareholders. Free Cash Flow, a liquidity measure, does not reflect payments made in connection with investments and acquisitions, which reduce liquidity. To compensate for this limitation, management evaluates such investments and acquisitions through other measures such as return on investment analyses.

These non-GAAP measures should be considered in addition to, not as substitutes for, the Company's Operating Income, net income attributable to TWC shareholders and various cash flow measures (e.g., cash provided by operating activities), as well as other measures of financial performance and liquidity reported in accordance with GAAP, and may not be comparable to similarly titled measures used by other companies.



PRESS RELEASE

## COMCAST REPORTS 1st QUARTER 2014 RESULTS

### Consolidated 1st Quarter 2014 Highlights:

- Consolidated Revenue Increased 13.7%, Operating Cash Flow Increased 10.0% and Operating Income Increased 16.3%
- Earnings per Share Increased 31.5% to \$0.71; Excluding Gains on Sales and Acquisition-Related Items, EPS Increased 33.3% to \$0.68
- Quarterly Dividends and Quarterly Share Repurchases Increased 35.5% to \$1.3 Billion

### Cable Communications 1st Quarter 2014 Highlights:

- Cable Communications Revenue Increased 5.3% and Operating Cash Flow Increased 4.3%
- Cable Communications Customer Relationships Increased by 124,000 to 26.8 Million
- Video Customers Increased by 24,000, the Second Consecutive Quarter of Customer Growth
- High-Speed Internet Customers Increased by 383,000; Revenue Growth of 9.0% Is the Strongest Rate of Growth in Two Years
- Business Services Revenue Increased 23.9%, Approaching a \$4 Billion Annual Run-Rate

### NBCUniversal 1st Quarter 2014 Highlights:

- NBCUniversal Revenue Increased 28.8% and Operating Cash Flow Increased 37.6%
- Broadcast Revenue Increased 17.0%, Excluding Olympics, and Is Ranked #1 Season-to-Date Among Adults 18-49
- Film Operating Cash Flow Increased Over \$200 Million
- The Sochi Olympics Generated Over \$1.1 Billion in Revenue

PHILADELPHIA – April 22, 2014... Comcast Corporation (NASDAQ: CMCSA, CMCSK) today reported results for the quarter ended March 31, 2014.

Brian L. Roberts, Chairman and Chief Executive Officer of Comcast Corporation, said, "Our operating momentum is continuing as we enter 2014 and is highlighted by our second consecutive quarter of video customer growth, as well as strength in high-speed Internet and business services. Our focus on the customer experience continues to drive our success as we deliver the most innovative products in the industry and make measurable progress in customer service. At NBCUniversal, we had another superb quarter with double-digit revenue and operating cash flow growth driven by the tremendously successful Sochi Olympics and the best season-to-date broadcast ratings in a decade. Overall, the company is performing well and the more planning we do for our proposed merger with Time Warner Cable, the more excited we are by the opportunities for the combined company. Comcast has tremendous momentum right now, and we believe the TWC transaction will strengthen a truly world-class organization that will be well positioned to compete and yield meaningful benefits to our customers, employees, and shareholders."

### Consolidated Financial Results

(\$ in millions)	1st Quarter		Growth
	2013	2014	
Revenue	\$15,310	\$17,408	13.7%
Excluding Olympics	\$15,310	\$16,305	6.5%
Operating Cash Flow <sup>1</sup>	\$5,034	\$5,538	10.0%
Excluding TWC Transaction Costs	\$5,034	\$5,555	10.4%
Operating Income	\$3,067	\$3,568	16.3%
Earnings per Share <sup>2</sup>	\$0.54	\$0.71	31.5%
Excluding Adjustments (see Table 4)	\$0.51	\$0.68	33.3%
Free Cash Flow <sup>3</sup>	\$3,138	\$2,824	(10.0%)

For additional detail on segment revenue and expenses, customer metrics, capital expenditures, and free cash flow, please refer to the trending schedules on Comcast's Investor Relations website at [www.cmcsa.com](http://www.cmcsa.com) or [www.cmcsk.com](http://www.cmcsk.com).

**Consolidated Revenue** for the first quarter of 2014 increased 13.7% to \$17.4 billion. Excluding \$1.1 billion of revenue generated by the 2014 Sochi Olympics, consolidated revenue increased 6.5%. **Consolidated Operating Cash Flow** increased 10.0% to \$5.5 billion. Excluding \$17 million of costs related to the Time Warner Cable transaction in the first quarter of 2014, consolidated operating cash flow increased 10.4% (See Table 5). **Consolidated Operating Income** increased 16.3% to \$3.6 billion.

**Earnings per Share (EPS)** for the first quarter of 2014 was \$0.71, a 31.5% increase from the \$0.54 reported in the first quarter of 2013. Excluding gains on the sale of an investment and a favorable resolution of a prior acquisition contingency in the first quarter of 2014, as well as a gain on the sale of wireless spectrum licenses in the first quarter of 2013, EPS increased 33.3% to \$0.68 (see Table 4).

**Capital Expenditures** increased 6.4% to \$1.4 billion in the first quarter of 2014 compared to the first quarter of 2013. Cable Communications' capital expenditures increased \$51 million, or 4.6%, to \$1.1 billion in the first quarter of 2014, primarily reflecting increased spending on customer premise equipment related to the deployment of the X1 platform and wireless gateways. Cable capital expenditures represented 10.6% of Cable revenue in the first quarter of 2014 compared to 10.7% in last year's first quarter. NBCUniversal's capital expenditures increased \$28 million to \$291 million in the first quarter of 2014, primarily reflecting increased investments in Theme Parks and facilities.

**Free Cash Flow** decreased 10.0% to \$2.8 billion in the first quarter of 2014 compared to \$3.1 billion in the first quarter of 2013, reflecting increased working capital, mainly driven by the Olympics and higher film and TV production spend, capital expenditures and cash taxes on operating items, partially offset by growth in consolidated operating cash flow.

(\$ in millions)	1st Quarter		
	2013	2014	Growth
Operating Cash Flow	\$5,034	\$5,538	10.0%
Capital Expenditures	(1,361)	(1,448)	6.4%
Cash Paid for Capitalized Software and Other Intangible Assets	(182)	(217)	19.2%
Cash Interest Expense	(617)	(623)	1.0%
Cash Taxes on Operating Items	(194)	(268)	38.1%
Changes in Operating Assets and Liabilities	369	(267)	NM
Noncash Share-Based Compensation	102	119	16.7%
Distributions to Noncontrolling Interests and Dividends for Redeemable Subsidiary Preferred Stock	(49)	(66)	34.7%
Other	36	56	55.6%
<b>Free Cash Flow<sup>3</sup></b>	<b>\$3,138</b>	<b>\$2,824</b>	<b>(10.0%)</b>

NM=comparison not meaningful.

**Dividends and Share Repurchases.** During the first quarter of 2014, Comcast paid dividends totaling \$508 million and repurchased 15.0 million of its common shares for \$750 million. As of March 31, 2014, Comcast had approximately \$6.75 billion available under its share repurchase authorization.

## Cable Communications

(\$ in millions)	1st Quarter		
	2013	2014	Growth
Cable Communications Revenue			
Video	\$5,113	\$5,178	1.3%
High-Speed Internet	2,523	2,750	9.0%
Voice	900	920	2.1%
Business Services	741	917	23.9%
Advertising	488	519	6.2%
Other	452	473	4.8%
<b>Cable Communications Revenue</b>	<b>\$10,217</b>	<b>\$10,757</b>	<b>5.3%</b>
<b>Cable Communications Operating Cash Flow</b>	<b>\$4,219</b>	<b>\$4,400</b>	<b>4.3%</b>
<i>Operating Cash Flow Margin</i>	<i>41.3%</i>	<i>40.9%</i>	
Cable Communications Capital Expenditures	\$1,094	\$1,145	4.6%
<i>Percent of Cable Communications Revenue</i>	<i>10.7%</i>	<i>10.6%</i>	

**Revenue** for Cable Communications increased 5.3% to \$10.8 billion in the first quarter of 2014 compared to \$10.2 billion in the first quarter of 2013, driven by increases of 9.0% in high-speed Internet and 23.9% in business services. The increase in Cable revenue reflects rate adjustments, customers receiving higher levels of services and customer growth (see below).

**Customer relationships** increased by 124,000 to 26.8 million in the first quarter of 2014. At the end of the first quarter, penetration of our triple product customers increased to 36% compared to 33% in the first quarter of 2013. In addition, video, high-speed Internet and voice customers increased.

Billable Customers Method <sup>4</sup> (in thousands)	Customers		Net Adds	
	1Q13	1Q14	1Q13	1Q14
Video Customers	22,819	22,601	(25)	24
High-Speed Internet Customers	19,799	21,068	433	383
Voice Customers	10,166	10,865	211	142
Single Product Customers	9,206	8,605		(147)
Double Product Customers	8,568	8,656		116
Triple Product Customers	8,821	9,539		155
<b>Customer Relationships</b>	<b>26,596</b>	<b>26,800</b>		<b>124</b>

**Operating Cash Flow** for Cable Communications increased 4.3% to \$4.4 billion in the first quarter of 2014 compared to \$4.2 billion in the first quarter of 2013, reflecting higher revenue, partially offset by a 6.0% increase in operating expenses primarily related to higher video programming costs. This quarter's operating cash flow margin was 40.9%, compared to 41.3% in the prior year period.

## NBCUniversal

(\$ in millions)	1st Quarter			Excluding Olympics
	2013	2014	Growth	
<b>NBCUniversal Revenue</b>				
Cable Networks	\$2,225	\$2,505	12.6%	1.0%
Broadcast Television	1,517	2,621	72.8%	17.0%
Filmed Entertainment	1,216	1,351	11.1%	
Theme Parks	462	487	5.4%	
Headquarters, Other and Eliminations	(80)	(88)	NM	
<b>NBCUniversal Revenue</b>	<b>\$5,340</b>	<b>\$6,876</b>	<b>28.8%</b>	<b>8.1%</b>
<b>NBCUniversal Operating Cash Flow</b>				
Cable Networks	\$859	\$895	4.2%	
Broadcast Television	(35)	122	NM	
Filmed Entertainment	69	288	NM	
Theme Parks	173	170	(1.5%)	
Headquarters, Other and Eliminations	(113)	(164)	NM	
<b>NBCUniversal Operating Cash Flow</b>	<b>\$953</b>	<b>\$1,311</b>	<b>37.6%</b>	

**Revenue** for NBCUniversal increased 28.8% to \$6.9 billion in the first quarter of 2014 compared to \$5.3 billion in the first quarter of 2013, primarily driven by 2014 Sochi Olympics revenue of \$1.1 billion included in the Broadcast Television and Cable Networks segments. Excluding the Olympics, NBCUniversal revenue increased 8.1% (see Table 5). **Operating Cash Flow** increased 37.6% to \$1.3 billion compared to \$953 million in the first quarter of 2013, driven by a profitable Olympics and strong results at Filmed Entertainment and Broadcast Television.

### Cable Networks

For the first quarter of 2014, revenue from the Cable Networks segment increased 12.6% to \$2.5 billion compared to \$2.2 billion in the first quarter of 2013 and included \$257 million of revenue generated by the 2014 Sochi Olympics. Excluding the Olympics, revenue increased 1.0% reflecting a 4.4% increase in distribution revenue, partially offset by a 1.4% decrease in advertising revenue (See Table 5). Operating cash flow increased 4.2% to \$895 million compared to \$859 million in the first quarter of 2013, reflecting higher revenue, partially offset by higher sports programming costs, including the impact of the Olympics, and our continued investment in original programming.

### Broadcast Television

For the first quarter of 2014, revenue from the Broadcast Television segment increased 72.8% to \$2.6 billion compared to \$1.5 billion in the first quarter of 2013 and included \$846 million of revenue generated by the 2014 Sochi Olympics. Excluding the Olympics, revenue increased 17.0%, driven by a 15.8% increase in advertising revenue due to strong ratings at the NBC broadcast network, as well as an increase in content licensing revenue and higher retransmission consent fees (see Table 5). Operating cash flow increased \$157 million to \$122 million compared to a loss of \$35 million in the first quarter of 2013, reflecting higher revenue, partially offset by higher programming and production costs related to the Olympics.

### Filmed Entertainment

For the first quarter of 2014, revenue from the Filmed Entertainment segment increased 11.1% to \$1.4 billion compared to \$1.2 billion the first quarter of 2013, driven by higher theatrical revenue from the strong performances of *Ride Along* and *Lone Survivor* and the international performance of *The Wolf of Wall Street*. Operating cash flow increased \$219 million to \$288 million compared to \$69 million in the first quarter of 2013, reflecting higher revenue and a decrease in the amortization of film costs.

### Theme Parks

For the first quarter of 2014, revenue from the Theme Parks segment increased 5.4% to \$487 million compared to \$462 million in the first quarter of 2013, driven by higher per capita spending at the Orlando and Hollywood theme parks and stable guest attendance, despite a shift in holiday timing. First quarter operating cash flow decreased 1.5% to \$170 million compared to \$173 million in same period last year, primarily reflecting increased operating costs to support new attractions.

### Headquarters, Other and Eliminations

NBCUniversal Headquarters, Other and Eliminations include overhead and eliminations among the NBCUniversal businesses. For the quarter ended March 31, 2014, NBCUniversal Headquarters, Other and Eliminations operating cash flow loss was \$164 million compared to a loss of \$113 million in the first quarter of 2013, reflecting higher employee costs.

### Corporate, Other and Eliminations

Corporate, Other and Eliminations primarily include corporate operations, Comcast-Spectacor and eliminations among Comcast's businesses. For the quarter ended March 31, 2014, Corporate, Other and Eliminations revenue was (\$225) million compared to (\$247) million in 2013. The operating cash flow loss was \$173 million, including \$17 million of costs related to the Time Warner Cable transaction, compared to a loss of \$138 million in the first quarter of 2013.

### Notes:

- 1 We define Operating Cash Flow as operating income (loss) before depreciation and amortization, excluding impairment charges related to fixed and intangible assets and gains or losses on the sale of assets, if any.
- 2 Earnings per share amounts are presented on a diluted basis.
- 3 We define Free Cash Flow as Net Cash Provided by Operating Activities (as stated in our Consolidated Statement of Cash Flows) reduced by capital expenditures, cash paid for intangible assets and cash distributions to noncontrolling interests; and adjusted for any payments and receipts related to certain nonoperating items, net of estimated tax benefits. The definition of Free Cash Flow excludes any impact from Economic Stimulus packages. These amounts have been excluded from Free Cash Flow to provide an appropriate comparison.

4 Beginning in 2014, our Cable Communications segment revised its methodology for counting customers related to how we count and report customers who reside in multiple dwelling units ("MDUs") that are billed under bulk contracts (the "Billable Customers Method"). For MDUs whose residents have the ability to receive additional cable services, such as additional programming choices or our HD or DVR services, we now count and report customers based on the number of potential billable relationships within each MDU. For MDUs whose residents are not able to receive additional cable services, the MDU is now counted as a single customer. Previously, we had counted and reported these customers on an equivalent billing unit basis by dividing monthly revenue received under an MDU's bulk contract by the standard monthly residential rate where the MDU was located (the "EBU Method"). Video customer metrics for 2013 are now presented on the Billable Customers Method to provide an appropriate comparison. For high-speed Internet and voice customers, the differences in the customer metrics using the Billable Customers Method and the EBU Method were not material and 2013 data has not been adjusted.

All percentages are calculated on whole numbers. Minor differences may exist due to rounding.

###

#### Conference Call and Other Information

Comcast Corporation will host a conference call with the financial community today, April 22, 2014 at 8:30 a.m. Eastern Time (ET). The conference call and related materials will be broadcast live and posted on its Investor Relations website at [www.cmcsa.com](http://www.cmcsa.com) or [www.cmcsk.com](http://www.cmcsk.com). Those parties interested in participating via telephone should dial (800) 263-8495 with the conference ID number 10792182. A replay of the call will be available starting at 12:30 p.m. ET on April 22, 2014, on the Investor Relations website or by telephone. To access the telephone replay, which will be available until Tuesday, April 29, 2014 at midnight ET, please dial (855) 859-2056 and enter the conference ID number 10792182.

From time to time, we post information that may be of interest to investors on our website at [www.cmcsa.com](http://www.cmcsa.com) or [www.cmcsk.com](http://www.cmcsk.com) and on our corporate blog, [www.corporate.comcast.com/comcast-voices](http://www.corporate.comcast.com/comcast-voices). To automatically receive Comcast financial news by email, please visit [www.cmcsa.com](http://www.cmcsa.com) or [www.cmcsk.com](http://www.cmcsk.com) and subscribe to email alerts.

###

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###

#### Caution Concerning Forward-Looking Statements

This press release contains forward-looking statements. Readers are cautioned that such forward-looking statements involve risks and uncertainties that could cause actual events or our actual results to differ materially from those expressed in any such forward-looking statements. Readers are directed to Comcast's periodic and other reports filed with the Securities and Exchange Commission (SEC) for a description of such risks and uncertainties. We undertake no obligation to update any forward-looking statements.

###

#### Non-GAAP Financial Measures

In this discussion, we sometimes refer to financial measures that are not presented according to generally accepted accounting principles in the U.S. (GAAP). Certain of these measures are considered "non-GAAP financial measures" under the SEC regulations; those rules require the supplemental explanations and reconciliations that are in Comcast's Form 8-K (Quarterly Earnings Release) furnished to the SEC.

###

#### About Comcast Corporation

Comcast Corporation (Nasdaq: CMCSA, CMCSK) is a global media and technology company with two primary businesses, Comcast Cable and NBCUniversal. Comcast Cable is the nation's largest video, high-speed Internet and phone provider to residential customers under the XFINITY brand and also provides these services to businesses. NBCUniversal operates 30 news, entertainment and sports cable networks, the NBC and Telemundo broadcast networks, television production operations, television station groups, Universal Pictures and Universal Parks and Resorts. Visit [www.comcastcorporation.com](http://www.comcastcorporation.com) for more information.

**TABLE 1**  
**Condensed Consolidated Statement of Income (Unaudited)**



(in millions, except per share data)	Three Months Ended	
	March 31,	
	2013	2014
<b>Revenue</b>	<u>\$15,310</u>	<u>\$17,408</u>
Programming and production	4,663	5,908
Other operating and administrative	4,466	4,752
Advertising, marketing and promotion	<u>1,147</u>	<u>1,210</u>
	<u>10,276</u>	<u>11,870</u>
<b>Operating cash flow</b>	5,034	5,538
Depreciation expense	1,566	1,569
Amortization expense	<u>401</u>	<u>401</u>
	<u>1,967</u>	<u>1,970</u>
<b>Operating income</b>	3,067	3,568
Other income (expense)		
Interest expense	(653)	(642)
Investment income (loss), net	72	113
Equity in net income (losses) of investees, net	11	32
Other income (expense), net	<u>73</u>	<u>(15)</u>
	<u>(497)</u>	<u>(512)</u>
Income before income taxes	2,570	3,056
Income tax expense	<u>(925)</u>	<u>(1,118)</u>
<b>Net income</b>	1,645	1,938
Net (income) loss attributable to noncontrolling interests and redeemable subsidiary preferred stock	(208)	(67)
<b>Net income attributable to Comcast Corporation</b>	<u>\$1,437</u>	<u>\$1,871</u>
<b>Diluted earnings per common share attributable to Comcast Corporation shareholders</b>	<u>\$0.54</u>	<u>\$0.71</u>
<b>Dividends declared per common share attributable to Comcast Corporation shareholders</b>	<u>\$0.195</u>	<u>\$0.225</u>
<b>Diluted weighted-average number of common shares</b>	<u>2,675</u>	<u>2,645</u>

**TABLE 2**  
**Condensed Consolidated Balance Sheet (Unaudited)**



(in millions)	December 31, 2013	March 31, 2014
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$1,718	\$3,054
Investments	3,573	2,389
Receivables, net	6,376	6,151
Programming rights	928	863
Other current assets	1,480	1,586
Total current assets	<u>14,075</u>	<u>14,043</u>
Film and television costs	4,994	5,058
Investments	3,770	3,090
Property and equipment, net	29,840	29,588
Franchise rights	59,364	59,364
Goodwill	27,098	27,103
Other intangible assets, net	17,329	17,145
Other noncurrent assets, net	<u>2,343</u>	<u>2,382</u>
	<u>\$158,813</u>	<u>\$157,773</u>
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities		
Accounts payable and accrued expenses related to trade creditors	\$5,528	\$5,534
Accrued participations and residuals	1,239	1,256
Deferred revenue	898	776
Accrued expenses and other current liabilities	7,967	7,418
Current portion of long-term debt	3,280	2,819
Total current liabilities	<u>18,912</u>	<u>17,803</u>
Long-term debt, less current portion	44,567	44,581
Deferred income taxes	31,935	31,595
Other noncurrent liabilities	11,384	11,109
Redeemable noncontrolling interests and redeemable subsidiary preferred stock	957	1,053
Equity		
Comcast Corporation shareholders' equity	50,694	51,268
Noncontrolling interests	364	364
Total equity	<u>51,058</u>	<u>51,632</u>
	<u>\$158,813</u>	<u>\$157,773</u>

**TABLE 3**  
**Consolidated Statement of Cash Flows (Unaudited)**



(in millions)

	Three Months Ended March 31,	
	2013	2014
<b>OPERATING ACTIVITIES</b>		
Net income	\$1,645	\$1,938
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,967	1,970
Amortization of film and television costs	1,972	2,876
Share-based compensation	102	119
Noncash interest expense (income), net	42	42
Equity in net (income) losses of investees, net	(11)	(32)
Cash received from investees	23	18
Net (gain) loss on investment activity and other	(132)	(59)
Deferred income taxes	(373)	(226)
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Change in current and noncurrent receivables, net	465	195
Change in film and television costs	(1,577)	(2,722)
Change in accounts payable and accrued expenses related to trade creditors	(281)	82
Change in other operating assets and liabilities	527	285
Net cash provided by operating activities	<u>4,369</u>	<u>4,486</u>
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(1,361)	(1,448)
Cash paid for intangible assets	(182)	(217)
Acquisitions and construction of real estate properties	(1,311)	-
Proceeds from sales of businesses and investments	74	300
Purchases of investments	(88)	(37)
Other	105	(103)
Net cash provided by (used in) investing activities	<u>(2,763)</u>	<u>(1,505)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from (repayments of) short-term borrowings, net	491	(364)
Proceeds from borrowings	2,933	2,187
Repurchases and repayments of debt	(1,811)	(2,260)
Repurchases and retirements of common stock	(500)	(750)
Dividends paid	(429)	(508)
Issuances of common stock	13	20
Purchase of NBCUniversal noncontrolling common equity interest	(10,747)	-
Distributions to noncontrolling interests and dividends for redeemable subsidiary preferred stock	(49)	(66)
Settlement of Station Venture liability	(602)	-
Other	(17)	96
Net cash provided by (used in) financing activities	<u>(10,718)</u>	<u>(1,645)</u>
Increase (decrease) in cash and cash equivalents	(9,112)	1,336
Cash and cash equivalents, beginning of period	10,951	1,718
Cash and cash equivalents, end of period	<u>\$1,839</u>	<u>\$3,054</u>

**TABLE 4**  
**Supplemental Information**



**Alternate Presentation of Net Cash Provided by Operating Activities and Free Cash Flow (Unaudited)**

(in millions)	Three Months Ended March 31,	
	2013	2014
Operating income	\$3,067	\$3,568
Depreciation and amortization	1,967	1,970
Operating income before depreciation and amortization	5,034	5,538
Noncash share-based compensation expense	102	119
Changes in operating assets and liabilities	369	(267)
Cash basis operating income	5,505	5,390
Payments of interest	(617)	(623)
Payments of income taxes	(461)	(186)
Excess tax benefits under share-based compensation	(94)	(151)
Other	36	56
<b>Net Cash Provided by Operating Activities</b>	<b>\$4,369</b>	<b>\$4,486</b>
Capital expenditures	(1,361)	(1,448)
Cash paid for capitalized software and other intangible assets	(182)	(217)
Distributions to noncontrolling interests and dividends for redeemable subsidiary preferred stock	(49)	(66)
Nonoperating items <sup>(1)</sup>	361	69
<b>Total Free Cash Flow</b>	<b>\$3,138</b>	<b>\$2,824</b>

**Reconciliation of EPS Excluding Gains on Sales and Acquisition-Related Items (Unaudited)**

(in millions, except per share data)	Three Months Ended March 31,			
	2013		2014	
	\$	EPS <sup>(2)</sup>	\$	EPS <sup>(2)</sup>
Net income attributable to Comcast Corporation	\$1,437	\$0.54	\$1,871	\$0.71
<i>Growth %</i>			30.2%	31.5%
Gain on sale of investment <sup>(3)</sup>	-	-	(50)	(0.02)
Favorable resolution of a contingency of an acquired company <sup>(4)</sup>	-	-	(27)	(0.01)
Costs related to Time Warner Cable transaction <sup>(5)</sup>	-	-	11	-
Gain on sale of wireless spectrum licenses <sup>(6)</sup>	(67)	(0.03)	-	-
Net income attributable to Comcast Corporation (excluding gains on sales and acquisition-related items)	\$1,370	\$0.51	\$1,805	\$0.68
<i>Growth %</i>			31.8%	33.3%

(1) Nonoperating items include adjustments for cash taxes paid related to certain investing and financing transactions, to reflect cash taxes paid in the year of the related taxable income and to exclude the impacts of Economic Stimulus packages.

(2) Based on diluted weighted-average number of common shares for the respective periods as presented in Table 1.

(3) 1st quarter 2014 net income attributable to Comcast Corporation includes \$80 million of investment income, \$50 million net of tax, resulting from the sale of an investment.

(4) 1st quarter 2014 net income attributable to Comcast Corporation includes \$27 million of other income, resulting from the favorable resolution of a contingency related to the AT&T Broadband transaction.

(5) 1st quarter 2014 net income attributable to Comcast Corporation includes \$17 million of operating costs and expenses, \$11 million net of tax, related to the Time Warner Cable transaction.

(6) 1st quarter 2013 net income attributable to Comcast Corporation includes \$108 million of other income, \$67 million net of tax, resulting from a gain on the sale of wireless spectrum licenses.

*Note:* Minor differences may exist due to rounding.

**TABLE 5****Reconciliation of Consolidated Revenue Excluding 2014 Olympics and Operating Cash Flow Excluding Costs Related to Time Warner Cable Transaction (Unaudited)**

(in millions)	Three Months Ended March 31,		Growth %
	2013	2014	
Revenue	\$15,310	\$17,408	13.7%
2014 Olympics	-	(1,103)	
Revenue excluding 2014 Olympics	<u>\$15,310</u>	<u>\$16,305</u>	6.5%
	2013	2014	Growth %
Operating Cash Flow	\$5,034	\$5,538	10.0%
Costs related to Time Warner Cable transaction	-	17	
Operating Cash Flow excluding costs related to Time Warner Cable transaction	<u>\$5,034</u>	<u>\$5,555</u>	10.4%

**Reconciliation of Consolidated NBCUniversal Revenue Excluding 2014 Olympics (Unaudited)**

(in millions)	Three Months Ended March 31,		Growth %
	2013	2014	
Revenue	\$5,340	\$6,876	28.8%
2014 Olympics	-	(1,103)	
Revenue excluding 2014 Olympics	<u>\$5,340</u>	<u>\$5,773</u>	8.1%

**Reconciliation of Cable Networks Revenue Excluding 2014 Olympics (Unaudited)**

(in millions)	Three Months Ended March 31,		Growth %
	2013	2014	
Revenue	\$2,225	\$2,505	12.6%
2014 Olympics	-	(257)	
Revenue excluding 2014 Olympics	<u>\$2,225</u>	<u>\$2,248</u>	1.0%

**Reconciliation of Broadcast Television Revenue Excluding 2014 Olympics (Unaudited)**

(in millions)	Three Months Ended March 31,		Growth %
	2013	2014	
Revenue	\$1,517	\$2,621	72.8%
2014 Olympics	-	(846)	
Revenue excluding 2014 Olympics	<u>\$1,517</u>	<u>\$1,775</u>	17.0%

Note: Minor differences may exist due to rounding.

**Exhibit 66.c.28 - 66.c.29: Redacted.**

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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

In the Matter of	)	
	)	
Applications of	)	
	)	
Comcast Corp. and	)	MB Docket No. 14-57
Time Warner Cable Inc.	)	
	)	
For Consent To Transfer Control of	)	
Licenses and Authorizations	)	

APPLICATIONS AND PUBLIC INTEREST STATEMENT  
DESCRIPTION OF TRANSACTION, PUBLIC INTEREST SHOWING,  
AND RELATED DEMONSTRATIONS

COMCAST CORPORATION  
300 New Jersey Avenue, N.W.  
Suite 700  
Washington, DC 20001

TIME WARNER CABLE INC.  
901 F Street, N.W.  
Suite 800  
Washington, DC 20004

April 8, 2014

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**REDACTED – FOR PUBLIC INSPECTION****I. INTRODUCTION AND SUMMARY**

The proposed merger of Comcast Corporation (“Comcast”) and Time Warner Cable Inc. (“TWC”) (together, “Applicants”) will provide unique benefits to both consumers and businesses throughout the combined company’s service area, and broadly advance the public interest in multiple concrete ways. This transaction will enhance consumer welfare and competition and deliver substantial public interest benefits, including through competitive entry in market segments neither company can meaningfully serve on its own today. Together, Comcast and TWC will bring to millions of households and businesses of all sizes the next generation of broadband Internet, video, voice, and related technologies and services, and will compete more effectively against communications, media, and technology providers with national and global scale.

The two companies, which serve distinct geographic areas, both began as cable operators offering television services to consumers. Today, each Applicant offers a diverse array of services and technologies to consumers, and increasingly competes in its respective footprint for business customers as well. Offering this broad suite of advanced services and a rich video experience is a capital-intensive, high-fixed-cost endeavor – in a space where competition is intense and continued investment and innovation are essential. And competition is increasing as this marketplace becomes more diverse and expansive.

To date, Comcast has been able to adapt to this changing marketplace through a commitment to network upgrades and substantial investment in research and development. TWC has made significant strides in video technology and business services, though its smaller scale and scope have limited some of those efforts. By combining these two companies’ technological developments and know-how, and their geographic reach, along with Comcast’s

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strong balance sheet, commitment to invest significantly in the TWC systems, and substantial expertise in efficiently upgrading cable systems, the post-transaction company will be well positioned to compete against its national and global competitors, to improve the customer experience today, and to forge ahead to meet future challenges and needs.

For **consumers**, this means expanded access to, and more rapid deployment of, the industry-leading technology, services, and programs that Comcast is dedicated to providing, including:

- High-speed broadband services available on bundled and standalone bases;
- A fully upgraded network that provides highly reliable and secure service;
- A nationally acclaimed and comprehensive low-income broadband adoption program;
- The most robust and advanced VOD and TV Everywhere experience;
- The best-in-class video technology and user interface;
- The most successful alternative to traditional voice services; and
- A commitment to diversity and inclusion, and to providing accessible solutions to people with disabilities.

Nowhere will these benefits be more important than in the broadband space. While TWC has upgraded its entire network to DOCSIS 3.0 and has plans to improve speeds and further digitize its network, Comcast has already transitioned to a fully digital network, stands ready to implement DOCSIS 3.1 (the next-generation broadband standard), and has rolled out some of the fastest Internet speeds and the largest Wi-Fi network in the nation. This transaction will accelerate network upgrades in the TWC markets and produce a more advanced broadband network. As the Commission has recognized, such network investment not only answers essential consumer needs in the short term, but also will spur demand for the applications and content of tomorrow. And substantial investment by one network provider provokes responsive

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investment and accelerated deployment by competitors – a dynamic richly borne out by the past two decades of spirited broadband competition.

Significant benefits will result for **business** customers, as well. Comcast and TWC have made some inroads into the business market, offering small- and medium-sized businesses innovative services and a better value proposition than was previously available to such customers from legacy providers – and provoking competitive responses by those incumbents. Each company has had some success, but its limited geographic scope has constrained its ability to offer truly meaningful competition to the established providers. The combined company's greater geographic reach and its combined expertise and services will allow it to become a stronger competitor, offering businesses of all sizes better options, lower prices, higher quality, and enhanced services.

Likewise, the transaction will result in new options for **advertisers**. The combined company will have the scale to market on a near-national basis and to invest in the development and deployment of dynamic ad insertion and addressable technologies for use in VOD and other cable and online programming that will bring added value to programmers and advertisers. This, in turn, should incentivize programmers to make additional popular content available on VOD and other platforms, to the benefit of consumers.

Finally, the transaction will extend a variety of other public interest benefits to the TWC markets, including conditions and commitments resulting from the NBCUniversal transaction. These include application of the Open Internet rules and Comcast's commitment to offer standalone broadband, among others. The TWC markets also will benefit from Comcast's deep dedication to broadband adoption, diversity, accessibility, and cybersecurity.

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The Commission can be confident in all the benefits described above, not only because many are essential to the transaction's rationale, but also because of Comcast's record of keeping its promises in prior transactions to bring new benefits to consumers and competition. Time and time again, Comcast has delivered – and over-delivered – on its promises to unleash more investment and innovation. Together with TWC, it is fully poised to do so again, including a commitment to add substantial incremental investments to TWC's planned upgrades and enhancements over the next three years.

In contrast to these clear public interest benefits, there is no credible theory of harm arising from the transaction. After the transaction, customers in the Comcast and TWC markets will have as many providers to choose from – for Internet, video, or voice – as they have today. Said another way, there is no change in local market share – the only geographic market of any relevance to the core services at issue here – in *any* market Comcast or TWC serves, because Comcast and TWC do not compete today, and Comcast will simply replace TWC as the provider in the latter's service areas. In contrast to certain proposed mergers of direct competitors that were met with skepticism because they would have reduced choice for consumers, there is no horizontal consolidation issue here.

Vertical effects similarly raise no concerns. In the past, there was concern about “buying power” in the video marketplace, on the theory that allowing a cable company to serve too many households would give that company too much influence over the viability of unaffiliated programming networks. That concern was tested in 2001, and again in 2009, in connection with a 30 percent cable ownership cap that had been put in place by the Commission. In both cases, the court concluded that this theoretical concern was not supported by the marketplace facts and decisively rejected a 30 percent standard. As the court said in 2009:

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[T]he record is replete with evidence of ever increasing competition among video providers. *Cable operators, therefore, no longer have the bottleneck power over programming that concerned the Congress in 1992.*

The court also noted that, “[b]ased upon the record before the [same] court [in 2001], the [FCC’s horizontal ownership] subscriber limit . . . could not have been lower than 60%,” and went on to conclude that, “[i]n light of the changed marketplace, the Government’s justification for the 30% cap is even weaker now than in 2001.”

Competition has only *increased* since this ruling. Notably, since 2009 when the court last rejected the 30 percent cap, the two nationwide DBS providers have added another 1.7 million subscribers and the telco video providers have added 6.2 million subscribers, while traditional cable operators have *lost* 7.3 million video subscribers. And this is just one dimension of the competition that Comcast and TWC face in a dynamic and increasingly mobile and global marketplace marked by innovation and consumer choice. Internet and device companies, with newfound global scale, also are competing aggressively in the video marketplace and in the larger broadband ecosystem. For example, Netflix now has over 33 million customers in the United States alone, with another 11 million international customers; Google’s video websites now attract over 157 million unique viewers each month who watch nearly 13 billion videos; Apple iTunes viewers purchase over 800,000 TV episodes and over 350,000 movies *per day*. Apple has launched Apple TV and seems poised to launch a more comprehensive set-top box product. Likewise, Amazon currently offers a streaming video service and just announced the planned release of Amazon Fire TV, an advanced video set-top device. And some of these companies have annual revenues and/or market capitalizations that are two or three times greater than Comcast’s. On top of this, there are potential new online entrants, and Verizon, Dish, and DirecTV have been making progress on this front just in the last month. In the evolving video

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marketplace in which these companies have thrived, there is no reason why a cable company should be limited in evolving as well, especially one that has time and again demonstrated its willingness to meet and enhance competition through innovation and investment. Added scale will make that innovation go faster and that investment go farther.

Notwithstanding the absence of plausible horizontal harms, however, Comcast is prepared to divest systems totaling approximately 3 million video subscribers, such that Comcast-managed subscribers will remain at a level that is below the now-vacated 30 percent horizontal limit.

Nor is there cause for concern in the broadband marketplace. Comcast and TWC provide broadband services in different geographic areas, so there is no reduction in consumer choice as a result of this transaction. Internet service providers (“ISPs”) like Comcast and TWC are not aggregators of content for their broadband customers, but instead serve as a means of access for any and all of the Internet content their customers want. And they do so against an increasingly competitive backdrop, in which traditional phone companies as well as new providers such as Google Fiber and others are actively pursuing market share. Indeed, the Commission’s own data demonstrate that consumers enjoy a high level of choice among providers. Furthermore, wireless broadband is increasingly emerging as a competitive alternative to wired broadband given the accelerating speed and reliability of advanced wireless networks, the growing value of mobility, and the fact that consumers increasingly use tablets and smartphones as “first screens.” In this highly competitive marketplace, there is simply no economic incentive for Comcast to use its broadband network to interfere with its customers’ access to edge providers’ content on the backbone or the last mile – Comcast customers place a high premium on being able to access any Internet content they want. In any event, Comcast’s Open Internet commitment removes all

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doubts and provides an additional regulatory safeguard – one that is not present for any other ISP in the market.

In sum, an objective weighing of the significant public interest benefits that are inherent in this transaction against the speculative and ill-defined harms that are unlikely to arise should lead to ready approval.

**II. DESCRIPTION OF THE TRANSACTION****A. The Proposed Transaction**

Comcast has entered into an agreement with TWC whereby Comcast will acquire 100 percent of TWC's equity in exchange for Comcast Class A shares ("CMCSA"). The proposed transaction is a straightforward acquisition of TWC, and Comcast plans to retain all of TWC's existing assets, subject to divestitures of cable systems totaling approximately 3 million subscribers. As illustrated in the structure charts included in Exhibit 3, at the closing of the transaction, Tango Acquisition Sub, Inc. ("Merger Sub"), a new direct wholly owned subsidiary of Comcast, will merge with TWC under Delaware law. At that time, the separate corporate existence of Merger Sub will cease and, thereafter, TWC will be a wholly owned subsidiary of Comcast. Contemporaneously with the merger, each TWC share will be converted into the right to receive 2.875 shares of CMCSA.

**B. The Applicants****1. Comcast**

Comcast Corporation is a global media and technology company with two primary businesses – Comcast Cable and NBCUniversal – with approximately 136,000 employees. As illustrated in the first map in Exhibit 7, Comcast's network facilities cover portions of 39 states

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and the District of Columbia, and Comcast faces strong competition in each of those areas for all of its services.

a. Comcast Cable

Comcast Cable is a leading provider of video, high-speed Internet, digital voice, and other next-generation services and technologies to millions of residential customers and small- and medium-sized businesses.

i. Cable Systems and Video Services

Comcast currently owns and operates cable systems serving approximately 21.7 million video customers, including residential and business customers.<sup>1</sup> Since 1996, Comcast and its predecessors-in-ownership have invested tens of billions of dollars to upgrade network infrastructure by installing fiber optics and other technological enhancements. Comcast led the industry in transitioning to digital and has already implemented an all-digital platform across its systems.

Comcast provides a variety of video services with access to tens of thousands of entertainment choices under the Xfinity brand. Customers enjoy a full array of both traditional and advanced video products, including hundreds of channels of linear video programming from local broadcast stations, premium cable programmers, and national, regional, and local cable networks; programming packages tailored for diverse audiences; pay-per-view services; an impressive range of high-definition (“HD”) programming; approximately 50,000 video-on-demand (“VOD”) choices on Xfinity On Demand, most of which are available to digital video customers at no additional charge; digital video recorder (“DVR”) services; and interactive

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<sup>1</sup> Comcast Corp., Annual Report (Form 10-K), at 3 (2013) (“Comcast 10-K”).

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programming guides. In addition, Comcast recently began to offer its customers the option to purchase and own digital copies of movies and television shows.

Through Xfinity.com/TV and the Xfinity TV Go App, Comcast customers can stream over the Internet to their PCs and mobile devices over 50 linear cable networks and thousands of hours of the latest TV shows and popular movies, and, with the Xfinity TV Go App, Comcast customers can even download movies and shows to their mobile device to take anywhere. The most striking example of Comcast's efforts to provide its customers with cutting-edge services is Comcast's next-generation entertainment operating system, the X1 platform, which is now available across Comcast's entire footprint. The X1 platform provides a state-of-the-art cloud-based user interface and, in select markets, the ability to stream to computers and mobile devices in the home practically the entire channel lineup (including PEG and must-carry channels). And with the launch of the new X1 DVR with cloud technology, Comcast customers will be able to record more shows; access them in their homes on multiple TVs, computers, and mobile devices; and download their recordings to mobile devices.

ii. Broadband Internet

Comcast owns and operates one of the most robust networks in the country. Comcast's high-speed Internet service currently has approximately 20.7 million customers, including residential and business customers.<sup>2</sup> Comcast has deployed DOCSIS 3.0 to almost its entire broadband footprint.<sup>3</sup>

Comcast's investments of tens of billions of dollars over the past 20 years to continually upgrade its network have led to clear benefits to customers. Comcast has increased broadband

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<sup>2</sup> Comcast 10-K, at 3.

<sup>3</sup> Comcast has deployed DOCSIS 3.0 to 99.8 percent of its footprint.

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speeds 12 times in 12 years, and the vast majority of Comcast customers now subscribe to speed tiers with download speeds of 25 Mbps and upload speeds of 5 Mbps along with the fastest in-home Wi-Fi – in fact, over one-third of Comcast customers have download speeds of 50 Mbps or more and upload speeds of 10 Mbps or more. Comcast offers broadband options at multiple speed levels. For customers that want ultra high-speed Internet, Comcast now offers a speed tier of 105 Mbps downstream and 20 Mbps upstream throughout much of its service area, and has begun to offer a tier of 505 Mbps downstream and 100 Mbps upstream in an expanding number of markets by leveraging fiber deeper into its network. Soon, Comcast will be able to offer speeds of 250 Mbps downstream and 50 Mbps upstream to customers' homes across its footprint using its existing Hybrid Fiber/Coax ("HFC") network infrastructure.

iii. Voice Services

Delivering on its promise made in its acquisition of AT&T Broadband over ten years ago to bring new competition to the market for voice services,<sup>4</sup> Comcast now provides voice services to approximately 10.7 million customers, including residential and business customers.<sup>5</sup> Using Voice over Internet Protocol ("VoIP") technology, Comcast provides competitive facilities-based voice services to deliver digital-quality phone service, plus enhanced features that are integrated with other Comcast services. Comcast has brought significant innovations to its voice service in the past several years and offers Xfinity Voice customers unlimited nationwide talk and text (including on their mobile devices over Wi-Fi using Voice 2go on the Xfinity Connect App), access to voicemail on the Xfinity Connect website, and Readable Voicemail that enables

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<sup>4</sup> See *Applications for Consent to the Transfer of Control of Licenses from Comcast Corp. and AT&T Corp., Transferors to AT&T Comcast Corp., Transferee*, Memorandum Opinion and Order, 17 FCC Rcd. 23246 ¶¶ 186-188 (2002) (noting that Comcast and AT&T asserted that the merger would "further accelerate the deployment of facilities-based local telephone competition, creating substantial public interest benefits"), *aff'd sub nom. Consumer Fed'n of Am v. FCC*, 348 F.3d 1009 (D.C. Cir. 2003) ("*Comcast-AT&T Broadband Order*").

<sup>5</sup> Comcast 10-K, at 3.

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customers to read their voicemail messages over email. By integrating Xfinity Voice with other services, Comcast provides innovative features like Universal Caller ID, which identifies a caller on a customer's TV, computer, or mobile device.

iv. Business Services

Comcast is an aggressive new entrant in the business services market, currently focused on serving small- and medium-sized businesses. Comcast's services for business customers include broadband, voice, and video offerings; a website hosting service; an interactive tool that allows customers to share, coordinate, and store documents online; hosted voice services using cloud network servers; a business directory listing; "Be Anywhere" functionality that allows customers to make and receive calls from any device at any location with one phone number; and an integrated suite of cloud-based business solutions like data backup, security, and online storage. Comcast also provides advanced voice services and Ethernet network services to business customers that connect multiple locations. Moreover, Comcast is active in the wholesale business, particularly with respect to cellular backhaul services that help wireless carriers manage their network bandwidth more efficiently by leasing fiber facilities to transport wireless traffic from their cell towers.

v. Advertising

Comcast Spotlight is the advertising sales division of Comcast Cable and provides a variety of advertising solutions for local, regional, and national advertisers. Comcast Spotlight offers television, online, VOD, multi-screen, and addressable advertising services. Currently, Comcast Spotlight has a presence in almost 80 markets. Comcast, together with TWC and Cox Media, is also an owner of NCC Media, which represents national spot advertising sales for cable, satellite, and telco programming distributors across the country.

**REDACTED – FOR PUBLIC INSPECTION**vi. Cable Programming

Comcast directly owns interests in the following cable program networks and services: MLB Network (8.3 percent), NHL Network (15.6 percent), Midco Sports Network (50 percent), iN Demand (54 percent), and Streampix (100 percent), as well as the following local origination channels: Pittsburgh Cable News Network (30 percent), C2 (100 percent), Comcast Entertainment Television (100 percent), Comcast Hometown Network (100 percent), Comcast Television Network (100 percent), CN100 (100 percent), HoosierTV (100 percent), Utah Channel 6 (100 percent), and WNFM-TV (100 percent).<sup>6</sup>

b. NBCUniversal

NBCUniversal, which is owned and controlled by Comcast, is one of the world's leading media, news, and entertainment companies. NBCUniversal operates the NBC and Telemundo broadcast television networks. Ten local NBC stations are owned and operated by NBCUniversal. Telemundo's operations include 17 owned-and-operated local stations. NBCUniversal's national cable networks include the following (100 percent ownership unless otherwise noted): Bravo, Chiller (80 percent), Cloo (formerly Sleuth), CNBC, CNBC World, E!, Esquire Network (formerly Style), G4, Golf Channel, MSNBC, mun2, NBC Sports Network (formerly Versus), Oxygen, Sprout, SyFy, Universal HD, and USA Network. In addition, NBCUniversal owns non-controlling interests in RLTV (7.7 percent), Universal Sports (11 percent), ShopNBC (14.5 percent), FEARnet (31 percent), The Weather Channel Companies (25 percent), and TV One (47.2 percent). NBCUniversal also owns New England Cable News (100

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<sup>6</sup> Comcast also has interests in other, smaller local origination channels.

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percent), a regional news network, and has minority interests in Television Korea 24 (1 and 2) (14 percent) and Saigon Broadcasting Television Network (50 percent).<sup>7</sup>

Several regional sports networks (“RSNs”) are also part of NBCUniversal’s cable programming portfolio. NBCUniversal owns interests (with percentage interests shown in parenthesis) in Comcast SportsNet Houston (22.5 percent),<sup>8</sup> Comcast SportsNet Chicago (30 percent), Comcast SportsNet Bay Area (67 percent), Comcast SportsNet Philadelphia (75 percent), Comcast SportsNet New England (80 percent), Cable Sports Southeast (81 percent),<sup>9</sup> Comcast Sports Southwest (100 percent), Comcast SportsNet California (100 percent), Comcast SportsNet Mid-Atlantic (100 percent), Comcast SportsNet Northwest (100 percent), and The Comcast Network (100 percent). In addition, NBCUniversal has a minority interest in SportsNet New York (8.2 percent).<sup>10</sup>

NBCUniversal has other businesses as well, including film and television production studios, theme parks, and online services.

## **2. Time Warner Cable**

TWC is a leading provider of video, high-speed Internet, and voice services to residential and business customers. As illustrated in the map in Exhibit 7, TWC’s network facilities cover

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<sup>7</sup> NBCUniversal also has a 33 1/3 percent non-controlling interest in Hulu. Pursuant to the NBCUniversal Conditions, Comcast has no management rights in Hulu.

<sup>8</sup> On February 4, 2014, a bankruptcy court entered an order for relief in connection with Comcast SportsNet Houston, thus making the network a debtor under Title 11 of the United States Code. The bankruptcy case is proceeding and it has yet to be determined whether the network will be reorganized, sold, or liquidated.

<sup>9</sup> Cable Sports Southeast recently announced plans to cease operations on May 31, 2014.

<sup>10</sup> NBCUniversal’s ownership of cable program networks has actually *decreased* since the Comcast-NBCUniversal transaction. In particular, NBCUniversal is no longer affiliated with 11 A&E national video programming services (i.e., A&E, Bio, Crime & Investigation Network, Current, History, History En Espanol, History International, Lifetime, Lifetime Movie Network, Lifetime Real Women, Military History). See Michael J. de la Merced, *Comcast to Sell Back Its Stake in A&E for \$3 Billion*, N.Y. Times, July 10, 2012, available at [http://dealbook.nytimes.com/2012/07/10/comcast-to-sell-back-its-stake-in-ae-for-3-billion/?\\_php=true&\\_type=blogs&\\_r=0](http://dealbook.nytimes.com/2012/07/10/comcast-to-sell-back-its-stake-in-ae-for-3-billion/?_php=true&_type=blogs&_r=0).

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portions of 31 states, and TWC faces strong competition in each of those areas for all of its services.

a. Cable Systems and Video Services

TWC is the fourth-largest multichannel video programming distributor (“MVPD”) in the United States, with cable systems serving approximately 11.4 million residential and business customers. TWC has developed and deployed switched digital video technology, and its cable systems typically provide access to hundreds of linear channels and 18,000 hours of VOD programming. TWC services include features like StartOver, which allows customers to restart a live program in progress, and LookBack, which allows customers to watch programs up to three days after they air live, all without a DVR. TWC offers various tiers and packages of video programming, as well as specialty programming tiers tailored to particular interests. TWC’s all-digital migration is complete in about 17 percent of its footprint, and TWC plans to be all-digital in 75 percent of its footprint by the end of 2016.

Like Comcast, TWC offers live streaming service and access to on-demand services to its customers on a range of devices in the home using TWC’s TV apps. TWC’s customers also can access some video programming on computers outside the home via [www.twctv.com](http://www.twctv.com).

b. Broadband Internet

TWC serves approximately 11.6 million high-speed Internet customers, including residential and business customers. TWC offers a range of speeds at different price points – from up to 2 Mbps downstream and up to 1 Mbps upstream to up to 50 Mbps downstream and up to 5 Mbps upstream – in most markets. And, in certain select markets (such as New York City and Los Angeles), TWC recently began offering speed tiers of up to 75-100 Mbps downstream and up to 5 Mbps upstream.

**REDACTED – FOR PUBLIC INSPECTION**c. Voice Services

TWC serves approximately 5.3 million residential and business voice customers. TWC's broadband infrastructure has enabled it to deploy interconnected VoIP services throughout its geographic footprint. Indeed, TWC was the first multi-system cable operator – and one of the first service providers – to introduce a mass-market, facilities-based VoIP service, Digital Phone, bringing a reliable, feature-rich, competitive voice alternative to millions of residential consumers. TWC's voice services offer customers unlimited local and long-distance calling throughout the United States and to Canada, Puerto Rico, and Mexico, together with a variety of calling features including call waiting, call forwarding, distinctive ring tones, and caller ID on the customer's telephone, computer, or television. TWC also provides a free web portal, VoiceZone, which allows voice customers to customize their service features, set up caller ID on personal computers, block unwanted calls, and access voicemail, all using the Internet.

d. Business Services

TWC offers a wide variety of products and services to business customers, including high-capacity transmission services (such as Metro Ethernet), video, high-speed Internet, and voice services, as well as hosting and cloud computing services (through its NaviSite subsidiary), all in competition with the incumbent local exchange carriers ("ILECs") and other service providers. TWC offers these services on a retail and wholesale basis using its own network infrastructure and third-party infrastructure. TWC's retail customers consist primarily of small- and medium-sized businesses, and TWC also has made some initial strides in serving enterprise businesses with multiple locations, as well as government, education, and non-profit institutions. In addition, TWC offers wholesale transport services to wireless providers for cell tower backhaul and to other service providers. In December 2013, TWC acquired DukeNet

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Communications LLC, adding new fiber capacity to serve its business customers.

e. Advertising

TWC sells video and online advertising to local, regional, and national customers. As noted above, TWC, together with Comcast and Cox, is an owner of NCC Media.

f. Cable Programming

TWC owns and manages a number of local news channels (including Time Warner Cable News NY1), local sports channels, and local lifestyle channels.<sup>11</sup> In October 2012, TWC launched two RSNs, one in English and one in Spanish, that carry Los Angeles Lakers basketball games, as well as other regional sports programming. Some of TWC's local channels also include qualifying RSN content, including two that carry professional sports programming in Spanish and 12 others that carry local or regional college sports programming. In addition, TWC has a minority interest in SportsNet New York (26.8 percent), and provides affiliate sales, ad sales, and certain other production and technical services to (but has no ownership interest in) SportsNet LA, an RSN that carries the Los Angeles Dodgers' baseball games and other sports programming and that is owned and was recently launched by American Media Productions, LLC. TWC also has attributable interests in a national network, MLB Network (6.35 percent), and in the iN Demand programming service (29.3 percent).

### **III. STANDARD OF REVIEW**

The Commission has stated that it will approve a transfer of control of authorizations and licenses connected with a proposed transaction under Sections 214(a) and 310(d) of the Act if the proposed transaction does not violate a statute or rule, and if, after weighing “the potential public interest harms of the merger against any potential public interest benefits,” it concludes that, “on

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<sup>11</sup> A list of TWC's programming interests is attached as Exhibit 8.

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balance,” the transfer “serves the public interest, convenience and necessity.”<sup>12</sup> This standard involves balancing potential public interest benefits from the transfer against potential harms,<sup>13</sup> and the applicants must show “by a preponderance of the evidence, that the proposed transaction, on balance, will serve the public interest.”<sup>14</sup> In assessing the potential public interest benefits of a proposed transaction, the Commission “focuses on demonstrable and verifiable public interest

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<sup>12</sup> *Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorizations from MediaOne Group, Inc., Transferor, to AT&T Corp., Transferee, Memorandum Opinion and Order, 15 FCC Rcd. 9816 ¶ 8 (2000) (“AT&T-MediaOne Order”); see also Applications of AT&T Inc. and Atlantic Tele-Network, Inc., Memorandum Opinion and Order, 28 FCC Rcd. 13670 ¶ 12 (2013) (“AT&T-ATN Order”); Applications Filed for Transfer of Control of Insight Commc’ns Co. to Time Warner Cable Inc., Memorandum Opinion and Order, 27 FCC Rcd. 497 ¶ 7 (2012) (“Insight-TWC Order”); Applications filed by Qwest Commc’ns Int’l Inc. and CenturyTel, Inc. d/b/a CenturyLink for Consent to Transfer of Control, Memorandum Opinion and Order, 26 FCC Rcd. 4194 ¶ 7 (2011) (“CenturyLink-Qwest Order”); Applications for Consent to the Assignment and/or Transfer of Control of Licenses from Adelphia Commc’ns Corp. (and Subsidiaries, Debtors-In-Possession), Assignors, to Time Warner Cable Inc. (Subsidiaries), Assignees, Adelphia Commc’ns Corp. (and Subsidiaries, Debtors-In-Possession), Assignors and Transferors, to Comcast Corp. (Subsidiaries), Assignees and Transferees, Memorandum Opinion and Order, 21 FCC Rcd. 8203 ¶ 23 (2006) (“Adelphia Order”); AT&T Inc. and BellSouth Corp. Application for Transfer of Control, Memorandum Opinion and Order, 22 FCC Rcd. 5662 ¶ 19 (2007) (“AT&T-BellSouth Order”).*

<sup>13</sup> *See General Motors Corp. & Hughes Elec. Corp., Transferors, and News Corp., Transferee, for Authority to Transfer Control, Memorandum Opinion and Order, 19 FCC Rcd. 473 ¶ 15 (2004) (“News Corp.-Hughes Order”); see also AT&T-ATN Order ¶ 12; CenturyLink-Qwest Order ¶ 7; AT&T-BellSouth Order ¶ 19; Applications for Consent to the Transfer of Control of Licenses from Comcast Corp. and AT&T Corp., Transferors, to AT&T Comcast Corp., Transferee, Memorandum Opinion and Order, 17 FCC Rcd. 23246 ¶ 26 (2002) (“Comcast-AT&T Broadband Order”).*

<sup>14</sup> *AT&T-ATN Order ¶ 12; Applications of SOFTBANK CORP., Starburst II, Inc., Sprint Nextel Corp., and Clearwire Corp. for Consent to Transfer Control of Licenses and Authorizations; Petitions for Reconsideration of Applications of Clearwire Corp. for Pro Forma Transfer of Control, Memorandum Opinion and Order, Declaratory Ruling, and Order on Reconsideration, 28 FCC Rcd. 9642 ¶ 23 (2013) (“Softbank-Sprint Order”); SkyTerra Commc’ns, Inc. Transferor, & Harbinger Capital Partners Funds, Transferee, Applications for Consent to Transfer of Control of SkyTerra Subsidiary, LLC, Memorandum Opinion and Order and Declaratory Ruling, 25 FCC Rcd. 3059 ¶ 10 (2010) (“SkyTerra-Harbinger Order”); Applications of AT&T Inc. and Centennial Commc’ns Corp. for Consent to the Transfer Control of Licenses, Authorizations, and Spectrum Leasing Arrangements, Memorandum Opinion and Order, 24 FCC Rcd. 13915 ¶ 27 (2009) (“AT&T-Centennial Order”); Applications for Consent to Transfer of Control of Licenses; XM Satellite Radio Holdings Inc., Transferor, to Sirius Satellite Radio Inc., Transferee, Memorandum Opinion and Order and Report and Order, 23 FCC Rcd. 12348 ¶ 30 (2008); News Corp. & DIRECTV Group, Inc., Transferors, and Liberty Media Corp., Transferee, Applications for Authority to Transfer Control, Memorandum Opinion and Order, 23 FCC Rcd. 3265 ¶ 22 (2008); AT&T-BellSouth Order ¶ 19; Verizon Commc’ns Inc. & MCI, Inc. Applications for Approval of Transfer of Control, Memorandum Opinion and Order, 20 FCC Rcd. 18433 ¶ 16 (2005) (“Verizon-MCI Order”); SBC Commc’ns Inc. & AT&T Corp. Applications for Approval of Transfer of Control, Memorandum Opinion and Order, 20 FCC Rcd. 18290 ¶ 16 (2005) (“SBC-AT&T Order”).*

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benefits that could not be achieved if there were no merger.”<sup>15</sup> Its evaluation also includes, among other things, a “deeply rooted preference for preserving and enhancing competition in relevant markets [and] accelerating private sector deployment of advanced services . . . .”<sup>16</sup> In particular, consistent with the Commission’s broader public interest mandate, such analysis may also entail assessing whether the transaction will affect the quality of communications services or will result in the provision of new or additional services.<sup>17</sup>

The Commission’s analysis of potential harms entails both an examination of potential anticompetitive effects and an inquiry into whether the transaction would violate the Act or the Commission’s implementing rules, or otherwise substantially frustrate the Commission’s implementation or enforcement of the Act.<sup>18</sup> The Commission has repeatedly stressed that a

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<sup>15</sup> *AT&T-MediaOne Order* ¶ 154; see also *Applications of Nextel Commcn’s, Inc. & Sprint Corp. for Consent to Transfer Control of Licenses and Authorizations*, Memorandum Opinion and Order, 20 FCC Rcd. 13967 ¶ 129 (2005) (“*Sprint-Nextel Order*”) (“We examine whether operation of the combined entity could yield consumer benefits unattainable absent a merger.”). In particular, the Commission’s review is confined to the transaction before it rather than the relative merit of any hypothetical alternative transactions. See, e.g., *Citadel Commc’ns Co., Ltd. and Act III Broad. of Buffalo, Inc.*, Memorandum Opinion and Order, 5 FCC Rcd. 3842 ¶ 16 (1990) (“Section 310(d) of the Act limits our consideration to the buyer proposed in an assignment application, and we cannot consider whether some other proposal might comparatively better serve the public interest.”).

<sup>16</sup> See *AT&T-ATN Order* ¶ 13; *Softbank-Sprint Order* ¶ 24; *AT&T-Centennial Order* ¶ 28; *CenturyLink-Qwest Order* ¶ 8.

<sup>17</sup> See *Applications of Comcast Corp., General Elec. & NBCUniversal, Inc. for Consent to Assign Licenses and Transfer Control of Licenses*, Memorandum Opinion and Order, 26 FCC Rcd. 4238 ¶ 23 (2011) (“*Comcast-NBCUniversal Order*” or “*NBCUniversal Order*”); *Comcast-AT&T Broadband Order* ¶ 27; *Wavecom Solutions Corp., Transferor, & Hawaiian Telcom Inc., Transferee, Applications for Consent to Transfer of Control*, Memorandum Opinion and Order and Declaratory Ruling, 27 FCC Rcd. 16081 ¶ 8 (2012); *Applications filed by Global Crossing Ltd. & Level 3 Commc’ns, Inc. for Consent to Transfer Control*, Memorandum Opinion and Order and Declaratory Ruling, 26 FCC Rcd. 14056 ¶ 11 (2011) (“*Level 3-Global Crossing Order*”); *CenturyLink-Qwest Order* ¶ 8; see also Remarks of Jonathan Sallet, Acting General Counsel, FCC, Conference on Competition and IP Policy in High-Technology Industries, Stanford, CA (Jan. 22, 2014), available at [http://transition.fcc.gov/Daily\\_Releases/Daily\\_Business/2014/db0124/DOC-325267A1.pdf](http://transition.fcc.gov/Daily_Releases/Daily_Business/2014/db0124/DOC-325267A1.pdf).

<sup>18</sup> See *News Corp.-Hughes Order* ¶ 16; *AT&T-MediaOne Order* ¶ 9; *Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorizations from Tele-Commc’ns, Inc., Transferor, to AT&T Corp., Transferee*, Memorandum Opinion and Order, 14 FCC Rcd. 3160 ¶ 14 (1998) (“*AT&T-Tele-Communications Order*”) (“To apply our public interest test, then, we must determine whether the merger violates our rules, or would otherwise frustrate our implementation or enforcement of the Communications Act and federal communications policy. That policy is, of course, shaped by Congress and deeply rooted in a preference for competitive processes and outcomes.”).

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license transfer proceeding must focus on *transaction-specific* harms (and benefits) and is not an open forum for airing pre-existing disputes or industry-wide policy debates, which are better addressed, as appropriate, in separate adjudicatory or industry-wide rulemaking proceedings.<sup>19</sup>

As set forth in Section VI below, the transaction complies fully with the Communications Act and the Commission's rules. Thus, the Commission's task in reviewing this transaction is to weigh the potential public interest benefits against the potential public interest harms. As demonstrated in Sections IV and V, the proposed transaction will generate substantial public interest benefits and no public interest harms.<sup>20</sup> Accordingly, the Applicants respectfully request that the Commission approve the transaction and grant its consent to the transfer of control of TWC's licenses and authorizations to Comcast.

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<sup>19</sup> See, e.g., *Applications of Cellco P'ship d/b/a/ Verizon Wireless & SpectrumCo LLC and Cox TMI, LLC for Consent to Assign AWS-1 Licenses*, Memorandum Opinion and Order and Declaratory Ruling, 27 FCC Rcd. 10698 ¶ 89 (2012) ("We also find that any issues of interoperability in the Lower 700 MHz band raised by commenters are not transaction-related. The interoperability issues in the Lower 700 MHz band long predate these transactions. Further, the Commission has already initiated a rulemaking proceeding earlier this year to address these issues on an industry-wide basis."); *AT&T-Centennial Order* ¶ 141 ("We find that the proposed conditions prohibiting exclusive handset arrangements are not narrowly tailored to prevent a transaction-specific harm, but apply broadly across the industry and are more appropriate for a Commission proceeding where all interested industry parties have an opportunity to file comments. RCA filed a petition asking the Commission to review exclusive handset agreements on an industry-wide basis, and the Commission will be able to develop a comprehensive approach on handset exclusivity based on a full record in that proceeding.") (internal citations omitted); *AT&T-BellSouth Order* ¶ 56 n.154 ("To the extent commenters allege that . . . contracts of the type used by AT&T and BellSouth are anticompetitive in general, this is not a merger-specific harm, but rather is an issue that has been raised, and is better addressed, in the Commission's pending special access rulemaking."); *Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorizations by Time Warner Inc. and America Online, Inc., Transferors, to AOL Time Warner Inc., Transferee*, Memorandum Opinion and Order, 16 FCC Rcd. 6547 ¶ 6 (2001) ("*AOL-Time Warner Order*") ("It is important to emphasize that the Commission's review focuses on the potential for harms and benefits to the policies and objectives of the Communications Act that flow from the proposed transaction – i.e., harms and benefits that are 'merger-specific.' The Commission recognizes and discourages the temptation and tendency for parties to use the license transfer review proceeding as a forum to address or influence various disputes with one or the other of the applicants that have little if any relationship to the transaction or to the policies and objectives of the Communications Act.").

<sup>20</sup> Applicants recognize that the Commission must conduct its own evaluation and make its own judgment, after hearing from interested parties. Applicants will cooperate in that process and invite a constructive dialogue that addresses any legitimate issues. At the same time, merger proceedings too often are used by various parties as a forum to advance imagined and even contrived grievances, and such tactics must not be permitted to obstruct or delay the Commission's processes.

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**IV. THE TRANSACTION IS PRO-CONSUMER, PRO-COMPETITIVE, AND WILL GENERATE SUBSTANTIAL PUBLIC INTEREST BENEFITS.**

**A. Overview**

**1. Applicants Compete in a Dynamic, Expanding, and Highly Competitive Marketplace.**

The combination of Comcast and TWC will create a world-class communications, media, and technology company significantly better positioned than either company alone to bring consumers the advanced services they want now and will need in the future and to keep America at the forefront of technology and innovation.

This is no longer the media and communications industry of the 1992 Cable Act or the 1996 Telecommunications Act, or even the industry that the FCC and antitrust agencies analyzed in the Comcast-AT&T Broadband and Adelphia merger proceedings or in the Comcast-NBCUniversal transaction four years ago. Rather, it is a larger, more complex, and multifaceted ecosystem, in which an array of sophisticated companies with national or even global footprints offer stiff competition for all or key components of Comcast's and TWC's businesses.

Established satellite providers are evolving, as are the major telco companies, which have the benefit not only of robust wireline footprints, but also of national wireless platforms. As Verizon's CFO recently noted, "I'm the fifth largest cable company now. I also have something that cable doesn't have, which is 100 million eyeballs on wireless devices."<sup>21</sup> Indeed, Verizon has indicated that it intends to add a wireless video product that can bring "24-hour linear

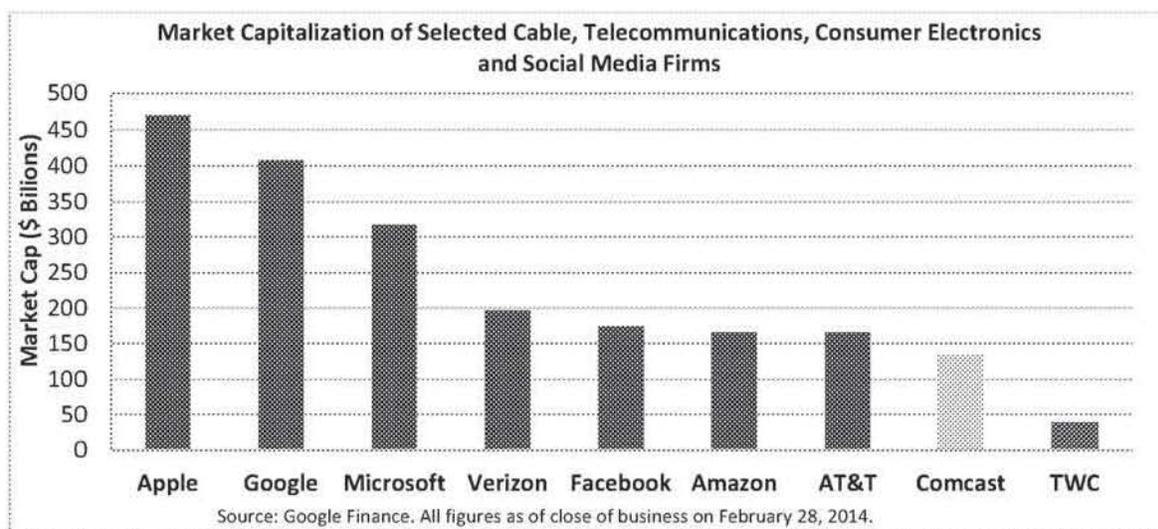
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<sup>21</sup> Fran Shammo, EVP & CFO, Verizon, Deutsche Bank Media, Internet and Telecom Conference, Tr. at 15 (Mar. 10, 2014). AT&T's CFO similarly stated: "[T]he advantage for us is that opportunity for over-the-top for the whole 65 million broadband connections we have may be so attractive that it allows us to shift gears or take risks with regard to our traditional subscription model on our 5.4 million customers. We're committed to our U-verse video that's gone well, but we do have flexibility in our space just because of the amount of broadband customers and connections we have that don't have a subscription on it today." John Stephens, CFO, AT&T, Inc., Deutsche Bank Media, Internet & Telecom Conference, Tr. at 11 (Mar. 12, 2014).

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programming” to wireless devices.<sup>22</sup> Today, Google increasingly competes as a network, video, and technology provider; Apple tablets now serve as a viewing platform for IP cable services even while Apple offers an online video service, Apple TV, and explores development of an Apple set-top box; Microsoft just announced that it will feature ads on the Xbox One, creating a new video advertising platform; and Amazon continues to leverage its unequalled sales platform and family of competitive tablets to promote its burgeoning Prime Instant Video business, and just last week announced the rollout of its own advanced video set-top box.<sup>23</sup>

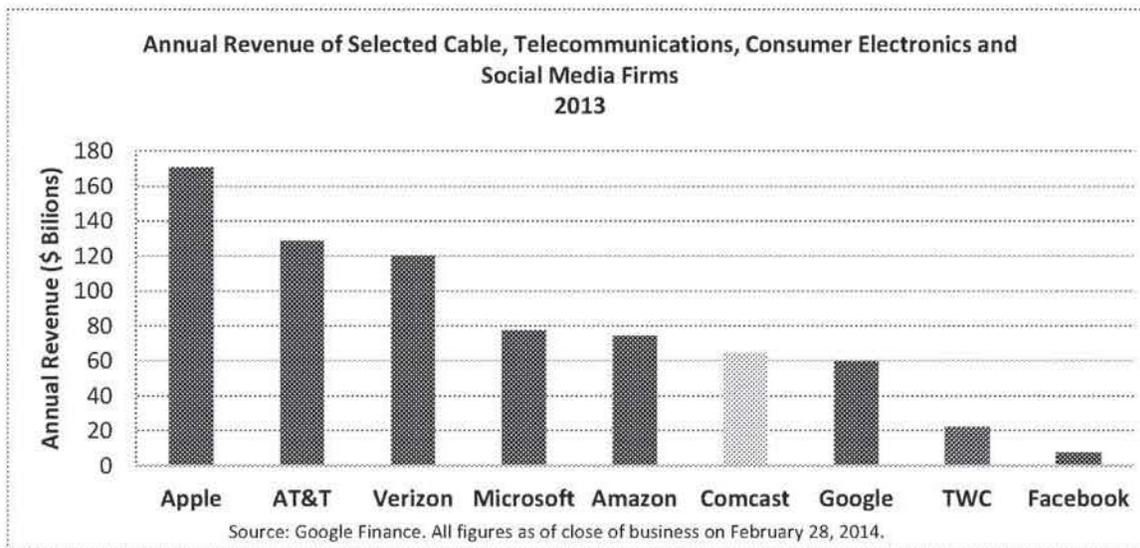
In contrast to all of these companies, both Comcast and TWC have a more limited scale and scope, as reflected in their relative market capitalizations and revenues.



<sup>22</sup> Fran Shammo, EVP & CFO, Verizon, Deutsche Bank Media, Internet and Telecom Conference, Tr. at 15 (Mar. 10, 2014).

<sup>23</sup> See Greg Bensinger & Shalini Ramachandran, *Amazon Unveils Video-Streaming Device Fire TV*, Wall St. J., Apr. 2, 2014, <http://online.wsj.com/news/articles/SB10001424052702304441304579477283348851844>.

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To meet these challenges, Comcast has fundamentally transformed itself over the last decade from a regional cable company to a leading communications, media, and technology company. By investing heavily in talent, research and development, and in the infrastructure needed to facilitate creativity and invention, Comcast has created a culture of innovation. Comcast now employs over 1,000 engineers and developers, and vigorously competes for new engineering talent with the likes of Google, Apple, Facebook, Netflix, Microsoft, and Twitter.<sup>24</sup> Its single-minded focus on enhancing its services and pursuing innovation have earned it first place among cable and satellite providers on Fortune Magazine's list of World's Most Admired Companies – up from third place.<sup>25</sup> The transaction will enable the company to continue to meet the challenges ahead in this increasingly dynamic, expanding, and competitive marketplace, and to ensure that customers enjoy all the benefits that Comcast and TWC have offered to date and stand ready to deploy in the future.

<sup>24</sup> Comcast's research and development efforts involve highly-talented individuals at its technology centers around the country, including in Seattle, Silicon Valley, Denver, Washington, DC, and Philadelphia.

<sup>25</sup> See Comcast – Most Admired Companies, Fortune, <http://money.cnn.com/magazines/fortune/most-admired/2014/snapshots/5035.html> (last visited Apr. 4, 2014).

**REDACTED – FOR PUBLIC INSPECTION****2. The Key Economic Drivers of the Transaction Will Produce Substantial Benefits.**

As the attached economic analyses of Drs. Rosston and Topper and Dr. Israel make clear, a few powerful economic mechanisms will drive the core competitive benefits from the transaction: (a) economies of scale, (b) expanded geographic reach, and (c) sharing of technologies and services.

Scale efficiencies are key. As Drs. Rosston and Topper explain: “Scale can make the difference between investing in a new product or service and not investing, and it can accelerate the introduction of products, services, and network and equipment enhancements.”<sup>26</sup> Dr. Israel echoes this analysis and conclusion, noting that “[w]hen investments have the character that some or all of the costs are ‘fixed’ – meaning costs that do not grow as the investment is extended to a larger scale (or at least do not grow proportionally to the increase in scale) – then greater scale will lead to greater revenue without proportionally greater costs. As a result, more investments will meet the hurdle rate and thus more investments can profitably be undertaken, increasing the firm’s incentive to invest in innovative new services.”<sup>27</sup> Dr. Israel also explains why scale is an even more effective driver of efficiencies and benefits in this transaction in light of Comcast’s business model:

Specific features of Comcast’s business model heighten the investment and innovation benefits from greater scale. In particular, Comcast generally deploys products in a relatively homogeneous manner throughout a region and often throughout its entire footprint. Therefore, it is relatively easy for Comcast to serve potential new customers in a consistent manner, and there are substantial scale economies in serving an area where Comcast has an existing plant.<sup>28</sup>

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<sup>26</sup> Declaration of Dr. Gregory L. Rosston and Dr. Michael D. Topper (“Rosston/Topper Decl.”) ¶ 10, attached as Exhibit 5.

<sup>27</sup> Declaration of Dr. Mark A. Israel (“Israel Decl.”) ¶ 107, attached as Exhibit 6.

<sup>28</sup> *Id.* ¶ 108.

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As shown above, communications technologies and services have rapidly advanced, and the cable industry has built out and matured. In the current environment, fixed cost investments in developing new and compelling digital technologies have become more important. As Drs. Rosston and Topper state, “since cable operators now pass the vast majority of homes in their respective franchise areas, they increasingly need to compete for customers with satellite companies, telcos, and other distributors by making investments in the development of new platforms and services and upgrading their networks, all of which have large fixed costs.”<sup>29</sup> Moreover, even though some technologies would still be developed gradually even by companies without the benefit of larger scale, “having a larger scale can accelerate investment in development and deployment of new technology [and] . . . may make it profitable to hire more developers and engineers and thereby achieve the same technological improvement in less time.”<sup>30</sup>

Second, the expanded geographic reach and additional geographic clustering made possible by a combination of firms will also increase the economic efficiencies by enhancing the ability of the combined entity to serve customers whose needs span the existing geographic footprints of the two firms. “In addition, geographic agglomeration can lead to operating efficiencies and the ability to provide higher quality services to customers in certain geographic areas.”<sup>31</sup>

Third, by combining their portfolios of products and services, the companies will be able to provide more products and services at lower cost than they would be able to do on their own. It will be more efficient for Comcast and TWC to provide these services as a combined company

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<sup>29</sup> Rosston/Topper Decl. ¶ 45.

<sup>30</sup> *Id.* ¶ 48.

<sup>31</sup> *Id.* ¶ 58.

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because the two firms use similar inputs in creating these services. In addition, each company brings proprietary technology and specialized knowledge about providing its unique mix of products and services.<sup>32</sup>

Each of the foregoing economic bases for efficiencies and synergies is strongly present in this transaction. For example, by adding TWC's customers and markets, Comcast will expand its video subscriber base by 8 million customers (after divesting 3 million customers), for a total of approximately 30 million video subscribers in the systems it manages. The incremental scale will promote continued innovation by providing a broader base of customers across which to spread the high fixed costs of research and development.

Moreover, this increased presence will provide equipment manufacturers, app developers, programmers, and other companies with increased incentive to take chances on new technology projects with the combined company, and to do so on reasonable terms. For example, it is far easier to attract developers to build applications for national or global platforms such as Apple TV, Google, Microsoft, and Sony, than to create an app for a limited regional platform – or to convince a manufacturer to embed a tailored feature that has nationwide appeal, than one that has localized, geographically constrained appeal.<sup>33</sup> In short, larger scale and scope will help the combined company attract more collaborators and partners more easily throughout the ecosystem.

The Commission has previously recognized that scale can be an important driver of increased innovation and consumer benefits:

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<sup>32</sup> See *id.* ¶¶ 65-68.

<sup>33</sup> See *id.* ¶ 56 (“In addition, the larger scale enabled by the transaction should make the combined company a more attractive partner for device manufacturers seeking to provide apps to deliver video services on a wider range of third-party devices and technology firms seeking to deliver video to consumers in new, innovative ways. Having a larger potential customer base makes developing these apps and services more feasible for Comcast and more appealing for the partnering company.”).

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We also agree with the Applicants that the greater scale and scope of the merged entity is likely to spur new investment. The development and deployment of new technologies often entails a significant up-front, fixed investment. The merged company should have a greater ability to spread those fixed costs across a larger customer base, which should in turn foster incentives for investment by the merged entity, as well as other businesses that seek to sell equipment, technology, and services to the merged entity.<sup>34</sup>

One need look no further than what Comcast has been able to accomplish with the scale it gained from the AT&T Broadband and Adelphia transactions, which contributed significantly to the technological innovation Comcast has already introduced. With greater scale in a far more demanding and capital-intensive marketplace, a combined Comcast-TWC will be able to drive even more innovation and consumer benefits over the next decade – and beyond.

The transaction will also provide the geographic efficiencies that Drs. Rosston, Topper, and Israel describe. Post-transaction, Comcast will reach additional markets in which it previously had limited or no presence (e.g., New York City, Los Angeles, Dallas/Fort Worth). And the transaction will provide Comcast with access to several markets that are clustered near its existing markets (e.g., Georgia, South Carolina, North Carolina, and Virginia). This will allow Comcast to more efficiently deploy and upgrade its broadband facilities, by potentially investing, for example, in new Converged Regional Access Networks (“CRANs”) supported by

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<sup>34</sup> *Comcast-AT&T Broadband Order* ¶ 184; *see also GM-News Corp. Order* ¶ 344 (“Based on the evidence presented by Applicants, we believe that the transaction is likely to enable the merged entity to achieve certain economies of scale and scope, particularly in R&D, that absent the transaction the parties individually could not have achieved.”); *AT&T-BellSouth Order* ¶ 214 n.594 (“We find . . . that the increase in scale and scope arising from the merger will help the merged entity to better spread the costs of, and internalize the benefits of, its R&D, thus increasing its incentives to invest.”). The benefits from scale in the development of broadband Internet access have also been recognized by the Antitrust Division of the Department of Justice. *See Ex Parte* Submission of the U.S. Dep’t of Justice, GN Docket No. 09-51, at 29-30 (Jan. 4, 2010) (“These broad goals are best served by promoting competition in broadband markets. In practice, this does not mean striving for broadband markets that look like textbook markets of perfect competition, with many price-taking firms. That market structure is unsuitable for the provision of broadband services, which involve very substantial fixed and sunk costs. Rather, promoting competition is likely to take the form of enabling additional entry and expansion by wireless broadband providers, applying other appropriate policy levers, and spurring competition among broadband providers by improving the information available to consumers about the service offerings in their areas.”).

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additional regional data centers – an expense that might not have been justified by either company’s individual network assets (or customers) in a particular area.

As set forth in the Declaration of Michael J. Angelakis, Comcast Vice Chairman and Chief Financial Officer, these economic drivers will provide the combined company with a greater ability to invest and innovate, not only to serve its existing customers better, but also to respond effectively to new competitive dynamics.<sup>35</sup> In addition, the transaction should result in cost savings and other synergies worth approximately \$1.5 billion in increased earnings before interest, taxes, depreciation, and amortization, within three years, and recurring every year thereafter.<sup>36</sup> This is a conservative estimate and does not take into account future revenue-generating opportunities.<sup>37</sup>

These savings will provide the combined company additional wherewithal to invest across its diverse products and services, including in video, business services, and voice. But nowhere else will these savings translate into more renewed investment than in the capital-intensive area of broadband.<sup>38</sup> As economist Ev Ehrlich has aptly observed, “Comcast’s offerings will not only improve service to TWC’s customers, but it will make the combined company a better competitor and innovator in the competitive cage match in which providers of connectivity, devices, apps, services and content fight for a share of the value the broadband world creates.”<sup>39</sup>

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<sup>35</sup> Declaration of Michael J. Angelakis (“Angelakis Decl.”) ¶¶ 12-13.

<sup>36</sup> *Id.* ¶ 6. The transaction is also expected to result in approximately \$400 million in capital expense efficiencies. *See id.* 8.

<sup>37</sup> *Id.* ¶ 9.

<sup>38</sup> *Id.* ¶¶ 21-25 .

<sup>39</sup> Ev Ehrlich, *Who Holds the Cards Online*, San Jose Mercury News, Mar. 7, 2014, available at [http://www.mercurynews.com/opinion/ci\\_25291788/ev-ehrllich-who-holds-cards-online](http://www.mercurynews.com/opinion/ci_25291788/ev-ehrllich-who-holds-cards-online) (calculating that “[t]he (average weighted) rate of profit on sales for ‘providers’ is 3.7 percent, versus 24.4 percent for ‘residers’”).

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While TWC announced earlier this year a multi-year plan to upgrade its network and enhance its services,<sup>40</sup> Comcast's stronger balance sheet, together with efficiencies generated by the transaction, and Comcast's experience in converting its own plant to all-digital over a compressed time frame, will ensure that the combined company is better positioned to efficiently and expeditiously upgrade the TWC systems, and with minimum disruption to the customer experience. And Comcast is committed to adding substantial incremental investments to what TWC had planned for broadband upgrades and enhancements over the next three years.

As detailed below, the above-described efficiencies and synergies of this transaction are not just theoretical. Rather, Comcast is committed to putting them to work to forge a faster path to all-digital systems, higher broadband speeds, more advanced video and voice services, a more secure network, better system reliability, and other benefits to consumers, businesses, and the public interest generally. The transaction will also extend a variety of other public interest benefits to the TWC markets, including conditions and commitments resulting from the NBCUniversal transaction, as well as Comcast's deep commitment to broadband adoption, diversity, accessibility, and cybersecurity. This array of benefits would not be achieved as expansively or as quickly without the transaction.

**B. Consumers Will Benefit Directly from Advances in Broadband, Video Technologies, Digital Voice, and Other Innovations to Residential Services.**

**1. The Transaction Will Accelerate Broadband Deployment, Increase Broadband Competition and Innovation, and Expand Broadband Adoption.**

President Obama has described broadband as “essential to the Nation’s global competitiveness in the 21st century, driving job creation, promoting innovation, and expanding

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<sup>40</sup> Mike Farrell, *TWC Unveils Three-Year Ops Plan*, Multichannel News, Jan. 30, 2014, available at <http://www.multichannel.com/cable-operators/twc-unveils-three-year-ops-plan/147999>.

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markets for American businesses.”<sup>41</sup> FCC Chairman Wheeler similarly has said that “[b]roadband networks are essential to our national well-being” – a view embraced by his fellow commissioners.<sup>42</sup> And both the President and Chairman have emphasized the benefits that the protections of the Open Internet rules provide for broadband deployment, adoption, investment, and innovation. Comcast and TWC have invested billions of dollars to build broadband networks that are “essential to our national well-being” and “the Nation’s global competitiveness in the 21<sup>st</sup> century.” But the additional investments and innovations that are needed now to deliver the services consumers demand and need will be more rapidly, effectively, and efficiently achieved by the combined company than either company could achieve alone.

a. The Transaction Will Help Fulfill the Goal of Greater Deployment of Even Better Broadband Service for More Americans.

In 1996, Congress instructed the Commission to “encourage the deployment on a reasonable and timely basis of advanced telecommunications capability [i.e., broadband] to all Americans.”<sup>43</sup> Congress authorized the Commission to “accelerate deployment of such

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<sup>41</sup> Exec. Order No. 13616 (June 14, 2012), available at <http://www.whitehouse.gov/the-press-office/2012/06/14/executive-order-accelerating-broadband-infrastructure-deployment>; see also Office of the Press Secretary, Statement from the President on the National Broadband Plan (Mar. 16, 2010), available at <http://www.whitehouse.gov/the-press-office/statement-president-national-broadband-plan> (“America today is on the verge of a broadband-driven Internet era that will unleash innovation, create new jobs and industries, provide consumers with new powerful sources of information, enhance American safety and security, and connect communities in ways that strengthen our democracy. . . . Expanding broadband across the nation will build a foundation of sustained economic growth and the widely shared prosperity we all seek.”).

<sup>42</sup> Prepared Remarks of Tom Wheeler, Chairman, FCC, at the Computer History Museum, Mountain View, CA (Jan. 9, 2014), available at <http://www.fcc.gov/document/fcc-chairman-tom-wheeler-remarks-computer-history-museum>. Commissioner Jessica Rosenworcel observed that “[n]o matter who you are or where you live, prosperity in the twenty-first century will require access to broadband.” Statement of Commissioner Jessica Rosenworcel, Subcommittee on Communications and Technology, Oversight of the Federal Communications Commission (July 10, 2012), available at [http://hraunfoss.fcc.gov/edocs\\_public/attachmatch/DOC-315077A1.pdf](http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-315077A1.pdf). Recognizing the “transformative impact of broadband,” Commissioner Ajit Pai has similarly observed that, “[n]ext-generation networks could revolutionize everything from health care to education” and “will also allow our businesses to become more productive, and our country to become more competitive in the global economy.” Remarks of FCC Commissioner Ajit Pai, Looking Back and Looking Ahead: The FCC and the Path to the Digital Economy (July 25, 2013), available at [http://hraunfoss.fcc.gov/edocs\\_public/attachmatch/DOC-322384A1.pdf](http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-322384A1.pdf).

<sup>43</sup> 47 U.S.C. § 1302(a).

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capability by removing barriers to infrastructure investment and by promoting competition in the telecommunications market.”<sup>44</sup> Thanks to private investment and government policies, a staggering amount of progress toward achieving these goals has occurred, but more remains to be done, and can be done, on an accelerated basis over the next several years.

Approval of this transaction would accelerate the deployment of advanced telecommunications capabilities and promote more infrastructure investment in very concrete ways, as described below. The Commission need not rely here on what some have called a “triple cushion shot” chain of reasoning to link its actions to the Congressional objective.<sup>45</sup> Rather, this transaction provides the Commission an opportunity for a direct strike into the corner pocket – unleashing the combined company’s deployment of advanced broadband services and broadband infrastructure investments.

***Faster Broadband Speeds.*** Comcast has invested substantially in advanced broadband technology, system upgrades, and innovative services to meet consumer demand and increased use of broadband. Those investments exceed {{ }} since 1996 alone. For example, Comcast invested over a billion dollars to deploy DOCSIS 3.0 and migrate its systems to all-digital. As a result of its commitment to a full network upgrade, Comcast has deployed some of the industry’s fastest speeds<sup>46</sup> – both upstream and downstream. As the graph below shows, Comcast has increased Internet speeds 12 times in the past 12 years, with Comcast’s top

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<sup>44</sup> *Id.* § 1302(b).

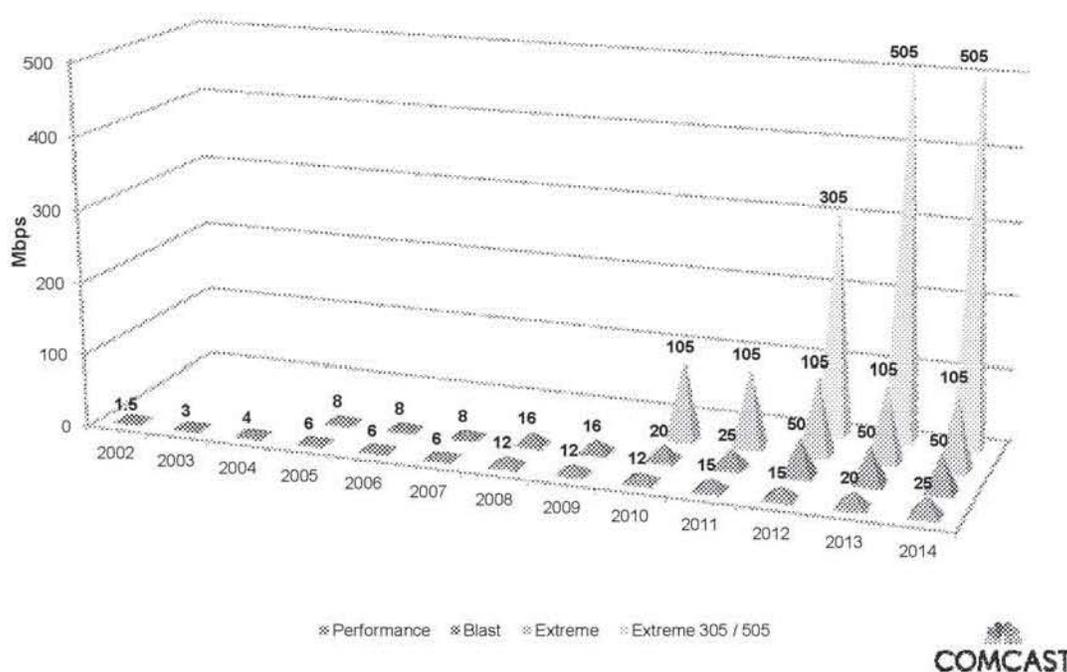
<sup>45</sup> *See Verizon v. FCC*, 740 F.3d 623, 659-60 (D.C. Cir. 2014).

<sup>46</sup> *See* FCC, Office of Eng’g & Tech. & Consumer & Governmental Affairs Bureau, *A Report on Consumer Wireline Broadband Performance in the U.S.* (Feb. 2013), available at <http://www.fcc.gov/measuring-broadband-america/2013/February#Chart1>; Ookla, *Comcast Broadband Performance*, <http://www.speedtest.net/isp/comcast> (last visited Mar. 30, 2014).

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residential broadband speed increasing more than 30-fold since just five years ago.<sup>47</sup> Due to its past and ongoing investments in network infrastructure, Comcast will have the network capacity to continue to increase speeds over time.

**XFINITY Internet Speeds 2002 – 2014:**  
Increased Speeds 12 Times in 12 Years



This is no accident: The company is philosophically committed to making the investments necessary to ensure that its network is not only robust for today’s needs but capable of evolving to meet tomorrow’s consumer and business demand. Over one-third of Comcast customers are on speed tiers with speeds of 50 Mbps/10 Mbps or more. More generally,

<sup>47</sup> As broadband speeds have increased again and again and again, Comcast has consistently reduced the average price Comcast’s customers pay on a per-Megabit basis.

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Comcast historically has doubled the size of its broadband network capacity every 18 months.<sup>48</sup> In 2013 alone, Comcast added over {{ }} optical nodes, effectively doubling the capacity to customers in neighborhoods served by these nodes.

Comcast’s commitment to providing cutting-edge broadband services recently earned it a 2013 Best Practice Award from Frost and Sullivan, which ranked Comcast first among all North American broadband providers in “Technology Innovation.”

TWC too has invested significantly in advanced broadband technologies like DOCSIS 3.0, and has upgraded its network to bring faster speeds. Nevertheless, its transition to all-digital technology, which is necessary to free up the additional bandwidth needed to provision higher speeds, is complete in only approximately 17 percent of its footprint.<sup>49</sup> In contrast, Comcast undertook a five-year effort to transition to all-digital, which it completed ahead of schedule in 2012. As a result of this transition, Comcast typically bonds 8 QAM channels together in its systems, and its most popular speed tier is 25 Mbps downstream and 5 Mbps upstream across its footprint. TWC, meanwhile, bonds only 4 QAM channels in nearly half its systems (only a little over a third of the TWC systems bond 8 QAM channels), and its most popular speed tier is 15 Mbps downstream and 1 Mbps upstream in most areas.

Put differently, both companies ensure that customers have access to basic broadband service: [[ ]] percent of Comcast customers and [[ ]] percent of TWC customers enjoy downstream speeds of at least 3 Mbps, based on December 2013 data.<sup>50</sup> The companies diverge

<sup>48</sup> See David L. Cohen, *White House Reports on U.S. Broadband Successes and Challenges*, Comcast Voices (June 17, 2013), <http://corporate.comcast.com/comcast-voices/white-house-reports-on-u-s-broadband-success-and-challenges>.

<sup>49</sup> See Ian Olgeirson, *Charter, Time Warner Cable Lag in All-Digital Push To Convert CapEx into Capacity*, SNL Kagan (Jan. 17, 2014).

<sup>50</sup> Israel Decl. ¶ 168 n.225. These and other speed calculations are based on Applicants’ December 2013 Form 477 data.

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at the higher downstream speeds, however: [ ] [ ] percent of Comcast customers have downstream speeds of 25 Mbps or above, while only [ ] [ ] percent of TWC customers enjoy those speeds.<sup>51</sup> A similar differential in upstream speeds is also notable: As of December 2013, [ ] [ ] percent of Comcast's broadband customers and only [ ] [ ] percent of TWC's customers had upstream connection of at least 3 Mbps.<sup>52</sup> Comcast also has deployed significantly more DOCSIS 3.0 modems than TWC – [ ] [ ] (approximately [ ] [ ] percent of Comcast customers) compared to TWC's [ ] [ ] (approximately [ ] [ ] percent of TWC customers).

Broadband Speed Summary		
Speed Category	Comcast	TWC
≥ 3 Mbps <i>downstream</i>	[ ] [ ]	
≥ 25 Mbps <i>downstream</i>		
≥ 3 Mbps <i>upstream</i>		
Percentage of Customers with DOCSIS 3.0 Modems		[ ] [ ]

In these and other respects, there is no doubt that customers in the TWC markets will benefit directly from the substantial upgrades that Comcast intends to make (and has the expertise and resources to make) to the TWC broadband service. While TWC recently announced plans to upgrade its broadband speeds to 75 percent of its footprint over three years,

<sup>51</sup> *Id.* ¶ 168 tbl. 2.

<sup>52</sup> *Id.* ¶ 169 tbl. 3. While TWC's upstream speeds are more than adequate for current uses, the applications of tomorrow may require even more upstream capacity. For example, today Skype recommends 1.5 Mbps upstream speed for HD-quality video calls. See *How Much Bandwidth Does Skype Need*, Skype, <https://support.skype.com/en/faq/FA1417/how-much-bandwidth-does-skype-need> (last visited Mar. 30, 2014). The upstream speed differential between Comcast and TWC is even more pronounced at the highest end tiers, with Comcast's fastest widely available residential broadband tier offering upstream speeds up to 100 Mbps while TWC's fastest tiers offer 5 Mbps upstream.

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Comcast intends to extend its higher speeds and related consumer benefits to the TWC systems on an accelerated and more cost-efficient basis than TWC could accomplish on its own. The goal would be to bring the TWC services up to Comcast levels. Thus, for example, TWC customers currently on the 15 Mbps/1 Mbps tier would see their speeds increase to 25 Mbps/5 Mbps.<sup>53</sup>

And none of this accounts for the next generation of upgrades the combined company would bring to consumers across its footprint in the next few years. Comcast is actively pursuing next-generation technologies that will provide additional significant speed benefits to its broadband customers. It already has plans to invest significantly in capacity and network-related initiatives over the next three years; post-transaction, TWC's systems will be part of those plans (at appropriate incremental levels of investment), and the company as a whole will be able to scale these investments more efficiently.<sup>54</sup>

**CCAP.** Converged Cable Access Platform (“CCAP”) is a new technology that will enable Comcast to bond 16 or more downstream QAM channels and 8 upstream QAM channels to deliver downstream speeds in excess of 250 Mbps and upstream speeds in excess of 50 Mbps over Comcast's existing HFC network plant. Comcast has begun deployment of CCAP technology and will have it deployed to about [ ] percent of its footprint by the end of this year, [ ] percent by the end of 2015, and 100 percent in 2016. TWC currently is deploying CCAP technology to several markets (including New York and Los Angeles), and has announced plans to do so to 75 percent of its footprint in the coming years. This transaction will

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<sup>53</sup> Angelakis Decl. ¶ 23

<sup>54</sup> *Id.* ¶¶ 22-23.

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enable Comcast to bring CCAP-enabled Cable Modem Termination Systems (“CMTSes”) to all of TWC’s customers, and more quickly than TWC could alone.

*DOCSIS 3.1.* The CCAP technology upgrades, in turn, will facilitate the deployment of the next generation of cable modem technology – DOCSIS 3.1 – which Comcast expects to start deploying soon after the expected finalization of the specifications in 2015 (assuming equipment availability), ahead of any other broadband provider. DOCSIS 3.1 technology will be capable of delivering speeds of several Gigabits per second. This is the most economically scalable broadband architecture in the marketplace, and it will take advantage of Comcast’s (and, with this transaction, TWC’s) substantial infrastructure investments over the past decade. The broader scale afforded by the larger combined company will mean that ultra-fast broadband capability made possible by DOCSIS 3.1 will be deployed not only more quickly to the acquired TWC systems than it would be otherwise, but also on a more cost-efficient basis across the combined company’s footprint.<sup>55</sup>

As it plans for the DOCSIS 3.1 rollout, Comcast continues to innovate. Last year, for example, Comcast demonstrated that its network is capable of delivering 3 Gbps downstream.<sup>56</sup> It also successfully trialed the first *1 Terabit* connection on a portion of its network from Ashburn, VA to Charlotte, NC.<sup>57</sup> This is believed to be the first trial in which live data traffic was carried at this speed on an existing, commercial network.<sup>58</sup> Approval of the transaction will

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<sup>55</sup> *Id.* ¶¶ 23-24.

<sup>56</sup> See Press Release, Comcast Corp., The Future of Broadband Speed and 4K Ultra HD Video (June 11, 2013), <http://corporate.comcast.com/news-information/news-feed/comcast-demonstrates-the-future-of-broadband-speed-and-4k-ultra-hd-video>.

<sup>57</sup> See Press Release, Ciena Corp., Comcast Conducts Industry’s First Live 1 Terabit Network Trial with Ciena’s 6500 Converged Packet Optical Solution (Oct. 22, 2013), <http://www.ciena.com/about/newsroom/press-releases/Comcast-Conducts-Industrys-First-Live-1Terabit-Network-Trial-with-Cienas-6500-Converged-Packet-Optical-Solution.html>.

<sup>58</sup> *Id.*

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allow TWC customers to benefit from Comcast's investments and culture of innovation and experimentation.

***Backbone Investments.*** The scale and geographic efficiencies created by the transaction will facilitate Comcast's continued investment in and deployment of its backbone and dark fiber network, and may even accelerate these efforts. Comcast and TWC have independently developed their own national core backbone infrastructure. By combining the companies' core networks, the transaction will lead to additional innovations around capacity and architecture that will allow Comcast to reach more commercial customers on a single network with potentially reduced latency for national enterprise customers.<sup>59</sup> The additional scale facilitated by the merger may accelerate Comcast's contemplated upgrades to its national backbone infrastructure. Moreover, where Comcast has systems in geographic proximity to those of TWC systems, the transaction should make it profitable for Comcast to invest in new CRANs supported by new regional data centers.<sup>60</sup> Such investments would improve the quality of the network to the benefit of residential and business customers, as well as edge providers, through, among other things, improved scalability and resiliency of the network, lower latency through the deployment of more fiber, and increased points of interconnection.<sup>61</sup>

***Broadband Promises Made, Promises Kept.*** In its prior transactions with AT&T Broadband and Adelphia, Comcast explained how the increased scale and synergies made possible by those mergers would lead to substantial consumer benefits in terms of accelerated deployment of advanced digital services and increased network investment, among other things.

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<sup>59</sup> Israel Decl. ¶ 187.

<sup>60</sup> *Id.* ¶ 188; Rosston/Topper Decl. ¶ 60.

<sup>61</sup> Israel Decl. ¶ 189; Rosston/Topper Decl. ¶ 101 n.98.

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The Commission recognized those benefits and approved both transactions,<sup>62</sup> and Comcast followed through on each of its investment and deployment commitments, often exceeding them.

For example, after the Commission approved its acquisition of AT&T Broadband at the end of 2002, Comcast invested over \$8 billion in capital improvements to upgrade its cable systems and build out a record 53,000 miles of fiber during 2004. Not only did Comcast meet every upgrade target, but it also exceeded its already aggressive construction plans by over 15 percent, thus ensuring that 99 percent of its customers had access to a two-way broadband network.<sup>63</sup> After its acquisition of customers from Adelphia, Comcast invested billions to bring the systems it acquired up to Comcast's standards, and did so in record time. Since then, Comcast has continued to transform its network again and again. This is its *modus operandi* and its reputation, and it will do the same in TWC areas.

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<sup>62</sup> See, e.g., *Comcast-AT&T Broadband Order* ¶ 183 (“We agree with Applicants that the merged entity is likely to accelerate the deployment of broadband services in AT&T service areas. . . . Comcast appears to have a greater ability to manage an accelerated program for upgrading its plant while maintaining its operating margins. We believe that applying this expertise to the AT&T cable systems is likely to have a positive impact on the deployment of broadband to AT&T subscribers that currently do not have access to those services.”) (citation omitted). Comcast and TWC each demonstrated this to the Commission in 2006. See *Adelphia Order* ¶ 256 (“[W]e find it more likely than not that the proposed transactions will have a positive impact on the deployment of certain advanced services to Adelphia subscribers.”); *id.* ¶ 257 (“We also find it likely that Comcast and Time Warner will improve the quality and availability of advanced services on Adelphia’s systems and that Adelphia subscribers will benefit from the transactions in this regard. Comcast’s and Time Warner’s timely deployment of advanced services on their own systems, especially those systems that Comcast acquired from AT&T Broadband, suggests that they will further deploy advanced video services, facilities-based telephony service, and high-speed Internet service on Adelphia’s systems. We also find that the Applicants have provided sufficient information to conclude that the upgrades likely will occur in the near future.”).

<sup>63</sup> See *Applications for Consent to the Assignment and/or Transfer of Control of Licenses from Adelphia Commc’ns Corp. (and Subsidiaries, Debtors-In-Possession), Assignors, to Time Warner Cable Inc. (Subsidiaries), Assignees, Adelphia Commc’ns Corp., (and Subsidiaries, Debtors-In-Possession), Assignors and Transferors, to Comcast Corp. (Subsidiaries), Assignees and Transferees, Applications and Public Interest Statement of Adelphia Commc’ns Corp., Comcast Corp., and Time Warner Inc.*, MB Docket No. 05-192, at 33 (May 18, 2005). In recognition of these and other achievements, Comcast was named Operator of the Year by Multichannel News in 2003. Mike Farrell, *Bigger. Better.* Multichannel News, Sept. 28, 2003, available at <http://bit.ly/110rqC6> (noting that, with respect to the upgrade of the former AT&T systems, Comcast “outperformed even its own stated expectations”).

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More recently, Comcast has met or exceeded the broadband-related commitments it made in the NBCUniversal transaction.<sup>64</sup> In particular:

- Comcast surpassed the NBCUniversal Conditions’ three-year build-out milestones by (i) expanding its broadband network by approximately 6,300 miles (the Conditions required 4,500 miles over three years),<sup>65</sup> and (ii) extending its broadband plant to over 715,000 additional homes (the Conditions required 400,000). Comcast extended its broadband infrastructure to 33 communities in 2011, exceeding its six-community commitment.
- Comcast has also exceeded the requirement to offer a broadband tier of at least 12 Mbps downstream speed (and 5 Mbps upstream) in all Comcast DOCSIS 3.0 markets. The “Performance” tier in all markets is 25/5 Mbps speed, and a 105 /20 Mbps tier is available in almost the entire footprint.
- Comcast added courtesy broadband and video accounts to over 650 schools, libraries, or other community institutions in underserved areas (the Conditions required 600).<sup>66</sup>

Now in a more dynamic, competitive, and far more resource-intensive marketplace, Comcast is poised – through the proposed acquisition of TWC – to revamp existing networks yet again, and to bring even greater benefits to millions of consumers. Comcast’s proven track record means that the Commission can be assured that Comcast will deliver on the broadband-related and other benefits it has described in connection with this transaction.

*Better and More Convenient Wi-Fi In and Outside the Home.* The transaction will also drive benefits through deployment of advanced Wi-Fi equipment and networks – both within and outside consumers’ homes. The quality of broadband service depends not only on the “last mile” infrastructure but also the delivery of the signal through the last few yards, so the availability of high-speed Wi-Fi gateways has a significant impact on the consumer’s experience.

<sup>64</sup> Moreover, as described further in Section IV.E.1 below and detailed in Exhibit 9, Comcast has delivered on all of its commitments made in the NBCUniversal transaction.

<sup>65</sup> Third Annual Report of Compliance with Transaction Conditions, MB Docket No. 10-56, at 19 (filed Feb. 28, 2014), <http://corporate.comcast.com/images/MB-10-56-C-NBCU-Annual-Compliance-Report-2013-2014-02-28.pdf> (“Third Annual Compliance Report”).

<sup>66</sup> *Third Annual Compliance Report* at 20.

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Comcast has led the industry – not just the cable industry, but all broadband providers – in rolling out in-home Wi-Fi gateways that give customers the nation’s fastest wireless speeds and excellent performance over their home wireless network (these gateways are capable of speeds of up to 270 Mbps as compared to speeds of 85 Mbps from the prior generation devices).<sup>67</sup> Comcast has already deployed these gateways to approximately eight million households, where consumers now enjoy faster speeds and better performance over their home wireless network.<sup>68</sup> In contrast, TWC only recently announced plans to begin deploying advanced in-home Wi-Fi gateways. This, in part, reflects the fact that scale is important in purchasing and deploying such equipment – and even more so for investing in the next generation of the technology. So the transaction will not only ensure that TWC customers enjoy access to today’s best gateway devices, but will help position the company to offer *all* its customers tomorrow’s upgrades.<sup>69</sup>

The substantial broadband infrastructure investment made possible by this transaction will also lead to greater access to many more *public* Wi-Fi hotspots to qualified Xfinity customers – a substantial consumer benefit.<sup>70</sup> A Wi-Fi network becomes much more valuable as its coverage becomes more ubiquitous.<sup>71</sup> Comcast has made Wi-Fi deployment a central focus of its investment and service strategy and is in the process of building one of the largest and most

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<sup>67</sup> See Rob Slinkard, *Newest Xfinity Wireless Gateway Powers Connected Home with the Fastest WiFi in the Nation*, Comcast Voices (Apr. 26, 2013), <http://corporate.comcast.com/comcast-voices/newest-xfinity-wireless-gateway-powers-connected-home-with-fastest-wifi-in-the-nation>.

<sup>68</sup> See *id.*

<sup>69</sup> As Drs. Rosston and Topper explain, one such example of innovation arising from scale economies is whole home, cloud-based management tools, like parental controls and antivirus software, that can be implemented across all devices in the home, rather than on a per-device basis. Because the development of this technology requires significant fixed cost investments, the additional scale afforded by the transaction will allow the combined company to develop these whole home tools more efficiently. See Rosston/Topper Decl. ¶ 94.

<sup>70</sup> See Israel Decl. ¶¶ 191-92.

<sup>71</sup> Rosston/Topper Decl. ¶ 96.

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robust Wi-Fi networks in the nation to give its broadband customers more flexibility and mobility, including Wi-Fi access at public venues like sports arenas. Customers are making full use of this service. For example, in February alone, there were over [ ] unique users with approximately [ ] unique devices on the Xfinity WiFi network. Xfinity WiFi hotspots come in three different categories: (1) Outdoor (e.g., hanging off a cable wire); (2) as part of the service provided to small- and medium-sized businesses (“SMBs”); and (3) Neighborhood Hotspots (Wi-Fi residential gateways that offer a supplemental public pathway for other Xfinity users, without affecting the host customer’s service and without needing the host’s Wi-Fi password). In less than three years, Comcast has deployed approximately 870,000 Xfinity WiFi access points in its footprint (about [ ] of which are Neighborhood Hotspots in customers’ homes).<sup>72</sup>

Public awareness of the benefits of this early-stage initiative is increasing,<sup>73</sup> and usage is steadily growing. In fact, users connecting to Neighborhood Hotspots utilize them for longer periods of time, with their sessions lasting three times as long as sessions on Outdoor hotspots and with users consuming almost three times as much data.<sup>74</sup>

TWC has built out its own Wi-Fi network in certain of its markets (primarily in New York and Los Angeles), although to a lesser degree than Comcast, having thus far deployed only

<sup>72</sup> See Jeff Baumgartner, *Comcast Marches Towards 1 Million Wi-Fi Hotspots*, Multichannel News, Mar. 5, 2014, available at <http://www.multichannel.com/distribution/comcast-marches-toward-1-million-wi-fi-hotspots/148678>. The fact that Comcast’s current Wi-Fi hotspot total has increased to this level from just 43,000 hotspots one year ago underscores the substantial investments and commitment Comcast has made to its Wi-Fi initiatives.

<sup>73</sup> Robert Channick, *Comcast Turning Chicago Homes into Public Wi-Fi Hotspots*, Chi. Trib., Mar. 5, 2014, available at [http://articles.chicagotribune.com/2014-03-05/business/chi-chicago-public-wifi-comcast-20140304\\_1\\_xfinity-wi-fi-moffett-nathanson-public-wi-fi-hot-spots/2](http://articles.chicagotribune.com/2014-03-05/business/chi-chicago-public-wifi-comcast-20140304_1_xfinity-wi-fi-moffett-nathanson-public-wi-fi-hot-spots/2).

<sup>74</sup> Overall Xfinity WiFi usage is growing. See Israel Decl. ¶ 192 (“[T]he average Comcast broadband user (excluding home subscribers in their own home) consumes approximately [ ] gigabytes of data per month via Wi-Fi, a figure that has increased by [ ] percent over the past year.”).

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29,000 Wi-Fi access points in its footprint and with no equivalent of Neighborhood Hotspots to date. To be sure, Comcast and TWC are already both part of a CableWiFi initiative that allows Comcast and TWC customers to use certain Wi-Fi hotspots in each of their respective markets. But the transaction will provide a more seamless fabric of Wi-Fi connectivity across the combined company's footprint.<sup>75</sup> The combined company will enjoy the geographic reach, economies of scale, customer density, and return on investment needed to expand Wi-Fi hotspots across the combined footprint, in part because "Comcast will internalize the benefits of a greater number of Wi-Fi access points to legacy Comcast customers who travel in the TWC footprint, and vice versa, because offering a broad Wi-Fi footprint makes Comcast and TWC more attractive to consumers."<sup>76</sup>

This will be an important consumer benefit in its own right, by enhancing consumers' wireline access.<sup>77</sup> Wider availability of Wi-Fi hotspots means that customers can use advanced devices in more places, more conveniently.<sup>78</sup> In addition, ubiquitous and robust Wi-Fi has direct and tangible benefits for public safety, as was demonstrated during the Boston Marathon bombing.<sup>79</sup> The extension and expansion of the combined company's Wi-Fi network will provide a broader platform for the "innovation and decentralized investment that has been a

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<sup>75</sup> Angelakis Decl. ¶ 25.

<sup>76</sup> Israel Decl. ¶ 195.

<sup>77</sup> Non-Xfinity Internet customers can also take advantage of greater Wi-Fi availability outside the home. Comcast offers hourly, daily, and weekly Xfinity WiFi access passes for non-customers. *Xfinity WiFi*, Comcast Corp., <http://www.comcast.com/wifi/default.htm?SCRedirect=true> (last visited Mar. 29, 2014).

<sup>78</sup> In addition, policymakers have acknowledged that unlicensed spectrum technologies like Wi-Fi are "vital to our economy . . . [.] have transformed the personal electronics industry, and are poised to make substantial contributions to the retail, manufacturing, and other sectors." White House Office of Science and Technology Policy & The National Economic Council, *Four Years of Broadband Growth*, at 20 (June 2013).

<sup>79</sup> After the Boston Marathon attack, cellular networks were overloaded. In response, "Comcast opened its network to anyone – including non-Comcast subscribers – with a Wi-Fi-enabled device to establish communications with loved ones, leading to significantly increased usage of our Xfinity WiFi network in Boston and the surrounding communities." *Hearing on State of Wireless Communications Before the S. Comm. on Commerce, Sci., and Transp.*, 113th Cong. (2013) (Written testimony of Thomas E. Nagel, Senior Vice President, Comcast Corp., at 6).

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hallmark of the Wi-Fi boom” across the Internet ecosystem.<sup>80</sup> As Commissioner Rosenworcel has recognized, “Wi-Fi is an essential onramp to the Internet” that “contribut[es] between \$16-37 billion to our economy annually.”<sup>81</sup>

But it could have an additional collateral benefit as well. A ubiquitous Wi-Fi network built by Comcast could make a “Wi-Fi-first” service, which combines commercial mobile radio service with Wi-Fi, a more viable alternative.<sup>82</sup> One prominent commenter has suggested this could be “a highly disruptive wireless offering,” and “a game changer.”<sup>83</sup>

b. The Transaction Will Increase Broadband Competition and Enhance the Broadband Ecosystem.

The transaction will also enhance the broadband ecosystem by spurring increased competition among broadband providers and fostering the virtuous cycle of innovation by edge providers.

i. Broadband Providers Will Be Spurred To Compete More Effectively.

The broadband market is competitive today, and this transaction will make it more so. By making the combined company a more effective competitor against traditional and emerging broadband providers, the transaction will spur other providers to act on powerful incentives to

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<sup>80</sup> See Comments of Open Technology Institute at the New America Foundation, Public Knowledge, GN Docket No. 12-354, at 9 (Dec. 5, 2013); New America Foundation, *Solving the “Spectrum Crunch:” Unlicensed Spectrum on a High-Fiber Diet*, at 4 (Fall 2013), available at <http://www.twcresearchprogram.com/publications.php>.

<sup>81</sup> Remarks of FCC Commissioner Jessica Rosenworcel, *Wi-Fi in the 5 GHz Fast Lane*, The National Press Club (Mar. 7, 2014), available at [http://transition.fcc.gov/Daily\\_Releases/Daily\\_Business/2014/db0307/DOC-325938A1.pdf](http://transition.fcc.gov/Daily_Releases/Daily_Business/2014/db0307/DOC-325938A1.pdf).

<sup>82</sup> See Israel Decl. ¶ 197 (describing potential entry by combining Wi-Fi infrastructure with a mobile virtual network operator option); Rosston-Topper Decl. ¶ 99 & n.95 (same).

<sup>83</sup> Communications Daily, *Cable Operators Prepare for New Mobile Push with Verizon Wireless*, Sept. 4, 2012 (quoting Craig Moffett); Mike Dano, *Analyst: ‘Disruptive Wi-Fi/MVNO’ Products Coming from Cable Companies in 2014*, FierceWireless (June 27, 2013), <http://www.fiercewireless.com/story/analyst-disruptive-wi-fimvno-products-coming-cable-companies-2014/2013-06-27#ixzz2vgDB5CJu>.

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meet competition and win consumers. In response to the combined company's investments in broadband facilities, equipment, and speeds, AT&T, Verizon, CenturyLink, other ILECs, cable overbuilders, satellite providers, and wireless broadband providers will have every reason to improve and expand the quality of their broadband offerings.

Even considering only wireline ILEC Internet access service, competition is pervasive, and this does not account for cable overbuilders, satellite broadband, and wireless broadband. As shown in the map below, in 98.4 percent of Comcast and TWC's combined service areas, customers have a choice between Comcast or TWC and one or more top-10 ILEC competitors. More specifically, the orange in the map represents the combined service areas of Comcast and TWC where a top-10 ILEC offers Internet access service. The red shows the very few areas (representing about 1.6 percent of Comcast and TWC's service areas) not currently served by a top-10 ILEC.