AT&T INC.
Form 10-Q
November 02, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

# FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

or

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

For the transition period from to

Commission File Number 1-8610

AT&T INC.

Incorporated under the laws of the State of Delaware
I.R.S. Employer Identification Number 43-1301883

208 S. Akard St., Dallas, Texas 75202
Telephone Number: (210) 821-4105

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| | [X] | Accelerated filer | [ ] |

| | | | | |
|---|---|---|---|---|
| Large accelerated filer | | | | |
| Non-accelerated filer | [ ] | (Do not check if a smaller reporting company) | Smaller reporting company | [ ] |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [X]

At October 31, 2012 there were 5,680 million common shares outstanding.

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements

AT&T INC.
CONSOLIDATED STATEMENTS OF INCOME
Dollars in millions except per share amounts
(Unaudited)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Operating Revenues | | | | |
| Wireless service | $ 14,906 | $ 14,261 | $ 44,237 | $ 42,379 |
| Data | 7,977 | 7,459 | 23,695 | 21,979 |
| Voice | 5,565 | 6,242 | 17,155 | 19,132 |
| Directory | - | 803 | 1,049 | 2,512 |
| Other | 3,011 | 2,713 | 8,720 | 8,218 |
| Total operating revenues | 31,459 | 31,478 | 94,856 | 94,220 |
| Operating Expenses | | | | |
| Cost of services and sales (exclusive of depreciation and amortization shown separately below) | 12,718 | 12,656 | 38,000 | 38,225 |
| Selling, general and administrative | 8,192 | 7,969 | 24,330 | 23,983 |
| Depreciation and amortization | 4,512 | 4,618 | 13,571 | 13,804 |
| Total operating expenses | 25,422 | 25,243 | 75,901 | 76,012 |
| Operating Income | 6,037 | 6,235 | 18,955 | 18,208 |
| Other Income (Expense) | | | | |
| Interest expense | (824) | (889) | (2,624) | (2,583) |
| Equity in net income of affiliates | 182 | 193 | 537 | 649 |
| Other income (expense) – net | 47 | 46 | 122 | 132 |
| Total other income (expense) | (595) | (650) | (1,965) | (1,802) |
| Income Before Income Taxes | 5,442 | 5,585 | 16,990 | 16,406 |
| Income tax expense | 1,741 | 1,899 | 5,672 | 5,594 |
| Net Income | 3,701 | 3,686 | 11,318 | 10,812 |
| Less: Net Income Attributable to Noncontrolling Interest | (66) | (63) | (197) | (190) |
| Net Income Attributable to AT&T | $ 3,635 | $ 3,623 | $ 11,121 | $ 10,622 |
| Basic Earnings Per Share Attributable to AT&T | $ 0.63 | $ 0.61 | $ 1.90 | $ 1.79 |
| Diluted Earnings Per Share Attributable to AT&T | $ 0.63 | $ 0.61 | $ 1.90 | $ 1.79 |
| Weighted Average Number of Common Shares Outstanding – Basic (in millions) | 5,771 | 5,936 | 5,848 | 5,931 |
| Weighted Average Number of Common Shares Outstanding – with Dilution (in millions) | 5,792 | 5,954 | 5,869 | 5,950 |
| Dividends Declared Per Common Share | $ 0.44 | $ 0.43 | $ 1.32 | $ 1.29 |

See Notes to Consolidated Financial Statements.

AT&T INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Dollars in millions
(Unaudited)

| | Three months ended September 30, 2012 | 2011 | Nine months ended September 30, 2012 | 2011 |
|---|---|---|---|---|
| Net income | $ 3,701 | $ 3,686 | $ 11,318 | $ 10,812 |
| Other comprehensive income, net of tax: | | | | |
| Foreign currency translation adjustments, net of taxes of $33, $(280), $109 and $(157) | 57 | (519) | 199 | (291) |
| Net unrealized gains (losses) on available-for-sale securities: | | | | |
| Unrealized gains (losses), net of taxes of $31, $(88), $58 and $(59) | 59 | (165) | 108 | (110) |
| Reclassification adjustment realized in net income, net of taxes of $(28), $(2), $(34) and $(23) | (51) | (2) | (63) | (43) |
| Net unrealized gains (losses) on cash flow hedges: | | | | |
| Unrealized gains (losses), net of taxes of $126, $(135), $68 and $(143) | 232 | (249) | 125 | (263) |
| Reclassification adjustment included in net income, net of taxes of $4, $1, $11 and $4 | 8 | 2 | 21 | 7 |
| Defined benefit postretirement plans: | | | | |
| Net actuarial loss from equity method investees arising during period, net of taxes of $0, $0, $(29) and $0 | - | - | (53) | - |
| Amortization of net prior service credit included in net income, net of taxes of $(84), $(69), $(255) and $(206) | (137) | (112) | (411) | (336) |
| Other | (1) | 2 | - | 1 |
| Other comprehensive income (loss) | 167 | (1,043) | (74) | (1,035) |
| Total comprehensive income | 3,868 | 2,643 | 11,244 | 9,777 |
| Less: Total comprehensive income attributable to noncontrolling interest | (66) | (63) | (197) | (190) |
| Total Comprehensive Income Attributable to AT&T | $ 3,802 | $ 2,580 | $ 11,047 | $ 9,587 |

See Notes to Consolidated Financial Statements.

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AT&T INC.
CONSOLIDATED BALANCE SHEETS
Dollars in millions except per share amounts

| | | September 30, 2012 (Unaudited) | | December 31, 2011 |
|---|---|---|---|---|
| Assets | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | $ | 2,217 | $ | 3,185 |
| Accounts receivable - net of allowances for doubtful accounts of $606 and $878 | | 12,398 | | 13,606 |
| Prepaid expenses | | 1,337 | | 1,155 |
| Deferred income taxes | | 1,312 | | 1,470 |
| Other current assets | | 1,694 | | 3,611 |
| Total current assets | | 18,958 | | 23,027 |
| Property, plant and equipment | | 267,639 | | 260,279 |
| Less: accumulated depreciation and amortization | | (159,422) | | (153,192) |
| Property, Plant and Equipment – Net | | 108,217 | | 107,087 |
| Goodwill | | 69,762 | | 70,842 |
| Licenses | | 52,082 | | 51,374 |
| Customer Lists and Relationships – Net | | 1,622 | | 2,757 |
| Other Intangible Assets – Net | | 5,038 | | 5,212 |
| Investments in and Advances to Equity Affiliates | | 4,563 | | 3,718 |
| Other Assets | | 6,607 | | 6,327 |
| Total Assets | $ | 266,849 | $ | 270,344 |
| | | | | |
| Liabilities and Stockholders' Equity | | | | |
| Current Liabilities | | | | |
| Debt maturing within one year | $ | 3,433 | $ | 3,453 |
| Accounts payable and accrued liabilities | | 18,936 | | 19,858 |
| Advanced billing and customer deposits | | 3,709 | | 3,872 |
| Accrued taxes | | 2,209 | | 1,003 |
| Dividends payable | | 2,511 | | 2,608 |
| Total current liabilities | | 30,798 | | 30,794 |
| Long-Term Debt | | 60,314 | | 61,300 |
| Deferred Credits and Other Noncurrent Liabilities | | | | |
| Deferred income taxes | | 29,092 | | 25,748 |
| Postemployment benefit obligation | | 33,842 | | 34,011 |
| Other noncurrent liabilities | | 11,529 | | 12,694 |
| Total deferred credits and other noncurrent liabilities | | 74,463 | | 72,453 |
| | | | | |
| Stockholders' Equity | | | | |
| Common stock ($1 par value, 14,000,000,000 authorized at September 30, 2012 and December 31, 2011: issued 6,495,231,088 at September 30, 2012 and December 31, 2011) | | 6,495 | | 6,495 |
| Additional paid-in capital | | 90,982 | | 91,156 |
| Retained earnings | | 28,907 | | 25,453 |
| Treasury stock (788,169,469 at September 30, 2012 and 568,719,202 | | | | |

| | | | | |
|---|---|---|---|---|
| at December 31, 2011, at cost) | | (28,533) | | (20,750) |
| Accumulated other comprehensive income | | 3,106 | | 3,180 |
| Noncontrolling interest | | 317 | | 263 |
| Total stockholders’ equity | | 101,274 | | 105,797 |
| Total Liabilities and Stockholders’ Equity | $ | 266,849 | $ | 270,344 |

See Notes to Consolidated Financial Statements.

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AT&T INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Dollars in millions
(Unaudited)

| | Nine months ended September 30, 2012 | 2011 |
|---|---|---|
| Operating Activities | | |
| Net income | $ 11,318 | $ 10,812 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 13,571 | 13,804 |
| Undistributed earnings from investments in equity affiliates | (483) | (539) |
| Provision for uncollectible accounts | 835 | 805 |
| Deferred income tax expense and noncurrent unrecognized tax benefits | 3,441 | 4,942 |
| Net (gain) loss from sale of investments, net of impairments | (27) | (57) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (450) | (573) |
| Other current assets | 1,459 | 1,342 |
| Accounts payable and accrued liabilities | 387 | (2,533) |
| Other - net | (1,107) | (853) |
| Total adjustments | 17,626 | 16,338 |
| Net Cash Provided by Operating Activities | 28,944 | 27,150 |
| | | |
| Investing Activities | | |
| Construction and capital expenditures: | | |
| Capital expenditures | (13,619) | (14,625) |
| Interest during construction | (197) | (119) |
| Acquisitions, net of cash acquired | (551) | (430) |
| Dispositions | 807 | 76 |
| Sales (purchases) of securities, net | 311 | 45 |
| Other | (2) | 28 |
| Net Cash Used in Investing Activities | (13,251) | (15,025) |
| | | |
| Financing Activities | | |
| Net change in short-term borrowings with original maturities of three months or less | - | (1,620) |
| Issuance of long-term debt | 6,935 | 7,935 |
| Repayment of long-term debt | (8,042) | (1,298) |
| Purchase of treasury stock | (8,374) | - |
| Issuance of treasury stock | 460 | 216 |
| Dividends paid | (7,738) | (7,627) |
| Other | 98 | (406) |
| Net Cash Used in Financing Activities | (16,661) | (2,800) |
| Net (decrease) increase in cash and cash equivalents | (968) | 9,325 |
| Cash and cash equivalents beginning of year | 3,185 | 1,437 |

| | | | | |
|---|---|---|---|---|
| Cash and Cash Equivalents End of Period | $ | 2,217 | $ | 10,762 |
| Cash paid during the nine months ended September 30 for: | | | | |
| Interest | $ | 3,335 | $ | 3,066 |
| Income taxes, net of refunds | $ | 390 | $ | (121) |

See Notes to Consolidated Financial Statements.

AT&T INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
Dollars and shares in millions except per share amounts
(Unaudited)

| | September 30, 2012 | | |
|---|---|---|---|
| | Shares | Amount | |
| Common Stock | | | |
| Balance at beginning of year | 6,495 | $ | 6,495 |
| Issuance of stock | - | | - |
| Balance at end of period | 6,495 | $ | 6,495 |
| | | | |
| Additional Paid-In Capital | | | |
| Balance at beginning of year | | $ | 91,156 |
| Issuance of treasury stock | | | 119 |
| Share-based payments | | | (133) |
| Share of equity method investee capital transactions | | | (160) |
| Balance at end of period | | $ | 90,982 |
| | | | |
| Retained Earnings | | | |
| Balance at beginning of year | | $ | 25,453 |
| Net income attributable to AT&T ($1.90 per diluted share) | | | 11,121 |
| Dividends to stockholders ($1.32 per share) | | | (7,646) |
| Other | | | (21) |
| Balance at end of period | | $ | 28,907 |
| | | | |
| Treasury Stock | | | |
| Balance at beginning of year | (568) | $ | (20,750) |
| Purchase of stock | (245) | | (8,374) |
| Issuance of treasury stock | 25 | | 591 |
| Balance at end of period | (788) | $ | (28,533) |
| | | | |
| Accumulated Other Comprehensive Income Attributable to AT&T, net of tax | | | |
| Balance at beginning of year | | $ | 3,180 |
| Other comprehensive loss attributable to AT&T | | | (74) |
| Balance at end of period | | $ | 3,106 |
| | | | |
| Noncontrolling Interest | | | |
| Balance at beginning of year | | $ | 263 |
| Net income attributable to noncontrolling interest | | | 197 |
| Distributions | | | (143) |
| Balance at end of period | | $ | 317 |
| | | | |
| Total Stockholders' Equity at beginning of year | | $ | 105,797 |
| Total Stockholders' Equity at end of period | | $ | 101,274 |

See Notes to Consolidated Financial Statements.

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AT&T INC.
SEPTEMBER 30, 2012

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
Dollars in millions except per share amounts

NOTE 1. PREPARATION OF INTERIM FINANCIAL STATEMENTS

Basis of Presentation Throughout this document, AT&T Inc. is referred to as “AT&T,” “we” or the “Company.” We believe that these consolidated financial statements include all adjustments (consisting only of normal recurring accruals) necessary to present fairly the results for the presented interim periods. The results for the interim periods are not necessarily indicative of those for the full year. You should read this document in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2011.

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 in the United States and internationally, providing wireless communications services, local exchange services, long-distance services, data/broadband and Internet services, video services, telecommunications equipment, managed networking and wholesale services. 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 note and a 47% equity interest in the new entity, YP Holdings LLC (YP Holdings). Our operating results include the results of the Advertising Solutions segment through May 8. Beginning on May 9, we included our 47% equity in YP Holdings in equity in net income of affiliates in our Other segment and on our consolidated income statement.

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 period end. We also record our proportionate share of our equity method investees’ other comprehensive income 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 requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, including estimates of probable losses and expenses. Actual results could differ from those estimates. We have reclassified certain amounts in prior-period financial statements to conform to the current period’s presentation, including a reclassification of certain operating expenses based on an enhanced activity-based expense tracking system.

Employee Separations We established obligations for expected termination benefits provided under existing plans to former or inactive employees after employment but before retirement. At September 30, 2012, we had severance accruals of $118 and at December 31, 2011, we had severance accruals of $335. The decline was primarily due to payments during the period.

Stock Repurchase Program In December 2010, the 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. For the nine months ended September 30, 2012, we had repurchased approximately 245 million shares totaling $8,374. In July 2012, the Board of Directors authorized the repurchase of an additional 300 million shares. We intend to continue repurchasing shares.

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.

AT&T INC.
SEPTEMBER 30, 2012

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - 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 attributable to AT&T for the three and nine months ended September 30, 2012 and 2011, are shown in the table below:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Numerators | | | | |
| Numerator for basic earnings per share: | | | | |
| Net Income | $ 3,701 | $ 3,686 | $ 11,318 | $ 10,812 |
| Net income attributable to noncontrolling interest | (66) | (63) | (197) | (190) |
| Net Income attributable to AT&T | 3,635 | 3,623 | 11,121 | 10,622 |
| Dilutive potential common shares: | | | | |
| Other share-based payment | 3 | 3 | 9 | 8 |
| Numerator for diluted earnings per share | $ 3,638 | $ 3,626 | $ 11,130 | $ 10,630 |
| Denominators (000,000) | | | | |
| Denominator for basic earnings per share: | | | | |
| Weighted average number of common shares outstanding | 5,771 | 5,936 | 5,848 | 5,931 |
| Dilutive potential common shares: | | | | |
| Stock options | 4 | 3 | 4 | 4 |
| Other share-based payment | 17 | 15 | 17 | 15 |
| Denominator for diluted earnings per share | 5,792 | 5,954 | 5,869 | 5,950 |
| Basic earnings per share attributable to AT&T | $ 0.63 | $ 0.61 | $ 1.90 | $ 1.79 |
| Diluted earnings per share attributable to AT&T | $ 0.63 | $ 0.61 | $ 1.90 | $ 1.79 |

At September 30, 2012 and 2011, we had issued and outstanding options to purchase approximately 18 million and 85 million shares of AT&T common stock. For the quarter ended September 30, 2012 and 2011, the exercise prices of 2 million and 58 million options were above the market price of AT&T stock for the respective periods. Accordingly, we did not include these amounts in determining the dilutive potential common shares. At September 30, 2012 and 2011, the exercise prices of 16 million and 24 million vested stock options were below market price.

AT&T INC.
SEPTEMBER 30, 2012

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Dollars in millions except per share amounts

NOTE 3. 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 various operating segments based on segment income before income taxes. We make our capital allocations decisions based on our strategic direction of the business, needs of the network (wireless or wireline) providing services and other assets needed 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. The customers and long-lived assets of our reportable segments are predominantly in the United States. For the quarter ended September 30, 2012, we have three reportable segments: (1) Wireless, (2) Wireline, and (3) Other. Our operating results prior to May 9, 2012, also included Advertising Solutions. On May 8, 2012, we completed the sale of our Advertising Solutions segment and received a 47 percent equity interest in the new entity YP Holdings (see Note 1).

The Wireless segment uses our nationwide network to provide consumer and business customers with wireless voice and advanced data communications services. The Wireless segment results have been reclassified to include the operating results of a subsidiary that provides services for subscribers to wirelessly monitor their home that was previously reported in the Wireline segment.

The Wireline segment uses our regional, national and global network to provide consumer and business customers with landline voice and data communications services, AT&T U-verse® TV, high-speed broadband and voice services and managed networking to business customers. Additionally, we receive commissions on sales of satellite television services offered through our agency arrangements. The Wireline segment results have been reclassified to exclude the operating results of the home monitoring business moved to our Wireless segment and to include the operating results of customer information services, which were previously reported in our Other segment's results.

The Advertising Solutions segment included our directory operations, which published Yellow and White Pages directories and sold directory advertising and Internet-based advertising and local search.

The Other segment includes our portion of the results from our international equity investments, our 47 percent equity interest in YP Holdings and all corporate and other 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 cost and expected return on plan assets for our pension and postretirement benefit plans. The Other segment results have been reclassified to exclude the operating results of customer information services, which are now reported in our Wireline segment's results.

In the following tables, we show how our segment results are reconciled to our consolidated results reported.

AT&T INC.
SEPTEMBER 30, 2012

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Dollars in millions except per share amounts

For the three months ended September 30, 2012

| | Wireless | Wireline | Advertising Solutions | Other | Consolidations | Consolidated Results |
|---|---|---|---|---|---|---|
| Total segment operating revenues | $ 16,632 | $ 14,813 | $ - | $ 14 | $ - | $ 31,459 |
| Operations and support expenses | 10,549 | 10,134 | - | 227 | - | 20,910 |
| Depreciation and amortization expenses | 1,730 | 2,774 | - | 8 | - | 4,512 |
| Total segment operating expenses | 12,279 | 12,908 | - | 235 | - | 25,422 |
| Segment operating income (loss) | 4,353 | 1,905 | - | (221) | - | 6,037 |
| Interest expense | - | - | - | - | 824 | 824 |
| Equity in net income (loss) of affiliates | (17) | - | - | 199 | - | 182 |
| Other income (expense) – net | - | - | - | - | 47 | 47 |
| Segment income (loss) before income taxes | $ 4,336 | $ 1,905 | $ - | $ (22) | $ (777) | $ 5,442 |

For the nine months ended September 30, 2012

| | Wireless | Wireline | Advertising Solutions | Other | Consolidations | Consolidated Results |
|---|---|---|---|---|---|---|
| Total segment operating revenues | $ 49,121 | $ 44,645 | $ 1,049 | $ 41 | $ - | $ 94,856 |
| Operations and support expenses | 30,337 | 30,516 | 773 | 704 | - | 62,330 |
| Depreciation and amortization expenses | 5,092 | 8,348 | 106 | 25 | - | 13,571 |
| Total segment operating expenses | 35,429 | 38,864 | 879 | 729 | - | 75,901 |
| Segment operating income (loss) | 13,692 | 5,781 | 170 | (688) | - | 18,955 |
| Interest expense | - | - | - | - | 2,624 | 2,624 |
| Equity in net income (loss) of affiliates | (45) | (1) | - | 583 | - | 537 |
| Other income (expense) – net | - | - | - | - | 122 | 122 |
| Segment income (loss) before income | $ 13,647 | $ 5,780 | $ 170 | $ (105) | $ (2,502) | $ 16,990 |

taxes

For the three months ended September 30, 2011

| | Wireless | Wireline | Advertising Solutions | Other | Consolidations | Consolidated Results |
|---|---|---|---|---|---|---|
| Total segment operating revenues | $ 15,606 | $ 15,055 | $ 803 | $ 14 | $ - | $ 31,478 |
| Operations and support expenses | 9,376 | 10,295 | 554 | 400 | - | 20,625 |
| Depreciation and amortization expenses | 1,620 | 2,892 | 94 | 12 | - | 4,618 |
| Total segment operating expenses | 10,996 | 13,187 | 648 | 412 | - | 25,243 |
| Segment operating income (loss) | 4,610 | 1,868 | 155 | (398 ) | - | 6,235 |
| Interest expense | - | - | - | - | 889 | 889 |
| Equity in net income (loss) of affiliates | (8 ) | - | - | 201 | - | 193 |
| Other income (expense) – net | - | - | - | - | 46 | 46 |
| Segment income (loss) before income taxes | $ 4,602 | $ 1,868 | $ 155 | $ (197 ) | $ (843 ) | $ 5,585 |

For the nine months ended September 30, 2011

| | Wireless | Wireline | Advertising Solutions | Other | Consolidations | Consolidated Results |
|---|---|---|---|---|---|---|
| Total segment operating revenues | $ 46,519 | $ 45,136 | $ 2,512 | $ 53 | $ - | $ 94,220 |
| Operations and support expenses | 29,023 | 30,752 | 1,707 | 726 | - | 62,208 |
| Depreciation and amortization expenses | 4,741 | 8,726 | 301 | 36 | - | 13,804 |
| Total segment operating expenses | 33,764 | 39,478 | 2,008 | 762 | - | 76,012 |
| Segment operating income (loss) | 12,755 | 5,658 | 504 | (709 ) | - | 18,208 |
| Interest expense | - | - | - | - | 2,583 | 2,583 |
| Equity in net income (loss) of affiliates | (19 ) | - | - | 668 | - | 649 |
| Other income (expense) – net | - | - | - | - | 132 | 132 |
| Segment income (loss) before income taxes | $ 12,736 | $ 5,658 | $ 504 | $ (41 ) | $ (2,451 ) | $ 16,406 |

AT&T INC.
SEPTEMBER 30, 2012

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Dollars in millions except per share amounts

NOTE 4. PENSION AND POSTRETIREMENT BENEFITS

Substantially all of our employees are covered by one of various noncontributory pension and death benefit plans. We also provide certain 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. Our objective in funding these plans, in combination with the standards of the Employee Retirement Income Security Act of 1974, as amended (ERISA), is to accumulate assets sufficient to meet the plans' obligations to provide benefits to employees upon their retirement. No significant cash contributions are required under ERISA regulations during 2012. In October 2012, we filed an application with the U.S. Department of Labor for approval to contribute a preferred equity interest in our Mobility business to the trust used to pay pension benefits, under plans sponsored by AT&T. The preferred equity interest is estimated to be valued at $9,500 upon contribution. We anticipate approval in 2013, and expect to make the contribution at that time.

The following table details pension and postretirement benefit costs included in operating expenses (in cost of services and sales, and selling, general and administrative expenses) in the accompanying consolidated statements of income. We recognize actuarial gains and losses from remeasuring our pension and postretirement plan obligations and assets in our operating results at our annual measurement date of December 31, unless earlier remeasurements are required.

In the following table, expense credits are denoted with parentheses. A portion of these benefit costs is capitalized as part of the benefit load on internal construction projects, providing a small reduction in the net expense recorded.

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Pension cost: | | | | |
| Service cost – benefits earned during the period | $ 301 | $ 297 | $ 915 | $ 890 |
| Interest cost on projected benefit obligation | 700 | 740 | 2,100 | 2,219 |
| Expected return on assets | (880) | (923) | (2,640) | (2,767) |
| Amortization of prior service (credit) | (3) | (4) | (11) | (12) |
| Net pension cost | $ 118 | $ 110 | $ 364 | $ 330 |
| | | | | |
| Postretirement cost: | | | | |
| Service cost – benefits earned during the period | $ 81 | $ 90 | $ 247 | $ 271 |
| Interest cost on accumulated postretirement benefit obligation | 446 | 513 | 1,340 | 1,538 |
| Expected return on assets | (200) | (260) | (601) | (780) |
| Amortization of prior service (credit) | (215) | (173) | (647) | (520) |
| Net postretirement cost | $ 112 | $ 170 | $ 339 | $ 509 |
| | | | | |
| Combined net pension and postretirement cost | $ 230 | $ 280 | $ 703 | $ 839 |

Our combined net pension and postretirement cost decreased $50 in the third quarter and $136 for the first nine months of 2012. The decreases were related to higher amortization of prior service credits due to our plan change that provides prescription drug benefits on a group basis under Medicare Part D, as allowed under federal healthcare law.

The combined net pension and postretirement cost also reflects the prior year's performance of the U.S. securities markets and declining bond rates, which contribute to lower interest costs on the projected benefit obligation largely offset by lower expected return on plan assets.

We also provide senior- and middle-management employees with nonqualified, unfunded supplemental retirement and savings plans. Net supplemental retirement pension benefits cost, which is not included in the table above, was $31 in the third quarter of 2012, of which $29 was interest cost, and $94 for the first nine months, of which $87 was interest cost. In 2011, net supplemental retirement pension benefits cost was $35 in the third quarter, of which $31 was interest cost, and $106 for the first nine months, of which $94 was interest cost.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
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NOTE 5. FAIR VALUE MEASUREMENTS AND DISCLOSURE

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

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that we have the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets and liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted market prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

- Fair value is often based on developed models in which there are few, if any, external observations.

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

The valuation methodologies described above may produce a fair value calculation that may not be indicative of future net realizable value or reflective of future fair values. We believe our valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used since December 31, 2011.

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:

| | September 30, 2012 | | December 31, 2011 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Notes and debentures | $ 63,510 | $ 76,432 | $ 64,514 | $ 73,738 |
| Investment securities | 1,950 | 1,950 | 2,092 | 2,092 |

The fair values of our notes and debentures were estimated based on quoted market prices, where available. 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 under the Fair Value Measurement and Disclosure framework.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
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Investment Securities
Our investment securities consist of primarily available-for-sale instruments, which include equities, fixed income bonds and other securities. A substantial portion of the fair values of our available-for-sale securities were 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 other comprehensive income (accumulated OCI). Unrealized losses that are considered other than temporary are recorded in “Other income (expense) – net” with the corresponding reduction to the carrying basis of the investment. Fixed income investments of $11 have maturities of less than one year, $103 within one to three years, $233 within three to five years, and $252 for five or more years.

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

Our investment securities maturing within one year are recorded in “Other current assets,” and instruments with maturities of more than one year are recorded in “Other Assets” on the consolidated balance sheets.

Following is the fair value leveling for available-for-sale securities and derivatives as of September 30, 2012 and December 31, 2011:

| | September 30, 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Available-for-Sale Securities | | | | |
| Domestic equities | $ 865 | $ - | $ - | $ 865 |
| International equities | 445 | - | - | 445 |
| Fixed income bonds | - | 599 | - | 599 |
| Asset Derivatives1 | | | | |
| Interest rate swaps | - | 306 | - | 306 |
| Cross-currency swaps | - | 472 | - | 472 |
| Foreign exchange contracts | - | 1 | - | 1 |
| Liability Derivatives1 | | | | |
| Cross-currency swaps | - | (791) | - | (791) |
| Foreign exchange contracts | - | (2) | - | (2) |

| | December 31, 2011 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Available-for-Sale Securities | | | | |
| Domestic equities | $ 947 | $ - | $ - | $ 947 |
| International equities | 495 | - | - | 495 |
| Fixed income bonds | - | 562 | - | 562 |
| Asset Derivatives1 | | | | |
| Interest rate swaps | - | 521 | - | 521 |

| | | | | |
|---|---|---|---|---|
| Cross-currency swaps | - | 144 | - | 144 |
| Foreign exchange contracts | - | 2 | - | 2 |
| Liability Derivatives[1] | | | | |
| Cross-currency swaps | - | (820) | - | (820) |
| Interest rate locks | - | (173) | - | (173) |
| Foreign exchange contracts | - | (9) | - | (9) |

1 Derivatives designated as hedging instruments are reflected as other assets, other liabilities and, for a portion of interest rate swaps, accounts receivable.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
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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 on the consolidated statements of income. Unrealized gains on interest rate swaps are recorded at fair market value as assets, and unrealized losses on interest rate swaps are recorded at fair market value as liabilities. Changes in the fair value of the interest rate swaps offset changes in the fair value of the fixed-rate notes payable they hedge due to changes in the designated benchmark interest rate and are recognized in interest expense. Gains or losses realized upon early termination of our fair value hedges are recognized in interest expense. For the nine months ended September 30, 2012 and September 30, 2011, no ineffectiveness was measured.

Cash Flow Hedging Unrealized gains on derivatives designated as cash flow hedges are recorded at fair value as assets, and unrealized losses on derivatives designated as cash flow hedges are recorded at fair value as liabilities, both for the period they are outstanding. For derivative instruments designated as cash flow hedges, the effective portion is reported as a component of accumulated OCI until reclassified into interest expense in the same period the hedged transaction affects earnings. The gain or loss on the ineffective portion is recognized as other income or expense in each period.

We designate our cross-currency swaps as cash flow hedges. We have entered into multiple cross-currency swaps to hedge our exposure to variability in expected future cash flows that are attributable to foreign currency risk generated from the issuance of our Euro and British pound sterling denominated debt. These agreements include initial and final exchanges of principal from fixed foreign denominations to fixed U.S. denominated amounts, to be exchanged at a specified rate, which was determined by the market spot rate upon issuance. They also include an interest rate swap of a fixed foreign-denominated rate to a fixed U.S. denominated interest rate. We evaluate the effectiveness of our cross-currency swaps each quarter. For the nine months ended September 30, 2012 and September 30, 2011, 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 income. Over the next 12 months, we expect to reclassify $45 from accumulated OCI to interest expense due to the amortization of net losses on historical interest rate locks. In February 2012, we utilized $800 notional value of interest rate locks related to our February 2012 debt issuance.

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 income. For the nine months ended September 30, 2012 and September 30, 2011, no ineffectiveness was measured.

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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 September 30, 2012, we had posted collateral of $25 (a deposit asset) and held collateral of $469 (a receipt liability). Under the agreements, if our credit rating had been downgraded one rating level by Moody's Investors Service and Fitch, Inc. before the final collateral exchange in September, we would have been required to post additional collateral of $174. At December 31, 2011, we had posted collateral of $98 (a deposit asset) and had no held collateral (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.

Following is the notional amount of our outstanding derivative positions:

| | September 30, 2012 | December 31, 2011 |
|---|---|---|
| Interest rate swaps | $3,000 | $8,800 |
| Cross-currency swaps | 9,481 | 7,502 |
| Interest rate locks | - | 800 |
| Foreign exchange contracts | 122 | 207 |
| Total | $12,603 | $17,309 |

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

Effect of Derivatives on the Consolidated Statements of Income

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| Fair Value Hedging Relationships | 2012 | 2011 | 2012 | 2011 |
| Interest rate swaps (Interest expense): | | | | |
| Gain (Loss) on interest rate swaps | $(21) | $92 | $(158) | $81 |
| Gain (Loss) on long-term debt | 21 | (92) | 158 | (81) |

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| Cash Flow Hedging Relationships | 2012 | 2011 | 2012 | 2011 |
| Cross-currency swaps: | | | | |
| Gain (Loss) recognized in accumulated OCI | $355 | $(266) | $190 | $(415) |
| | | | | |
| Interest rate locks: | | | | |
| Gain (Loss) recognized in accumulated OCI | - | (105) | - | 17 |
| Interest income (expense) reclassified from accumulated OCI into income | (12) | (3) | (32) | (11) |
| | | | | |
| Foreign exchange contracts: | | | | |

| | | | | |
|---|---|---|---|---|
| Gain (Loss) recognized in accumulated OCI | 3 | (13) | 3 | (8) |

The balance of the unrealized derivative gain (loss) in accumulated OCI was $(275) at September 30, 2012 and $(421) at December 31, 2011.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
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RESULTS OF OPERATIONS

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 communications services, local exchange services, long-distance services, data/broadband and Internet services, video services, telecommunications equipment, managed networking and wholesale services. You should read this discussion in conjunction with the consolidated financial statements, accompanying notes and management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended December 31, 2011. 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.

Consolidated Results Our financial results in the third quarter and for the first nine months of 2012 and 2011 are summarized as follows:

| | Third Quarter | | | Nine-Month Period | | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | Percent Change | 2012 | 2011 | Percent Change |
| Operating Revenues | $ 31,459 | $ 31,478 | (0.1)% | $ 94,856 | $ 94,220 | 0.7 % |
| Operating expenses | | | | | | |
| Cost of services and sales | 12,718 | 12,656 | 0.5 | 38,000 | 38,225 | (0.6 ) |
| Selling, general and administrative | 8,192 | 7,969 | 2.8 | 24,330 | 23,983 | 1.4 |
| Depreciation and amortization | 4,512 | 4,618 | (2.3) | 13,571 | 13,804 | (1.7 ) |
| Total Operating Expenses | 25,422 | 25,243 | 0.7 | 75,901 | 76,012 | (0.1 ) |
| Operating Income | 6,037 | 6,235 | (3.2) | 18,955 | 18,208 | 4.1 |
| Income Before Income Taxes | 5,442 | 5,585 | (2.6) | 16,990 | 16,406 | 3.6 |
| Net Income | 3,701 | 3,686 | 0.4 | 11,318 | 10,812 | 4.7 |
| Net Income Attributable to AT&T | $ 3,635 | $ 3,623 | 0.3 % | $ 11,121 | $ 10,622 | 4.7 % |

Overview
Operating income decreased $198, or 3.2%, in the third quarter and increased $747, or 4.1%, for the first nine months of 2012. Both operating revenues and expenses for the quarter were affected by the May 2012 sale of our Advertising Solutions segment, as discussed below. Operating income in the third quarter and for the first nine months reflects continued growth in wireless service and equipment revenue, driven mostly by data revenue growth, along with increased revenues from AT&T U-verse® (U-verse) services and strategic business services. Growth in wireless and wireline revenues in the third quarter was more than offset by higher expenses driven primarily by increased wireless equipment, commissions and administrative costs. Our operating income margin in the third quarter decreased from 19.8% in 2011 to 19.2% in 2012 and for the first nine months increased from 19.3% in 2011 to 20.0% in 2012.

Operating revenues decreased $19, or 0.1%, in the third quarter and increased $636, or 0.7%, for the first nine months of 2012. The sale of our Advertising Solutions segment reduced revenues $803 in the third quarter and $1,463 in the first nine months. The third-quarter decrease from Advertising Solutions was offset by higher wireless service and equipment revenues and higher wireline data revenues from U-verse and strategic business services. The increase in operating revenues for the first nine months was primarily due to the continued growth in wireless service and equipment revenues and higher wireline data revenues. These increases were partially offset by the Advertising Solutions segment sale and continued declines in wireline voice.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Continued
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Revenue growth continues to be tempered by declines in our wireline voice revenues. Total switched access lines decreased 12.8% since September 30, 2011. Customers disconnecting access lines switched to wireless, Voice over Internet Protocol (VoIP) and cable offerings for voice and data or terminated service permanently as businesses closed or consumers left residences. While we lose wireline voice revenues, we have the opportunity to increase wireless service or wireline data revenues should the customer choose us as their wireless or VoIP provider. We also continue to expand our VoIP service for customers who have access to our U-verse video service.

Cost of services and sales expenses increased $62, or 0.5%, in the third quarter and decreased $225, or 0.6%, for the first nine months of 2012. The sale of our Advertising Solutions segment reduced expenses $277 in the third quarter and $499 for the first nine months. The increase in the third quarter was primarily due to higher wireless handset costs related to smartphone sales including the launch of the latest iPhone model and wireline costs attributable to growth in U-verse subscribers, which were mostly offset by lower non-employee related charges and the sale of our Advertising Solutions segment. The decrease for the first nine months is primarily due to the sale of our Advertising Solutions segment and lower non-employee related expenses, partially offset by higher U-verse, wireless handset and wireless network costs.

Selling, general and administrative expenses increased $223, or 2.8%, in the third quarter and $347, or 1.4%, for the first nine months of 2012. The increases were primarily due to higher wireless commissions and administrative costs. The increases were partially offset by decreased sales and advertising costs, employee related expenses, and the sale of our Advertising Solutions segment, which reduced expenses $277 in the third quarter and $435 for the first nine months.

Depreciation and amortization expense decreased $106, or 2.3%, in the third quarter and $233, or 1.7%, for the first nine months of 2012. The sale of our Advertising Solutions segment reduced expenses $94 in the third quarter and $195 for the first nine months. Expenses also decreased due to lower amortization of intangibles for customer lists related to acquisitions, partially offset by increased depreciation associated with ongoing capital spending for network upgrades and expansion.

Interest expense decreased $65, or 7.3%, in the third quarter and increased $41, or 1.6%, for the first nine months of 2012. The decrease in the third quarter was due to our lower average debt balances and interest rates, partially offset by call premiums paid on the early redemption of debt in September 2012. The increase for the first nine months was primarily due to a net charge of approximately $151 related to call premiums paid for the early redemption of debt, which were partially offset by net gains on the settlement of associated interest-rate swaps. The increase from the early debt redemptions was partially offset by lower expense resulting from lower average debt balances and interest rates and an increase in the amount of interest capitalized on wireless spectrum that will be used in the future.

Equity in net income of affiliates decreased $11, or 5.7%, in the third quarter and $112, or 17.3%, for the first nine months of 2012. Decreased equity in net income of affiliates was due to decreased earnings at América Móvil, S.A. de C.V. (América Móvil), resulting from foreign exchange losses and increased taxes. Partially offsetting the decreases were earnings from YP Holdings LLC (YP Holdings).

Other income (expense) – net We had other income of $47 in the third quarter and $122 for the first nine months of 2012, compared to other income of $46 in the third quarter and $132 for the first nine months of 2011. Income in the third quarter and for the first nine months of 2012 included interest and dividend income of $17 and $51, leveraged lease income of $5 and $46 and net gains on the sale of investments of $83 and $82. This income was partially offset by a third-quarter investment impairment of $55.

Other income in the third quarter and for the first nine months of 2011 included interest and dividend income of $13 and $56 and leveraged lease income of $4 and $15, respectively. In addition, third quarter 2011 results included an $8 gain on the sale of nonstrategic assets along with foreign exchange gains of $7, while results for the first nine months of 2011 included a net gain of $66 from sale of investments.

Income taxes decreased $158, or 8.3%, in the third quarter and increased $78, or 1.4%, for the first nine months of 2012. Our effective tax rate was 32.0% for the third quarter and 33.4% for the first nine months of 2012, as compared to 34.0% for the third quarter and 34.1% for the first nine months of 2011. The decrease in effective tax rate in this quarter is due primarily to recognition of benefits related to resolution of audit issues.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Continued
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Selected Financial and Operating Data

| | September 30, 2012 | September 30, 2011 |
|---|---|---|
| Wireless subscribers (000) | 105,871 | 100,738 |
| Network access lines in service (000) | 33,088 | 37,956 |
| Total wireline broadband connections (000) | 16,392 | 16,476 |
| Debt ratio[1] | 38.6 % | 38.5 % |
| Ratio of earnings to fixed charges[2] | 5.36 | 5.41 |
| Number of AT&T employees[3] | 241,130 | 256,210 |

[1] Debt ratios are calculated by dividing total debt (debt maturing within one year plus long-term debt) by total capital (total debt plus total stockholders' equity) and do not consider cash available to pay down debt. See our "Liquidity and Capital Resources" section for discussion.
[2] See Exhibit 12.
[3] Includes the reduction of approximately 8,200 employees as a result of the sale of our Advertising Solutions segment.

## 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 3 and discussed below for each segment follow our internal management reporting. We analyze our various operating segments based on segment income before income taxes. We make our capital allocations decisions based on our strategic direction of the business, needs of the network (wireless or wireline) providing services and other assets needed 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. We have three reportable segments: (1) Wireless, (2) Wireline, and (3) Other. Our operating results prior to May 9, 2012, also included Advertising Solutions. On May 8, 2012, we completed the sale of our Advertising Solutions segment and received a 47 percent equity interest in the new entity YP Holdings (see Note 1).

The Wireless segment uses our nationwide network to provide consumer and business customers with wireless voice and advanced data communications services. The Wireless segment results have been reclassified to include the operating results of a subsidiary that provides services for subscribers to wirelessly monitor their homes that was previously reported in the Wireline segment's results.

The Wireline segment uses our regional, national and global network to provide consumer and business customers with landline voice and data communications services, U-verse TV, high-speed broadband and voice services and managed networking to business customers. Additionally, we receive commissions on sales of satellite television services offered through our agency arrangements. The Wireline segment results have been reclassified to exclude the operating results of the home monitoring business moved to our Wireless segment and to include the operating results of customer information services, which were previously reported in our Other segment's results.

The Advertising Solutions segment included our directory operations, which published Yellow and White Pages directories and sold directory advertising and Internet-based advertising and local search.

The Other segment includes our portion of the results from our international equity investments, our 47 percent equity interest in YP Holdings, and all corporate and other 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 cost and expected return on plan assets for our pension and postretirement benefit plans. The Other segment results have been reclassified to exclude the operating results of customer information services, which are now reported in our Wireline segment's results.

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Operations and support expenses include 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 these employees. Our Wireless and Wireline segments also include certain network planning and engineering expenses, information technology, repair technicians and repair services, and property taxes as operations and support expenses.

The following tables show components of results of operations by segment. Significant segment results are discussed following each table. Capital expenditures for each segment are discussed in "Liquidity and Capital Resources."

Wireless
Segment Results

| | Third Quarter | | | Nine-Month Period | | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | Percent Change | 2012 | 2011 | Percent Change |
| Segment operating revenues | | | | | | |
| Service | $ 14,906 | $ 14,261 | 4.5 % | $ 44,237 | $ 42,379 | 4.4 % |
| Equipment | 1,726 | 1,345 | 28.3 | 4,884 | 4,140 | 18.0 |
| Total Segment Operating Revenues | 16,632 | 15,606 | 6.6 | 49,121 | 46,519 | 5.6 |
| Segment operating expenses | | | | | | |
| Operations and support | 10,549 | 9,376 | 12.5 | 30,337 | 29,023 | 4.5 |
| Depreciation and amortization | 1,730 | 1,620 | 6.8 | 5,092 | 4,741 | 7.4 |
| Total Segment Operating Expenses | 12,279 | 10,996 | 11.7 | 35,429 | 33,764 | 4.9 |
| Segment Operating Income | 4,353 | 4,610 | (5.6) | 13,692 | 12,755 | 7.3 |
| Equity in Net Income (Loss) of Affiliates | (17) | (8) | - | (45) | (19) | - |
| Segment Income | $ 4,336 | $ 4,602 | (5.8) % | $ 13,647 | $ 12,736 | 7.2 % |

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Continued
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The following table highlights other key measures of performance for the Wireless segment:

| | Third Quarter | | | Nine-Month Period | | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | Percent Change | 2012 | 2011 | Percent Change |
| Wireless Subscribers (000)1 | | | | 105,871 | 100,738 | 5.1 % |
| Gross Subscriber Additions (000)2 | 4,914 | 5,946 | (17.4 )% | 15,162 | 17,154 | (11.6) |
| Net Subscriber Additions (000)2 | 678 | 2,123 | (68.1 ) | 2,670 | 5,202 | (48.7) |
| Total Churn4 | 1.34 % | 1.28 % | 6 BP | 1.33 % | 1.36 % | (3) BP |
| Postpaid Subscribers (000) | | | | 69,747 | 68,614 | 1.7 % |
| Net Postpaid Subscriber Additions (000)2 | 151 | 319 | (52.7 )% | 658 | 712 | (7.6 ) |
| Postpaid Churn4 | 1.08 % | 1.15 % | (7) BP | 1.05 % | 1.16 % | (11) BP |
| Prepaid Subscribers (000) | | | | 7,545 | 7,059 | 6.9 % |
| Net Prepaid Subscriber Additions (000)2 | 77 | 293 | (73.7 )% | 294 | 515 | (42.9) |
| Reseller Subscribers (000) | | | | 14,573 | 13,028 | 11.9 % |
| Net Reseller Subscriber Additions (000)2 | 137 | 473 | (71.0 )% | 793 | 1,282 | (38.1) |
| Connected Device Subscribers (000)3 | | | | 14,006 | 12,037 | 16.4 % |
| Net Connected Device Subscriber Additions (000) | 313 | 1,038 | (69.8 )% | 925 | 2,693 | (65.7) |

1 Represents 100% of AT&T Mobility customers.
2 Excludes merger and acquisition-related additions during the period.
3 Includes data-centric devices such as eReaders, home security and automobile monitoring systems, and fleet management. Tablets are primarily reflected in our prepaid subscriber category, with the remainder in postpaid.
4 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.

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 and devices and a wireless network that has sufficient spectrum and capacity to support these innovations and make them available to more subscribers. To attract and retain subscribers, we offer a broad handset line and a wide variety of service plans.

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Our handset offerings include at least 16 smartphones (handsets with voice and data capabilities using an advanced operating system to better manage data and Internet access) from nine manufacturers. As technology evolves, rapid changes are occurring in the handset and device industry with the continual introduction of new models (e.g., various Android, Apple, Windows and other smartphones) or significant revisions of existing models. We believe a broad offering of a wide variety of smartphones reduces dependence on any single operating system or manufacturer as these products continue to evolve in terms of technology and subscriber appeal. In the first nine months of 2012, we continued to see increasing use of smartphones by our postpaid subscribers. Of our total postpaid subscriber base, 63.8% (or 44.5 million subscribers) use smartphones, up from 52.6% (or 36.1 million subscribers) a year earlier. 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. From time to time, we offer and have offered attractive handsets on an exclusive basis. As these exclusivity arrangements expire, we expect to continue to offer such handsets (based on historical industry practice), and we believe our service plan offerings will help to retain our subscribers by providing incentives not to migrate to a different carrier. We do not expect exclusivity terminations to have a material impact on our Wireless segment income, consolidated operating margin or our cash flows from operations.

Our postpaid subscribers typically sign a two-year contract, which includes discounted handsets and early termination fees. About 89% of our postpaid smartphone subscribers are on FamilyTalk® Plans (family plans), Mobile Share plans or business discount plans (discount plans), which provide for service on multiple devices at discounted rates, and such subscribers tend to have higher retention and lower churn rates. During the first quarter of 2011, we introduced our Mobile to Any Mobile feature, which enables our new and existing subscribers with qualifying messaging plans to make unlimited mobile calls to any mobile number in the United States, subject to certain conditions. 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 10.8% year over year. A growing percentage of our postpaid smartphone subscribers are on usage-based data plans, with 63.9% (or 28.5 million subscribers) on these plans as of September 30, 2012, up from 49.8% (or 18.0 million subscribers) as of September 30, 2011. 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. In late August 2012, we launched new Mobile Share data plans (which allow postpaid subscribers to share data at discounted prices among devices covered by their plan), and early sales results have been positive.

As of September 30, 2012, more than 40% of our postpaid smartphone subscribers use a 4G-capable device (i.e., a device that would operate on our HSPA+ or Long Term Evolution (LTE) network). 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 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 Federal Communications Commission (FCC) make new or existing spectrum available to the wireless industry to meet the needs of our subscribers. We will continue to attempt to address spectrum and capacity constraints on a market-by-market basis.

Also as part of our efforts to improve our network performance and help address the need for additional spectrum capacity, we intend to redeploy spectrum currently used for basic 2G services to support more advanced mobile

Internet services on our 3G and 4G networks. We will manage this process consistent with previous network upgrades and will transition customers on a market-by-market basis from our Global System for Mobile Communications (GSM) and Enhanced Data rates for GSM Evolution (EDGE) networks (referred to as 2G networks) to our more advanced 3G and 4G networks. We expect to fully discontinue service on our 2G networks by approximately January 1, 2017. As of September 30, 2012, about 10% of AT&T's postpaid subscribers were using 2G-capable handsets. We do not expect this transition to have a material impact on our operating results, but will continue to evaluate the financial impact of transitioning customers from 2G devices to 3G or 4G devices.

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Wireless Metrics
Subscriber Additions As of September 30, 2012, we served 105.9 million wireless subscribers, an increase of 5.1%. We continue to see a declining rate of growth in the industry's subscriber base compared to prior years, as reflected in a 17.4% decrease in gross subscriber additions (gross additions) in the third quarter and an 11.6% decrease for the first nine months of 2012. Lower net subscriber additions (net additions) in the third quarter and in the first nine months were primarily attributable to lower 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). Lower net prepaid additions in the third quarter reflected a decrease in net prepaid tablet additions, as the introduction of our Mobile Share plans has accelerated a shift from prepaid to postpaid tablet subscribers. Postpaid subscriber additions in the third quarter of 2012 reflected, in part, inventory shortages of the latest iPhone model following its September launch.

Average service revenue per user (ARPU) – Postpaid increased 2.4% in the third quarter and 1.9% for the first nine months of 2012, driven by an increase in data services ARPU of 14.6% in the third quarter and for the first nine months, reflecting greater use of smartphones and data-centric devices. The growth in data services ARPU was partially offset by a 5.6% decrease in voice and other service ARPU in the third quarter and a 6.0% decrease for the first nine months. Voice and other service ARPU declined due to lower access and airtime charges, triggered in part by continued growth in our discount plans, which generates lower ARPU compared to our traditional postpaid subscribers, and lower roaming revenues.

ARPU – Total declined 1.3% in the third quarter and 2.1% for the first nine months, reflecting growth in connected device, tablet and reseller subscribers. Connected devices and other data-centric devices, such as tablets, have lower-priced data-only plans compared with our postpaid smartphone plans, which have voice and data features. Accordingly, ARPU for these subscribers is typically lower compared to that generated from our smartphone subscribers on postpaid and other plans. Data services ARPU increased 11.7% in the third quarter and 11.6% for the first nine months, reflecting greater smartphone and data-centric device use. We expect continued revenue growth from data services as more subscribers use smartphones and data-centric devices, and as we continue to expand our network. Voice and other service ARPU declined 9.7% in the third quarter and 10.5% for the first nine months due to voice access and usage trends and a shift toward a greater percentage of data-centric devices. We expect continued pressure on voice 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. Postpaid churn rates were lower in the third quarter and for the first nine months, reflecting popularity of our discount plans, and last year's postpaid churn rates reflected integration efforts connected to a prior merger. The total churn rate was also lower for the first nine months due to these integration efforts. The total churn rate was higher in the third quarter of 2012 due primarily to connected devices and a higher number of zero-revenue customers.

Operating Results
Our Wireless segment operating income decreased $257, or 5.6%, in the third quarter and increased $937, or 7.3%, for the first nine months of 2012. Segment operating income margin in the third quarter decreased from 29.5% in 2011 to 26.2% in 2012 and for the first nine months increased from 27.4% in 2011 to 27.9% in 2012. The third-quarter margin decrease reflected higher smartphone upgrades and total device sales, partially offset by higher data revenues generated by our postpaid subscribers. The year-to-date margin increase reflected higher data revenues generated by our postpaid subscribers, fewer smartphone upgrades and total device sales, and operating efficiencies.

Service revenues are comprised of local voice and data services, roaming, long-distance and other revenue. Service revenues increased $645, or 4.5%, in the third quarter and $1,858, or 4.4%, for the first nine months of 2012. The increases consisted of the following:

- Data service revenues increased $1,028, or 18.3%, in the third quarter and $3,060, or 19.0%, for the first nine months. The increases were primarily due to the increased number of subscribers and increased Internet usage by subscribers using smartphones and data-centric devices, such as eReaders, tablets, and mobile navigation devices. Data service revenues accounted for 43.4% of our wireless service revenues for the first nine months, compared to 38.0% last year.
- Voice and other service revenues decreased $383, or 4.4%, in the third quarter and $1,202, or 4.6%, for the first nine months. While we had a 5.1% year-over-year increase in the number of wireless subscribers, ARPU continues to decline for voice and other non-data wireless services due to voice access and usage trends.

Equipment revenues increased $381, or 28.3%, in the third quarter and $744, or 18.0%, for the first nine months of 2012 due to a year-over-year increase in smartphone sales as a percentage of total device sales to postpaid subscribers. During the first quarter of 2012, we introduced an increase in the handset upgrade fee, which also contributed to the year-over-year increases in equipment revenues this year.

Operations and support expenses increased $1,173, or 12.5%, in the third quarter and $1,314, or 4.5%, for the first nine months of 2012. The third-quarter increase was primarily due to the following:

- Equipment costs increased $496 reflecting the overall increase in handset upgrade activity and total device sales, as well as the sales of the more expensive smartphones, including the September launch of the latest iPhone model.
- Selling expenses (other than commissions) and administrative expenses increased $326 due primarily to a $73 increase in information technology costs in conjunction with ongoing support systems development, $99 increase in professional fees and taxes, $87 increase in advertising costs, and $46 increase in payroll and benefit costs.
- Commission expenses increased $293 due primarily to the overall increase in handset upgrade activity and total device sales and a year-over-year increase in smartphone sales as a percentage of total device sales.
- USF and reseller fees increased $54 primarily due to federal USF rate increases and higher handset insurance costs. A majority of USF fees are recovered and reported as revenues.

The increase for the first nine months of 2012 was primarily due to the following:

- Commission expenses increased $467 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 $446 due primarily to a $149 increase in information technology costs in conjunction with ongoing support systems development, $117 increase in professional fees and taxes, $96 increase in payroll and benefit costs, and $93 increase in bad debt expense due to higher write-offs, and, partially offset by a $73 decline in advertising costs.
- Network system, interconnect, and long-distance costs increased $214 due to higher network traffic, personnel-related network support costs in conjunction with our network enhancement efforts, and higher leasing costs.
- USF and reseller fees increased $212 primarily due to federal USF rate increases and higher handset insurance costs. A majority of USF fees are recovered and reported as revenues.
- Equipment costs increased $73 reflecting sales of the more expensive smartphones, partially offset by the overall decline in upgrade activity and total device sales.

Partially offsetting these increases, incollect roaming fees decreased $101 for the first nine months due to rate declines and lower roaming use associated with the integration of previously acquired subscribers into our network.

Depreciation and amortization expenses increased $110, or 6.8%, in the third quarter and $351, or 7.4%, for the first nine months of 2012. Depreciation expense increased $184, or 12.9%, in the third quarter and $582, or 14.1%, for the first nine months 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. We expect substantially all of our GSM and EDGE network assets to be fully depreciated by end-of-year 2016.

Amortization expense decreased $74, or 39.2%, in the third quarter and $231, or 36.8%, for the first nine months primarily due to an accelerated method of amortization for customer lists related to acquisitions.

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Wireline
Segment Results

| | Third Quarter | | | Nine-Month Period | | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | Percent Change | 2012 | 2011 | Percent Change |
| Segment operating revenues | | | | | | |
| Data | $ 7,977 | $ 7,459 | 6.9 % | $ 23,695 | $ 21,979 | 7.8 % |
| Voice | 5,565 | 6,242 | (10.8) | 17,155 | 19,132 | (10.3) |
| Other | 1,271 | 1,354 | (6.1 ) | 3,795 | 4,025 | (5.7 ) |
| Total Segment Operating Revenues | 14,813 | 15,055 | (1.6 ) | 44,645 | 45,136 | (1.1 ) |
| Segment operating expenses | | | | | | |
| Operations and support | 10,134 | 10,295 | (1.6 ) | 30,516 | 30,752 | (0.8 ) |
| Depreciation and amortization | 2,774 | 2,892 | (4.1 ) | 8,348 | 8,726 | (4.3 ) |
| Total Segment Operating Expenses | 12,908 | 13,187 | (2.1 ) | 38,864 | 39,478 | (1.6 ) |
| Segment Operating Income | 1,905 | 1,868 | 2.0 | 5,781 | 5,658 | 2.2 |
| Equity in Net Income (Loss) of Affiliates | - | - | - | (1) | - | - |
| Segment Income | $ 1,905 | $ 1,868 | 2.0 % | $ 5,780 | $ 5,658 | 2.2 % |

Operating Income and Margin Trends
Our Wireline segment operating income increased $37, or 2.0%, in the third quarter and $123, or 2.2%, for the first nine months of 2012. Segment operating income margin in the third quarter increased from 12.4% in 2011 to 12.9% in 2012, and for the first nine months increased from 12.5% in 2011 to 12.9% in 2012. Our increased operating margins reflect increased data revenue growth and lower operating expenses which include depreciation and amortization. Our operating income and margins continued to be pressured as our consumer and business customers either reduced usage or disconnected traditional landlines and switched to alternative technologies, such as wireless and VoIP. Our strategy is to offset these line losses by increasing non-access-line-related revenues from customer connections for data, video, and U-verse voice. Additionally, we have the opportunity to increase Wireless segment revenues if customers choose AT&T Mobility as an alternative provider.

Operating Results
Data revenues increased $518, or 6.9%, in the third quarter and $1,716, or 7.8%, for the first nine months of 2012. Data revenues accounted for approximately 53% of wireline operating revenues for the first nine months of 2012 and 49% for the first nine months of 2011. Data revenues include transport, IP and packet-switched data services.

- Strategic business services, which include Ethernet, Virtual Private Networks (VPN), Hosting, IP Conferencing and application services, increased $164, or 11.5%, in the third quarter and $598, or 14.5%, for the first nine months of 2012. These increases were driven by increased VPN revenues, which contributed additional revenues of $85 and $351 and Ethernet revenues, which increased by $75 and $216 in the third quarter and for the first nine months.
- IP data revenues (excluding strategic services) increased $512, or 14.9%, in the third quarter and $1,502, or 15.1%, for the first nine months of 2012 primarily driven by higher U-verse penetration. In the third quarter and for the first nine months U-verse video revenues increased $263 and $794, broadband high-speed Internet access revenue increased $161 and $433 and U-verse voice revenue increased $63 and $182, respectively. The increase in IP data revenues reflects continued growth in the customer base and migration from other traditional circuit-based services.

New and existing U-verse customers are shifting from traditional landlines to our U-verse Voice and from DSL to our premium High Speed Internet access offerings.

- Traditional data revenues, which include transport (excluding Ethernet) and packet-switched data services, decreased $158, or 6.1%, in the third quarter and $384, or 4.9%, for the first nine months of 2012. This decrease was primarily due to lower demand as customers continue to shift to IP-based technology such as VPN, U-verse High Speed Internet access and managed Internet services. We expect these traditional services to continue to decline as a percentage of our overall data revenues.

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Voice revenues decreased $677, or 10.8%, in the third quarter and $1,977, or 10.3%, for the first nine months of 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 $388, or 10.2%, in the third quarter and $1,183, or 10.1%, for the first nine months of 2012. The decrease was driven primarily by a 12.8% decline in total switched access lines. We expect our local voice revenue to continue to be negatively affected by increased competition from alternative technologies and the disconnection of additional lines.
- Long-distance revenues decreased $285, or 13.2%, in the third quarter and $779, or 11.9%, for the first nine months of 2012. Lower demand for long-distance service from global businesses and consumer customers decreased revenues $242 in the third quarter and $650 for the first nine months of 2012. Additionally, continuing declines in the number of our national mass-market customers decreased revenues $43 in the third quarter and $129 for the first nine months of 2012.

Other operating revenues decreased $83, or 6.1%, in the third quarter and $230, or 5.7%, for the first nine months of 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 for both periods.

Operations and support expenses decreased $161, or 1.6%, in the third quarter and $236, or 0.8%, for the first nine months of 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 decrease in the third quarter and for the first nine months of 2012 was primarily due to lower nonemployee related expenses of $36 and $270, employee related expenses of $128 and $236, reflecting ongoing workforce reduction initiatives, traffic compensation expenses of $121 and $229, and contract services of $27 and $100, respectively. These decreases were partially offset by increased cost of sales of $127 and $389, primarily related to U-verse related expenses, and USF fees of $39 and $237, respectively.

Depreciation and amortization expenses decreased $118, or 4.1%, in the third quarter and $378, or 4.3%, for the first nine months of 2012. The decrease was primarily related to lower amortization of intangibles for the customer lists associated with acquisitions and lower depreciation as assets become fully depreciated.

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Supplemental Information

Telephone, Wireline Broadband and Video Connections Summary
Our switched access lines and other services provided by our local exchange telephone subsidiaries at September 30, 2012 and 2011 are shown below.

| (in 000s) | September 30, 2012 | September 30, 2011 | Percent Change |
|---|---|---|---|
| Switched Access Lines | | | |
| Retail Consumer | 16,489 | 19,799 | (16.7 )% |
| Retail Business1 | 14,619 | 15,989 | |