integration activities following our December 2006 acquisition of BellSouth, we revised our segment reporting in 2007 (see Note 4).

Income Taxes As discussed previously in this footnote, we adopted FIN 48 on January 1, 2007. Prior to our adoption of FIN 48, we provided deferred income taxes for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. With our adoption of FIN 48, we provide deferred income taxes for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax basis of assets and liabilities computed pursuant to FIN 48. Under FIN 48, the tax bases of assets and liabilities are based on amounts that meet the FIN 48 recognition threshold and are measured pursuant to the measurement requirement in FIN 48. To the extent allowed by GAAP, we provide valuation allowances against the deferred tax assets for which the realization is uncertain. We review these items regularly in light of changes in federal and state tax laws and changes in our business.

Investment tax credits earned prior to their repeal by the Tax Reform Act of 1986 are amortized as reductions in income tax expense over the lives of the assets, which gave rise to the credits. Additionally, we report taxes imposed by governmental authorities on revenue-producing transactions between us and our customers in the income statement on a net basis.

Cash Equivalents Cash and cash equivalents include all highly-liquid investments with original maturities of three months or less and the carrying amounts' approximate fair value. At December 31, 2007, we held $889 in cash and $1,081 in money market funds and other cash equivalents.

Investment Securities Investments in securities principally consist of available-for-sale instruments. Short-term and long-term investments in money market securities are carried as held-to-maturity securities. Available-for-sale securities consist of various debt and equity securities that are long term in nature. Unrealized gains and losses, net of tax, on available-for-sale securities are recorded in accumulated other comprehensive income. Our investment securities maturing within one year are recorded in "Other current assets" and instruments with maturities of more than one year are recorded in "Other Assets" on the consolidated balance sheets.

Revenue Recognition Revenues derived from wireless, local telephone, long-distance, data and video services are recognized when services are provided. This is based upon either usage (e.g., minutes of traffic processed), period of time (e.g., monthly service fees) or other established fee schedules. Our wireless service revenues are billed either in advance, arrears or are prepaid. Our wireless Rollover® rate plans include a feature whereby unused anytime minutes do not expire each month but rather are available, under certain conditions, for future use for a period not to exceed one year from the date of purchase. Using historical subscriber usage patterns, we defer these revenues based on an estimate of the portion of unused minutes expected to be utilized prior to expiration.

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

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

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

Allowance for Uncollectibles We maintain an allowance for doubtful accounts for estimated losses that result from the failure or inability of our customers to make required payments. When determining the allowance, we consider the probability of recoverability of accounts receivable based on past experience, taking into account current collection trends as well as general economic factors, including bankruptcy rates. Credit risks are assessed based on historical write-offs, net of recoveries, as well as an analysis of the aged accounts receivable balances with 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 bad-debt allowances are adjusted accordingly.

Inventory Inventories are included in "Other current assets" on our consolidated balance sheet and were $1,119 and $756 at December 31, 2007 and 2006, respectively. Wireless handsets and accessories, which are valued at the lower of cost or market value (determined using current replacement cost) amount to $836 and $467 for the years 2007 and 2006. The remainder of our inventory includes new and reusable supplies and network equipment of our local telephone operations, which are stated principally at average original cost, except that specific costs are used in the case of large individual items. Inventories of our other subsidiaries are stated at the lower of cost or market.

Property, Plant and Equipment Property, plant and equipment is stated at cost, except for assets acquired using purchase accounting, which are recorded at fair value (see Note 2). The cost of additions and substantial improvements to property, plant and equipment is capitalized. The cost of maintenance and repairs of property, plant and equipment is charged to operating expenses. Property, plant and equipment is depreciated using straight-line methods over their estimated economic lives. Certain subsidiaries follow composite group depreciation methodology; accordingly, when a portion of their depreciable property, plant and equipment is retired in the ordinary course of business, the gross book value is reclassified to accumulated depreciation; no gain or loss is recognized on the disposition of this plant.

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

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

Software Costs It is our policy to capitalize certain costs incurred in connection with developing or obtaining internal-use software. Capitalized software costs are included in "Property, Plant and Equipment" on our consolidated balance sheets and are primarily amortized over a three-year period. Software costs that do not meet capitalization criteria are expensed immediately.

Goodwill and Other Intangible Assets Goodwill represents the excess of consideration paid over the fair value of net assets acquired in business combinations. Goodwill and other indefinite-lived intangible assets are not amortized but are tested at least annually for impairment. We have completed our annual impairment testing for 2007 and determined that no impairment exists. The significant increase in the carrying amount of our goodwill in 2006 primarily resulted from our acquisition of BellSouth.

Intangible assets that have finite useful lives are amortized over their useful lives, a weighted average of 7.4 years. Customer relationships are amortized using primarily the sum-of-the-months-digits method of amortization over the expected period in which those relationships are expected to contribute to our future cash flows based in such a way as to allocate it as equitably as possible to periods during which we expect to benefit from those relationships.

A significant portion of intangible assets in our wireless segment are Federal Communications Commission (FCC) licenses that provide us with the exclusive right to utilize certain radio frequency spectrum to provide wireless communications services. While FCC licenses are issued for a fixed time, renewals of FCC licenses have occurred routinely and at nominal cost. Moreover, we have determined that there are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful lives of our FCC licenses, and therefore the FCC licenses are an indefinite-lived intangible asset under the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

In accordance with EITF No. 02-7, "Unit of Accounting for Testing Impairment of Indefinite-Lived Intangible Assets," we test FCC licenses for impairment on an aggregate basis, consistent with the management of the business on a national scope. We utilize a fair value approach, incorporating discounted cash flows, to complete the test. This approach determines the fair value of the FCC licenses and, accordingly, incorporates cash flow assumptions regarding the investment in a network, the development of distribution channels and other inputs for making the business operational. As these inputs are included in determining free cash flows of the business, the present value of the free cash flows is attributable to the licenses. The discount rate applied to the cash flows is consistent with our weighted-average cost of capital. During the fourth quarter of 2007, we completed the annual impairment tests for indefinite-lived FCC licenses. These annual impairment tests resulted in no impairment of indefinite-lived FCC licenses.

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

Foreign Currency Translation Our foreign investments and foreign subsidiaries generally report their earnings in their local currencies. We translate our share of their foreign assets and liabilities at exchange rates in effect at the balance sheet dates. We translate our share of their revenues and expenses using average rates during the year. The resulting foreign currency translation adjustments are recorded as a separate component of accumulated other comprehensive income in the accompanying consolidated balance sheets. Gains and losses resulting from exchange-rate changes on transactions denominated in a currency other than the local currency are included in earnings as incurred.

We have also entered into foreign currency contracts to minimize our exposure to risk of adverse changes in currency exchange rates. We are subject to foreign exchange risk for foreign currency-denominated transactions, such as debt issued, recognized payables and receivables and forecasted transactions. At December 31, 2007, our foreign currency exposures were principally Euros, British pound sterling, Danish krone and Japanese yen.

Derivative Financial Instruments We record derivatives on the balance sheet at fair value. We do not invest in derivatives for trading purposes. We use derivatives from time to time as part of our strategy to manage risks associated with our contractual commitments. These derivatives are designated as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), or a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). Our derivative financial instruments primarily include interest rate swap agreements and foreign currency exchange contracts. For example, we use interest rate swaps to manage our exposure to changes in interest rates on our debt obligations (see Note 9). We account for our interest rate swaps using mark-to-market accounting and include gains or losses from interest rate swaps when paid or received in interest expense in our consolidated statements of income. Amounts paid or received on interest rate forward contracts are amortized over the period of the related interest payments.

All other derivatives are not formally designated for accounting purposes (undesignated). These derivatives, although undesignated for accounting purposes, are entered into to hedge economic risks.

We record changes in the fair value of fair value hedges, along with the changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. Gains or losses upon termination of our fair value hedges are recognized as interest expense when the hedge instrument is settled.

We record changes in the fair value of cash flow hedges, along with the changes in the fair value of the hedged asset or liability that is attributable to the hedged risk, in "Accumulated other comprehensive income," which is a component of Stockholders' Equity. The settlement gains or costs on our cash flow hedges are amortized as interest expense over the term of the interest payments of the related debt issuances.

Changes in the fair value of undesignated derivatives are recorded in other income (expense), net, along with the change in fair value of the underlying asset or liability, as applicable.

Cash flows associated with derivative instruments are presented in the same category on the consolidated statements of cash flows as the item being hedged.

When hedge accounting is discontinued, the derivative is adjusted for changes in fair value through other income (expense), net. For fair value hedges, the underlying asset or liability will no longer be adjusted for changes in fair value, and any asset or liability recorded in connection with the hedging relationship (including firm commitments) will be removed from the balance sheet and recorded in current-period earnings. For cash flow hedges, gains and losses that were accumulated in other comprehensive income as a component of stockholders' equity in connection with hedged assets or liabilities or forecasted transactions will be recognized in other income (expense) – net, in the same period the hedged item affects earnings.

Employee Separations In accordance with Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits," (FAS 112) we establish obligations for expected termination benefits provided under existing plans to former or inactive employees after employment but before retirement. These benefits include severance payments, workers' compensation, disability, medical continuation coverage and other benefits. At December 31, 2007, we had severance accruals under FAS 112 of $153, of which $99 was established as merger-related severance accruals. At December 31, 2006, we had severance accruals of $286.

Pension and Postretirement Benefits See Note 11 for a comprehensive discussion of our pension and postretirement benefit expense, including a discussion of the actuarial assumptions.

NOTE 2. ACQUISITIONS, DISPOSITIONS, VALUATION AND OTHER ADJUSTMENTS

Acquisitions

Dobson In November 2007, we acquired Dobson Communications Corporation (Dobson) for approximately $2,500. Under the purchase method of accounting, the transaction was valued, for accounting purposes, at $2,580. Our December 31, 2007 consolidated balance sheet includes the preliminary valuation of the fair value of Dobson's assets and liabilities, including goodwill of $2,623, licenses of $2,230, customer lists of $517 and other intangible assets totaling $8 associated with this transaction. The values of the assets and liabilities are subject to adjustment as additional information becomes available. When finalized, material adjustments to goodwill may result.

Dobson marketed wireless services under the Cellular One brand and had provided roaming services to AT&T subsidiaries since 1990. Dobson had 1.7 million subscribers across 17 states, mostly in rural and suburban areas with a population covered of more than 12.6 million people. Dobson's operations were incorporated into our wireless operations following the date of acquisition.

BellSouth Corporation In December 2006, we acquired BellSouth, issuing 2.4 billion shares. BellSouth was the leading communications service provider in the southeastern U.S., providing wireline communications services, including local exchange, network access, long-distance services and Internet services to substantial portions of the population across nine states. BellSouth also provided long-distance services to enterprise customers throughout the country.

We and BellSouth jointly owned AT&T Mobility and the Internet-based publisher YPC. In the AT&T Mobility joint venture, we held a 60% economic interest and BellSouth held a 40% economic interest, and in the YPC joint venture, we held a 66% economic interest and BellSouth held a 34% economic interest. For each joint venture, control was shared equally. We and BellSouth each accounted for the joint ventures under the equity method of accounting, recording the proportional share of AT&T Mobility's and YPC's income as equity in net income of affiliates on the respective consolidated statements of income and reporting the ownership percentage of AT&T Mobility's net assets as "Investments in and Advances to AT&T Mobility" and the ownership percentage of YPC's net assets as "Investments in Equity Affiliates" on the respective consolidated balance sheets. After the BellSouth acquisition, BellSouth, AT&T Mobility and YPC became wholly-owned subsidiaries of AT&T, and the operational results of these companies have been included in our consolidated financial statements since the December 29, 2006 acquisition date.

Under the purchase method of accounting, the transaction was valued, for accounting purposes, at approximately $66,800. We conducted an appraisal of the assets and liabilities of BellSouth and AT&T Mobility for inclusion in the balance sheet, adjusting 100% of BellSouth's and 40% of AT&T Mobility's values. Long-lived assets such as property, plant and equipment reflect a value of replacing the assets, which takes into account changes in technology, usage, and relative obsolescence and depreciation of the assets, sometimes referred to as a "Greenfield approach." This approach often results in differences, sometimes material, from recorded book values even if, absent the acquisition, the assets would not be impaired. In addition, assets and liabilities that would not normally be recorded in ordinary operations (i.e., customer relationships) were recorded at their acquisition values. Debt instruments and investments were valued in relation to current market conditions and other assets and liabilities were valued based on the acquiring company's estimates. After all values were assigned to assets and liabilities, the remainder of the purchase price was recorded as goodwill.

The following table summarizes the preliminary estimated fair values of the BellSouth assets acquired and liabilities assumed and related deferred income taxes as of the acquisition date and final adjustments made thereto.

	BellSouth Purchase Price Allocation		
	As of 12/31/06	Adjust-ments	As of 12/29/07
Assets acquired			
Current assets	$ 4,875	$ 6	$ 4,881
Property, plant and equipment	18,498	225	18,723
Intangible assets not subject to amortization:			
Trademark/name	330	—	330
Licenses	214	100	314
Intangible assets subject to amortization:			
Customer lists and relationships	9,230	(25)	9,205
Patents	100	—	100
Trademark/name	211	—	211
Investments in AT&T Mobility	32,759	2,039	34,798
Other investments	2,446	(3)	2,443
Other assets	11,211	(168)	11,043
Goodwill	26,467	(1,554)	24,913
Total assets acquired	106,341	620	106,961
Liabilities assumed			
Current liabilities, excluding current portion of long-term debt	5,288	(427)	4,861
Long-term debt	15,628	(4)	15,624
Deferred income taxes	10,318	(89)	10,229
Postemployment benefit obligation	7,086	163	7,249
Other noncurrent liabilities	1,223	941	2,164
Total liabilities assumed	39,543	584	40,127
Net assets acquired	$ 66,798	$ 36	$ 66,834

Adjustments were primarily related to finalization of participant count estimates used in the opening balance sheet valuation for the pension and postretirement plans, a gain on a contingency related to an insurance claim recovery for Hurricane Katrina damages, AT&T Mobility's purchase accounting adjustments and tax impacts related thereto, the valuation of certain licenses and a decrease in the estimate of relative obsolescence of property, plant and equipment resulting in an increase in value and longer average remaining economic life. Deferred tax adjustments are associated with the above-mentioned items.

BellSouth's 40% economic ownership of AT&T Mobility was recorded above as "Investment in AT&T Mobility" and was eliminated on our consolidated balance sheets. We recorded the consolidation of AT&T Mobility as a step acquisition, retaining 60% of AT&T Mobility's prior book value and adjusting the remaining 40% to fair value. The following table summarizes the preliminary estimated fair values (40%) and historical book values (60%) of the AT&T Mobility assets acquired and liabilities assumed and related deferred income taxes as of the acquisition date and final adjustments made thereto.

	Fair Value Adjustments AT&T Mobility		
	As of 12/31/06	Adjust-ments	As of 12/29/07
Assets acquired			
Current assets	$ 6,988	$ (1)	$ 6,987
Property, plant and equipment	19,687	(569)	19,118
Intangible assets not subject to amortization:			
Licenses	33,979	887	34,866
Intangible assets subject to amortization:			
Customer lists and relationships	7,583	479	8,062
Trademark/names	343	(127)	216
Other	176	(44)	132
Other assets	1,086	13	1,099
Goodwill	27,429	1,989	29,418
Total assets acquired	97,271	2,627	99,898
Liabilities assumed			
Current liabilities, excluding current portion of long-term debt	7,014	647	7,661
Intercompany debt	9,043	—	9,043
Long-term debt	12,559	—	12,559
Deferred income taxes	5,459	(1)	5,458
Postemployment benefit obligation	301	93	394
Other noncurrent liabilities	2,007	(106)	1,901
Total liabilities assumed	36,383	633	37,016
Net assets acquired	$60,888	$1,994	$62,882

Dollars in millions except per share amounts

Adjustments were primarily related to valuation estimates that, due to the proximity of the merger to year-end, were based on data from periods prior to the close of the December 29, 2006 acquisition. Using the December 29, 2006 data, purchase price allocations decreased the opening balance sheet values of property, plant and equipment, trademark/names and other intangibles, offset by an increased value of licenses and customer lists and relationships acquired. Deferred tax adjustments are associated with the above-mentioned items.

Substantially all of the licenses acquired have an indefinite life, and accordingly, are not subject to amortization. The majority of customer relationship intangible assets are being amortized over a weighted-average period of 6.4 years using the sum-of-the-months-digits method. This method best reflects the estimated pattern in which the economic benefits will be consumed. Other intangible assets and other noncurrent liabilities include lease and sublease contracts, which are amortized over the remaining terms of the underlying leases and have a weighted-average amortization period of 6.4 years.

AT&T Corp. In November 2005, we acquired ATTC in a transaction accounted for under FAS 141, issuing 632 million shares. ATTC was one of the nation's leading business service communications providers, offering a variety of global communications services, including large domestic and multinational businesses, small and medium-size businesses and government agencies, and operated one of the leading telecommunications networks in the U.S. ATTC also provided domestic and international long-distance and usage-based-communications services to consumer customers. ATTC is now a wholly-owned subsidiary of AT&T and the results of ATTC's operations have been included in our consolidated financial statements after the November 18, 2005 acquisition date.

Under the purchase method of accounting, the transaction was valued, for accounting purposes, at $15,517 and the assets and liabilities of ATTC were recorded at their respective fair values as of the date of the acquisition.

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

During 2006, we acquired Comergent Technologies, Nistevo Corporation and USinternetworking, Inc., for a combined $500, recording $333 in goodwill. The acquisitions of these companies are designed to enhance our service offerings for Web hosting and application management. In January 2005, we acquired Yantra Corporation (Yantra) for $169 in cash and recorded goodwill of $98. Yantra is a provider of distributed order management and supply-chain fulfillment services.

Dispositions

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

Valuation and Other Adjustments

As ATTC and BellSouth stock options that were converted at the time of the respective acquisitions are exercised, the tax effect on those options may further reduce goodwill. During 2007, we recorded $9 in related goodwill reductions for ATTC and $33 for BellSouth.

Included in the current liabilities reported on our consolidated balance sheet are accruals established under EITF Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination" (EITF 95-3). The liabilities include accruals for severance, lease terminations and equipment removal costs associated with our acquisitions of ATTC and BellSouth.

Included in the liabilities valued for the December 2006 acquisition of BellSouth was accrued severance of $535 for BellSouth employees and $44 for AT&T Mobility employees, all of which will be paid from company cash. In addition, we also reviewed, confirmed and developed plans affecting the integration of retail stores, administrative space and networks, including those acquired in AT&T Mobility's acquisition of AT&T Wireless Services, Inc. When these acquisition plans were finalized during 2007, we recorded additional accruals for severance, lease terminations and equipment removal costs at AT&T Mobility.

Following is a summary of the accruals recorded at December 31, 2006, cash payments made during 2007 and the purchase accounting adjustments thereto, for the acquisitions of ATTC and BellSouth.

	12/31/06 Balance	Cash Payments	Additional Accruals	Adjustments	**12/31/07 Balance**
Severance accruals paid from:					
Company funds	$ 986	$(417)	$ 42	$ (71)	**$ 540**
Pension and postemployment benefit plans	183	(54)	—	—	**129**
Lease terminations	146	(149)	422	6	**425**
Equipment removal and other related costs	117	(125)	214	(45)	**161**
Total	$1,432	$(745)	$678	$(110)	**$1,255**

NOTE 3. EARNINGS PER SHARE

A reconciliation of the numerators and denominators of basic earnings per share and diluted earnings per share for the years ended December 31, 2007, 2006 and 2005 are shown in the table below:

Year Ended December 31,	2007	2006	2005
Numerators			
Numerator for basic earnings per share:			
Net Income	**$11,951**	$7,356	$4,786
Dilutive potential common shares:			
Other stock-based compensation	**8**	7	10
Numerator for diluted earnings per share	**$11,959**	$7,363	$4,796
Denominators (000,000)			
Denominator for basic earnings per share:			
Weighted-average number of common shares outstanding	**6,127**	3,882	3,368
Dilutive potential common shares:			
Stock options	**24**	4	1
Other stock-based compensation	**19**	16	10
Denominator for diluted earnings per share	**6,170**	3,902	3,379
Basic earnings per share	**$ 1.95**	$ 1.89	$ 1.42
Diluted earnings per share	**$ 1.94**	$ 1.89	$ 1.42

At December 31, 2007, 2006 and 2005, we had issued and outstanding options to purchase approximately 231 million, 309 million and 277 million shares of AT&T common stock. The exercise prices of options to purchase a weighted-average of 93 million, 201 million and 257 million shares in 2007, 2006, and 2005 exceeded the average market price of AT&T stock. Accordingly, we did not include these amounts in determining the dilutive potential common shares for the respective periods. At December 31, 2007, the exercise prices of 162 million share options were below market price.

NOTE 4. SEGMENT INFORMATION

Our segments are strategic business units that offer different products and services and are managed accordingly. We analyze our various operating segments based on segment income before income taxes. Interest expense, interest income and other income (expense) – net are managed only on a total company basis and are, accordingly, reflected only in consolidated results. The wireless segment includes minority interest reported as other income (expense) – net in the consolidated statements of income. Therefore, these items are not included in the calculation of each segment's percentage of our consolidated results. As a result of the December 29, 2006 acquisition of BellSouth, we have revised our segment reporting to represent how we now manage our business, restating prior periods to conform to the current segments. The customers and long-lived assets of our reportable segments are predominantly in the United States. We have four reportable segments: (1) wireless, (2) wireline, (3) advertising & publishing and (4) other.

The wireless segment provides voice, data and other wireless communications services, and includes 100% of the results of AT&T Mobility, which was our wireless joint venture with BellSouth prior to the December 29, 2006 acquisition and is now a wholly-owned subsidiary of AT&T. Prior to the acquisition, we analyzed AT&T Mobility's revenues and expenses under the wireless segment, and we eliminated the wireless segment in our consolidated financial statements. In our 2006 and prior consolidated financial statements, we reported our 60% proportionate share of AT&T Mobility's results as equity in net income of affiliates.

The wireline segment provides both retail and wholesale landline communications services, including local and long-distance voice, switched access, Internet protocol and Internet access data, messaging services, managed networking to business customers, AT&T U-verse℠ TV service (U-verse) and satellite television services through our agency agreements with EchoStar Communications Corp. (EchoStar) and the DIRECTV Group, Inc.

The advertising & publishing segment includes our directory operations, which publish Yellow and White Pages directories and sell directory and Internet-based advertising. This segment also includes the results of YPC, which was a joint venture with BellSouth prior to the December 29, 2006 acquisition and is now a wholly-owned subsidiary of AT&T. For segment reporting disclosure, we have carried forward the deferred revenue and deferred cost balances for BellSouth at the acquisition date in order to reflect how the segment is managed. This is different for consolidated reporting purposes as under FAS 141, BellSouth deferred revenue and expenses from directories published during the 12-month period ending with the December 29, 2006 acquisition date, are not recognized and therefore were not included in the opening balance sheet. For management reporting purposes, we continue to amortize these balances over the life of the directory. Thus, our advertising & publishing segment results in 2007 include revenue of $964 and expenses of $308, related to directories published in the Southeast region during 2006, prior to our acquisition of BellSouth. These amounts are eliminated in the consolidations and eliminations column in the reconciliation below.

The other segment includes results from Sterling Commerce, Inc., customer information services and all corporate and other operations. This segment includes our portion of the results from our international equity investments. Prior to December 29, 2006, this segment also included our results from AT&T Mobility as equity in net income of affiliates, as discussed above.

In the following tables, we show how our segment results are reconciled to our consolidated results reported in accordance with GAAP. The Wireless, Wireline, Advertising & Publishing and Other columns represent the segment results of each such operating segment. The Consolidation and Elimination column adds in those line items that we manage on a consolidated basis only: interest expense, interest income and other income (expense) – net. This column also eliminates any intercompany transactions included in each segment's results as well as the advertising & publishing revenue and expenses in 2007 related to directories published in the Southeast region during 2006, mentioned previously. In 2006, since our 60% share of the results from AT&T Mobility is already included in the Other column, the Wireless Elimination column removes the non-consolidated results shown in the wireless segment.

Dollars in millions except per share amounts

Segment results, including a reconciliation to AT&T consolidated results, for 2007, 2006 and 2005 are as follows:

At December 31, 2007 or for the year ended	Wireless	Wireline	Advertising & Publishing	Other	Consolidation and Elimination	Consolidated Results
Revenues from external customers	**$ 42,574**	**$ 69,565**	**$ 5,771**	**$ 1,982**	**$ (964)**	**$118,928**
Intersegment revenues	**110**	**2,012**	**80**	**252**	**(2,454)**	**—**
Total segment operating revenues	**42,684**	**71,577**	**5,851**	**2,234**	**(3,418)**	**118,928**
Operations and support expenses	**28,585**	**46,394**	**3,066**	**1,664**	**(2,762)**	**76,947**
Depreciation and amortization expenses	**7,079**	**13,411**	**924**	**163**	**—**	**21,577**
Total segment operating expenses	**35,664**	**59,805**	**3,990**	**1,827**	**(2,762)**	**98,524**
Segment operating income	**7,020**	**11,772**	**1,861**	**407**	**(656)**	**20,404**
Interest expense	**—**	**—**	**—**	**—**	**3,507**	**3,507**
Equity in net income of affiliates	**16**	**—**	**—**	**676**	**—**	**692**
Minority interest	**(198)**	**—**	**—**	**—**	**198**	**—**
Other income (expense) – net	**—**	**—**	**—**	**—**	**615**	**615**
Segment income before income taxes	**$ 6,838**	**$ 11,772**	**$ 1,861**	**$ 1,083**	**$ (3,350)**	**$ 18,204**
Segment assets	**$105,953**	**$168,048**	**$14,910**	**$183,075**	**$(196,342)**	**$275,644**
Investment in equity method investees	**13**	**—**	**—**	**2,257**	**—**	**2,270**
Expenditures for additions to long-lived assets	**3,745**	**13,693**	**25**	**254**	**—**	**17,717**

At December 31, 2006 or for the year ended	Wireless	Wireline	Advertising & Publishing	Other	Consolidation and Elimination	Wireless Elimination	Consolidated Results
Revenues from external customers	$37,537	$ 57,473	$ 3,634	$ 1,702	$ —	$(37,291)	$ 63,055
Intersegment revenues	—	5	51	176	(232)	—	—
Total segment operating revenues	37,537	57,478	3,685	1,878	(232)	(37,291)	63,055
Operations and support expenses	26,503	39,878	1,737	1,318	(233)	(26,343)	42,860
Depreciation and amortization expenses	6,462	9,676	3	167	—	(6,401)	9,907
Total segment operating expenses	32,965	49,554	1,740	1,485	(233)	(32,744)	52,767
Segment operating income	4,572	7,924	1,945	393	1	(4,547)	10,288
Interest expense	—	—	—	—	1,843	—	1,843
Equity in net income (loss) of affiliates	40	—	(17)	2,020	—	—	2,043
Minority interest	(169)	—	—	—	4	165	—
Other income (expense) – net	—	—	—	—	393	—	393
Segment income before income taxes	$ 4,443	$ 7,924	$ 1,928	$ 2,413	$ (1,445)	$ (4,382)	$ 10,881
Segment assets	$98,563	$166,178	$14,791	$166,187	$(175,085)	$ —	$270,634
Investment in equity method investees	3	—	—	1,992	—	—	1,995
Expenditures for additions to long-lived assets	7,039	8,147	2	171	—	(7,039)	8,320

At December 31, 2005 or for the year ended	Wireless	Wireline	Advertising & Publishing	Other	Consolidation and Elimination	Wireless Elimination	Consolidated Results
Revenues from external customers	$34,468	$ 38,454	$ 3,625	$ 1,650	$ —	$(34,433)	$ 43,764
Intersegment revenues	—	—	59	81	(140)	—	—
Total segment operating revenues	34,468	38,454	3,684	1,731	(140)	(34,433)	43,764
Operations and support expenses	26,033	27,339	1,685	1,066	(137)	(26,033)	29,953
Depreciation and amortization expenses	6,608	7,426	5	182	(2)	(6,576)	7,643
Total segment operating expenses	32,641	34,765	1,690	1,248	(139)	(32,609)	37,596
Segment operating income	1,827	3,689	1,994	483	(1)	(1,824)	6,168
Interest expense	—	—	—	—	1,456	—	1,456
Equity in net income (loss) of affiliates	(11)	—	(5)	629	—	(4)	609
Minority interest	(103)	—	—	—	2	101	—
Other income (expense) – net	—	—	—	—	397	—	397
Segment income before income taxes	$ 1,713	$ 3,689	$ 1,989	$ 1,112	$ (1,058)	$ (1,727)	$ 5,718

NOTE 5. PROPERTY, PLANT AND EQUIPMENT

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

	Lives (years)	2007	2006
Land	—	**$ 1,860**	$ 1,925
Buildings	35-45	**23,670**	23,481
Central office equipment	3-10	**70,632**	63,997
Cable, wiring and conduit	10-50	**68,676**	64,483
Other equipment	5-15	**32,606**	33,448
Software	3-5	**9,298**	11,678
Under construction	—	**3,776**	3,137
		210,518	202,149
Accumulated depreciation and amortization		**114,628**	107,553
Property, plant and equipment – net		**$ 95,890**	$ 94,596

Our depreciation expense was $15,625 in 2007, $8,874 in 2006 and $7,372 in 2005.

Certain facilities and equipment used in operations are leased under operating or capital leases. Rental expenses under operating leases were $2,566 for 2007, $869 for 2006, and $473 for 2005. The future minimum rental payments under noncancelable operating leases for the years 2008 through 2012 are $2,088, $1,850, $1,629, $1,399 and $1,223, with $6,958 due thereafter. Capital leases are not significant.

American Tower Corp. Agreement

In August 2000, we reached an agreement with American Tower Corp. (American Tower) under which we granted American Tower the exclusive rights to lease space on a number of our communications towers. In exchange, we received a combination of cash and equity instruments as complete prepayment of rent with the closing of each leasing agreement. The value of the prepayments was recorded as deferred revenue and recognized in income as revenue over the life of the leases. The balance of deferred revenue was $539 in 2007, $568 in 2006, and $598 in 2005.

NOTE 6. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amounts of goodwill, by segment, for the years ended December 31, 2007 and 2006, are as follows:

	Wireless	Wireline	Advertising & Publishing	Other	Total
Balance as of January 1, 2006	$ —	$ 12,795	$ 8	$1,252	$ 14,055
Goodwill acquired:					
BellSouth acquisition	27,429	20,939	5,528	—	53,896
Other	—	197	128	139	464
Goodwill adjustment related to ATTC acquisition	—	(989)	—	—	(989)
Other	681	—	—	(450)	231
Balance as of December 31, 2006	28,110	32,942	5,664	941	67,657
Goodwill acquired	2,623	133	171	—	2,927
Goodwill adjustment related to BellSouth acquisition	1,989	(1,554)	—	—	435
Settlement of IRS audit	—	(123)	—	—	(123)
Goodwill adjustments for prior-year acquisitions and FIN 48	—	(44)	(51)	(32)	(127)
Other	(9)	(53)	4	2	(56)
Balance as of December 31, 2007	**$32,713**	**$31,301**	**$5,788**	**$ 911**	**$70,713**

Goodwill is tested annually for impairment, with any impairments being expensed in that period's income statement. Due to the proximity of our acquisition of BellSouth to year-end 2006, we originally recorded all BellSouth assets, including goodwill, in our other segment. In 2007, in conjunction with our segment realignment (see Note 4) we moved the initial BellSouth goodwill to our wireline and advertising & publishing segments. During our allocation period, we completed purchase accounting adjustments to the AT&T Mobility and BellSouth goodwill (see Note 2). Other changes to goodwill include adjustments totaling $42 for the tax effect of stock options exercised.

Dollars in millions except per share amounts

Our other intangible assets are summarized as follows:

	December 31, 2007		December 31, 2006	
Other Intangible Assets	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer lists and relationships:				
AT&T Mobility	**$10,526**	**$4,549**	$ 9,530	$1,948
BellSouth	**9,205**	**2,205**	9,230	—
ATTC	**3,050**	**1,653**	3,050	1,082
Other	**429**	**298**	395	253
Subtotal	**23,210**	**8,705**	22,205	3,283
Other	**1,873**	**1,191**	1,973	714
Total	**$25,083**	**$9,896**	$24,178	$3,997
Indefinite life intangible assets not subject to amortization:				
Licenses	**$37,985**		$34,252	
Trade name	**5,230**		5,307	
Total	**$43,215**		$39,559	

Amortized intangible assets are definite-life assets, and as such, we record amortization expense based on a method that most appropriately reflects our expected cash flows from these assets with a weighted-average amortization period of 7.4 years (7.3 years for customer lists and relationships and 9.6 years for other). Amortization expense for definite-life intangible assets was $5,952, $1,033 and $271 for the years ended December 31, 2007, 2006 and 2005, respectively. Amortization expense is estimated to be $4,430 in 2008, $3,540 in 2009, $2,740 in 2010, $1,820 in 2011 and $1,200 in 2012.

Licenses include FCC licenses of $37,948 that provide us with the exclusive right to utilize certain radio frequency spectrum to provide wireless communications services. While FCC licenses are issued for a fixed time, renewals of FCC licenses have occurred routinely and at nominal cost. Moreover, we have determined that there are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful lives of our FCC licenses and therefore, treat the FCC licenses as an indefinite-lived intangible asset.

NOTE 7. EQUITY METHOD INVESTMENTS

Investments in partnerships, joint ventures, and less-than-majority-owned subsidiaries where we have significant influence are accounted for under the equity method. Until our acquisition of BellSouth in December 2006 (see Note 2), we accounted for our 60% economic interest in AT&T Mobility under the equity method since we shared control equally with BellSouth, our 40% economic partner. We had equal voting rights and representation on the board of directors that controlled AT&T Mobility. As a result of the BellSouth acquisition, AT&T Mobility became a wholly-owned subsidiary of AT&T and is reported in our wireless segment and our consolidated statements of income.

AT&T Mobility As of December 29, 2006, we report AT&T Mobility as a wholly-owned subsidiary.

The following table presents summarized operating results for AT&T Mobility prior to the December 29, 2006 BellSouth acquisition:

	2006	2005
Income Statements		
Operating revenues	$37,291	$34,433
Operating income	4,547	1,824
Net income	2,513	333

Equity Method Investments Our investments in equity affiliates include primarily international investments. As of December 31, 2007, our investments in equity affiliates included a 9.3% interest in Teléfonos de México, S.A. de C.V. (Telmex), Mexico's national telecommunications company, and an 8.2% interest in América Móvil S.A. de C.V. (América Móvil), primarily a wireless provider in Mexico, with telecommunications investments in the United States and Latin America. We are a member of a consortium that holds all of the class AA shares of Telmex stock, representing voting control of the company. Another member of the consortium, Carso Global Telecom, S.A. de C.V., has the right to appoint a majority of the directors of Telmex. We also are a member of a consortium that holds all of the class AA shares of América Móvil stock, representing voting control of the company. Another member of the consortium, Americas Telecom S.A. de C.V., has the right to appoint a majority of the directors of América Móvil. On November 14, 2007, Telmex's board of directors approved a strategic initiative to divide the company into two separate companies. The initiative calls for Telmex to split off all of its Latin American businesses and its Mexican yellow pages business to a new holding company, Telmex Internacional. The spin-off was approved by shareholders on December 21, 2007. The proposed spin-off will be subject to compliance with the regulatory requirements in Mexico and other jurisdictions.

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

	2007	2006
Beginning of year	**$1,995**	$2,031
Additional investments	**8**	5
Equity in net income of affiliates	**692**	535
Dividends received	**(395)**	(97)
Currency translation adjustments	**(18)**	(22)
Other adjustments	**(12)**	(457)
End of year	**$2,270**	$1,995

Undistributed earnings from equity affiliates were $2,335 and $2,038 at December 31, 2007 and 2006, respectively. The currency translation adjustment for 2007 and 2006 primarily reflects the effect of exchange rate fluctuations on our investments in Telmex and América Móvil. "Other adjustments" for 2006 consisted primarily of $375 representing the consolidation of Cellular Communications of Puerto Rico, YPC and other domestic wireless investments as wholly-owned subsidiaries of AT&T as a result of the BellSouth acquisition and $75 representing purchase accounting revaluation of equity investments in ATTC.

The fair value of our investment in Telmex, based on the equivalent value of Telmex L shares at December 31, 2007, was $3,315. The fair value of our investment in América Móvil, based on the equivalent value of América Móvil L shares at December 31, 2007, was $8,808.

NOTE 8. DEBT

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

		2007	2006
Notes and debentures			
Interest Rates	Maturities		
4.03% – 5.98%	2007 – 2054	**$23,324**	$18,571
6.00% – 7.88%	2007 – 2097	**29,282**	24,685
8.00% – 9.10%	2007 – 2031	**7,114**	8,626
Other		**136**	141
Fair value of interest rate swaps		**88**	(80)
		59,944	51,943
Unamortized premium, net of discount		**2,049**	2,323
Total notes and debentures		**61,993**	54,266
Capitalized leases		**201**	211
Total long-term debt, including current maturities		**62,194**	54,477
Current maturities of long-term debt		**(4,939)**	(4,414)
Total long-term debt		**$57,255**	$50,063

On December 29, 2006, we included on our balance sheet $28,321 in long-term debt and capital leases related to our acquisition of BellSouth (see Note 2). The debt of AT&T Mobility was included in that amount since it is now a subsidiary of AT&T. BellSouth's and AT&T Mobility's long-term debt included both fixed and floating interest rates with a weighted-average rate of 6.7% (ranging from 4.2% to 8.8%) and had maturities ranging from 2007 to 2097. Included in our "Total notes and debentures" balance in the table above was the face value of acquired debt from BellSouth and AT&T Mobility of $25,234, which had a carrying amount of $26,968 at December 31, 2006.

Included in the table above at December 31, 2006, was $1,734 representing the remaining excess of the fair value over the recorded value of debt in connection with the acquisition of BellSouth and AT&T Mobility. The excess is amortized over the remaining lives of the underlying debt obligations.

We have debt instruments that may require us to repurchase the debt or which may alter the interest rate associated with that debt. We have $1,000 of Puttable Reset Securities (PURS) at 4.2% maturing in 2021 with an annual put option by the holder. If the holders of our PURS do not require us to repurchase the securities, the interest rate will be reset based on current market conditions. Since these securities can be put to us annually, the balance is included in current maturities of long-term debt in our balance sheet.

Beginning in May 2009, our $500 zero-coupon puttable note may be presented for redemption by the holder at specified dates, but not more frequently than annually, excluding 2011. If the note is held to maturity in 2022, the redemption amount will be $1,030.

As of December 31, 2007 and 2006, we were in compliance with all covenants and conditions of instruments governing our debt. Substantially all of our outstanding long-term debt is unsecured. Excluding capitalized leases and the effect of interest rate swaps, the aggregate principal amounts of long-term debt and the corresponding weighted-average interest rate scheduled for repayment are as follows:

	2008	2009	2010	2011	2012	Thereafter
Debt repayments	$4,926	$5,965	$3,766	$7,534	$4,894	$32,771
Weighted-average interest rate	5.5%	4.9%	6.2%	7.1%	6.6%	6.4%

Financing Activities

Debt During 2007, debt repayments totaled $10,183 and consisted of:

- $3,871 related to debt repayments with a weighted-average interest rate of 6.1%, which included the early redemption of debt related to a put exercise on $1,000 of our 4.2% PURS and called debt of $500 with an interest rate of 7.0%.
- $3,411 related to repayments of commercial paper and other short-term bank borrowings.
- $1,735 related to the early redemption of Dobson debt acquired with a par value of $1,599 and a weighted-average interest rate of 9.1%.
- $904 related to the early repayment of a Dobson long-term credit facility.
- $218 related to the early redemption of a convertible note held by Dobson.
- $44 related to scheduled principal payments on other debt and repayments of other borrowings.