AT&T CORP
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K/A

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-1105

AT&T CORP.

A NEW YORK CORPORATION	I.R.S. EMPLOYER NO. 13-4924710

295 NORTH MAPLE AVENUE, BASKING RIDGE, NEW JERSEY 07920
TELEPHONE NUMBER 908-221-2000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:
SEE ATTACHED SCHEDULE A.

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
NONE.

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

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

At February 28, 2002, the aggregate market value of voting common stock held by non-affiliates was approximately $54 billion. At February 28, 2002, 3,545,275,809 shares of AT&T common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
NONE.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

AT&T Corp. (AT&T or the company) is among the world's communications leaders, providing voice, data and video communications services to large and small businesses, consumers and government agencies. We provide domestic and international long distance, regional and local communications services, cable (broadband) television and Internet communication services.

RESTRUCTURING OF AT&T

On October 25, 2000, AT&T announced a restructuring plan designed to fully separate or issue separately tracked stocks intended to reflect the financial performance and economic value of each of AT&T's four major operating units.

On December 19, 2001, AT&T and Comcast Corporation (Comcast) announced an agreement to combine AT&T Broadband with Comcast. Under the terms of the agreement, AT&T will spin-off AT&T Broadband and simultaneously merge it with Comcast, forming a new company to be called AT&T Comcast Corporation (AT&T Comcast). AT&T shareowners will receive a number of shares of AT&T Comcast common stock based on an exchange ratio calculated pursuant to a formula specified in the merger agreement. If determined as of the date of the merger agreement, the exchange ratio would have been approximately 0.34, assuming the AT&T shares held by Comcast are included in the number of shares of AT&T common stock outstanding. Assuming Comcast retains its AT&T shares and converts them into exchangeable preferred stock of AT&T as contemplated by the merger agreement, the exchange ratio would be approximately 0.35. Assuming certain conditions, AT&T shareowners will own an approximate 55% economic stake and an approximate 61% voting interest in the new company, calculated as of the date of the merger agreement. The merger of AT&T Broadband and Comcast is subject to regulatory review, approval by both companies' shareowners and certain other conditions, and is expected to close by the end of 2002. AT&T also intends to proceed with the creation of a tracking stock for its AT&T Consumer Services business, which is expected to be distributed to AT&T shareowners following shareowner approval. AT&T has not yet determined the timing of the distribution, which may be made within a year of shareowner approval or may be made thereafter, depending on market conditions. Additionally, the AT&T board of directors could decide not to proceed with the distribution of the tracking stock, or could proceed at a time or in a manner different from its current intentions.

These restructuring activities are complicated and involve a substantial number of steps and transactions, including obtaining various approvals, such as Internal Revenue Service (IRS) rulings. AT&T anticipates, however, that the transactions associated with AT&T's restructuring plan will be tax-free to U.S. shareowners. Future financial conditions, superior alternatives or other factors may arise or occur that make it inadvisable to proceed with part or all of AT&T's restructuring plans. Any or all of the elements of AT&T's restructuring plan may not occur as we currently expect or in the time frames that we currently contemplate, or at all. Alternative forms of restructuring, including sales of interests in these businesses, would reduce what is available for distribution to AT&T shareowners in the restructuring.

On May 25, 2001, AT&T completed an exchange offer of AT&T common stock for AT&T Wireless stock. Under the terms of the exchange offer, AT&T issued 1.176 shares of AT&T Wireless Group tracking stock in exchange for each share of AT&T common stock validly tendered. A total of 372.2 million shares of AT&T common stock were tendered in exchange for 437.7 million shares of AT&T Wireless Group tracking stock. In conjunction with the exchange offer, AT&T recorded an $80 premium as a reduction to net income available to common shareowners. The premium represents the excess of the fair value of the AT&T Wireless Group tracking stock issued over the fair value of the AT&T common stock exchanged.

On July 9, 2001, AT&T completed the split-off of AT&T Wireless as a separate, independently traded company. All AT&T Wireless Group tracking stock was converted into AT&T Wireless common stock on a one-for-one basis and 1,136 million shares of AT&T Wireless common stock held by AT&T were distributed to AT&T common shareowners on a basis of 0.3218 of a share of AT&T Wireless for each AT&T share outstanding. AT&T common shareowners received whole shares of AT&T Wireless and cash payments for

fractional shares. The IRS ruled that the transaction qualified as tax-free for AT&T and its shareowners for U.S. federal income tax purposes, with the exception of cash received for fractional shares. For accounting purposes, the deemed effective split-off date was June 30, 2001. At the time of split-off, AT&T retained approximately $3 billion, or 7.3%, of AT&T Wireless common stock, about half of which was used in a debt-for-equity exchange in July in 2001. The remaining portion of these holdings was monetized in October and December through the issuance of debt that is exchangeable into Wireless shares (or their cash equivalents) at maturity. The split-off of AT&T Wireless resulted in a noncash tax-free gain of $13.5 billion, which represented the difference between the fair value of the AT&T Wireless tracking stock at the date of the split-off and AT&T's book value in AT&T Wireless Services. This gain was recorded in the third quarter of 2001 as a "Gain on disposition of discontinued operations" in the Consolidated Statement of Income.

On August 10, 2001, AT&T completed the split-off of Liberty Media Corporation as an independent, publicly traded company (since AT&T did not exit the line of business that Liberty Media Group (LMG) operated in, LMG was not accounted for as a discontinued operation). AT&T redeemed each outstanding share of Class A and Class B LMG tracking stock for one share of Liberty Media Corporation's Series A and Series B common stock, respectively. The IRS ruled that the split-off of Liberty Media Corporation qualified as a tax-free transaction for AT&T, Liberty Media and their shareowners. For accounting purposes, the deemed effective split-off date was July 31, 2001.

TRACKING STOCKS

During the periods 1999 through 2001, AT&T had one or more tracking stocks outstanding. In 1999, in connection with the acquisition of Tele-Communications, Inc. (TCI), AT&T issued a separate tracking stock to reflect 100% of the performance of LMG. In 2000, AT&T issued a tracking stock to track the financial performance of AT&T Wireless Group. The shares initially issued tracked approximately 16% of the performance of AT&T Wireless Group.

A tracking stock is designed to provide financial returns to its holders based on the financial performance and economic value of the assets it tracks. Ownership of shares of AT&T common stock, AT&T Wireless Group tracking stock or Liberty Media Class A or B tracking stock did not represent a direct legal interest in the assets and liabilities of any of the groups, but an ownership of AT&T in total. The specific shares represented an interest in the economic performance of the net assets of each of the groups.

The earnings attributable to AT&T Wireless Group are excluded from the earnings available to AT&T Common Stock Group and are reflected as "Income (loss) from discontinued operations," net of applicable taxes of AT&T Wireless Group in the Consolidated Statements of Income. Similarly, the earnings and losses related to LMG are excluded from the earnings available to AT&T Common Stock Group. The remaining results of operations of AT&T, including the financial performance of AT&T Wireless Group not represented by the tracking stock, are referred to as the AT&T Common Stock Group and are represented by AT&T common stock.

We did not have a controlling financial interest in LMG for financial accounting purposes; therefore, our ownership in LMG was reflected as an investment accounted for under the equity method in AT&T's consolidated financial statements. The amounts attributable to LMG are reflected in the accompanying consolidated financial statements as "Equity (losses) earnings from Liberty Media Group" and "Investment in Liberty Media Group and related receivables, net" prior to its split-off from AT&T.

AT&T Wireless Group was an integrated business of AT&T, and LMG was a combination of certain assets and businesses of ATT neither was a stand-alone entity prior to its split-off from AT&T.

MERGER WITH MEDIAONE GROUP, INC.

We completed the merger with MediaOne Group, Inc. (MediaOne) on June 15, 2000, in a cash and stock transaction valued at approximately $45 billion. We issued approximately 603 million shares of AT&T common stock, of which 60 million were treasury shares, and made cash payments of approximately $24 billion.

The merger was recorded under the purchase method of accounting, whereby the assets and liabilities of MediaOne Group were recorded at fair value on the date of the acquisition. Accordingly, the results of MediaOne have been included with the financial results of AT&T, within AT&T Broadband, since the date of acquisition. In accordance with the purchase method of accounting, periods prior to the merger were not restated to include the results of MediaOne.

FORWARD-LOOKING STATEMENTS

This document may contain forward-looking statements with respect to AT&T's restructuring plan, financial condition, results of operations, cash flows, dividends, financing plans, business strategies, operating efficiencies or synergies, budgets, capital and other expenditures, network build out and upgrade, competitive positions, availability of capital, growth opportunities for existing products, benefits from new technologies, availability and deployment of new technologies, plans and objectives of management, and other matters.

These forward-looking statements, including, without limitation, those relating to the future business prospects, revenue, working capital, liquidity, capital needs, network build out, interest costs and income, are necessarily estimates reflecting the best judgment of senior management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. These forward-looking statements should, therefore, be considered in light of various important factors that could cause actual results to differ materially from estimates or projections contained in the forward-looking statements including, without limitation:

- the risks associated with the implementation of AT&T's restructuring plan, which is complicated and involves a substantial number of different transactions each with separate conditions, any or all of which may not occur as we currently intend, or which may not occur in the timeframe we currently expect,

- the risks associated with each of AT&T's main business units, operating as independent entities as opposed to as part of an integrated telecommunications provider following completion of AT&T's restructuring plan, including the inability of these groups to rely on the financial and operational resources of the combined company and these groups having to provide services that were previously provided by a different part of the combined company,

- the impact of existing and new competitors in the markets in which these groups compete, including competitors that may offer less expensive products and services, desirable or innovative products, technological substitutes, or have extensive resources or better financing,

- the impact of oversupply of capacity resulting from excessive deployment of network capacity,

- the ongoing global and domestic trend toward consolidation in the telecommunications industry, which may have the effect of making the competitors of these entities larger and better financed and afford these competitors with extensive resources and greater geographic reach, allowing them to compete more effectively,

- the effects of vigorous competition in the markets in which the company operates, which may decrease prices charged, increase churn and change customer mix, profitability and average revenue per user,

- the ability to enter into agreements to provide services, and the cost of entering new markets necessary to provide services,

- the ability to establish a significant market presence in new geographic and service markets,

- the availability and cost of capital and the consequences of increased leverage,

- the impact of any unusual items resulting from ongoing evaluations of the business strategies of the company,

- the requirements imposed on the company or latitude allowed to competitors by the Federal Communications Commission (FCC) or state regulatory commissions under the Telecommunications Act of 1996 or other applicable laws and regulations,

- the risks associated with technological requirements, technology substitution and changes and other technological developments,

- the results of litigation filed or to be filed against the company,

- the possibility of one or more of the markets in which the company competes being impacted by changes in political, economic or other factors, such as monetary policy, legal and regulatory changes or other external factors over which these groups have no control, and

- the risks related to AT&T's investments and joint ventures.

The words "estimate," "project," "intend," "expect," "believe," "plan" and similar expressions are intended to identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document. Moreover, in the future, AT&T, through its senior management, may make forward-looking statements about the matters described in this document or other matters concerning AT&T.

The discussion and analysis that follows provides information management believes is relevant to an assessment and understanding of AT&T's consolidated results of operations for the years ended December 31, 2001, 2000 and 1999, and financial condition as of December 31, 2001 and 2000.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

AT&T's financial statements are prepared in accordance with accounting principles that are generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent assets and liabilities. Management continually evaluates its estimates and judgments including those related to revenue recognition, allowances for doubtful accounts, useful lives of property, plant and equipment, internal use software and intangible assets, investments, derivative contracts, pension and other postretirement benefits and income taxes. Management bases its estimates and judgments on historical experience and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. We believe that of our significant accounting policies, the following may involve a higher degree of judgment or complexity:

Revenue recognition -- We only record revenue for transactions which are considered to be part of our central, ongoing operations. We recognize long distance and local voice and data services revenue based upon minutes of traffic processed or contracted fee schedules including sales of prepaid calling cards. Cable video and nonvideo installation revenue is recognized in the period the installation services are provided to the extent of direct selling costs. Any remaining amount is deferred and recognized over the estimated average period that customers are expected to remain connected to the cable distribution systems. Customer activation fees, along with the related costs up to but not exceeding the revenues, are deferred and amortized over the customer relationship period. We recognize other products and services revenue when the products are delivered and accepted by customers and when services are provided in accordance with contract terms. 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. Any sales of installed fiber are not recognized as revenue. We consider these transactions to be sales of property, plant and equipment and record any gain or loss in "Other income (expense)" in the Consolidated Statements of Income.

Allowances for doubtful accounts -- We maintain allowances for doubtful accounts for estimated losses which result from the inability of our customers to make required payments. We base our allowances on the likelihood of recoverability of accounts receivable based on past experience and taking into account current collection trends that are expected to continue. If economic or specific industry trends worsen beyond our

estimates, we would increase our allowances for doubtful accounts by recording additional expense. Accounts receivable are fully reserved for when past due 180 days or more.

Estimated useful lives of property, plant and equipment, internal use software and intangible assets -- We estimate the useful lives of property, plant and equipment, internal use software and intangible assets in order to determine the amount of depreciation and amortization expense to be recorded during any reporting period. The useful lives are estimated at the time the asset is acquired and are based on historical experience with similar assets as well as taking into account anticipated technological or other changes. If technological changes were to occur more rapidly than anticipated or in a different form than anticipated, the useful lives assigned to these assets may need to be shortened, resulting in the recognition of increased depreciation and amortization expense in future periods. Alternatively, these types of technological changes could result in the recognition of an impairment charge to reflect the write-down in value of the asset. We review these types of assets for impairment annually, or when events or circumstances indicate that the carrying amount may be not be recoverable over the remaining lives of the assets. In assessing impairments, we use cash flows which take into account management's estimates of future operations. Beginning January 1, 2002, in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," we will no longer amortize goodwill, excess basis related to equity-method investments and franchise costs, but will test these assets at least annually for impairment.

Investments -- We hold investments in other companies which we account for under either the cost method or equity method of accounting. Many of these companies are publicly traded and have volatile share prices however, some of these companies are not publicly traded and therefore the value may be difficult to determine. For investments that are not publicly traded we estimate fair value using market-based (comparable sales) and income-based (discounted cash flow) methods. In addition, we have monetized some of these investments by issuing debt that is tied to the trading price of the security, and which can be settled in shares or cash. Some of our cost-method investments are classified as "trading" securities under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and are marked-to-market through the income statement. However, other cost method investments are classified as "available-for-sale" under SFAS No. 115 and are marked-to-market through other comprehensive income on the balance sheet. We record an investment impairment charge on our "available-for-sale" and equity-method investments when we believe the decline in the investment value is other than temporary. When determining an other than temporary decline, we consider, among other items, the length of time the trading price has been below our carrying value, the financial condition of the investee company, including the industry in which they operate, and our ability or intent to retain the investment. If the financial condition of the investee company or the industry in which it operates were to be materially different than our expectation, we would record an expense to reflect the other than temporary decline in value of the investment. At December 31, 2001, unrealized losses on "available-for-sale" securities included in "Other comprehensive income" as a component of shareowners' equity were approximately

$0.3 billion (pretax).

Derivative contracts -- We enter into derivative contracts to mitigate market risk from changes in interest rates, foreign currency exchange rates and equity prices. Certain exchangeable debt (debt exchangeable into or tied to the value of securities we own) contain embedded derivatives that require accounting separate from the debt instrument, while other exchangeable debt has derivatives issued in conjunction with net purchased options. The fair value of option based derivatives is determined using the Black-Scholes option pricing model, which is based on a set of inputs, including the price of the underlying stock, volatility of the underlying stock and interest rates. These inputs are based on prevailing market indications that are either directly observable in the market, received from qualified investment banking firms or are internally calculated. Changes in these inputs would result in a change in the fair value of the option contracts. Changes in the fair value of option contracts accounted for as cash flow hedges would be recorded, net of income taxes, within Other Comprehensive Income on the balance sheet. Changes in the fair value of option contracts undesignated for accounting purposes would be recorded within other income (expense) on the income statement. Generally, fair value calculations of other derivative contracts (e.g., interest rate swaps and foreign exchange forwards) require less judgment and are valued based on market interest rates and foreign exchange rates.

Pension and postretirement benefits -- The amounts recognized in the financial statements related to pension and postretirement benefits are determined on an actuarial basis, which utilizes many assumptions in the calculation of such amounts. A significant assumption used in determining our net pension credit (income) and postretirement expense is the expected long-term rate of return on plan assets. In 2001, we assumed an expected long-term rate of return on plan assets of 9.5%. On average, our actual return on plan assets over the long-term has substantially exceeded 9.5%; however, in the past two years, the plan's assets have experienced rates of return substantially lower than 9.5%. For 2002, we will lower our expected long-term rate of return assumption from 9.50% to 9.0%, reflecting the generally expected moderation of long-term rates of return in the financial markets. We expect this decrease in the expected long-term rate of return to decrease operating income by approximately $0.1 billion.

Another estimate that affects our net pension credit and postretirement expense is the discount rate used in the annual actuarial valuations of pension and postretirement benefit plan obligations. At the end of each year, we determine the appropriate discount rate, which represents the interest rate that should be used to determine the present value of future cash flows currently expected to be required to settle the pension and postretirement benefit obligations. The discount rate is generally based on the yield on high-quality corporate fixed-income investments. At December 31, 2001, we lowered our discount rate to 7.25% from 7.5% at December 31, 2000. Changes in the discount rate do not have a material impact on our results of operations.

Income taxes -- We record deferred tax assets and liabilities using enacted tax rates for the effect of temporary differences between the book and tax bases of assets and liabilities. If enacted tax rates changed, we would adjust our deferred tax assets and liabilities, through the provision for income taxes in the period of change, to reflect the enacted tax rate expected to be in effect when the deferred tax items reverse. A one percentage point change in the enacted tax rates would increase or decrease net income by approximately $0.7 billion. We record a valuation allowance on deferred tax assets to reflect the expected future tax benefits to be realized. In determining the appropriate valuation allowance, we take into account the level of expected future taxable income and available tax planning strategies. If future taxable income was lower than expected or if expected tax planning strategies were not available as anticipated, we may record additional valuation allowance through income tax expense in the period such determination was made. At December 31, 2001, we had long-term deferred tax assets (included within long-term deferred tax liabilities) of $5.4 billion, which included a valuation allowance of $57 million.

CONSOLIDATED RESULTS OF OPERATIONS

The comparison of 2001 results with 2000 results was affected by events such as acquisitions and dispositions that occurred in these two years. For example, included in 2001 was a full year of MediaOne results; however, 2000 included MediaOne's results only since the June 15, 2000, date of acquisition. In addition, we had dispositions of certain cable systems during each year and disposed of international businesses during 2000. Cable systems and businesses disposed of in 2000 were included in 2000 results for part of the year and not in 2001 results. Likewise, cable systems disposed of in 2001 were included in 2000 results for the full year and in 2001 results for part of the year. Also, At Home Corp. (Excite@Home) affected the comparison of annual results.

For the period January 1, 2000, through August 31, 2000, Excite@Home was accounted for as an equity method investment. For the period September 1, 2000, through December 31, 2000, Excite@Home was fully consolidated as a result of corporate governance changes, which gave AT&T the right to designate six of the 11 Excite@Home board members, and therefore, a controlling interest. In 2001, Excite@Home was fully consolidated for the period January 1, 2001, through September 28, 2001, the date Excite@Home filed for Chapter 11 bankruptcy protection. As a result of the bankruptcy and AT&T removing four of its six members from the Excite@Home board of directors, AT&T no longer consolidated Excite@Home as of September 30, 2001. The consolidation of Excite@Home (effective September 1, 2000) resulted in the inclusion of 100% of its results in each line item of AT&T's Consolidated Balance Sheets and Consolidated Statements of Income. The approximate 77% of Excite@Home not owned by AT&T is shown in the 2000 Consolidated Balance Sheet within "Minority Interest" and as a component of "Minority interest income (expense)" in the 2001 and 2000 Consolidated Statements of Income. As a result of the significant losses incurred by Excite@Home,

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the minority interest balance was fully utilized (in September); therefore, in September 2001 AT&T recognized more than its 23% share of losses of Excite@Home. Under the equity method of accounting, any earnings or losses are included as a component of "Net losses related to other equity investments" in the Consolidated Statement of Income. Beginning October 1, 2001, AT&T no longer records equity earnings or losses related to Excite@Home since AT&T recognized losses in excess of its investment in Excite@Home.

Effective July 1, 2000, the FCC eliminated Primary Interexchange Carrier Charges (PICC or per-line charges) that AT&T pays for residential and single-line business customers. The elimination of these per-line charges resulted in lower access expense as well as lower revenue, since AT&T has historically billed its customers for these charges.

The comparison of 2000 results with 1999 results was also affected by the acquisition of MediaOne and the elimination PICC. In addition, we acquired TCI and the IBM Global Network (now AT&T Global Network Services or AGNS) during 1999. Therefore, twelve months of their results are included in 2000's results, but are included for only a part of 1999 (since their respective dates of acquisition). Dispositions of certain cable systems and international businesses occurred during 1999 and 2000, affecting comparability. The consolidation of

Excite@Home, effective September 1, 2000, also affected comparability. Prior to September 1, 2000, Excite@Home was accounted for as an equity method investment.

Finally, the comparison of 2000 results with 1999 results was impacted by the launch of Concert on January 5, 2000, our global joint venture with British Telecommunications plc (BT). AT&T contributed all of its international gateway-to-gateway assets and the economic value of approximately 270 multinational customers specifically targeted for direct sales by Concert. As a result, 2000 results do not include the revenue and expenses associated with these customers and businesses, while 1999 does, and 2000 results include our proportionate share of Concert's earnings in "Net losses related to other equity investments" in the Consolidated Statements of Income. On October 16, 2001, AT&T and BT announced that they had reached binding agreements to unwind Concert. Under the Concert dissolution agreement with BT, AT&T will reclaim customer contracts and assets that were initially contributed to the venture, including international transport facilities and gateway assets. In addition, AT&T Business Services will obtain ownership of certain frame relay assets located in the Asia Pacific region that BT initially contributed to the venture. AT&T Business Services expects to combine these assets with its existing international networking and other assets. The unwind of Concert is expected to close by the end of the first half of 2002.

REVENUE

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	DOLLARS IN MILLIONS		
AT&T Business Services	$28,024	$28,900	$28,692
AT&T Consumer Services	15,079	18,894	21,753
AT&T Broadband	9,799	8,226	5,070
Corporate and other	(352)	(487)	(542)
Total Revenue	$52,550	$55,533	$54,973

Total revenue decreased 5.4%, or $3.0 billion, in 2001 compared with 2000. The decline was largely driven by accelerating declines in long distance voice revenue of approximately $5.7 billion. Partially offsetting the decline was revenue of approximately $2.2 billion, primarily attributable to growth in data and Internet protocol (IP), local and outsourcing services within AT&T Business Services, and increased revenue from AT&T Broadband, primarily telephony, high-speed data, expanded basic cable and digital video. Also offsetting the decline was revenue of approximately $0.3 billion largely due to net acquisitions (primarily MediaOne), and the consolidation of Excite@Home, partially offset by the elimination of PICC. We expect long distance revenue to continue to be negatively impacted by ongoing competition and product substitution and while we expect data and IP revenue to continue to grow, we expect the growth rate to slow. Revenue in 2002 will be positively impacted by the inclusion of revenue resulting from the unwind of Concert, including

revenue from multinational customers and foreign-billed revenue previously contributed to Concert. In addition, we expect revenue from AT&T Broadband to increase.

Total revenue increased 1.0%, or $0.6 billion, in 2000 compared with 1999 primarily driven by a growing demand for our IP, outsourcing within AT&T Business Services and growth in AT&T Broadband of approximately $2.2 billion, as well as the impact of acquisitions and the consolidation of Excite@Home, partially offset by the impact of Concert, dispositions and the elimination of PICC of approximately $1.5 billion. These revenue increases were partially offset by continued declines in long distance voice revenue of approximately $2.9 billion.

Revenue by segment is discussed in greater detail in the segment results section.

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	DOLLARS IN MILLIONS		
Access and other connection............................	$12,136	$13,140	$14,439

Access and other connection expenses decreased 7.6%, or $1.0 billion, in 2001 compared with 2000. Included within access and other connection expenses are costs that we pay to connect calls on the facilities of other service providers, as well as the Universal Service Fund contributions and per-line charges mandated by the FCC. Approximately $1.6 billion of the decrease was due to mandated reductions in per-minute access-rates, lower per-line charges and lower international connection rates. In July 2000, per-line charges that AT&T paid for residential and single-line business customers were eliminated by the FCC. These reductions were partially offset by a $0.6 billion increase due to overall volume growth primarily related to local and international services and higher Universal Service Fund contributions. Since most of these charges are passed through to the customer, the per-minute access-rate and per-line charge reductions and the increased Universal Service Fund contributions have generally resulted in a corresponding impact on revenue.

In 2002, access and other connection expenses will continue to decline as a result of mandated reductions in per minute access rates, lower universal service fund contributions and lower long distance call volumes. These reductions will be partially offset by an increase in local connectivity expenses primarily due to growth in local services. In addition, the unwind of Concert will also result in lower access and other connections expenses, since in 2001 the charge from Concert was recorded as access and other connection expenses and in 2002 as we take back assets, we will record the expenses in each line item based on how the assets and customers are served and managed.

Access and other connection expenses decreased 9.0% to $13.1 billion in 2000, compared with $14.4 billion in 1999. Mandated reductions in per-minute access costs and decreased per-line charges resulted in lower costs of approximately $1.5 billion. Also contributing to the decrease was more efficient network usage. These decreases were partially offset by approximately $0.6 billion of higher costs due to volume increases, and $0.5 billion as a result of higher Universal Service Fund contributions.

Costs paid to telephone companies outside of the United States to connect calls made to countries outside of the United States (international settlements) are also included within access and other connection expenses. International interconnection charges decreased approximately $0.5 billion in 2000, as a result of the commencement of operations of Concert. Concert incurred most of our international settlements and earned most of our foreign-billed revenue, previously incurred and earned directly by AT&T. In 2000, Concert billed us a net expense composed of international settlement (interconnection) expense and foreign-billed revenue. The amount charged by Concert in 2000 was lower than interconnection expense incurred in 1999, since AT&T recorded these transactions as revenue and expense, as applicable. Partially offsetting the decline were costs incurred related to Concert products that AT&T now sells to its customers.

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	DOLLARS IN MILLIONS		
Costs of services and products.........................	$13,960	$12,795	$11,013

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Costs of services and products include the costs of operating and maintaining our networks, costs to support our outsourcing contracts (including cost of equipment sold), programming for cable services, the provision for uncollectible receivables and other service-related costs.

These costs increased $1.2 billion, or 9.1%, in 2001 compared with 2000. Approximately $0.6 billion of the increase was driven by net acquisitions, primarily MediaOne, and the consolidation of Excite@Home. Also contributing to the increase was approximately $0.8 billion of higher costs associated with our growth businesses, primarily at AT&T Business Services, including the cost of equipment sold within our outsourcing solutions business, and higher cable television programming costs. In addition, costs increased approximately $0.3 billion due to estimated losses on certain long-term contracts at AT&T Business Services and a lower pension credit (income) and higher postretirement expense in 2001 resulting from a decreased return on plan assets. These increases were partially offset by approximately $0.4 billion of lower costs associated with lower revenue, primarily lower volumes at AT&T Business Services, including our international operations and lower payphone compensation costs.

In 2002, costs of services and products are expected to increase slightly as a result of the unwind of Concert, significantly offset by the deconsolidation of Excite@Home.

Costs of services and products increased $1.8 billion, or 16.2%, in 2000 compared with 1999. Nearly $1.9 billion of the increase was due to acquisitions and the impact of consolidating Excite@Home, net of the impact of Concert and divestments of international businesses. The expense also increased due to higher costs associated with new outsourcing contracts of approximately $0.5 billion and approximately $0.3 billion of higher cable television programming costs principally due to rate increases and higher costs associated with new broadband services. These increases were partially offset by approximately $0.9 billion of cost savings from continued cost control initiatives and a higher pension credit in 2000, primarily driven by a higher pension trust asset base, resulting from increased investment returns.

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999

	DOLLARS IN MILLIONS		
Selling, general and administrative.....................	$10,832	$9,752	$10,894

Selling, general and administrative (SG&A) expenses increased $1.1 billion, or 11.1%, in 2001 compared with 2000. Approximately $0.2 billion of the increase was due to expenses associated with acquisitions, primarily MediaOne, net of the impact of dispositions. Increased expenses in support of growth businesses, primarily data and IP, broadband, and local voice services, drove approximately $0.8 billion of the increase. These expenses included customer care, facilities and other related expenses, advertising, research and development and other general and administrative expenses. Also included in the increased SG&A expenses were transaction costs of approximately $0.2 billion associated with AT&T's restructuring announced in October 2000. A lower pension credit (income) and higher postretirement expense resulting from decreased return on plan assets, combined with higher compensation accruals contributed approximately $0.3 billion to the increase. Partially offsetting these increases were lower costs associated with the impact of cost control efforts and decreased customer care and billing expenses of approximately $0.8 billion primarily from AT&T Consumer Services.

As a result of the unwind of Concert as well as lower pension credit (income), selling, general and administrative expenses are expected to increase slightly in 2002.

Selling, general and administrative expenses decreased $1.1 billion, or 10.5%, in 2000 compared with 1999. Approximately $2.0 billion of the decrease was due to savings from continued cost-control initiatives and a higher pension credit in 2000, primarily driven by a higher pension trust asset base, resulting from increased historical investment returns. Partially offsetting this decrease was approximately $0.5 billion of higher

expenses associated with our growing broadband business, and nearly $0.5 billion of expenses associated with acquisitions and the consolidation of Excite@Home, net of the impact of Concert and dispositions.

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	DOLLARS IN MILLIONS		
Depreciation and other amortization.......................	$6,865	$5,924	$5,137

Depreciation and other amortization expenses increased $0.9 billion, or 15.9%, in 2001 compared with 2000. Approximately $0.4 billion of the increase was attributable to the acquisition of MediaOne and the consolidation of Excite@Home, partially offset by net dispositions, primarily cable systems. The remaining increase was primarily due to a higher asset base resulting from continued infrastructure investments.

Depreciation and other amortization expenses are expected to increase in 2002 reflecting the infrastructure investments made in 2001 as well as the impact of the unwind of Concert.

In 2000, depreciation and other amortization expenses rose $0.8 billion, or 15.3%, compared with 1999. Approximately $0.5 billion of the increase was due to acquisitions and the consolidation of Excite@Home, net of dispositions and the impact of Concert. The remaining increase was primarily due to a higher asset base resulting from continued infrastructure investment.

Total capital expenditures for 2001, 2000 and 1999 were $8.4 billion, $10.5 billion and $11.2 billion, respectively. We continue to focus the vast majority of our capital spending on our growth businesses of broadband, data and IP, and local.

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	DOLLARS IN MILLIONS		
Amortization of goodwill, franchise costs and other purchased intangibles	$2,473	$2,665	$1,057

Amortization of goodwill, franchise costs and other purchased intangibles decreased $0.2 billion, or 7.2%, in 2001 compared with 2000. The decrease was primarily due to a lower goodwill balance relating to Excite@Home as a result of the impairment charges recorded in the fourth quarter of 2000 and the first quarter of 2001, partially offset by the acquisition of MediaOne. Franchise costs represent the value attributable to agreements with local authorities that allow access to homes in AT&T Broadband's service areas. Other purchased intangibles arising from business combinations primarily included customer relationships.

In 2002, we will no longer amortize goodwill or franchise costs in accordance with the provisions of SFAS No. 142. Accordingly, amortization of goodwill, franchise costs and other purchased intangibles will be significantly lower in 2002. A further discussion of the impacts of SFAS No. 142 is included in "New Accounting Pronouncements" in this document.

In 2000, amortization of goodwill, franchise costs and other purchased intangibles increased $1.6 billion, or 152.3%, compared with the prior year. This increase was largely attributable to the consolidation of Excite@Home, as well as acquisitions, primarily MediaOne and TCI.

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	DOLLARS IN MILLIONS		
Net restructuring and other charges	$2,530	$7,029	$975

During 2001, we recorded $2,530 million of net restructuring and other charges including approximately $1,330 million of restructuring and exit costs associated with AT&T's continued cost reduction initiatives and $1,200 million of asset impairment charges which were primarily related to Excite@Home.

The $1,330 million of charges for restructuring and exit plans were comprised of $1,014 million for employee separations and benefit plan curtailment costs, $322 million for facility closings and $27 million related to termination of contractual obligations. The restructuring and exit plans support our cost reduction efforts through headcount reductions across all segments of the business, primarily network support and customer care functions in AT&T Business Services, continued cost reduction efforts by Excite@Home (which was still consolidated into AT&T's results until September 2001), in addition to impacts of the MediaOne merger. These charges were slightly offset by the reversal in December 2001 of $33 million related to the business restructuring plans for fourth quarter 1999 and first quarter 2000.

Included in the $1,014 million of employee separations were $200 million of benefit plan curtailment costs associated with employee separations as part of these exit plans. Approximately 18 thousand employees will be separated in conjunction with these exit plans, approximately one-half of which are management and one-half are nonmanagement employees. Nearly 17 thousand employee separations related to involuntary terminations and more than one thousand related to voluntary terminations. Approximately 50% of the employees affected by the 2001 restructuring charges left their positions as of December 31, 2001, and the remaining will leave the company throughout 2002. Termination benefits of approximately $341 million were paid throughout 2001.

The $1,200 million of asset impairments consisted of $1,032 million associated with the write-down of goodwill and other intangibles, warrants granted in connection with distributing the @Home service and fixed assets. These charges were due to continued deterioration in the business climate of, and reduced levels of venture capital funding activity for, Internet advertising and other Internet-related companies, continued significant declines in the market values of Excite@Home's competitors in the Internet advertising industry, and changes in its operating and cash flow forecasts for the remainder of 2001. These charges were also impacted by Excite@Home's decision to sell or shut down narrowband operations. As a result of the foregoing, and other factors, Excite@Home entered into bankruptcy proceedings in September 2001. In addition, AT&T recorded a related goodwill impairment charge of $139 million associated with its acquisition goodwill of Excite@Home. Since we consolidated, but only owned approximately 23% of Excite@Home, a portion of the charges recorded by Excite@Home was not included as a reduction to AT&T's net income, but rather was eliminated in our 2001 Consolidated Statement of Income as a component of "Minority interest income (expense)." Additionally, we recorded asset impairment charges of $29 million related to the write-down of unrecoverable support assets where the carrying value was no longer supported by estimated future cash flows.

The restructuring and exit plans did not yield cash savings (net of severance benefit payouts) in 2001. In subsequent years, the net cash savings will increase, due to the timing of actual separations and associated payments, until the completion of the exit plan at which time we expect to yield approximately $1.1 billion of cash savings per year. Accordingly, there was no benefit to operating income (net of the restructuring charges recorded) in 2001. In subsequent years, the operating income benefit will continue to increase, due to timing of actual separations, until the completion of the exit plan, at which time we expect a benefit to operating income of approximately $1.2 billion per year.

As a result of continuing realignment within AT&T Broadband, we expect to record a restructuring charge in the first quarter of 2002 in the range of $50 million to $100 million.

During 2000, we recorded $7,029 million of net restructuring and other charges including $6,179 million of asset impairment charges related to Excite@Home, $759 million for restructuring and exit costs associated with AT&T's initiative to reduce costs, and $91 million related to the government-mandated disposition of AT&T Communications (U.K.) Ltd., which would have competed directly with Concert.

The asset impairment charges related to Excite@Home resulted from the deterioration of the market conditions and market valuations of Internet-related companies during the fourth quarter of 2000, which caused Excite@Home to conclude that intangible assets related to their acquisitions of Internet-related companies may not be recoverable. Accordingly, Excite@Home conducted a detailed assessment of the recoverability of the carrying amounts of acquired intangible assets. This assessment resulted in a determination that certain acquired intangible assets, including goodwill, related to these acquisitions, including Excite,

were impaired as of December 31, 2000. As a result, Excite@Home recorded impairment charges of $4,609 million in December 2000, representing the excess of the carrying amount of the impaired assets over their fair value.

The impairment was allocated to each asset group based on a comparison of carrying values and fair values. The impairment write-down within each asset group was allocated first to goodwill, and if goodwill was reduced to zero, to identifiable intangible assets in proportion to carrying values.

Since we consolidated but only owned approximately 23% of Excite@Home, 77% of the charge recorded by Excite@Home was not included as a reduction to AT&T's net income, but rather was eliminated in our 2000 Consolidated Statement of Income as "Minority interest income (expense)."

Also as a result of the foregoing, AT&T recorded a goodwill and acquisition-related impairment charge of $1,570 million associated with the acquisition of our investment in Excite@Home. The write-down of our investment to fair value was determined utilizing discounted expected future cash flows.

The $759 million charge for restructuring and exit plans was primarily due to headcount reductions, mainly in AT&T Business Services, including network operations, primarily for the consolidation of customer-care and call centers, as well as synergies created by the MediaOne merger.

Included in exit costs was $503 million of cash termination benefits associated with the separation of approximately 7,300 employees as part of voluntary and involuntary termination plans. Approximately one-half of the separations were management employees and one-half were non-management employees. Approximately 6,700 employee separations were related to involuntary terminations and approximately 600 to voluntary terminations.

We also recorded $62 million of network lease and other contract termination costs associated with penalties incurred as part of notifying vendors of the termination of these contracts during the year, and net losses of $32 million related to the disposition of facilities primarily due to synergies created by the MediaOne merger.

Also included in restructuring and exit costs in 2000 was $144 million of benefit plan curtailment costs associated with employee separations as part of these exit plans. Further, we recorded an asset impairment charge of $18 million related to the write-down of unrecoverable assets in certain businesses where the carrying value was no longer supported by estimated future cash flows.

During 1999, we recorded $975 million of net restructuring and other charges. A $594 million in-process research and development charge was recorded reflecting the estimated fair value of research and development projects at TCI, as of the date of the acquisition, which had not yet reached technological feasibility or had no alternative future use. The projects identified related to efforts to offer voice over IP, product-integration efforts for advanced set-top devices, cost-savings efforts for broadband-telephony implementation, and in-process research and development related to Excite@Home. We estimated the fair value of in-process research and development for each project using an income approach, which was adjusted to allocate fair value based on the project's percentage of completion. Under this approach, the present value of the anticipated future benefits of the projects was determined using a discount rate of 17%. For each project, the resulting net present value was multiplied by a percentage of completion based on effort expended to date versus projected costs to complete.

Also in 1999, a $145 million charge for restructuring and exit costs was recorded as part of AT&T's initiative to reduce costs. The restructuring and exit plans primarily focused on the maximization of synergies through headcount reductions in AT&T Business Services, including network operations, primarily for the consolidation of customer-care and call centers.

Included in exit costs was $142 million of cash termination benefits associated with the separation of approximately 2,800 employees as part of voluntary and involuntary termination plans. Approximately one-half of the separations were management employees and one-half were non-management employees. Approximately 1,700 employee separations were related to involuntary terminations and approximately 1,100 to voluntary terminations.

We also recorded net losses of $307 million related to the government-mandated disposition of certain international businesses that would have competed directly with Concert, and $50 million related to a contribution agreement AT&T Broadband entered into with Phoenixstar, Inc. That agreement requires AT&T Broadband to satisfy certain liabilities owed by Phoenixstar and its subsidiaries. The remaining obligation under this contribution agreement and an agreement that MediaOne had is $35 million, which was fully accrued for at December 31, 2001. In addition, we recorded benefits of $121 million related to the settlement of pension obligations for former employees who accepted AT&T's 1998 voluntary retirement incentive program (VRIP) offer.

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	DOLLARS IN MILLIONS		
Operating income	$3,754	$4,228	$11,458

In 2001, operating income decreased $0.5 billion, or 11.2%. The decline was primarily attributable to accelerating declines in the long distance business. In addition, the acquisition of MediaOne and net dispositions negatively impacted operating income by $0.7 billion. Significantly offsetting these decreases was the net impact of Excite@Home (including the effect of lower asset impairments).

Operating income decreased $7.2 billion, or 63.1%, in 2000 compared with 1999. The decrease was primarily due to higher net restructuring and other charges of $6.1 billion. Also contributing to the decrease was the impact of the acquisition of MediaOne and the consolidation of Excite@Home, which lowered operating income by $1.5 billion. A majority of the impact of operating losses and the restructuring charge generated by Excite@Home was offset in "Minority interest income (expense)" in the Consolidated Statement of Income, reflecting the approximate 77% of Excite@Home we do not own. Partially offsetting these decreases were cost-control initiatives and a larger pension credit associated with our mature long distance businesses and related support groups, partially offset by lower long distance revenue.

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	DOLLARS IN MILLIONS		
Other (expense) income....................................	$(1,547)	$1,150	$826

Other (expense) income in 2001 was an expense of $1.5 billion compared with income of $1.2 billion in 2000. The unfavorable variance of $2.7 billion was driven primarily by higher investment impairment charges of $0.8 billion, mostly consisting of impairments of Vodafone plc and Time Warner Telecom. Also contributing to the higher expense was an expense of $0.8 billion reflecting mark-to-market charges in conjunction with the adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and $0.8 billion of lower net gains on the sales of businesses and investments.

Other (expense) income improved $0.3 billion, or 39.3%, in 2000 compared with 1999. This improvement was primarily due to greater net gains on sales of businesses and investments of approximately $0.7 billion, and higher investment-related income of approximately $0.3 billion. The higher gains on sales were driven by significant gains associated with the swap of cable properties with Comcast and Cox, the sale of our investment in Lenfest and related transactions, which gains aggregated approximately $0.5 billion. In 1999, we recorded significant gains associated with the sale of our Language Line Services business and a portion of our ownership interest in AT&T Canada, which aggregated approximately $0.3 billion. Offsetting the improvements to other (expense) income in 2000 was an approximate $0.5 billion charge reflecting the increase in the fair value of put options held by Comcast and Cox related to Excite@Home stock, and approximately $0.2 billion of higher investment impairment charges.

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	DOLLARS IN MILLIONS		
Interest expense..	$3,242	$2,964	$1,503

In 2001, interest expense increased $0.3 billion, or 9.4%. The increase was due primarily to a higher average debt balance in 2001, compared with 2000. The higher average debt balance was primarily a result of our June 2000 acquisition of MediaOne, including outstanding debt of MediaOne and debt issued to fund the MediaOne acquisition. The impact of MediaOne was partially offset by the company's debt reduction efforts in 2001.

Interest expense increased 97.2%, or $1.5 billion, in 2000 compared with 1999. The increase was primarily due to a higher average debt balance as a result of our June 2000 acquisition of MediaOne, including outstanding debt of MediaOne and debt issued to fund the MediaOne acquisition, and our March 1999 acquisition of TCI.

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	DOLLARS IN MILLIONS		
(Benefit) provision for income taxes.......................	$(791)	$3,284	$4,016

The effective income tax rate is the (benefit) provision for income taxes as a percent of (loss) income from continuing operations before income taxes. The effective income tax rate was 76.4% in 2001, 136.1% in 2000 and 37.3% in 1999. In 2001, the effective tax rate was positively impacted by a significant net tax benefit related to Excite@Home, including a benefit from the deconsolidation and the put obligation settlement with Cox and Comcast, partially offset by the prior consolidation of its operating losses (which included asset impairment charges) for which the company was unable to record tax benefits. Also positively impacting the effective tax rate was the net impact of a tax-free exchange with Comcast of AT&T stock held by Comcast for an entity owning certain cable systems and the resulting reduction of a previously established deferred tax liability. In addition, a benefit was recognized associated with the tax-free gain from the disposal of a portion of AT&T's retained interest in AT&T Wireless in a debt-for-equity exchange.

In 2000, the effective tax rate was negatively impacted by Excite@Home, for which the company was unable to record tax benefits associated with its pretax losses. Therefore, the $4.6 billion restructuring charges taken by Excite@Home in 2000 had no associated tax benefit. The company also recorded a related nondeductible asset impairment charge of $1.6 billion associated with its acquisition of Excite@Home and a nondeductible charge to reflect the increase in the fair value of the put options related to Excite@Home held by Comcast and Cox, both of which negatively impacted the effective tax rate. The 2000 effective tax rate was positively impacted by a tax-free gain resulting from an exchange of AT&T stock for an entity owning certain cable systems and other assets with Cox and the benefit of the write-off of the related deferred tax liability.

The 1999 effective tax rate was negatively impacted by a non-tax-deductible research and development charge, but positively impacted by a change in the net operating loss utilization tax rules that resulted in a reduction in the valuation allowance and the income tax provision.

FOR THE YEARS ENDED

	DECEMBER 31,		
	2001	2000	1999
	DOLLARS IN MILLIONS		
Minority interest income (expense).........................	$963	$4,103	$(126)

Minority interest income (expense), which is recorded net of income taxes, represents an adjustment to AT&T's income to reflect the less than 100% ownership of consolidated subsidiaries as well as dividends on preferred stock issued by subsidiaries of AT&T. Minority interest income (expense) decreased $3.1 billion in 2001 compared with 2000 primarily due to lower losses generated by Excite@Home, mainly as a result of lower goodwill impairment charges recorded by Excite@Home in 2001 compared with 2000. As a result of significant losses incurred by Excite@Home, AT&T fully utilized the minority interest balance during the third quarter of 2001; therefore, we no longer recorded minority interest income related to Excite@Home.

The $4.2 billion increase in minority interest income (expense) in 2000 resulted from the consolidation of Excite@Home effective September 1, 2000. The minority interest income in 2000 primarily reflects losses

generated by Excite@Home, including the goodwill impairment charge, that were attributable to the approximate 77% of Excite@Home not owned by AT&T.

The income tax benefit within minority interest income (expense) was $100 million in both 2001 and 2000, and a benefit of $54 million in 1999.

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	DOLLARS IN MILLIONS		
Equity (losses) earnings from Liberty Media Group........	$(2,711)	$1,488	$(2,022)

Equity (losses) earnings from LMG, which are recorded net of income taxes, were a loss of $2.7 billion in 2001, compared with earnings of $1.5 billion in 2000. The decline of $4.2 billion was largely driven by gains on dispositions recorded in 2000, including gains associated with the mergers of various companies that LMG had investments in, as well as higher stock compensation expense in 2001 compared with 2000. Partially offsetting these declines were lower impairment charges recorded on LMG's investments to reflect other than temporary declines in value. Equity losses for 2001 reflect results through July 31, 2001, the deemed effective date of the split-off.

Equity (losses) earnings from LMG were earnings of $1.5 billion in 2000, compared with losses of $2.0 billion in 1999. The improvement was primarily due to gains on dispositions, including gains associated with the mergers of various companies that LMG had investments in. Gains were recorded for the difference between the carrying value of LMG's interest in the acquired company and the fair value of securities received in the merger. In addition, lower stock compensation expense in 2000 compared with 1999 contributed to the improvement.

These were partially offset by impairment charges recorded on LMG's investments to reflect other than temporary declines in value and higher losses relating to LMG's equity affiliates.

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	DOLLARS IN MILLIONS		
Net losses related to other equity investments.............	$4,850	$588	$756

Net losses related to other equity investments were $4.9 billion in 2001 compared with $0.6 billion in 2000, an increase of approximately $4.3 billion. The increase was driven primarily by higher net equity investment impairment charges of $4.3 billion. The pretax impairment charges were $7.0 billion and consisted primarily of $3.0 billion in charges related to the estimated loss on AT&T's commitment to purchase the shares of AT&T Canada we do not own, a $2.9 billion impairment charge related to the unwind of Concert and an impairment of our investment in Net2Phone of $1.1 billion. In addition, we recorded higher equity losses of $0.7 billion from Concert and Net2Phone. These losses were partially offset by $0.6 billion in losses recorded for Excite@Home in the first eight months of 2000 when we recorded the investment as an equity method investment. Excite@Home was fully consolidated beginning in September 2000.

In 2000, net losses related to other equity investments were $0.6 billion, a 22.2% improvement compared with 1999. This improvement was primarily a result of higher earnings from our investment in Cablevision Systems Corp. (Cablevision) of approximately $0.2 billion due to gains from cable-system sales. Partially offsetting this improvement were losses from our stake in TWE, which we acquired in connection with the MediaOne merger, and greater equity losses from Excite@Home, which aggregated approximately $0.1 billion.

The income tax benefit recorded on net losses related to other equity investments was $0.4 billion in both 2001 and 2000, and a benefit of $0.5 billion in 1999. The amortization of excess basis associated with nonconsolidated investments, recorded as a reduction of income, totaled $0.2 billion in 2001, and $0.5 billion

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in both 2000 and 1999. Effective January 1, 2002, in accordance with the provisions of SFAS No. 142, we will no longer amortize excess basis related to nonconsolidated investments.

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	DOLLARS IN MILLIONS		
Gain on disposition of discontinued operations.............	$13,503	$--	$--

In 2001, we realized a gain on the disposition of discontinued operations of $13.5 billion, representing the difference between the fair value of the AT&T Wireless tracking stock on July 9, 2001, the date of the split-off, and AT&T's book value in AT&T Wireless Services.

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	DOLLARS IN MILLIONS		
Cumulative effect of accounting change......................	$904	$--	$--

Cumulative effect of accounting change, net of applicable income taxes, is comprised of $0.4 billion for AT&T Group (other than LMG) and $0.5 billion for LMG in 2001. The $0.4 billion recorded by AT&T, excluding LMG, was attributable primarily to fair value adjustments of equity derivative instruments embedded in indexed debt instruments and warrants held in both public and private companies due to the adoption of SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities."

The $0.5 billion recorded by LMG represents the impact of separately recording the embedded call option obligations associated with LMG's senior exchangeable debentures due to the adoption of SFAS No. 133.

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	DOLLARS IN MILLIONS		
Dividend requirements of preferred stock....................	$652	$--	$--

Dividend requirements of preferred stock were $0.7 billion in 2001. The preferred stock dividend represented interest in connection with convertible preferred stock issued to NTT DoCoMo in January of 2001 as well as accretion of the beneficial conversion feature associated with this preferred stock. The beneficial conversion feature was recorded upon the issuance of the NTT DoCoMo preferred stock and represented the excess of the fair value of the preferred shares issued over the proceeds received. On July 9, 2001, in conjunction with the split-off of AT&T Wireless Group, these preferred shares were converted into AT&T Wireless common stock. As a result, we fully amortized the remaining beneficial conversion feature balance.

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	DOLLARS IN MILLIONS		
Premium on exchange of AT&T Wireless tracking stock.........	$80	$--	$--

The premium on exchange of AT&T Wireless tracking stock was $80 million in 2001. The premium, which is a reduction of net income available to common shareowners, represents the excess of the fair value of the AT&T Wireless tracking stock issued over the fair value of the AT&T common stock exchanged and was calculated based on the closing share prices of AT&T common stock and AT&T Wireless tracking stock on May 25, 2001.

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)		
AT&T Common Stock Group -- per basic share:			
(Loss) earnings from continuing operations...............	$(1.33)	$0.76	$1.91
AT&T Common Stock Group earnings.........................	2.50	0.89	1.77
AT&T Common Stock Group -- per diluted share:			
(Loss) earnings from continuing operations...............	(1.33)	0.75	1.87
AT&T Common Stock Group earnings.........................	2.50	0.88	1.74

In 2001, AT&T had a loss from continuing operations before cumulative effect of accounting change per diluted share of $1.33, compared with earnings of $0.75 per diluted share in 2000. The decline of $2.08 per diluted share was primarily attributable to an unfavorable variance in net losses related to other equity investments, other (expense) income and lower operating income, excluding net restructuring and other charges, in 2001 compared with 2000, partially offset by lower net restructuring and other charges in 2001.

Earnings per diluted share (EPS) attributable to continuing operations of the AT&T Common Stock Group were $0.75 in 2000 compared with $1.87 in 1999, a decrease of 59.9%. The decrease was primarily due to higher restructuring and asset impairment charges and the MediaOne acquisition, including the impact of shares issued, operating losses of MediaOne and additional interest expense. Also contributing to the decrease was the impact of Excite@Home, including the mark-to-market adjustment related to the put options held by Comcast and Cox. These decreases were partially offset by improvements in other (expense) income, primarily associated with higher net gains on sales of businesses and investments, and higher investment-related income, and lower losses from equity investments. Also impacting EPS was higher operating income associated with our mature long distance businesses.

In 2001, diluted EPS of AT&T Common Stock Group of $2.50 included a loss from continuing operations as discussed above of $1.33, income from discontinued operations of $0.03, a gain on the disposition of discontinued operations of $3.70 and income related to the cumulative effect of accounting change of $0.10. In 2000, diluted EPS of AT&T Common Stock Group of $0.88 included earnings from continuing operations as discussed above of $0.75 and income from discontinued operations of $0.13. In 1999, diluted EPS of AT&T Common Stock Group of $1.74 included earnings from continuing operations as discussed above of $1.87 and a loss from discontinued operations of $0.13.

LMG reported a loss per share, excluding the cumulative effect of an accounting change, of $0.84 in 2001 through its split-off from AT&T on August 10, 2001. In 2000, LMG reported earnings per basic and diluted share of $0.58. The decline of $1.42 per share was primarily due to gains on dispositions reported in 2000, including gains associated with the mergers of various companies that LMG had investments in. Partially offsetting the decline were charges recorded on LMG's investments in 2000.

EPS for LMG was $0.58 in 2000, compared with a loss of $0.80 per share in 1999. The increase in EPS was primarily due to gains on dispositions, including gains associated with the mergers of various companies that LMG had investments in. In addition, lower stock compensation expense in 2000 compared with 1999 contributed to the increase. These increases were partially offset by impairment charges recorded on LMG's investments to reflect other than temporary declines in value and higher losses relating to LMG's equity affiliates.

In 2001, EPS for the AT&T Wireless Group, through its split-off date from AT&T on July 9, 2001, was $0.08 per basic and diluted share. EPS for AT&T Wireless Group for the period from April 27, 2000, the stock offering date, through December 31, 2000, was $0.21 per basic and diluted share.

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DISCONTINUED OPERATIONS

Pursuant to Accounting Principles Board Opinion No. 30 "Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," the consolidated financial statements of AT&T reflect the disposition of AT&T Wireless, which was split-off from AT&T on July 9, 2001, as discontinued operations. Accordingly, the revenue, costs and expenses, and cash flows of AT&T Wireless through June 30, 2001, the effective split-off date for accounting purposes, have been excluded from the respective captions in the 2001, 2000 and 1999 Consolidated Statements of Income and Consolidated Statements of Cash Flows and have been reported as "Income (loss) from discontinued operations," net of applicable income taxes; and as "Net cash provided by (used in) discontinued operations." The assets and liabilities of AT&T Wireless have been excluded from the respective captions in the December 31, 2000 Consolidated Balance Sheet, and are reported as "Net assets of discontinued operations." The gain associated with the disposition of AT&T Wireless is recorded as "Gain on disposition of discontinued operations," in the Consolidated Statement of Income.

SEGMENT RESULTS

In support of the services we provided in 2001, we segment our results by the operating units that support our primary lines of business: AT&T Business Services, AT&T Consumer Services and AT&T Broadband. The balance of AT&T's operations, excluding LMG, is included in a corporate and other category. Although not a segment, we also discuss the results of LMG prior to its split-off as an independent company.

EBIT and EBITDA are the primary measures used by AT&T's chief operating decision makers to measure AT&T's operating results and to measure segment profitability and performance. AT&T calculates EBIT as operating income (loss) plus other income (expense), pretax minority interest income (expense) and net pretax losses related to other equity investments. EBITDA is defined as EBIT, excluding minority interest income (expense) other than Excite@Home's minority interest income (expense), plus depreciation and amortization. Interest and income taxes are not factored into the segment profitability measure used by the chief operating decision makers; therefore, trends for these items are discussed on a consolidated basis. Management believes EBIT and EBITDA are meaningful to investors because they provide analyses of operating results using the same measures used by AT&T's chief operating decision makers. In addition, we believe that both EBIT and EBITDA allow investors a means to evaluate the financial results of each segment in relation to total AT&T. EBIT for AT&T was a deficit of $4.8 billion and earnings of $8.4 billion and $10.9 billion for the years ended December 31, 2001, 2000 and 1999, respectively. EBITDA for AT&T was $4.7 billion, $17.1 billion and $17.7 billion for the years ended December 31, 2001, 2000 and 1999, respectively. Our calculations of EBIT and EBITDA may or may not be consistent with the calculation of these measures by other public companies. EBIT and EBITDA should not be viewed by investors as an alternative to generally accepted accounting principles (GAAP) measures of income as a measure of performance or to cash flows from operating, investing and financing activities as a measure of liquidity. In addition, EBITDA does not take into account changes in certain assets and liabilities as well as interest and income taxes which can affect cash flow.

The discussion of segment results includes revenue, EBIT, EBITDA, capital additions and total assets. The discussion of EBITDA for AT&T Broadband is modified to exclude other income (expense) and net pretax losses related to equity investments. Total assets for each segment generally include all assets, except intercompany receivables. Prepaid pension assets and corporate-owned or leased real estate are generally held at the corporate level, and therefore are included in the corporate and other group. In addition, all impacts of the adoption of SFAS No. 133, as well as the ongoing investment and derivative revaluation, are reflected in the corporate and other group. The net assets of discontinued operations and the related income (loss) and gain on disposition are not reflected in the corporate and other group. Capital additions for each segment include capital expenditures for property, plant and equipment, acquisitions of licenses, additions to nonconsolidated investments, increases in franchise costs and additions to internal-use software.

In connection with our corporate restructuring program set forth in late 2000, our existing segments reflect certain managerial changes that were implemented during 2001. The changes are as follows: AT&T

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Business Services was expanded to include the results of international operations and ventures. In addition, certain corporate costs that were previously recorded within the corporate and other group have been allocated to the respective segments in an effort to ultimately have the results of these businesses reflect all direct corporate costs as well as overhead for shared services. All prior period results have been restated to reflect these changes.

Reflecting the dynamics of our business, we continuously review our management model and structure, which may result in additional adjustments to our operating segments in the future.

AT&T BUSINESS SERVICES

AT&T Business Services offers a variety of global communications services to small and medium-sized businesses, large domestic and multinational businesses and government agencies. AT&T Business' services include long distance, international, toll-free and local voice; data and IP networking; managed networking services and outsourcing solutions; and wholesale transport services (sales of services to service resellers).

FOR THE YEARS ENDED DECEMBER 31,

	2001	2000	1999
	DOLLARS IN MILLIONS		
External revenue			
Services revenue	$27,056	$27,972	$28,070
Equipment and product sales revenue	228	185	17
Total external revenue	27,284	28,157	28,087
Internal revenue	740	743	605
Total revenue	28,024	28,900	28,692
EBIT	(2,154)	5,990	5,248
EBITDA	1,949	10,200	9,468
Capital additions	5,456	6,839	9,091

	AT DECEMBER 31,	
	2001	2000
Total assets	$40,339	$42,747

REVENUE

In 2001, AT&T Business Services revenue decreased $0.9 billion, or 3.0%, to $28.0 billion. A decline in long distance voice revenue of approximately $2.1 billion drove the revenue decline. Significantly offsetting the decline was approximately $1.4 billion of growth in data and IP services, local voice services and outsourcing solutions, including equipment sales.

In 2000, AT&T Business Services revenue grew $0.2 billion, or 0.7%, compared with 1999. Strength in data and IP services as well as growth in outsourcing solutions contributed $1.8 billion to the increase. This growth was largely offset by an approximate $0.9 billion decline in long distance voice services as a result of continued pricing pressures in the industry and approximately $0.5 billion due to the net impacts of Concert, international dispositions and acquisitions.

In 2001, long distance voice revenue declined at a low-teen percentage rate reflecting the continuing impact of pricing pressures, mitigated somewhat by volume growth. While volumes grew at a low single-digit percentage rate, the rate of growth declined from a high single-digit percentage growth rate in 2000, reflecting the economic weakness impacting many key industry sectors, including travel, financial services, technology and retail, as well as the impact of wireless and e-mail substitution. These factors, along with pricing pressures, are expected to continue to negatively impact revenue in 2002. In 2000, long distance voice services revenue declined at a mid single-digit percentage rate after excluding the impact of Concert. The decline was primarily due to a declining average price per minute reflecting the competitive forces within the industry. Partially offsetting this decline was the high single-digit percentage growth rate in volumes.

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Data and IP services (including related product sales) grew at a low double-digit percentage rate in 2001 compared with 2000. The growth was led by packet services, which include frame relay, IP and Asynchronous Transfer Mode (ATM). Packet services grew at a rate in the mid-20 percent range. Total IP services (a component of packet services), which include IP connectivity services, Virtual Private Network (VPN) services and hosting services, also grew in the mid-20 percent rate range. The rate of growth of data services revenue declined in 2001 due primarily to a slow-down in the rate of growth of high-speed private line services and frame relay services as well as a decline in international private line services. In 2002, we expect data and IP revenue to grow; however, we expect the growth rate to decline from the 2001 growth rate.

The 2000 data and IP services growth rate (including related product sales), as compared with 1999, was impacted by acquisitions and the formation of Concert. Excluding these impacts, data services grew at a high-teens percentage rate. Growth was led by the continued strength of frame relay services; IP services, which include IP-connectivity services and VPN services; and high-speed private-line services.

Local voice services revenue grew more than 20% in 2001 compared with 2000, and grew nearly 20% in 2000 compared with 1999. In 2001, AT&T added more than 670 thousand access lines and added more than 867 thousand lines in 2000. Access lines at the end of 2001 and 2000 were more than 2.9 million and nearly 2.3 million, respectively. Access lines enable AT&T to provide local service to customers by allowing direct connection from customer equipment to the AT&T network. At the end of 2001, AT&T served more than 6,300 buildings on-network (buildings where AT&T owns the connection that runs into the building), representing an increase of approximately 3.2% over 2000. At the end of 2000, AT&T served more than 6,100 buildings on-network, compared with slightly more than 5,800 buildings at the end of 1999. In 2002, we expect local voice services revenue to grow; however, we expect the growth rate to decline from the 2001 growth rate.

AT&T Business Services internal revenue was essentially flat in 2001 compared with 2000, and increased $138 million, or 22.7%, in 2000 compared with 1999. The impact of internal revenue is included in the revenue by product discussions, above. In 2001, AT&T Business Services had lower internal revenue due to the split-off of AT&T Wireless on July 9, 2001, as these sales are now reported as external revenue. This decrease was almost entirely offset by greater sales of services to other AT&T units, primarily AT&T Broadband. The increase in 2000 was the result of greater sales of business long distance services to other AT&T units that resell such services to their external customers, primarily AT&T Broadband and AT&T Wireless.

EBIT/EBITDA

In 2001, EBIT decreased $8.1 billion, or 136.0%, compared with 2000. EBITDA declined $8.3 billion, or 80.9%, in 2001 compared with 2000. The declines in EBIT and EBITDA were primarily due to charges of $3.0 billion in 2001, related to the estimated loss on AT&T's commitment to purchase the remaining public shares of AT&T Canada, and charges of $2.9 billion in 2001 related to the unwind of Concert. Also reflected in the declines was the impact of pricing pressure within the long distance voice business, as well as a shift from higher margin long distance services to lower margin growth services. In 2002, EBIT and EBITDA are expected to improve, primarily due to the 2001 charges we recorded related to AT&T Canada and the unwind of Concert, partially offset by lower net gains recorded in other (expense) income and lower operating income, reflecting continued softness in the long distance market.

EBIT improved $0.7 billion, or 14.2%, and EBITDA improved $0.7 billion, or 7.7%, in 2000 compared with 1999. The improvements reflect an increase in revenue and lower costs as a result of our continued cost-control efforts, partially offset by the formation of Concert and the acquisition of AGNS.

OTHER ITEMS

Capital additions decreased $1.4 billion in 2001, and decreased $2.3 billion in 2000. In 2001, the decrease was a result of lower capital expenditures for the AT&T world-wide intelligent network, as well as a reduced investment in Concert. In 2000 the decrease was a result of lower spending for our network and lower infusions into nonconsolidated international investments.

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Total assets decreased $2.4 billion, or 5.6%, at December 31, 2001, compared with December 31, 2000. The decrease was primarily due to a decline in our investments in nonconsolidated subsidiaries, primarily due to the write-down of our investment in Concert and equity losses from Concert, and reduced receivables resulting from lower revenue and increased collection efforts. These declines were partially offset by an increase in property, plant and equipment.

AT&T CONSUMER SERVICES

AT&T Consumer Services provides a variety of communications services to residential customers including domestic and international long distance; transaction based long distance, such as operator assisted service and prepaid phone cards; local and local toll (intrastate calls outside the immediate local area); and dial-up Internet.

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	DOLLARS IN MILLIONS		
Revenue	$15,079	$18,894	$21,753
EBIT	4,875	6,893	7,619
EBITDA	5,075	7,060	7,803
Capital additions	140	148	299

	AT DECEMBER 31,	
	2001	2000
Total assets	$ 2,141	$ 3,150

REVENUE

AT&T Consumer Services revenue declined $3.8 billion, or 20.2%, in 2001 compared with 2000. The decline was primarily due to a $3.7 billion decline in traditional voice services, such as domestic and international dial services (long distance calls where the number "1" is dialed before the call), and domestic calling card services. The traditional voice services were negatively impacted by an acceleration of wireless and e-mail product substitution, and the impact of ongoing competition, which has led to a loss of market share. In addition, the continued migration of customers to lower-priced products and optional calling plans has also negatively impacted revenue. As a result of the acceleration of substitution and competition, calling volumes declined at a low double-digit percentage rate in 2001. The revenue decline also reflects a $0.5

billion impact due to the elimination of per-line charges in July 2000. Partially offsetting these revenue declines was revenue growth of $0.6 billion for prepaid card and local services. We expect product substitution, competition (including the continued entry of the Regional Bell Operating Companies into the long distance market) and customer migration to lower-priced calling plans and products to continue to negatively impact AT&T Consumer Services revenue in 2002.

In 2000, AT&T Consumer Services revenue decreased 13.1%, or $2.9 billion, compared with 1999. Approximately $0.9 billion of the decline was due to the elimination of per-line charges in 2000 and the impact of Concert. The remainder of the decline was primarily due to a decline in traditional voice services, reflecting the ongoing competitive nature of the consumer long distance industry, which has resulted in pricing pressures and a loss of market share. Also negatively impacting revenue was product substitution and market migration away from direct-dial wireline and higher-priced calling-card services to the rapidly growing wireless services and lower-priced prepaid-card services. As a result, calling volumes declined at a mid single-digit percentage rate in 2000.

EBIT/EBITDA

EBIT declined $2.0 billion, or 29.3%, and EBITDA declined $2.0 billion, or 28.1%, in 2001 compared with 2000. In 2001, EBIT and EBITDA margins declined to 32.3% and 33.7%, from 36.5% and 37.4% in 2000, respectively. As customers substitute long distance calling with wireless and e-mail services and migrate to

lower priced calling plans and lower margin products, they tend to remain AT&T Consumer Services customers. These customers generate less revenue, however, the billing, customer care and fixed costs remain, resulting in lower EBIT margins. The margin decline was also impacted by a slight increase in marketing spending targeted at high value customers, partially offset by a $0.2 billion settlement of disputes relating to obligations resulting from the sale of AT&T Universal Card Services to Citigroup in 1998, as well as cost control initiatives. In 2002, we expect the impacts of revenue decline to continue to negatively impact EBIT and EBITDA.

EBIT and EBITDA both declined $0.7 billion, or 9.5%, in 2000 compared with 1999. The declines primarily reflect the decline in the long distance business, offset somewhat by cost-control initiatives. In addition, the declines reflect $0.2 billion of lower gains on sales of businesses, due primarily to the 1999 sale of Language Line Services, and higher restructuring charges. Reflecting our cost-control initiatives, EBIT and EBITDA margins in 2000 improved to 36.5% and 37.4%, respectively, compared with 35.0% and 35.9%, respectively, in 1999.

OTHER ITEMS

In 2001, capital additions decreased $8 million, or 5.2%, compared with 2000. Capital additions decreased $0.2 billion, or 50.6%, in 2000 compared with 1999 as a result of reduced spending on internal-use software, as most of the functionality upgrades were completed in 1999.

Total assets declined $1.0 billion, or 32.0%, in 2001. The decline was primarily due to lower accounts receivable, reflecting lower revenue.

AT&T BROADBAND

AT&T Broadband offers a variety of services through our cable (broadband) network, including traditional analog video and advanced services, such as digital video, high-speed data and broadband telephony.

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	DOLLARS IN MILLIONS		
External revenue	$ 9,785	$ 8,212	$ 5,069
Internal revenue	14	14	1
Total revenue	9,799	8,226	5,070
EBIT	(3,215)	(1,240)	(1,545)
EBITDA*	2,040	1,639	733
Capital additions	3,607	4,968	4,759

	AT DECEMBER 31,	
	2001	2000
Total assets	$103,060	$114,848

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* EBITDA for AT&T Broadband excludes net losses related to equity investments and other income (expense).

Results of operations for the year ended December 31, 2001, include a full twelve months of MediaOne operations, while the year ended December 31, 2000, includes the results of MediaOne since its acquisition on June 15, 2000, and the year ended December 31, 1999, does not include any results of MediaOne. Additionally, the results of operations for the year ended December 31, 1999, include 10 months of TCI's results, reflecting its acquisition in March 1999, while 2000 and 2001 include a full 12 months of TCI's results.

REVENUE

AT&T Broadband revenue grew $1.6 billion in 2001, or 19.1%, compared with 2000. Approximately $0.6 billion of the increase was due to the acquisition of MediaOne, partially offset by the net dispositions of cable systems. In addition, the increase was attributable to revenue growth from advanced services (broadband telephony and high-speed data) of approximately $0.6 billion and growth in other video services, primarily expanded basic cable and digital video, of approximately $0.4 billion. We expect 2002 revenue to increase as demand for advanced services continues to grow.

AT&T Broadband revenue grew $3.2 billion in 2000, or 62.3%, compared with 1999. Approximately $2.8 billion of the increase in revenue was due to the acquisition of MediaOne in 2000 and TCI in 1999. In addition, revenue from advanced services and a basic-cable rate increase contributed approximately $0.4 billion to the revenue increase.

At December 31, 2001, AT&T Broadband serviced approximately 13.6 million basic cable customers, passing approximately 24.6 million homes, compared with 16.0 million basic cable customers, passing approximately 28.3 million homes at December 31, 2000. The decrease in the number of homes passed and basic cable customers primarily reflect the net disposition of cable systems in 2001. In addition, the number of basic cable customers declined due to the impacts of competition. At December 31, 2001, we provided digital video service to approximately 3.5 million customers, high-speed data service to approximately 1.5 million customers and broadband telephony service to approximately 1.0 million customers. This compares with approximately 2.8 million digital-video customers, approximately 1.1 million high-speed data customers, and approximately 547 thousand broadband telephony customers at December 31, 2000. These amounts reflect the acquisition of MediaOne. At December 31, 1999, AT&T Broadband serviced approximately 11.4 million basic cable customers, passing approximately 19.7 million homes. At December 31, 1999, we provided digital video service to approximately 1.8 million customers, high-speed data service to approximately 207 thousand customers and broadband telephony service to nearly 8,300 customers.

EBIT/EBITDA

The EBIT deficit in 2001 increased $2.0 billion to $3.2 billion from the 2000 deficit of $1.2 billion. The increased deficit was largely due to the impacts of the acquisition of MediaOne and the net dispositions of cable systems of approximately $0.8 billion, as well as a $0.9 billion impact of net losses on the sales of businesses and investments recorded in 2001 compared with net gains recorded in 2000. In 2001, we recorded net losses from the sale of cable properties to Comcast, as well as a loss on the sale of part of our ownership interest in Cablevision. In 2000, we recorded a gain on the sale of Lenfest and gains on the sales of properties to Cox and Comcast. Also contributing to the increased deficit were higher depreciation and amortization, programming and advertising expenses and higher restructuring and other charges of approximately $0.8 billion, as well as greater investment impairment charges of $0.4 billion. These increases to the deficit were partially offset by $0.3 billion of lower pretax equity losses, improved EBIT of approximately $0.4 billion in other video services, primarily expanded basic cable and digital video, and improved EBIT in advanced services of approximately $0.2 billion.

EBITDA, which excludes net losses related to equity investments and other income (expense), was $2.0 billion in 2001, an improvement of $0.4 billion compared with $1.6 billion in 2000. This improvement was primarily due to the acquisition of MediaOne of $0.4 billion and improved EBITDA in other video services, primarily expanded basic cable and digital video, of approximately $0.4 billion and improved EBITDA in advanced services of approximately $0.2 billion. Partially offsetting this improvement was the impact of net dispositions of cable systems of $0.4 billion, increased programming and advertising expenses of $0.2 billion, and higher restructuring and other charges of $0.1 billion.

In 2002, we expect EBITDA, which excludes net losses related to equity investments and other income (expense), to increase as a result of expense reductions generated from previous years' restructuring charges as well as continued growth from advanced services (broadband telephony and high-speed data).

EBIT in 2000 was a deficit of $1.2 billion, an improvement of $0.3 billion, or 19.7% compared with 1999. This improvement was due to approximately $0.5 billion of higher gains on sales of businesses and investments, primarily gains on the swap of cable properties with Cox and Comcast and the sale of our investment in Lenfest, and $0.4 billion lower restructuring charges primarily associated with an in-process research and development charge recorded in connection with the 1999 acquisition of TCI. Also contributing to the improvement were lower pretax losses from equity investments of $0.5 billion, due in part to a $0.3 billion improvement from our investment in Cablevision due to gains from cable-system sales. These improvements were largely offset by the impact of the acquisition of MediaOne and TCI of approximately $0.5 billion and higher expenses associated with high-speed data and broadband telephony services of approximately $0.4 billion.

EBITDA, which excludes net losses related to equity investments and other income, was $1.6 billion in 2000, an improvement of $0.9 billion compared with 1999. This improvement was due to the impact of the MediaOne and TCI acquisitions of $0.7 billion and lower restructuring charges of $0.4 billion. Higher expenses associated with high-speed data and broadband telephony of approximately $0.2 billion partially offset these increases.

OTHER ITEMS

Capital additions decreased $1.4 billion, or 27.4%, to $3.6 billion in 2001, from $5.0 billion in 2000. This decrease was primarily driven by a $0.9 billion decrease in capital expenditures combined with a $0.5 billion decrease in infusions into nonconsolidated investments. The 2001 spending was primarily related to the growth and support of advanced services and plant upgrade expenditures.

Capital additions increased 4.4% to $5.0 billion in 2000, from $4.8 billion in 1999. The increase was due to higher capital expenditures of $0.8 billion, primarily due to MediaOne, which was almost entirely offset by decreased contributions to various nonconsolidated investments of $0.7 billion. The 2000 spending was primarily related to the growth and support of advanced services and plant upgrade expenditures. In 1999, spending was largely directed toward cable-distribution systems, focusing on the upgrade of cable plant assets, as well as equity infusions into various investments.

Total assets at December 31, 2001, decreased $11.8 billion, or 10.3%, to $103.1 billion compared with $114.8 billion at December 31, 2000. The decrease in total assets was primarily due to lower franchise costs as a result of the net disposition of cable systems and the current year amortization; lower investments, primarily related to the impairment of and settlement of exchangeable notes with Vodafone ADRs, the sale of certain investments, including shares of Cablevision and Rainbow Media and unfavorable mark-to-market adjustments on certain investments; and lower other assets primarily due to unfavorable mark-to-market adjustments on certain derivative instruments, and the amortization of purchased intangibles.

CORPORATE AND OTHER

This group reflects the results of corporate staff functions, the elimination of transactions between segments, as well as the impacts of Excite@Home.

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	DOLLARS IN MILLIONS		
Revenue	$ (352)	$ (487)	$(542)
EBIT	(4,324)	(3,279)	(441)
EBITDA	(3,737)	(2,382)	37

Capital additions	327	1,683	271

	AT DECEMBER 31,	
	2001	2000
Total assets	$19,742	$12,101

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REVENUE

Revenue for corporate and other primarily includes negative revenue of $0.8 billion in both 2001 and 2000, representing the elimination of intercompany revenue, and revenue of Excite@Home of $0.4 billion in 2001 and $0.2 billion in 2000. The increase in revenue of Excite@Home is primarily due to nine months of revenue included in our 2001 results compared with four months of revenue included in our 2000 results. The elimination of intercompany revenue was essentially flat in 2001 compared with 2000, however, we had a higher elimination of intercompany revenue in 2001 resulting from increased sales from AT&T Business Services and Excite@Home to AT&T Broadband, offset by lower intercompany revenue from AT&T Wireless due to its split-off on July 9, 2001.

Corporate and other revenue was negative $0.5 billion in both 2000 and 1999. Revenue in 2000 primarily included $0.8 billion of negative revenue, representing the elimination of intercompany revenue, and revenue of Excite@Home of $0.2 billion. Revenue in 1999 primarily included $0.6 billion of negative revenue representing the elimination of intercompany revenue.

EBIT/EBITDA

EBIT and EBITDA deficits in 2001 increased $1.0 billion and $1.4 billion to deficits of $4.3 billion and $3.7 billion, respectively. The deficit increases were largely due to $1.5 billion of greater investment impairment charges, which included a $1.1 billion impairment charge for Net2Phone and a $0.3 billion impairment charge for Time Warner Telecom recorded in 2001; and $0.8 billion of expense due to the adoption, in 2001, of SFAS No. 133. Also contributing to the deficit increases were higher restructuring and other charges (other than Excite@Home) and higher transaction costs associated with AT&T's restructuring announced in October 2000, totaling $0.4 billion; lower net gains on sales of investments and lower interest income, totaling $0.4 billion; and a lower pension credit (income) and higher postretirement expense of $0.3 billion. These increases to the deficits were largely offset by the improved EBIT and EBITDA of Excite@Home of $2.6 billion primarily due to the goodwill impairment charges recorded in 2000 by Excite@Home and AT&T related to Excite@Home, partially offset by a $0.3 billion greater loss in 2001 on the Excite@Home put obligation with Cox and Comcast.

In 2000, EBIT and EBITDA deficits increased $2.8 billion and $2.4 billion to $3.3 billion and $2.4 billion, respectively. The increases in the deficits were largely related to Excite@Home. In 2000, restructuring and other charges, net of minority interest, were $2.9 billion higher primarily due to goodwill impairment charges recorded by Excite@Home and AT&T related to Excite@Home. Other impacts included a charge of approximately $0.5 billion for the fair market value increase of put options held by Comcast and Cox related to Excite@Home, and operating losses from Excite@Home. Partially offsetting these declines was an increase in the pension credit due to a higher pension trust asset base resulting from increased investment returns, and lower expenses associated with our continued efforts to reduce costs, which aggregated approximately $0.6 billion. In addition, higher net gains on sales of investments and an increase in interest income increased EBIT and EBITDA by approximately $0.6 billion.

OTHER ITEMS

Capital additions decreased $1.4 billion in 2001 and increased $1.4 billion in 2000. The spike in capital additions in 2000 was driven by our investment in Net2Phone.

Total assets increased $7.6 billion, to $19.7 billion in 2001. The increase was primarily driven by a higher cash balance at December 31, 2001, mainly a result of proceeds received from our $10 billion bond offering in November 2001, and an investment in AT&T Wireless (which was monetized in the fourth quarter of 2001). These increases were partially offset by the impact of Excite@Home, the write-down of our investment in Net2Phone and the transfer of a loan to Concert to the AT&T Business Services segment, which was written off in the third quarter of 2001.

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LIBERTY MEDIA GROUP

LMG produces, acquires and distributes entertainment, educational and informational programming services through all available formats and media. LMG is also engaged in electronic-retailing services, direct-marketing services, advertising sales relating to programming services, infomercials and transaction processing. LMG was split-off from AT&T on August 10, 2001. The operating results of LMG were reflected as "Equity (losses) earnings from Liberty Media Group" in the Consolidated Statements of Income prior to its split-off from AT&T. Our investment in LMG was included in the Consolidated Balance Sheet at December 31, 2000. Losses from LMG were $2.7 billion in 2001 through July 31, 2001, the deemed effective split-off date for accounting purposes, compared with earnings of $1.5 billion in 2000. The decline was primarily due to gains on dispositions reported in 2000, including gains associated with the mergers of various companies that LMG had investments in. Gains were recorded for the difference between the carrying value of LMG's interest in the acquired company and the fair value of securities received in the merger. Partially offsetting the decline were charges recorded on LMG's investments in 2000, to reflect other than temporary declines in value. In 2001, LMG also recorded income of $0.5 billion for the cumulative effect of accounting change representing the impact of separately recording the embedded call option obligations associated with LMG's senior exchangeable debentures due to the adoption of SFAS No. 133.

In 2000, earnings from LMG were $1.5 billion, compared with losses of $2.0 billion from the date of acquisition through December 31, 1999. The improvement was primarily due to gains on dispositions, including gains associated with the mergers of various companies that LMG had investments in. In addition, lower stock compensation expense in 2000 compared with 1999 contributed to the improvement, partially offset by impairment charges recorded on LMG's investments to reflect other than temporary declines in value and higher losses relating to LMG's equity affiliates.

LIQUIDITY

FOR THE YEARS ENDED DECEMBER 31,

	2001	2000	1999
	DOLLARS IN MILLIONS		
CASH FLOWS:			
Provided by operating activities of continuing operations..	$10,558	$11,665	$10,509
Used in investing activities of continuing operations...	(1,860)	(30,045)	(23,884)
(Used in) provided by financing activities of continuing operations..	(3,030)	25,732	13,854
Provided by (used in) discontinued operations...........	4,860	(8,306)	(2,594)

Net cash provided by operating activities of $10.6 billion for the year ended December 31, 2001, primarily included the $12.8 billion of income from continuing operations, adjusted to exclude noncash income items and net gains on sales of businesses and investments, and a decrease in accounts receivable of $0.7 billion, partially offset by net changes in other operating assets and liabilities of $2.2 billion and a decrease in accounts payable of $0.8 billion. Net cash provided by operating activities of $11.7 billion for the year ended December 31, 2000, primarily included income from continuing operations, excluding noncash income items and the adjustment for net gains on sales of businesses and investments of $15.1 billion, partially offset by an increase in accounts receivable of $2.5 billion and a decrease in accounts payable of $0.6 billion. Net cash provided by operating activities of $10.5 billion for the year ended December 31, 1999, primarily included income from continuing operations excluding noncash income items and the adjustment for net gains on sales of businesses and investments of $14.9 billion, partially offset by an increase in accounts receivable of $2.4 billion and net changes in other operating assets and liabilities of $1.8 billion.

AT&T's investing activities resulted in a net use of cash of $1.9 billion in 2001, compared with $30.0 billion in 2000. During 2001, AT&T spent $9.3 billion on capital expenditures and $0.4 billion on nonconsolidated investments and received approximately $4.9 billion, primarily from the net dispositions of cable systems, and approximately $3.0 billion from the sales of investments. During 2000, AT&T used approximately $16.7 billion for acquisitions of businesses, primarily MediaOne, and spent $11.5 billion on

capital expenditures. During 1999, AT&T spent approximately $11.9 billion on capital expenditures, approximately $6.0 billion on acquisitions of businesses, primarily AGNS, and contributed $5.5 billion of cash to LMG.

During 2001, net cash used in financing activities was $3.0 billion, compared with net cash provided by financing activities of $25.7 billion in 2000. During 2001, AT&T made net debt payments of $6.4 billion, paid AT&T Wireless $5.8 billion to settle an intercompany loan in conjunction with its split-off from AT&T, and paid dividends of $0.5 billion. Partially offsetting these outflows was the receipt of $9.8 billion from the issuance of convertible preferred stock to NTT DoCoMo. During 2000, AT&T received $10.3 billion from the AT&T Wireless Group tracking stock offering and had net borrowings of debt of $19.5 billion. These were partially offset by the payment of $3.0 billion in dividends. In 1999, AT&T had net borrowings of debt of $16.3 billion and received $4.6 billion from the issuance of redeemable preferred securities. These sources of cash were partially offset by the acquisition of treasury shares of $4.6 billion and the payment of dividends of $2.7 billion.

Since the announced restructuring plans to create four new businesses, AT&T's credit ratings have been under review by the applicable rating agencies. As a result of this review, in 2001, AT&T's short-term and the long-term ratings were downgraded as outlined below. These actions have resulted in an increased cost of borrowings and decreased our access to the capital markets. Our current credit ratings are as follows:

CREDIT RATING AGENCY	SHORT-TERM CREDIT RATING	LONG-TERM CREDIT RATING	CHARACTERIZATION OF LONG-TERM CREDIT RATING
Standard & Poor's........	A-2	BBB+	On credit watch with negative implications
Moody's..................	P-2	A3	Under review with possibility of downgrade
Fitch Ratings............	F-2	A-	Rating watch negative

There are provisions in several of our debt instruments that require us to pay up to the $0.9 billion present value of future interest payments if our credit ratings are downgraded below investment grade. We do not believe downgrades below investment grade are likely to occur.

In November 2001, we completed a $10 billion private bond offering which includes provisions that would allow bondholders to require AT&T to repurchase the notes if certain conditions are not met in conjunction with the spin-off or other separation of AT&T Broadband from AT&T at the time of notification to bondholders of the intention to separate AT&T Broadband. These conditions include a maximum debt to EBITDA ratio (adjusted) for pro forma AT&T, excluding AT&T Broadband, of no more than 2.75 times. In addition, the Moody's and Standard & Poor's credit ratings for pro forma AT&T, excluding AT&T Broadband, are required to be at least Baa3 and BBB-, respectively, with such ratings having at least a stable outlook.

On December 14, 2001, we amended and restated a pre-existing revolving-credit facility. The amended facility, which is syndicated to 30 banks, makes $8 billion available to AT&T for a 364-day term. At December 31, 2001, we had not utilized this facility, and we currently have the entire $8 billion facility available to us. The credit facility agreement contains a financial covenant that requires AT&T to maintain a net debt-to-EBITDA ratio (as defined in the credit agreement) not exceeding 3.00 to 1.00 for four consecutive quarters ending on the last day of each fiscal quarter. At December 31, 2001, we were in compliance with this covenant. If AT&T were to become noncompliant it could result in the cancellation of the credit facility with any amounts outstanding under the credit facility becoming payable immediately.

The holder of certain private debt has an annual right to cause AT&T to repay up to the $0.7 billion face value of the debt upon payment of an exercise fee. In exchange for the elimination of this put right for 2002, AT&T will obtain a letter of credit collateralized by $0.4 billion of cash which will be restricted in its use. The creditor could also accelerate repayment of the debt if unfavorable local law changes were to occur in its country of operation.

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If AT&T's debt ratings are further downgraded or any of the risks or covenants noted above are triggered, AT&T may not be able to obtain sufficient financing in the timeframe required, and/or such replacement financing may be more costly or have additional covenants than we had in connection with our debt at December 31, 2001. In addition, if the financial markets become more cautious regarding the industry/ratings category we operate in, our ability to issue commercial paper would be further reduced. This could negatively impact our ability to pursue acquisitions, make capital expenditures to expand our network and cable plant or to pay dividends.

At December 31, 2001, we had current assets of $22.5 billion and current liabilities of $25.4 billion. Included in current assets was $10.6 billion of cash and cash equivalents. Included in current liabilities was $13.0 billion of debt maturing within one year, including $9.2 billion of commercial paper and debt with an original maturity of one year or less. We expect to fund our operations primarily with cash from operations, cash on hand, commercial paper and our securitization program. If economic conditions worsen or do not improve and/or competition and product substitution accelerate beyond current expectations, our cash flow from operations would decrease, negatively impacting our liquidity.

In addition, potential sources of funds include the sale of our ownership interest in TWE. On February 28, 2001, we exercised our registration rights in TWE and formally requested TWE to begin the process of converting the limited partnership into a corporation with registered equity securities. On May 14, 2001, we named Credit Suisse First Boston as our investment banker for the registration process under the TWE partnership agreement. If the proposed spin-off of AT&T Broadband occurs as currently structured, our investment in TWE will be included in the net assets spun-off.

In the event our cash flow from operations or access to the commercial paper markets are negatively impacted, we have alternative funding available through the utilization of our $8 billion credit facility, as long as we are in compliance with certain covenants discussed above and our $2.7 billion receivables securitization program, which is limited by eligible receivables that change from month to month.

Subsequent to December 31, 2001, AT&T notified holders of certain Trust Originated Preferred Securities, originally issued by TCI and MediaOne, that it will call these securities for early redemption on February 28, 2002, March 4, 2002 and April 1, 2002. These debt redemptions total approximately $1.4 billion and will be funded with cash on hand. Such amounts are included within "Short-term debt" on the Consolidated Balance Sheet at December 31, 2001.

On February 27, 2002, AT&T signed an agreement with AT&T Latin America (ALA) that restructured approximately $725 million of ALA's short-term and long-term debt and preferred stock held by AT&T, plus accrued interest and dividends. At December 31, 2001, $72 million of the $725 million financing was not drawn. ALA's senior secured vendor financing of $298 million became effective on March 27, 2002. The AT&T provided debt and preferred facilities are subordinated to the ALA senior secured vendor financing. The agreement between AT&T and ALA, which also took effect on March 27, 2002, extends the maturity and redemption dates of all ALA debt and preferred stock payable to AT&T to October 2008. In addition, while the vendor financing is outstanding, the agreement defers interest payments on all AT&T debt and dividend payments on AT&T preferred stock until October 2008.

If the proposed spin-off of AT&T Broadband occurs as currently structured, the debt of TCI and MediaOne will be included in the net assets spun-off and will be included in AT&T Comcast. The amount of this third-party debt at December 31, 2001, was $19.3 billion. The intercompany debt of AT&T Broadband payable to AT&T that is outstanding at the time of the spin-off will be repaid immediately prior to the spin-off. At December 31, 2001 such intercompany debt amounted to approximately $4.0 billion. In addition, AT&T's quarterly convertible income preferred securities, which had a book value of $4.7 billion at December 31, 2001, will be included in the net assets spun-off and will be included in AT&T Comcast.

The following summarizes AT&T's contractual cash obligations and commercial commitments at December 31, 2001, and the effect such obligations are expected to have on liquidity and cash flow in future periods.

		PAYMENTS DUE BY PERIOD			
CONTRACTUAL OBLIGATIONS	TOTAL	LESS THAN 1 YEAR	2-3 YEARS	4-5 YEARS	AFTER 5 YEARS
		(DOLLARS IN MILLIONS)			
Long-term debt, including current maturities(a)	$35,008	$2,975	$5,850	$6,958	$19,225
Operating leases(b)	2,996	550	924	648	874
Unconditional purchase Obligations(c)(d)(e)(f)(g)	8,532	810	894	910	5,918
Total Contractual Cash Obligations	$46,536	$4,335	$7,668	$8,516	$26,017

(a) Long-term debt excludes debt that is exchangeable or collateralized by securities (monetized debt) since AT&T has the option to settle this debt in shares or cash. Amounts due less than one year were $679 million; two to three years $4,918 million; and four to five years $3,312 million at December 31, 2001. In addition, debt excludes discounts and excess of fair value over the recorded value of debt in connection with the TCI and MediaOne mergers.

(b) Under certain real estate operating leases, we could be required to make payments to the lessor up to $586 million at the end of the lease term (lease terms range from 2002 through 2011). The actual amount paid, if any, would be reduced by amounts received by the lessor upon remarketing of the property.

(c) AT&T has contractual obligations to utilize network facilities from local exchange carriers with terms greater than one year. These contracts are based on volumes and have penalty fees if certain volume levels are not met. We assessed our minimum exposure based on penalties to exit the contracts. At December 31, 2001, penalties to exit these contracts in any given year totaled approximately $1.5 billion.

(d) AT&T has contractual obligations that extend through 2006 for services that include computer application design, development and testing as well as the operation of a data center that hosts many of the computer applications operated throughout AT&T. These contracts are based on the level of services we require and include termination fees if the level of services required is reduced in excess of limits outlined in the agreements. These contracts also include termination fee clauses if we exit the contracts. Since these contracts are based on the level of services we require, we assessed our minimum exposure based on the termination fees to exit the contracts which decline each year throughout the term of the contracts. If we elect to exit these contracts, the maximum termination fees we would be obligated to pay in the year of termination would be approximately $475 million in 2002, $360 million in 2003, $310 million in 2004, $240 million in 2005 or $165 million in 2006.

(e) In connection with the decision to unwind Concert, AT&T has agreed to acquire the 9% interest of AT&T Canada owned by British Telecommunications plc (BT) and assume BT's portion of the obligation to purchase the AT&T Canada shares not already owned by AT&T and BT. We do not know the timing or amounts we will have to pay in connection with this obligation but, in 2001, AT&T recorded a liability of $3.0 billion reflecting the estimated loss on AT&T's commitment to purchase the publicly owned shares of AT&T Canada.

(f) AT&T Broadband is party to an agreement under which it purchases certain billing services from CSG Systems, Inc. ("CSG"). Unless terminated by either party pursuant to terms of the agreement, the agreement expires on December 31, 2012. The agreement calls for monthly payments which are subject to adjustments and conditions pursuant to the terms of the underlying agreements.

(g) In 1997, AT&T Broadband's predecessor, TCI, entered into a 25-year affiliation term sheet with Starz Encore Group pursuant to which AT&T may be obligated to pay fixed monthly amounts in exchange for unlimited access to all of the existing Encore and STARZ! programming. The future commitment, which

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is calculated based on a fixed number of subscribers, increases annually from $306 million in 2002 to $315 million in 2003 and will increase annually through 2022 with inflation, subject to certain adjustments, including increases in the number of subscribers. The amounts in the above table do not take into account any increase in subscribers or expected inflation. The affiliation term sheet further provides that to the extent Starz Encore Group's programming costs increase above certain levels, AT&T's payments under the term sheet will be increased in proportion to the excess. Excess programming costs that may be payable by AT&T in future years are not presently estimable and could be significant.

	COMMITMENTS BY PERIOD				
OTHER COMMERCIAL COMMITMENTS	TOTAL AMOUNTS COMMITTED	LESS THAN 1 YEAR	2-3 YEARS	4-5 YEARS	AFTER 5 YEARS
	(DOLLARS IN MILLIONS)				
Guarantees.......................	$1,522	$55	$--	$--	$1,467

RISK MANAGEMENT

We are exposed to market risk from changes in interest and foreign exchange rates, as well as changes in equity prices associated with previously affiliated companies. In addition, we are exposed to market risk from fluctuations in the prices of securities, some of which we have monetized through the issuance of debt. On a limited basis, we use certain derivative financial instruments, including interest rate swaps, options, forwards, equity hedges and other derivative contracts, to manage these risks. We do not use financial instruments for trading or speculative purposes. All financial instruments are used in accordance with board-approved policies.

We enter 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. As of December 31, 2001, our foreign currency market exposures were principally Canadian dollars, Euros, Japanese yen, Swiss francs and Brazilian reais.

The fair value of foreign exchange contracts is subject to the changes in foreign currency exchange rates. For the purpose of assessing specific risks, we use a sensitivity analysis to determine the effects that market risk exposures may have on the fair value of our financial instruments and results of operations. To perform the sensitivity analysis, we assess the risk of loss in fair values from the effect of a hypothetical 10% change in the value of foreign currencies, assuming no change in interest rates. For contracts outstanding at December 31, 2001 and 2000, a 10% appreciation of the US dollar against foreign currencies from the prevailing rates would have resulted in an incremental pretax net unrealized loss of approximately $492 million and $6 million, respectively. The increase of the change from last year is primarily due to approximately $5.3 billion of foreign exchange contracts entered into relating to the commencement of a Euro Commercial Paper Program and our obligation to purchase the outstanding AT&T Canada shares we do not own. Because our foreign exchange contracts are entered into for hedging purposes, we believe that these losses would be largely offset by gains on the underlying transactions.

The model to determine sensitivity assumes a parallel shift in all foreign currency exchange rates, although exchange rates rarely move in the same direction. Additionally, the amounts above do not necessarily represent the actual changes in fair value we would incur under normal market conditions, because all variables other than the exchange rates are held constant in the calculations.

We use interest rate swaps to manage the impact of interest rate changes on earnings and cash flows. We monitor our interest rate risk on the basis of changes in fair value. The fair value of our fixed-rate long-term debt is sensitive to changes in interest rates. Interest rate changes would result in gains or losses in the market value of the debt due to differences between the market interest rates and rates at the inception of the obligation. We perform a sensitivity analysis on our fixed-rate long-term debt to assess the risk of changes in fair value. The model to determine sensitivity assumes a hypothetical 10% parallel shift in all interest rates. At December 31, 2001 and 2000, assuming a 10% increase in interest rates, the fair value of interest rate swaps and the underlying hedged debt would have decreased by $22 million and $11 million, respectively.

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In both 2001 and 2000, we entered into combined interest rate forward contracts to hedge foreign-currency-denominated debt. Assuming a 10% downward shift in interest rates, the fair value of the contracts and the underlying hedged debt would have changed by $112 million and $88 million respectively.

Assuming a 10% downward shift in interest rates at December 31, 2001 and 2000, the fair value of unhedged debt would have increased by $1.4 billion and $1.2 billion, respectively.

We have certain notes which are indexed to the market price of equity securities we own. Certain of these notes contain embedded derivatives, while other debt is issued in conjunction with net purchased options. Changes in the market prices of these securities result in changes in the fair value of the derivatives. Assuming a 10% downward change in the market price of these securities, the fair value of the combined collars and underlying debt would decrease by $661 million and $534 million at December 31, 2001, and 2000 respectively. Because these collars hedge the underlying equity securities monetized, we believe that the increase in the fair value of the collars would be largely offset by decreases in the fair value of the underlying equity securities. The changes in fair values referenced above do not represent the actual changes in fair value we would incur under normal market conditions because all variables other than the equity prices were held constant in the calculations.

We use equity hedges to manage our exposure to changes in equity prices associated with stock appreciation rights (SARs) of previously affiliated companies. Assuming a 10% decrease in equity prices of these companies, the fair value of the equity hedges (net liability) would have increased by $27 million and $29 million at December 31, 2001 and 2000, respectively. Because these contracts are entered into for hedging purposes, we believe that the decrease in fair value would be largely offset by decreases in the underlying SAR liabilities.

In order to determine the changes in fair value of our various financial instruments, including options, equity collars and SARS, we use certain financial modeling techniques, including Black-Scholes. We apply rate sensitivity changes directly to our interest rate swap transactions and forward rate sensitivity to our foreign currency forward contracts.

The changes in fair value, as discussed above, assume the occurrence of certain market conditions, which could have an adverse financial impact on the Company. They do not consider the potential effect of changes in market factors that would result in favorable impacts to us, and do not represent projected losses in fair value that we expect to incur. Future impacts would be based on actual developments in global financial markets. We do not foresee any significant changes in the strategies used to manage interest rate risk, foreign currency rate risk or equity price risk in the near future.

FINANCIAL CONDITION

	AT DECEMBER 31,	
	2001	2000
	DOLLARS IN MILLIONS	
Total assets	$165,282	$234,360
Total liabilities	105,322	121,611
Total shareowners' equity	51,680	103,198

Total assets decreased $69.1 billion, or 29.5%, to $165.3 billion at December 31, 2001, from $234.4 billion at December 31, 2000. This decrease was primarily due to the split-off of LMG in August 2001 and AT&T Wireless in July 2001. In addition, the decrease was due to lower investments and related advances resulting from the write-down of Concert and Net2Phone, and unfavorable mark-to-market adjustments on certain investments as well as the sale of other investments; lower franchise costs as a result of the net disposition of cable systems and amortization; and lower goodwill, primarily driven by the impairments associated with Excite@Home, as well as amortization. Partially offsetting these decreases was a higher cash balance, primarily reflecting proceeds from our $10.0 billion bond offering in November 2001.

Total liabilities decreased $16.3 billion, or 13.4%, to $105.3 billion at December 31, 2001, from $121.6 billion at December 31, 2000. This decrease was primarily a result of lower debt, due to repayments,

partially offset by our bond offering. In addition, deferred income taxes were lower, primarily resulting from deferred tax assets recorded as a result of the write-down of Concert, our obligation to purchase all of the outstanding shares of AT&T Canada and cable systems sales, partially offset by a higher deferred tax liability associated with greater tax depreciation. Also contributing to the total liability decrease was the settlement with AT&T common stock of the Excite@Home put obligation with Cox and Comcast. Partially offsetting these decreases was an increase in other long-term liabilities and deferred credits recorded in the third quarter of 2001 for our obligation to purchase all of the outstanding shares of AT&T Canada.

Minority interest decreased $1.3 billion, or 26.5%, to $3.6 billion at December 31, 2001, from $4.8 billion at December 31, 2000. This decrease was primarily due to Excite@Home. Due to the significant losses of Excite@Home, we fully utilized the minority interest balance during the third quarter of 2001, and therefore no longer have a minority interest balance related to Excite@Home.

Total shareowners' equity decreased $51.5 billion, or 49.9%, to $51.7 billion at December 31, 2001, from $103.2 billion at December 31, 2000. This decrease was primarily due to the split-off of LMG, the net impacts of the split-off of AT&T Wireless and net losses from continuing operations. The decrease was partially offset by the issuance of stock to settle the Excite@Home put obligation with Cox and Comcast.

In September and December 2001, when AT&T declared its quarterly dividends to the AT&T Common Stock Group shareowners, the company was in an accumulated deficit position primarily as a result of the split-off of AT&T Wireless. As a result, the company reduced additional paid-in capital by $0.3 billion, the entire amount of the dividends declared.

The ratio of total debt to total capital for AT&T's continuing operations, excluding LMG (debt of continuing operations divided by total debt of continuing operations and equity excluding discontinued operations and LMG) was 47.7% at December 31, 2001, compared with 57.2% at December 31, 2000. For purposes of this calculation, equity includes the convertible trust preferred securities, as well as subsidiary redeemable preferred stock and excludes the equity of discontinued operations and LMG at December 31, 2000. In addition, included in debt of continuing operations was approximately $8.6 billion and $8.7 billion of notes at December 31, 2001 and 2000, respectively, which are exchangeable into or collateralized by securities we own. Excluding this debt, the debt ratio for AT&T's continuing operations at December 31, 2001, was 43.4%, compared with 53.6% at December 31, 2000. The lower debt, as well as increased equity drove the decreases in the debt ratios.

NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" which supercedes Accounting Principles Board (APB) Opinion No. 16. SFAS No. 141 requires all business combinations initiated after June 30, 2001, to be accounted for under the purchase method. In addition, SFAS No. 141 establishes criteria for the recognition of intangible assets separately from goodwill. The adoption of SFAS No. 141 will not have a material effect on AT&T's results of operations, financial position or cash flows.

Also in June 2001, the FASB issued SFAS No. 142, "Goodwill and Other

Intangible Assets" which supercedes APB Opinion No. 17. Under SFAS No. 142, goodwill and indefinite-lived intangible assets will no longer be amortized, but rather will be tested for impairment upon adoption and at least annually thereafter. In addition, the amortization period of intangible assets with finite lives will no longer be limited to 40 years. SFAS No. 142 is effective for AT&T as of January 1, 2002. In connection with the adoption of this standard, AT&T's unamortized goodwill balance and excess basis related to equity method investments will no longer be amortized, but will continue to be tested for impairment. The goodwill balance as of December 31, 2001, was $24.7 billion, and the related amortization in 2001 was $0.9 billion. The excess basis balance at December 31, 2001, was $8.8 billion, with related amortization in 2001 of $207 million. In addition, we have determined that our franchise costs are indefinite-lived assets, as defined in SFAS No. 142, and therefore will not be subject to amortization beginning in 2002. The balance of our franchise costs as of December 31, 2001, was $42.8 billion and the related amortization for 2001 was $1.2 billion. The adoption of SFAS No. 142 will have a significant impact on our future operating results due to the cessation of goodwill and franchise cost amortization. For

2001, the amortization of goodwill, excess basis and franchise costs had an approximate impact of $0.45 per share. In accordance with SFAS No. 142, goodwill was tested for impairment by comparing the fair value of our reporting units to their carrying values. As of January 1, 2002, the fair value of the reporting units' goodwill exceeded their carrying value, and therefore no impairment loss will be recognized upon adoption. In accordance with SFAS No. 142, the franchise costs were tested for impairment as of January 1, 2002, by comparing the fair value to the carrying value (at market level). An impairment loss of $0.9 billion, net of taxes of $0.5 billion will be recognized as a change in accounting principle in the first quarter of 2002.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". This standard requires that obligations associated with the retirement of tangible long-lived assets be recorded as liabilities when those obligations are incurred, with the amount of the liability initially measured at fair value. Upon initially recognizing a liability for an asset retirement obligation, an entity must capitalize the cost by recognizing an increase in the carrying amount of the related long-lived asset. Over time, this liability is accreted to its present value, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. For AT&T, this means that the standard will be adopted on January 1, 2003. AT&T does not expect that the adoption of this statement will have a material impact on AT&T's results of operations, financial position or cash flows.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" which supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". SFAS No. 144 applies to all long-lived assets, including discontinued operations, and consequently amends APB opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." Based on SFAS No. 121, SFAS No. 144 develops one accounting model for long-lived assets that are to be disposed of by sale, as well as addresses the principal implementation issues. SFAS No. 144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, SFAS No. 144 expands the scope of discontinued operations to include all components of an entity with operations that (1) can be distinguished from the rest of the entity and (2) will be eliminated from the ongoing operations of the entity in a disposal transaction. SFAS No. 144 also amends Accounting Research Bulletin (ARB) No. 51, "Consolidated Financial Statements" to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. SFAS No. 144 is effective for AT&T as of January 1, 2002. The adoption of SFAS No. 144 will not have a material impact on AT&T's results of operations, financial position or cash flows.

SUBSEQUENT EVENTS

In March 2002, AT&T Canada announced the formation of a committee of the board of directors to help AT&T Canada with issues they are facing in the foreseeable future. Such issues include a significant regulatory decision expected in the next month which could have a significant impact on the future of sustainable competition in Canada; the effect of AT&T satisfying its obligation to purchase the shares of AT&T Canada it does not own; and the impact of these events on operating and financial results of AT&T Canada. In addition, the committee appointed financial advisors to evaluate various scenarios regarding issues, opportunities and alternatives for AT&T Canada. It is expected that the outcome of these evaluations will have a negative effect on the underlying value of AT&T Canada shares, which will result in AT&T recording up to $250 million of additional losses on its commitment to purchase the publicly owned shares of AT&T Canada, excluding any impact of the floor price accretion.

Effective April 1, 2002, Concert was unwound. Pursuant to the partnership termination agreement, each of the partners generally reclaimed the customer contracts and assets that were initially contributed to the joint venture (see Note 5).

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this Item is contained in the section entitled "Risk Management" in Item 7.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF MANAGEMENT

Management is responsible for the preparation, integrity and objectivity of the consolidated financial statements and all other financial information included in this report. Management is also responsible for maintaining a system of internal controls as a fundamental requirement for the operational and financial integrity of results. The financial statements, which reflect the consolidated accounts of AT&T Corp. and subsidiaries (AT&T) and other financial information shown, were prepared in conformity with generally accepted accounting principles. Estimates included in the financial statements were based on judgments of qualified personnel. To maintain its system of internal controls, management carefully selects key personnel and establishes the organizational structure to provide an appropriate division of responsibility. We believe it is essential to conduct business affairs in accordance with the highest ethical standards as set forth in the AT&T Code of Conduct. These guidelines and other informational programs are designed and used to ensure that policies, standards and managerial authorities are understood throughout the organization. Our internal auditors monitor compliance with the system of internal controls by means of an annual plan of internal audits. On an ongoing basis, the system of internal controls is reviewed, evaluated and revised as necessary in light of the results of constant management oversight, internal and independent audits, changes in AT&T's business and other conditions. Management believes that the system of internal controls, taken as a whole, provides reasonable assurance that (1) financial records are adequate and can be relied upon to permit the preparation of financial statements in conformity with generally accepted accounting principles, and (2) access to assets occurs only in accordance with management's authorizations.

The Audit Committee of the Board of Directors, which is composed of directors who are not employees, meets periodically with management, the internal auditors and the independent accountants to review the manner in which these groups of individuals are performing their responsibilities and to carry out the Audit Committee's oversight role with respect to auditing, internal controls and financial reporting matters. Periodically, both the internal auditors and the independent accountants meet privately with the Audit Committee and have access to its individual members at any time.

The consolidated financial statements in this annual report have been audited by PricewaterhouseCoopers LLP, Independent Accountants. Their audits were conducted in accordance with generally accepted auditing standards and include an assessment of the internal control structure and selective tests of transactions. Their report follows.

C. Michael Armstrong	Charles H. Noski
Chairman of the Board,	Vice Chairman,
Chief Executive Officer	Chief Financial Officer

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and
Shareowners of AT&T Corp.:

In our opinion, based on our audits and the report of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in shareowners' equity and of cash flows present fairly, in all material respects, the financial position of AT&T Corp. and its subsidiaries (AT&T) at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of AT&T's management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements as of and for the years ended December 31, 2000 and 1999 of Liberty Media Group, an equity method investee, which was acquired by AT&T on March 9, 1999. AT&T's financial statements include an investment of $34,290 million as of December 31, 2000, and equity method earnings (losses) of $1,488 million and $(2,022) million, for the years ended December 31, 2000 and 1999, respectively. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Liberty Media Group, as of and for the years ended December 31, 2000 and 1999, is based solely on the report of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

As discussed in the notes to the financial statements, AT&T was required to adopt Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, effective January 1, 2001.

PRICEWATERHOUSECOOPERS LLP

New York, New York
March 25, 2002

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AT&T CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	(DOLLARS IN MILLIONS EXCEPT PER SHARE AMOUNTS)		
Revenue	$52,550	$55,533	$54,973
Operating Expenses			
Costs of services and products (excluding depreciation of $4,818, $4,410 and $4,215 included below)	13,960	12,795	11,013
Access and other connection	12,136	13,140	14,439
Selling, general and administrative	10,832	9,752	10,894
Depreciation and other amortization	6,865	5,924	5,137
Amortization of goodwill, franchise costs and other purchased intangibles	2,473	2,665	1,057
Net restructuring and other charges	2,530	7,029	975
Total operating expenses	48,796	51,305	43,515
Operating income	3,754	4,228	11,458
Other (expense) income	(1,547)	1,150	826
Interest expense	3,242	2,964	1,503
(Loss) income from continuing operations before income taxes, minority interest, and (losses) earnings related to equity investments	(1,035)	2,414	10,781
(Benefit) provision for income taxes	(791)	3,284	4,016
Minority interest income (expense)	963	4,103	(126)
Equity (losses) earnings from Liberty Media Group	(2,711)	1,488	(2,022)
Net losses related to other equity investments	4,850	588	756
(Loss) income from continuing operations	(6,842)	4,133	3,861
Income (loss) from discontinued operations (net of income taxes of $158, $307, and $(238))	150	536	(433)
Gain on disposition of discontinued operations	13,503	--	--
Income before cumulative effect of accounting change	6,811	4,669	3,428
Cumulative effect of accounting change -- (net of income taxes of $578)	904	--	--

Net income	7,715	4,669	3,428
Dividend requirements of preferred stock	652	--	--
Premium on exchange of AT&T Wireless tracking stock	80	--	--
Net income available to common shareowners	$ 6,983	$ 4,669	$ 3,428
AT&T Common Stock Group -- per basic share:			
(Loss) earnings from continuing operations	$ (1.33)	$ 0.76	$ 1.91
Earnings (loss) from discontinued operations	0.03	0.13	(0.14)
Gain on disposition of discontinued operations	3.70	--	--
Cumulative effect of accounting change	0.10	--	--
AT&T Common Stock Group earnings	$ 2.50	$ 0.89	$ 1.77
AT&T Common Stock Group -- per diluted share:			
(Loss) earnings from continuing operations	$ (1.33)	$ 0.75	$ 1.87
Earnings (loss) from discontinued operations	0.03	0.13	(0.13)
Gain on disposition of discontinued operations	3.70	--	--
Cumulative effect of accounting change	0.10	--	--
AT&T Common Stock Group earnings	$ 2.50	$ 0.88	$ 1.74
AT&T Wireless Group -- per basic and diluted share:			
Earnings from discontinued operations	$ 0.08	$ 0.21	$ --
Liberty Media Group -- per basic and diluted share:			
(Loss) earnings -- before cumulative effect of accounting change	$ (1.05)	$ 0.58	$ (0.80)
Cumulative effect of accounting change	0.21	--	--
Liberty Media Group (loss) earnings	$ (0.84)	$ 0.58	$ (0.80)

The notes are an integral part of the consolidated financial statements.

AT&T CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	AT DECEMBER 31,	
	2001	2000
	(DOLLARS IN MILLIONS)	
ASSETS		
Cash and cash equivalents	$ 10,592	$ 64
Accounts receivable, less allowances of $827 and $1,185	7,736	9,408
Other receivables	1,645	1,645
Investments	668	2,102
Deferred income taxes	1,230	720
Other current assets	657	781
Total Current Assets	22,528	14,720
Property, plant and equipment, net	41,322	41,269
Franchise costs, net of accumulated amortization of $2,501		

and $1,664	42,819	48,218
Goodwill, net of accumulated amortization of $1,307 and $609	24,675	26,782
Investment in Liberty Media Group and related receivables, net	--	34,290
Other investments and related advances	23,818	30,875
Prepaid pension costs	3,337	3,003
Other assets	6,783	7,979
Net assets of discontinued operations	--	27,224
Total Assets	$165,282	$234,360
LIABILITIES		
Accounts payable	$ 4,744	$ 5,382
Payroll and benefit-related liabilities	2,084	1,991
Debt maturing within one year	12,958	31,838
Liability under put options	--	2,564
Other current liabilities	5,641	6,200
Total Current Liabilities	25,427	47,975
Long-term debt	40,527	33,089
Long-term benefit-related liabilities	3,594	3,670
Deferred income taxes	28,160	32,054
Other long-term liabilities and deferred credits	7,614	4,823
Total Liabilities	105,322	121,611
Minority Interest	3,560	4,841
Company-Obligated Convertible Quarterly Income Preferred Securities of Subsidiary Trust Holding Solely Subordinated Debt Securities of AT&T	4,720	4,710
SHAREOWNERS' EQUITY		
Common Stock:		
AT&T Common Stock, $1 par value, authorized 6,000,000,000 shares; issued and outstanding 3,542,405,744 shares (net of 851,746,431 treasury shares) at December 31, 2001 and 3,760,151,185 shares (net of 416,887,452 treasury shares) at December 31, 2000	3,542	3,760
AT&T Wireless Group Common Stock, $1 par value, authorized 6,000,000,000 shares, issued and outstanding 361,802,200 shares at December 31, 2000	--	362
Liberty Media Group Class A Common Stock, $1 par value, authorized 4,000,000,000 shares, issued and outstanding 2,363,738,198 shares (net of 59,512,496 treasury shares) at December 31, 2000	--	2,364
Liberty Media Group Class B Common Stock, $1 par value, authorized 400,000,000 shares, issued and outstanding 206,221,288 shares (net of 10,607,776 treasury shares) at December 31, 2000	--	206
Additional paid-in capital	51,964	90,496
(Accumulated deficit) retained earnings	(3,484)	7,408
Accumulated other comprehensive loss	(342)	(1,398)
Total Shareowners' Equity	51,680	103,198
Total Liabilities and Shareowners' Equity	$165,282	$234,360

The notes are an integral part of the consolidated financial statements.

AT&T CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREOWNERS' EQUITY

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	(DOLLARS IN MILLIONS)		
AT&T Common Stock			
Balance at beginning of year	$ 3,760	$ 3,196	$ 2,630
Shares issued (acquired), net:			
Under employee plans	15	3	--
For acquisitions	44	607	566
Settlement of put option	155	--	--
For Wireless tracking stock exchange	(372)	--	--
Other*	(60)	(46)	--
Balance at end of year	3,542	3,760	3,196
AT&T Wireless Group Common Stock			
Balance at beginning of year	362	--	--
Shares issued:			
For stock offering	--	360	--
Under employee plans	2	2	--
For Wireless stock exchange	438	--	--
Conversion of preferred stock	406	--	--
AT&T Wireless Group split-off	(1,208)	--	--
Balance at end of year	--	362	--
Liberty Media Group Class A Common Stock			
Balance at beginning of year	2,364	2,314	--
Shares issued (acquired), net:			
For acquisitions	--	62	2,280
Other	14	(12)	34
Liberty Media Group split-off	(2,378)	--	--
Balance at end of year	--	2,364	2,314
Liberty Media Group Class B Common Stock			
Balance at beginning of year	206	217	--
Shares issued (acquired), net	6	(11)	220
Liberty Media Group split-off	(212)	--	--
Other	--	--	(3)
Balance at end of year	--	206	217
Additional Paid-In Capital			
Balance at beginning of year	90,496	59,526	15,195
Shares issued (acquired), net:			
Under employee plans	279	98	431
For acquisitions	827	23,097	42,425
Settlement of put option	3,237	--	--
Other*	(1,007)	(2,767)	323
Proceeds in excess of par value from issuance of AT&T Wireless common stock	--	9,915	--

Common stock warrants issued	--	--	306
Gain on issuance of common stock by affiliates	20	530	667
Conversion of preferred stock	9,631	--	--
AT&T Wireless Group split-off	(20,955)	--	--

AT&T CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREOWNERS' EQUITY -- (CONTINUED)

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	(DOLLARS IN MILLIONS)		
Liberty Media Group split-off	(30,768)	--	--
Wireless tracking stock exchange	14	--	--
Beneficial conversion value of preferred stock	295	--	--
Dividends declared -- AT&T Common Stock Group	(265)	--	--
Other	160	97	179
Balance at end of year	51,964	90,496	59,526
Guaranteed ESOP Obligation			
Balance at beginning of year	--	(17)	(44)
Amortization	--	17	27
Balance at end of year	--	--	(17)
(Accumulated Deficit)/Retained Earnings			
Balance at beginning of year	7,408	6,712	7,800
Net income	7,715	4,669	3,428
Dividends declared -- AT&T Common Stock Group	(275)	(2,485)	(2,807)
Dividends accrued -- preferred stock	(652)	--	--
Premium on exchange of AT&T Wireless tracking stock	(80)	--	--
Treasury shares issued at less than cost	(7)	(1,488)	(1,709)
AT&T Wireless Group split-off	(17,593)	--	--
Balance at end of year	(3,484)	7,408	6,712
Accumulated Comprehensive Income			
Balance at beginning of year	(1,398)	6,979	(59)
Other comprehensive income	1,742	(8,377)	7,038
AT&T Wireless Group split-off	72	--	--
Liberty Media Group split-off	(758)	--	--
Balance at end of year	(342)	(1,398)	6,979
Total Shareowners' Equity	$ 51,680	$103,198	$78,927
Summary of Total Comprehensive Income (Loss):			
Income before cumulative effect of accounting change	$ 6,811	$ 4,669	$ 3,428
Cumulative effect of accounting change	904	--	--
Net income	7,715	4,669	3,428
Other comprehensive income (loss)[net of income taxes of $1,119, $(5,348) and $4,600]	1,742	(8,377)	7,038

Comprehensive Income (Loss)	$ 9,457	$ (3,708)	$10,466

AT&T accounts for treasury stock as retired stock.

We have 100 million authorized shares of preferred stock at $1 par value.

* Other activity in 2001 and 2000 represents AT&T common stock received in exchange for entities owning certain cable systems.

The notes are an integral part of the consolidated financial statements.

AT&T CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	(DOLLARS IN MILLIONS)		
OPERATING ACTIVITIES			
Net income	$ 7,715	$ 4,669	$ 3,428
Deduct:			
Income (loss) from discontinued operations	150	536	(433)
Gain on disposition of discontinued operations	13,503	--	--
(Loss) income from continuing operations	(5,938)	4,133	3,861
Adjustments to reconcile (loss) income from continuing operations to net cash provided by operating activities of continuing operations:			
Cumulative effect of accounting change -- net of income taxes	(904)	--	--
Net gains on sales of businesses and investments	(528)	(1,321)	(585)
Cost investment impairment charges	1,083	248	40
Put option settlement loss and mark-to-market charges	838	537	--
Net restructuring and other charges	2,343	6,793	678
Depreciation and amortization	9,338	8,589	6,194
Provision for uncollectible receivables	1,130	1,080	1,216
Deferred income taxes	(4,818)	341	354
Net revaluation of certain financial instruments	809	--	--
Minority interest (income) expense	(1,263)	(4,329)	24
Net equity losses (earnings) from Liberty Media Group	2,711	(1,488)	2,022
Net losses related to other equity investments	7,889	1,017	1,223
Decrease (increase) in receivables	716	(2,512)	(2,409)
Decrease in accounts payable	(819)	(577)	(165)
Net change in other operating assets and liabilities	(2,153)	(376)	(1,785)
Other adjustments, net	124	(470)	(159)
Net Cash Provided by Operating Activities of Continuing Operations	10,558	11,665	10,509
INVESTING ACTIVITIES			
Capital expenditures and other additions	(9,300)	(11,511)	(11,876)
Proceeds from sale or disposal of property, plant and			

equipment	83	600	286
(Increase) decrease in other receivables	(114)	(1,052)	17
Sales of marketable securities	102	96	--
Purchases of marketable securities	(18)	--	--
Investment distributions and sales	3,014	992	1,574
Investment contributions and purchases	(378)	(2,394)	(7,837)
Net dispositions (acquisitions) of businesses, net of cash disposed/acquired	4,913	(16,657)	(5,969)
Other investing activities, net	(162)	(119)	(79)
Net Cash Used in Investing Activities of Continuing Operations	(1,860)	(30,045)	(23,884)
FINANCING ACTIVITIES			
Proceeds from long-term debt issuances, net of issuance costs	12,415	4,601	8,396
Retirement of long-term debt	(1,661)	(2,118)	(2,255)
(Decrease) increase in short-term borrowings, net	(17,168)	16,973	10,173
Repayment of borrowings from AT&T Wireless	(5,803)	--	--
Issuance of convertible preferred securities and warrants	9,811	--	4,638
Redemption of redeemable securities	--	(152)	--
Issuance of AT&T common shares	224	99	--
Issuance of AT&T Wireless Group common shares	54	10,314	--
Net issuance (acquisition) of treasury shares	24	(581)	(4,624)
Dividends paid on common stock	(549)	(3,047)	(2,712)
Dividends paid on preferred securities	(336)	(294)	(135)
Other financing activities, net	(41)	(63)	373
Net Cash (Used in) Provided by Financing Activities of Continuing Operations	(3,030)	25,732	13,854
Net cash provided by (used in) discontinued operations	4,860	(8,306)	(2,594)
Net increase (decrease) in cash and cash equivalents	10,528	(954)	(2,115)
Cash and cash equivalents at beginning of year	64	1,018	3,133
Cash and cash equivalents at end of year	$ 10,592	$ 64	$ 1,018

The notes are an integral part of the consolidated financial statements.

AT&T CORP. AND SUBSIDIARIES (AT&T)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DOLLARS IN MILLIONS UNLESS OTHERWISE NOTED (EXCEPT PER SHARE AMOUNTS)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION

The consolidated financial statements include all controlled subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Investments in majority-owned subsidiaries where control does not exist and investments in which we exercise significant influence but do not control (generally a 20% to 50% ownership interest) are accounted for under the equity method of accounting. Investments in which there is no significant influence (generally less than a 20% ownership interest) are accounted for under the cost method of accounting.

FOREIGN CURRENCY TRANSLATION

For operations outside the United States that prepare financial statements in currencies other than the U.S. dollar, we translate income statement amounts at average exchange rates for the year, and we translate assets and liabilities at year-end exchange rates. We present these translation adjustments as a component of accumulated other comprehensive income within shareowners' equity. Gains and losses from foreign currency transactions are included in results of operations.

REVENUE RECOGNITION

We recognize long distance, local voice and data services revenue based upon minutes of traffic processed or contracted fee schedules. Cable video and nonvideo installation revenue is recognized in the period the installation services are provided to the extent of direct selling costs. Any remaining amount is deferred and recognized over the estimated average period that customers are expected to remain connected to the cable distribution systems. Customer activation fees, along with the related costs up to but not exceeding the revenue, are deferred and amortized over the customer relationship period. We recognize other products and services revenue when the products are delivered and accepted by customers and when services are provided in accordance with contract terms. 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.

ADVERTISING AND PROMOTIONAL COSTS

We expense costs of advertising and promotions, including cash incentives used to acquire customers, as incurred. Advertising and promotional expenses were $1,549, $1,377 and $1,418 in 2001, 2000 and 1999, respectively. Of these amounts, $236, $288 and $320 were cash incentives to acquire customers in 2001, 2000 and 1999, respectively.

INCOME TAXES

Under the balance sheet method we recognize deferred tax assets and liabilities at enacted income tax rates for the temporary differences between the financial reporting basis and the tax basis of our assets and liabilities. Any effects of changes in income tax rates or tax laws are included in the provision for income taxes in the period of enactment. When it is more likely than not that a portion or all of a deferred tax asset will not be realized in the future, we provide a corresponding valuation allowance against the deferred tax asset. We amortize investment tax credits as a reduction to the provision for income taxes over the useful lives of the assets that produced the credits.

CASH EQUIVALENTS

We consider all highly liquid investments with original maturities of generally three months or less to be cash equivalents.

PROPERTY, PLANT AND EQUIPMENT

We state property, plant and equipment at cost. Construction costs, labor and applicable overhead related to installations and interest during construction are capitalized. Costs of additions and substantial improvements to property, plant and equipment are capitalized. The costs of maintenance and repairs of property, plant and equipment are charged to operating expense. Depreciation is determined based upon the assets' estimated useful lives using either the group or unit method. The useful lives of communications and network equipment range from three to 15 years. The useful lives of other equipment ranges from three to seven years. The useful lives of buildings and improvements range from 10 to 40 years. The group method is used for most depreciable assets, including the majority of communications and network equipment. The unit method is primarily used for large computer systems, buildings and support assets. Under the group method, a specific asset group has an average life. The depreciation rate is developed based on the average useful life for the specific asset group. This method requires the periodic revision of depreciation rates. Under the unit method, assets are depreciated based on the useful life of the individual asset. When we sell or retire assets depreciated using the group method, the cost is deducted from property, plant and equipment and charged to accumulated depreciation, without recognition of a gain or loss. When we sell assets that were depreciated using the unit method, we include the related gains or losses in "Other income (expense)" in the Consolidated Statements of Income.

We use accelerated depreciation methods primarily for certain high-technology computer-processing equipment and digital equipment used in the telecommunications network, except for switching equipment placed in service before 1989, where a straight-line method is used. All other plant and equipment is depreciated on a straight-line basis.

FRANCHISE COSTS

Franchise costs include the value assigned to agreements with local authorities that allow access to homes in cable service areas acquired in connection with business combinations. Such amounts are amortized on a straight-line basis over 25 or 40 years. Beginning in 2002, in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets", such franchise costs will no longer be amortized, but will continue to be tested for impairment (see Note 23).

GOODWILL

Goodwill is the excess of the purchase price over the fair value of net assets acquired in business combinations accounted for under the purchase method. We amortize goodwill on a straight-line basis over the periods benefited, ranging from five to 40 years. Beginning in 2002, in accordance with the provisions of SFAS No. 142 such goodwill will no longer be amortized, but will continue to be tested for impairment (see Note 23).

SOFTWARE CAPITALIZATION

Certain direct development costs associated with internal-use software are capitalized, including external direct costs of material and services, and payroll costs for employees devoting time to the software projects. These costs are included within other assets and are amortized over a period not to exceed five years beginning when the asset is substantially ready for use. Costs incurred during the preliminary project stage, as well as maintenance and training costs, are expensed as incurred. AT&T also capitalizes initial operating-system software costs and amortizes them over the life of the associated hardware.

AT&T also capitalizes costs associated with the development of application software incurred from the time technological feasibility is established until the software is ready to provide service to customers. These capitalized costs are included in property, plant and equipment and are amortized over a useful life not to exceed five years.

VALUATION OF LONG-LIVED ASSETS

Long-lived assets, such as property, plant and equipment, franchise costs, goodwill, investments and software, are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the total of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and carrying value of the asset.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

We use derivative financial instruments to mitigate market risk from changes in interest rates, foreign currency exchange rates and equity prices. Derivative financial instruments may be exchange-traded or contracted in the over-the-counter market and include swaps, options, warrants and forward contracts. We do not use derivative financial instruments for speculative purposes.

All derivatives are recognized on the balance sheet at fair value. To qualify for hedge accounting treatment, derivatives, at inception, must be designated as hedges and evaluated for effectiveness throughout the hedge period. We designate certain derivative contracts, at the date entered into, as either (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), (2) 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) or (3) a foreign currency fair value or cash flow hedge (foreign currency hedge). Other derivatives (undesignated) are not formally designated for accounting purposes. These derivatives, except for warrants, although undesignated for accounting purposes are entered into to hedge economic risks.

We record changes in the fair value of fair-value hedges (including fair value foreign currency hedges), along with the changes in fair value of the hedged asset or liability that is attributable to the hedged risk (including losses or gains on firm commitments), in "Other income (expense)" in the Consolidated Statement of Income.

We record changes in the fair value of cash-flow hedges (including foreign currency cash flow hedges) that are highly effective in "Other comprehensive income", net of income taxes, as a component of shareowners' equity, until earnings are affected by the variability of cash flows of the hedged transaction.

Changes in the fair value of undesignated derivatives are recorded in "Other income (expense)" in the Consolidated Statement of Income, along with the change in fair value of any related asset or liability.

We currently do not have any net investment hedges in a foreign operation.

We assess embedded derivatives to determine whether (1) the economic characteristics of the embedded instruments are not clearly and closely related to the economic characteristics of the remaining component of the financial instrument (the host instrument) and (2) whether a separate instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that both conditions exist, we designate the derivatives as described above, and recognize at fair value.

We formally document all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions.

We discontinue hedge accounting prospectively when (1) it is determined that the derivative is no longer effective in offsetting changes in the fair value of cash flows of a hedged item (2) the derivative expires or is sold, terminated, or exercised; (3) it is determined that the forecasted hedged transaction will no longer occur; (4) a hedged firm commitment no longer meets the definition of a firm commitment or (5) management determines that the designation of the derivative as a hedge instrument is no longer appropriate.

When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair value hedge, the derivative will continue to be adjusted for changes in fair value through "Other income (expense)" in the Consolidated Statement of Income, and the hedged asset or liability will no longer be adjusted for changes in fair value. When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, the derivative will continue to be adjusted for changes in the fair value through "Other income (expense)" in the Consolidated Statement of Income, and any asset or liability that was recorded pursuant to the recognition of the firm commitment will be removed from the balance sheet and recorded in current period earnings. When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the derivative will then be adjusted for changes in the fair value through "Other income (expense)" in the Consolidated Statement of Income, and gains and losses that were accumulated in "Other comprehensive income" as a component of shareowners' equity, will be recognized immediately in "Other income (expense)" in the Consolidated Statement of Income. In all other situations in which hedge accounting is discontinued, the derivative will continue to be carried at fair value on the balance sheet, with changes in its fair value recognized in "Other income (expense)" in the Consolidated Statement of Income.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the period reported. Actual results could differ from those estimates. Estimates are used when accounting for certain items such as allowances for doubtful accounts, depreciation and amortization, employee benefit plans, taxes, restructuring reserves and contingencies.

CONCENTRATIONS

As of December 31, 2001, we do not have any significant concentration of business transacted with a particular customer, supplier or lender that could, if suddenly eliminated, severely impact our operations. We also do not have a concentration of available sources of labor, services, franchises or other rights that could, if suddenly eliminated, severely impact our operations. We invest our cash with several high-quality credit institutions.

ISSUANCE OF COMMON STOCK BY AFFILIATES

Changes in our proportionate share of the underlying equity of a subsidiary or equity method investee, which result from the issuance of additional equity securities by such entity, are recognized as increases or decreases to additional paid-in capital in the Consolidated Statements of Shareowners' Equity.

RECLASSIFICATIONS AND RESTATEMENTS

We reclassified certain amounts for previous years to conform to the 2001 presentation.

2. RESTRUCTURING OF AT&T

On October 25, 2000, AT&T announced a restructuring plan designed to fully separate or issue separately tracked stocks intended to reflect the financial performance and economic value of each of AT&T's four major operating units.

On December 19, 2001, AT&T and Comcast Corporation (Comcast) announced an agreement to combine AT&T Broadband with Comcast. Under the terms of the agreement, AT&T will spin-off AT&T Broadband and simultaneously merge it with Comcast, forming a new company to be called AT&T Comcast Corporation (AT&T Comcast). AT&T shareowners will receive a number of shares of AT&T Comcast common stock based on an exchange ratio calculated pursuant to a formula specified in the merger agreement. If determined as of the date of the merger agreement, the exchange ratio would have been approximately 0.34, assuming the AT&T shares held by Comcast are included in the number of shares of AT&T common stock outstanding. Assuming Comcast retains its AT&T shares and converts them into exchangeable preferred stock of AT&T as contemplated by the merger agreement, the exchange ratio would have been approximately 0.35. Assuming certain conditions, AT&T shareowners will own an approximate 55% economic stake and an approximate 61% voting interest in the new company, calculated as of the date of the merger agreement. The merger of AT&T Broadband and Comcast is subject to regulatory review, approval by both companies' shareowners and certain other conditions and is expected to close by the end of 2002. AT&T also intends to proceed with the creation of a tracking stock for its AT&T Consumer Services business, which is expected to be distributed to AT&T shareowners following shareowner approval. AT&T has not yet determined the timing of the distribution, which may be made within a year of shareowner approval or may be made thereafter, depending on market conditions. Additionally, the AT&T board of directors could decide not to proceed with the distribution of the tracking stock, or could proceed at a time or in a manner different from its current intentions.

These restructuring activities are complicated and involve a substantial number of steps and transactions, including obtaining various approvals, such as Internal Revenue Service (IRS) rulings. AT&T expects, however, that the transactions associated with AT&T's restructuring plan will be tax-free to U.S. shareowners. Future financial conditions, superior alternatives or other factors may arise or occur that make it inadvisable to proceed with part or all of AT&T's restructuring plans. Any or all of the elements of AT&T's restructuring plan may not occur as we currently expect or in the time frames that we currently contemplate, or at all. Alternative forms of restructuring, including sales of interests in these businesses, would reduce what is available for distribution to shareowners in the restructuring.

On May 25, 2001, AT&T completed an exchange offer of AT&T common stock for AT&T Wireless stock. Under the terms of the exchange offer, AT&T issued 1.176 shares of AT&T Wireless Group tracking stock in exchange for each share of AT&T common stock validly tendered. A total of 372.2 million shares of AT&T common stock were tendered in exchange for 437.7 million shares of AT&T Wireless Group tracking stock. In conjunction with the exchange offer, AT&T recorded an $80 premium as a reduction to net income available to common shareowners. The premium represents the excess of the fair value of the AT&T Wireless Group tracking stock issued over the fair value of the AT&T common stock exchanged.

On July 9, 2001, AT&T completed the split-off of AT&T Wireless as a separate, independently traded company. All AT&T Wireless Group tracking stock was converted into AT&T Wireless common stock on a one-for-one basis, and 1,136 million shares of AT&T Wireless common stock, held by AT&T were distributed to AT&T common shareowners on a basis of 0.3218 of a share of AT&T Wireless for each AT&T share outstanding. AT&T common shareowners received whole shares of AT&T Wireless and cash payments for fractional shares. The IRS ruled that the transaction qualified as tax-free for AT&T and its shareowners for U.S. federal income tax purposes, with the exception of cash received for fractional shares. For accounting purposes, the deemed effective split-off date was June 30, 2001. At the time of split-off, AT&T retained approximately $3 billion, or 7.3%, of AT&T Wireless common stock, about half of which was used in a debt-

for-equity exchange in July 2001. The remaining portion of these holdings was monetized in October and December of 2001 through the issuance of debt that is exchangeable into Wireless shares (or their cash equivalent) at maturity. The split-off of AT&T Wireless resulted in a noncash tax-free gain of $13.5 billion, which represented the difference between the fair value of the AT&T Wireless tracking stock at the date of the split-off and AT&T's book value in AT&T Wireless. This gain was recorded in the third quarter of 2001 as a "Gain on disposition of discontinued operations."

On August 10, 2001, AT&T completed the split-off of Liberty Media Corporation as an independent, publicly traded company (since AT&T did not exit the line of business that Liberty Media Group (LMG) operated in, LMG was not accounted for as a discontinued operation). AT&T redeemed each outstanding share of Class A and Class B LMG tracking stock for one share of Liberty Media Corporation's Series A and Series B common stock, respectively. The IRS ruled that the split-off of Liberty Media Corporation qualified as a tax-free transaction for AT&T, Liberty Media and their shareowners. For accounting purposes, the deemed effective split-off date was July 31, 2001.

3. SUPPLEMENTARY FINANCIAL INFORMATION

SUPPLEMENTARY INCOME STATEMENT INFORMATION

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999

INCLUDED IN SELLING, GENERAL AND ADMINISTRATIVE EXPENSES			
Research and development expenses	$ 325	$ 402	$550
OTHER (EXPENSE) INCOME			
Cost investment impairment charges	$(1,083)	$ (248)	$(40)
Settlement loss and mark-to-market charges on Excite@Home put options	(838)	(537)	--
Net revaluation of certain financial instruments	(809)	--	--
Net gains on sales of businesses and investments	528	1,321	585
Investment-related income	426	512	203
Miscellaneous, net	229	102	78
Total other (expense) income	$(1,547)	$1,150	$826

SUPPLEMENTARY BALANCE SHEET INFORMATION

	AT DECEMBER 31,	
	2001	2000
PROPERTY, PLANT AND EQUIPMENT		
Communications, network and other equipment	$ 64,372	$ 60,232
Buildings and improvements	8,512	8,643
Land and improvements	484	523
Total property, plant and equipment	73,368	69,398
Accumulated depreciation	(32,046)	(28,129)
Property, plant and equipment, net	$ 41,322	$ 41,269

LEVERAGED LEASES

We lease airplanes, energy-producing facilities and transportation equipment under leveraged leases having original terms of 10 to 30 years, expiring in various years from 2004 through 2020. The investment in leveraged leases is primarily included in other assets on the balance sheet. Following is a summary of our investment in leveraged leases:

	AT DECEMBER 31,	
	2001	2000
Rentals receivable (net of nonrecourse debt*)	$1,241	$1,278
Estimated unguaranteed residual values	964	976
Unearned income	(953)	(997)
Allowance for credit losses	(31)	(33)

Investment in leveraged leases (included in other assets)...	1,221	1,224
Deferred taxes...	1,105	1,124
Net investment...	$ 116	$ 100

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* The rentals receivable are net of nonrecourse debt of $3.2 billion and $3.4 billion at December 31, 2001 and 2000, respectively.

SUPPLEMENTARY SHAREOWNERS' EQUITY INFORMATION

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
OTHER COMPREHENSIVE INCOME (LOSS)			
Net foreign currency translation adjustment [net of income taxes of $(160), $(181) and $87](1)...	$ (250)	$ (309)	$ 148
Net revaluation of certain financial instruments:			
Unrealized gains (losses) [net of income taxes of $343, $(4,686) and $4,499](2)...	475	(7,317)	6,868
Recognition of previously unrealized losses (gains) on available-for-sale securities [net of income taxes of $950, $(480) and $7](3)...	1,535	(750)	10
Net minimum pension liability adjustment [net of income taxes of $(14), $(1) and $7]...	(18)	(1)	12
Total other comprehensive income (loss)...	$1,742	$(8,377)	$7,038

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(1) Includes LMG's foreign currency translation adjustments, net of applicable income taxes, totaling $(149) in 2001 through July 31, 2001, $(202) in 2000 and $60 in 1999, from March 1, 1999, date of acquisition, to December 31, 1999.

(2) Includes LMG's unrealized gains (losses) on available-for-sale securities, net of applicable income taxes, totaling $1,286 in 2001 through July 31, 2001, $(6,117) in 2000 and $6,497 in 1999, from March 1, 1999, date of acquisition, to December 31, 1999.

(3) See below for a summary of the "Recognition of previously unrealized losses (gains) on available-for-sale securities" and the income statement line items impacted.

SUMMARY OF RECOGNITION OF PREVIOUSLY UNREALIZED LOSSES (GAINS) ON AVAILABLE-FOR-SALE SECURITIES AND THE INCOME STATEMENT LINE ITEMS IMPACTED

	FOR THE YEARS ENDED DECEMBER 31,					
	2001		2000		1999	
	PRETAX	AFTER-TAX	PRETAX	AFTER-TAX	PRETAX	AFTER-T
AT&T GROUP:						
Other (expense) income:						
Reclassification of securities to "trading" in conjunction with the adoption of SFAS No. 133(4)......................	$1,154	$ 713	$ --	$ --	$--	$--
Sales of various securities....	317	196	(476)	(294)	(3)	(2)
Other-than-temporary investment impairments.................	985	608	290	179	--	--
LIBERTY MEDIA GROUP:						
Earnings (losses) from Liberty Media Group:						
Sale of various securities.....	173	105	(1,044)	(635)	20	12
Cumulative effect of accounting change(4).....................	(144)	(87)	--	--	--	--
Total recognition of previously unrealized losses (gains) on available-for-sale securities.....	$2,485	$1,535	$(1,230)	$(750)	$17	$10

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(4) See Note 14 for detailed discussion.

SUPPLEMENTARY CASH FLOW INFORMATION

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
Interest payments, net of capitalized interest of $138, $177 and $143...	$3,396	$3,059	$1,292
Income tax payments....................................	803	2,369	3,948

4. MERGERS WITH MEDIAONE GROUP, INC., AND TELE-COMMUNICATIONS, INC.

MERGER WITH MEDIAONE GROUP, INC.

On June 15, 2000, AT&T completed a merger with MediaOne Group, Inc. (MediaOne) in a cash and stock transaction valued at approximately $45 billion. For each share of MediaOne stock, MediaOne shareowners received, in the aggregate 0.95 of a share of AT&T common stock and $36.27 per share in cash, consisting of $30.85 per share as stipulated in the merger agreement and $5.42 per share based on AT&T's stock price preceding the merger, which was below a predetermined amount. AT&T issued approximately 603 million shares of common stock in the transaction, of which approximately 60 million were treasury shares. The AT&T shares had an aggregate market value of approximately $21 billion, and cash payments totaled approximately $24 billion.

The merger was accounted for under the purchase method. Accordingly, the results of MediaOne have been included in the accompanying consolidated financial statements since the date of acquisition as part of our AT&T Broadband segment.

Approximately $17 billion of the purchase price of $45 billion has been attributed to agreements with local franchise authorities that allow access to homes in our broadband service areas (franchise costs) and is being amortized on a straight-line basis over 40 years. Also included in the purchase price was approximately $22 billion related to nonconsolidated investments, including investments in Time Warner Entertainment Company, L.P. (TWE) and Vodafone Group plc (Vodafone), approximately $5 billion related to property, plant and equipment, and approximately $5 billion of other net assets. In addition, included was approximately $13 billion in deferred income tax liabilities, approximately $10 billion attributable to MediaOne debt, and approximately $1 billion of minority interest in Centaur Funding Corporation, a subsidiary of MediaOne. The purchase resulted in goodwill of approximately $20 billion, which is being amortized on a straight-line basis over 40 years.

MERGER WITH TELE-COMMUNICATIONS, INC.

On March 9, 1999, AT&T completed a merger with Tele-Communications, Inc. (TCI), renamed AT&T Broadband, in an all-stock transaction valued at approximately $52 billion. Each share of TCI Group Series A common stock was converted into 1.16355 shares of AT&T common stock, and each share of TCI Group Series B common stock was converted into 1.27995 shares of AT&T common stock. AT&T issued approximately 664 million shares of common stock in the transaction, of which approximately 149 million were treasury shares. The AT&T shares had an aggregate market value of approximately $27 billion. Certain subsidiaries of TCI held TCI Group Series A common stock, which was converted into 216 million shares of AT&T common stock. These shares were held by the subsidiaries throughout 1999 and 2000 and were reflected as treasury stock in the balance sheet. In the second quarter of 2001, these shares were converted into AT&T Subsidiary Exchangeable Preferred Stock. Each subsidiary preferred share is exchangeable into 1,000 shares of AT&T Common Stock.

In addition, TCI simultaneously combined its LMG programming business with its TCI Ventures Group technology investment business, forming LMG. In connection with the closing, AT&T issued separate tracking stock in exchange for the TCI, LMG and TCI Ventures Group tracking shares previously outstanding. We issued 2,280 million shares of LMG Class A tracking stock (including 120 million shares related to the conversion of convertible notes) and 220 million shares of Liberty Media Group Class B tracking stock. The tracking stock was designed to reflect the separate financial performance and economic value of LMG. These shares had an aggregate market value of approximately $23 billion. LMG was split-off from AT&T as an independent, publicly-traded company on August 10, 2001 (see Notes 2 and 10).

The TCI merger was accounted for under the purchase method. Accordingly, the results of TCI have been included in the financial results of AT&T since the date of acquisition as part of our AT&T Broadband segment. The operating results of TCI have been included in the accompanying consolidated financial statements at their fair value since March 1, 1999, the deemed effective date of acquisition for accounting purposes. The impact of the results from March 1 through March 9, 1999, were deemed immaterial to our consolidated results.

Approximately $20 billion of the purchase price of $52 billion was attributed to franchise costs and is being amortized on a straight-line basis over 40 years. Pursuant to SFAS No. 109, "Accounting for Income Taxes", AT&T recorded an approximate $13 billion deferred tax liability in connection with this franchise intangible, which is also included in franchise costs. We do not expect that this deferred tax liability will ever be paid. This deferred tax liability is being amortized on a straight-line basis over 40 years and is included in the provision for income taxes. Also included was approximately $11 billion related to nonconsolidated investments, approximately $5 billion related to property, plant and equipment, approximately $11 billion of

TCI long-term debt and approximately $7 billion related to other net liabilities. In addition, our investment in LMG was recorded at approximately $34 billion, including approximately $11 billion of goodwill.

In 2002, in accordance with the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets", we will no longer amortize goodwill, franchise costs or the deferred tax liability associated with franchise costs related to the mergers discussed above (see Note 23).

Following is a summary of the pro forma results of AT&T as if the mergers with MediaOne and TCI had closed effective January 1, 1999:

	FOR THE YEARS ENDED DECEMBER 31,	
	2000	1999
	(SHARES IN MILLION) (UNAUDITED)	
Revenue	$56,858	$58,609
Income from continuing operations	5,081	6,885
Weighted-average AT&T common shares	3,762	3,784
Weighted-average AT&T common shares and potential common shares	3,821	3,906
Weighted-average Liberty Media Group shares	2,572	2,519
AT&T Common Stock Group earnings from continuing operations per common share:		
Basic	$ 0.96	$ 2.41
Diluted	0.95	2.34
Liberty Media Group earnings (loss) per common share:		
Basic and diluted	$ 0.58	$ (0.89)

Pro forma data may not be indicative of the results that would have been obtained had these events actually occurred at the beginning of the periods presented, nor does it intend to be a projection of future results.

5. CONCERT AND AT&T CANADA

On October 16, 2001, AT&T announced a decision to unwind Concert, its global venture with British Telecommunications plc (BT), which was launched in January 2000. Under the partnership termination agreement, each of the partners generally will reclaim the customer contracts and assets that were initially contributed to the joint venture, including international transport facilities and gateway assets. In addition, AT&T will assume certain other assets that BT originally contributed to the joint venture. AT&T also will acquire BT's 9% interest in AT&T Canada and assume BT's obligation to purchase a portion of the publicly owned shares of AT&T Canada. The agreement to dissolve the Concert venture, impacted AT&T's intent and ability to hold its investment in Concert, therefore, AT&T recorded a $1.8 billion after-tax investment impairment charge ($2.9 billion pretax) in 2001 included in "Net losses related to other equity investments" in the Consolidated Statement of Income. This charge primarily relates to the difference between the fair market value of the net assets AT&T will receive in the transaction and the carrying value of AT&T's investment in Concert which included a note receivable from Concert of approximately $1.1 billion. Our investment in Concert was accounted for as an equity method investment. The remaining carrying value of our investment in Concert was approximately $0.1 billion at December 31, 2001. The agreement to dissolve Concert remains subject to regulatory approval in the United States, Europe and other jurisdictions and is expected to close by the first-half of 2002.

Through a joint venture, AT&T and BT have an approximate 31% equity ownership of AT&T Canada. In connection with the decision to unwind Concert, AT&T has agreed to acquire BT's 9% interest in AT&T Canada and assume BT's portion of the obligation to purchase the AT&T Canada shares not already owned by

AT&T and BT. AT&T has the right to trigger, at any time, the purchase by AT&T or another entity the remaining equity of AT&T Canada for the Back-end Price which is the greater of the floor price (Cdn $47.45 as of December 31, 2001) and the fair market value. The floor price accretes at 4% each quarter, commencing on June 30, 2000. In the event foreign ownership restrictions in Canada are lifted, in whole or in part, prior to June 30, 2003, AT&T is required to purchase the outstanding shares (to the extent permitted by any remaining foreign ownership restrictions) at the Back-end Price. If foreign ownership restrictions in Canada are not lifted and we do not exercise the call right by June 30, 2003, the shares would be put up for auction, and AT&T would have to make the shareholders whole for the amount, if any, by which the Back-End Price exceeds the proceeds received in auction.

In 2001, AT&T recorded $1.8 billion after-tax charges ($3.0 billion pretax) reflecting the estimated loss on AT&T's commitment to purchase the publicly owned shares of AT&T Canada. Included in these charges was approximately $0.6 billion related to the assumption of BT's obligation to purchase the publicly owned shares of AT&T Canada. These charges reflect the difference between the underlying value of AT&T Canada shares and the price AT&T has committed to pay for them, including the 4% accretion of the floor price, and are included in "Net losses related to other equity investments" in the Consolidated Statement of Income and the related liability within "Other long-term liabilities and deferred credits" in the Consolidated Balance Sheet. The purchase commitment will continue to be evaluated against the difference between the contractual floor price and underlying value of AT&T Canada shares, which could result in the recognition of future additional charges in the amount of approximately $1.1 billion, assuming that the commitment is executed on June 30, 2003. As of December 31, 2001, the aggregate amount that AT&T would need to pay to complete its obligation related to AT&T Canada is approximately $3.2 billion. This obligation may be settled using cash or AT&T common stock, or any combination thereof.

AT&T no longer records equity earnings or losses related to AT&T Canada since AT&T's investment balance was written down to zero largely through losses generated by AT&T Canada. In the event AT&T acquires more than 50% of the voting equity of AT&T Canada, AT&T Canada's results will be consolidated into AT&T's results. At December 31, 2001, AT&T Canada had outstanding debt of $2.9 billion and other net assets of $2.8 billion.

6. OTHER ACQUISITIONS, EXCHANGES, STOCK OFFERING, AND DISPOSITIONS

CABLEVISION SYSTEMS CORPORATION

On October 23, 2001, AT&T sold approximately 19.2 million shares of Cablevision NY Group Class A common stock and, monetized through a trust, 26.9 million shares of a mandatorily exchangeable trust security that is exchangeable into up to 26.9 million shares of Cablevision NY Group Class A common stock at maturity in three years. The offering price was $36.05 per share for both the common shares and the exchangeable securities. The offerings generated approximately $1.4 billion of pretax proceeds, net of underwriting fees. The sale resulted in a pretax loss of approximately $0.3 billion recorded in "Other (expense) income" in the Consolidated Statement of Income.

On January 8, 2001, AT&T and Cablevision Systems Corporation (Cablevision) completed the transfer of cable systems in which AT&T received cable-systems serving 358 thousand customers in Boston and Eastern Massachusetts. In exchange, Cablevision received cable-systems serving approximately 130 thousand customers in the northern New York suburbs, and 44 million shares of AT&T common stock valued at approximately $0.9 billion, and approximately $0.2 billion in cash. Cablevision recorded a gain as a result of the transaction. AT&T did not record any gain or loss on the transaction, however due to its ownership interest in Cablevision, AT&T recorded a proportionate amount of a gain recorded by Cablevision of approximately $0.1 billion included within "Net losses related to other equity investments" in the Consolidated Statement of Income.

AT HOME CORPORATION

On August 28, 2000, AT&T and At Home Corporation (Excite@Home) announced shareholder approval of a new board of directors and governance structure for Excite@Home. AT&T was given the right to designate six of the 11 Excite@Home board members. In addition, Excite@Home converted approximately 50 million of AT&T's Series A shares into Series B shares, each of which has 10 votes. As a result of these governance changes, AT&T gained a controlling interest and began consolidating Excite@Home's results upon the closing of the transaction on September 1, 2000. As of December 31, 2000, AT&T had, on a fully diluted basis, approximately 23% of the economic interest and 74% of the voting interest in Excite@Home.

The consolidation of Excite@Home resulted in minority interest of approximately $2.2 billion, goodwill of approximately $2.4 billion, short-term liabilities of approximately $2.4 billion (including an initial put option liability), other net assets of approximately $1.2 billion and the removal of our investment in Excite@Home of approximately $1.9 billion.

On September 28, 2001, At Home Corporation filed for bankruptcy protection under Chapter 11 in the U.S. Bankruptcy Court, for the Northern District of California. As a result of the bankruptcy and AT&T's removal of four of its six members from the Excite@Home board of directors, AT&T ceased consolidating Excite@Home as of September 30, 2001. Beginning October 1, 2001, AT&T no longer records equity earnings or losses related to Excite@Home since AT&T recognized losses in excess of its investment in Excite@Home.

The noncash impacts of the deconsolidation of At Home Corporation primarily included a reduction to property, plant and equipment of approximately $0.3 billion, goodwill of approximately $0.3 billion and debt of approximately $1.0 billion. This resulted in the recording of a liability of approximately $0.4 billion. This liability will continue to be evaluated. In addition, other noncash items included a tax benefit of $0.7 billion reflecting changes to deferred tax liabilities.

COX COMMUNICATIONS, INC. AND COMCAST -- EXCITE@HOME PUT OPTIONS

In August 2000, in exchange for Cox Communications, Inc. (Cox) and Comcast relinquishing their rights under the shareholder agreement in connection with Excite@Home's governance change, AT&T granted put options to Cox and Comcast. The obligation under these put options was recorded at fair value, with gains or losses resulting from changes in fair value being recorded as a component of "Other (expense) income" in the Consolidated Statement of Income. For 2001 and 2000, changes in fair market value resulted in a pretax expense of $63 and $537, respectively. On May 18, 2001, AT&T, Cox and Comcast reached an agreement to revise the terms of the put options. Under the new agreement, Cox and Comcast retained their stakes in Excite@Home and AT&T issued 75 million AT&T common shares to Cox and more than 80 million AT&T common shares to Comcast. We recorded an approximate $0.8 billion loss in "Other (expense) income" in the Consolidated Statement of Income for this put option settlement in 2001. The new agreement resulted in a tax benefit to AT&T, which essentially offset this loss.

COMCAST CABLE SYSTEM TRANSACTIONS

On June 30, 2001, AT&T transferred its 99.75% interest in an entity owning the Baltimore Maryland cable-system serving approximately 115 thousand customers to Comcast for approximately $0.5 billion cash. The transaction resulted in a pretax gain of $0.1 billion recorded in "Other (expense) income" in the Consolidated Statement of Income.

On April 30, 2001, AT&T received 63.9 million shares of AT&T common stock held by Comcast in exchange for cable systems that served approximately 590 thousand customers in six states. The transaction resulted in a pretax loss of $0.3 billion recorded in "Other (expense) income" in the Consolidated Statement of Income.

JAPAN TELECOM CO. LTD

On April 27, 2001, AT&T completed the sale of our 10% stake in Japan Telecom Co. Ltd to Vodafone for $1.35 billion in cash. The proceeds from the transaction were split evenly between AT&T and AT&T Wireless Group since AT&T Wireless Group held approximately one-half of AT&T's investment. The transaction resulted in a pretax gain of approximately $0.5 billion recorded in "Other (expense) income" and a pretax gain of approximately $0.5 billion recorded in "Income from discontinued operations" in the Consolidated Statement of Income.

INSIGHT COMMUNICATIONS COMPANY LP

Effective January 1, 2001, AT&T sold to Insight Communications Company LP (Insight) several Illinois cable systems serving approximately 98 thousand customers for $0.4 billion. Insight subsequently contributed the purchased cable system and additional cable systems serving approximately 177 thousand customers to Insight Midwest L.P. in which AT&T has a 50% interest. AT&T also contributed cable systems serving approximately 248 thousand customers in Illinois to Insight Midwest L.P. The transactions resulted in a pretax gain of $0.2 billion, which was deferred due to a debt support agreement with Insight Midwest, L.P.

AT&T WIRELESS GROUP

On April 27, 2000, AT&T created a new class of stock and completed a public stock offering of 360 million shares, which represented 15.6% of AT&T Wireless Group tracking stock at a price of $29.50 per share. This stock was intended to track the financial performance and economic value of AT&T's wireless services business. The net proceeds to AT&T, after deducting the underwriter's discount and related fees and expenses, were $10.3 billion. AT&T allocated $7.0 billion of the net proceeds to AT&T Wireless Group, which were used for acquisitions, network expansion, capital expenditures and general corporate purposes. The remaining net proceeds of $3.3 billion were utilized by AT&T for general corporate purposes. On July 9, 2001, AT&T completed the split-off of AT&T Wireless (see Notes 2 and 7).

COX -- CABLE SYSTEM TRANSACTION

On March 15, 2000, AT&T received 50.3 million shares of AT&T common stock held by Cox in exchange for an entity owning cable systems serving approximately 312 thousand customers and certain other net assets. The transaction resulted in a pretax gain of $0.2 billion recorded in "Other (expense) income" in the Consolidated Statement of Income.

LENFEST COMMUNICATIONS, INC.

On January 18, 2000, AT&T sold its ownership in Lenfest Communications, Inc. to a subsidiary of Comcast. In connection with the sale, we received 47.3 million shares of Comcast Class A Special common stock. The transaction resulted in a pretax gain of $0.2 billion recorded in "Other (expense) income" in the Consolidated Statement of Income.

ACC EUROPE

On November 5, 1999, AT&T sold ACC Corp. (ACC) in Europe, including ACC's principal operations in the United Kingdom as well as ACC's operating companies in France, Germany and Italy, to WORLDxCHANGE Communications. We were required to dispose of this investment pursuant to a government mandate since it would have competed directly with Concert. The transaction resulted in a pretax loss of $0.2 billion recorded in "Other (expense) income" in the Consolidated Statement of Income.

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AT&T CORP. AND SUBSIDIARIES (AT&T)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

IBM GLOBAL NETWORK

On April 30, 1999, AT&T completed its acquisition of the IBM Global Network business (renamed AT&T Global Network Services or AGNS) and its assets in the United States. The non-U.S. acquisitions were completed in phases throughout

1999 and during the first quarter of 2000. Under the terms of the agreement, AT&T acquired the global network of IBM, and the two companies entered into outsourcing agreements with each other. The acquisition was accounted for under the purchase method. Accordingly, the operating results of AGNS have been included in the accompanying consolidated financial statements since the date of acquisition. The pro forma impact of AGNS on historical AT&T results is not material.

7. DISCONTINUED OPERATIONS

Pursuant to AT&T's restructuring plan (see Note 2), AT&T completed the split-off of AT&T Wireless as a separate, independently traded company on July 9, 2001. All AT&T Wireless tracking stock was converted into AT&T Wireless common stock on a one-for-one basis and 1,136 million shares of AT&T Wireless common stock, held by AT&T, were distributed to AT&T common shareowners on a basis of 0.3218 of a share of AT&T Wireless for each AT&T share outstanding. AT&T common shareowners received whole shares of AT&T Wireless and cash payments for fractional shares. The IRS ruled that the transaction qualified as tax-free for AT&T and its shareowners for U.S. federal income tax purposes, with the exception of cash received for fractional shares. AT&T retained approximately $3 billion, or 7.3%, of AT&T Wireless common stock, about half of which was used in a debt-for-equity exchange in July resulting in a $0.5 billion gain recorded in "Other (expense) income" in the Consolidated Statement of Income. The remaining portion of these holdings was monetized in October and December of 2001 through the issuance of debt that is exchangeable into Wireless shares (or their cash equivalent) at maturity (see Note 12).

In connection with the split-off of AT&T Wireless, AT&T wrote-up the net assets of AT&T Wireless to fair value. This resulted in a tax-free noncash gain of $13.5 billion, which represented the difference between the fair value of AT&T Wireless at the date of the split-off and AT&T's book value in AT&T Wireless. This gain was recorded as a "Gain on disposition of discontinued operations" in the Consolidated Statement of Income.

The consolidated financial statements of AT&T have been restated to reflect AT&T Wireless as a discontinued operation. Accordingly, the revenue, costs and expenses, assets and liabilities and cash flows of AT&T Wireless have been excluded from the respective captions in the Consolidated Statements of Income, Consolidated Balance Sheets and Consolidated Statements of Cash Flows, and have been reported through June 30, 2001, the deemed effective split-off date for accounting purposes, as "Income from discontinued operations", net of applicable income taxes; as "Net assets of discontinued operations"; and as "Net cash provided by (used in) discontinued operations". The impact of the operating results from July 1 through July 9, 2001, were deemed immaterial to our consolidated results.

Revenue for discontinued operations was $6,592, $10,448 and $7,627 for 2001, 2000 and 1999, respectively.

At December 31, 2000, "Net Assets of Discontinued Operations" included total assets of $35,087 and total liabilities of $7,822. Total assets were comprised primarily of licensing costs, property, plant and equipment, goodwill and investments. Total liabilities were comprised primarily of deferred income taxes, accounts payable and other short-term liabilities. Net assets of discontinued operations also included minority interest of $41 at December 31, 2000.

Interest expense of $153, $330 and $253 was allocated to discontinued operations in 2001, 2000 and 1999, respectively, based on the debt of AT&T that was attributable to AT&T Wireless. This debt was repaid to AT&T in connection with the split-off of AT&T Wireless.

AT&T CORP. AND SUBSIDIARIES (AT&T)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The noncash impacts of the split-off of AT&T Wireless include the reduction of assets of approximately $39.7 billion and reduced shareowners' equity of approximately $39.7 billion, including the $13.5 billion noncash gain on split-off.

8. EARNINGS PER COMMON SHARE AND POTENTIAL COMMON SHARE

Income (loss) attributable to the different classes of AT&T common stock is as follows:

	AT&T COMMON STOCK GROUP			AT&T WIRELESS GROUP			LIBE
	FOR THE YEARS ENDED DECEMBER 31,						
	2001	2000	1999	2001	2000	1999	2001
(Loss) income from continuing operations before cumulative effect of accounting change................	$(4,131)	$2,645	$5,883	$--	$--	$--	$(2,711
Dividend requirements of preferred stock...............................	652	--	--	--	--	--	--
Premium on Wireless tracking stock exchange............................	80	--	--	--	--	--	--
(Loss) income from continuing operations available to common shareowners.........................	(4,863)	2,645	5,883	--	--	--	(2,711
Income (loss) from discontinued operations..........................	115	460	(433)	35	76	--	--
Gain on disposition of discontinued operations..........................	13,503	--	--	--	--	--	--
Cumulative effect of accounting change..............................	359	--	--	--	--	--	545
Net income (loss) available to common shareowners.........................	$ 9,114	$3,105	$5,450	$35	$76	$--	$(2,166

Basic earnings (loss) per share for AT&T Common Stock Group for 2001, 2000 and 1999 were computed by dividing AT&T Common Stock Group income (loss) by the weighted-average number of shares outstanding of 3,643 million, 3,486 million and 3,082 million during 2001, 2000 and 1999, respectively.

Since AT&T recorded a loss from continuing operations for 2001, the diluted loss per share is the same as basic, as any potentially dilutive securities would be antidilutive to continuing operations. At December 31, 2001, potentially dilutive securities outstanding, included shares issuable for stock options, convertible quarterly income preferred securities, TCI Pacific Communications, Inc. preferred securities and the settlement of AT&T's commitment to purchase the public shares of AT&T Canada (see Note 5).

Diluted earnings per share (EPS) for AT&T Common Stock Group for 2000 and

1999 were computed by dividing AT&T Common Stock Group income, adjusted for the conversion of securities, by the weighted-average number of shares and dilutive potential shares outstanding during the year, assuming conversion of the potential shares at the beginning of the years presented using the treasury stock method, which assumes any (after-tax) proceeds are used to repurchase shares. Shares issuable upon conversion of preferred stock of subsidiaries, convertible debt securities of a subsidiary and stock options have been included in the diluted calculation of weighted-average shares to the extent that the assumed issuance of such shares would have been dilutive, as illustrated below. The convertible quarterly income preferred securities were antidilutive and were excluded from the computation of diluted EPS.

A reconciliation of the income and share components for basic and diluted EPS calculations with respect to AT&T Common Stock Group continuing operations is as follows:

	FOR THE YEARS ENDED DECEMBER 31,	
	2000	1999
AT&T Common Stock Group:		
Income from continuing operations	$2,645	$5,883
Income impact of assumed conversion of preferred stock of subsidiary	32	26
Income adjusted for conversion of securities	$2,677	$5,909
Shares in millions		
Weighted-average common shares	3,486	3,082
Stock options	19	35
Preferred stock of subsidiary	40	33
Convertible debt securities of subsidiary	--	2
Weighted-average common shares and potential common shares	3,545	3,152

Basic EPS from discontinued operations for AT&T Wireless Group for 2001 through June 30, 2001, the deemed effective split-off date for accounting purposes, and from April 27, 2000, the stock offering date, through December 31, 2000, was computed by dividing income attributable to AT&T Wireless Group by the weighted-average number of shares outstanding of AT&T Wireless Group of 438 million and 361 million, respectively.

Basic (loss) earnings per share for LMG was computed by dividing (loss) income attributable to LMG by the weighted-average number of LMG shares outstanding of 2,582 million in 2001 through July 31, 2001, the deemed effective split-off date for accounting purposes, 2,572 million in 2000 and 2,519 million from March 9, 1999, date of issuance through December 31, 1999. Potentially dilutive securities, including fixed and nonvested performance awards and stock options, have not been factored into the dilutive calculations because past history indicated that these contracts were generally settled in cash.

9. NET RESTRUCTURING AND OTHER CHARGES

During 2001, we recorded $2,530 of net restructuring and other charges. These charges included approximately $1,330 of restructuring and exit costs associated with AT&T's continued cost reduction initiatives and $1,200 of asset impairment charges which were primarily related to Excite@Home.

The $1,330 of charges for restructuring and exit plans were primarily due to headcount reductions with $1,014 for employee separations and benefit plan curtailment costs, $322 for facility closings and $27 related to termination of contractual obligations. The restructuring and exit plans support our cost reduction efforts through headcount reductions across all segments of the business, primarily network support and customer care functions in AT&T Business Services, continued cost reduction efforts by Excite@Home (which was still consolidated into AT&T's results through September 2001), in addition to impacts of the MediaOne merger. These charges were slightly offset by the reversal in December 2001 of $33 related to the business restructuring plans for fourth quarter 1999 and first quarter 2000.

Included in the $1,014 of employee separations were $200 of benefit plan curtailment costs associated with employee separations as part of these exit plans. Approximately 18 thousand employees will be separated in conjunction with these exit plans, approximately one-half of which are management and one-half are non-management employees. Nearly 17 thousand employee separations related to involuntary terminations and more than 1 thousand related to voluntary terminations. Approximately 50% of the employees affected by the

2001 restructuring charges left their positions as of December 31, 2001, and the remaining will leave the company throughout 2002. Termination benefits of approximately $341 were paid throughout 2001.

The following table displays the activity and balances of the restructuring reserve account:

	TYPE OF COST			
	EMPLOYEE SEPARATIONS	FACILITY CLOSINGS	OTHER	TOTAL
Balance at January 1, 1999	$ 118	$ 369	$ 30	$ 517
Additions	142	--	3	145
Deductions	(110)	(130)	(12)	(252)
Balance at December 31, 1999	150	239	21	410
Additions	503	32	62	597
Deductions	(394)	(98)	(47)	(539)
Balance at December 31, 2000	259	173	36	468
Additions	1,014	322	27	1,363
Deductions	(765)	(179)	(44)	(988)
Balance at December 31, 2001	$ 508	$ 316	$ 19	$ 843

Deductions reflect cash payments of $209, $369, and $428 for 1999, 2000 and 2001, respectively. These payments included cash termination benefits of $40, $257 and $341, respectively, which were primarily funded through cash from operations. Deductions also reflect noncash utilization of $43, $170 and $560 for 1999, 2000 and 2001, respectively. Noncash utilization in 2001 includes $200 associated with benefit plan curtailment costs, $188 associated with management separation benefits in connection with U.S. based managers expected to be funded through AT&T's pension assets, $121 for the deconsolidation of Excite@Home, reversal of $33 related to the 1999 and 2000 business restructuring plan (of which $15 related to employee separations and $18 related to contract terminations) and $18 of deferred severance payments primarily related to executives. Noncash utilization in 1999 and 2000 included deferred severance payments primarily related to executives. The business restructuring plans of 1999 and 2000 are substantially complete as of December 31, 2001.

The $1,200 million of asset impairments consisted of $1,032 million associated with the write-down of goodwill and other intangibles, warrants granted in connection with distributing the @Home service and fixed assets. These charges were due to continued deterioration in the business climate of, and reduced levels of venture capital funding activity for, Internet advertising and other Internet-related companies, continued significant declines in the market values of Excite@Home's competitors in the Internet advertising industry, and changes in their operating and cash flow forecasts for the remainder of 2001. These charges were also impacted by Excite@Home's decision to sell or shut down narrowband operations. As a result of the foregoing, and other factors, Excite@Home entered into bankruptcy proceedings in September 2001. In addition, AT&T recorded a related goodwill impairment charge of $139 associated with its acquisition goodwill of Excite@Home. Since we consolidated, but only owned approximately 23% of Excite@Home, a portion of the charges recorded by Excite@Home was not included as a reduction to AT&T's net income, but rather was eliminated in our Consolidated Statement of Operations as a component of "Minority interest income (expense)." Additionally, we recorded asset impairment charges of $29 related to the write-down of unrecoverable support assets where the carrying value was no longer supported by estimated future cash flows.

During 2000, we recorded $7,029 of net restructuring and other charges, which included $6,179 of asset impairment charges related to Excite@Home, $759 for restructuring and exit costs associated with AT&T's initiative to reduce costs, and $91 related to the government-mandated disposition of AT&T Communications (U.K.) Ltd., which would have competed directly with Concert.

The charges related to Excite@Home included $4,609 of asset impairment charges recorded by Excite@Home associated with the impairment of goodwill from various acquisitions, including Excite, and a related goodwill impairment charge of $1,570 recorded by AT&T associated with goodwill from the acquisition of our investment in Excite@Home.

The impairments resulted from the deterioration of the market conditions and market valuations of Internet-related companies during the fourth quarter of 2000, which caused Excite@Home to conclude that intangible assets related to their acquisitions of Internet-related companies may not be recoverable. In accordance with SFAS No. 121, "Accounting For The Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", Excite@Home conducted a detailed assessment of the recoverability of the carrying amounts of acquired intangible assets. This assessment resulted in a determination that certain acquired intangible assets, including goodwill, related to these acquisitions, including Excite, were impaired as of December 31, 2000. As a result, Excite@Home recorded impairment charges of $4,609 in December 2000, representing the excess of the carrying amount of the impaired assets over their fair value.

The review for impairment included a review of publicly traded Internet companies that are comparable to the companies that Excite@Home acquired. These companies experienced a substantial decline in stock price and market capitalization during the fourth quarter of 2000.

Excite@Home also reviewed the business climate for Internet advertising and web-based infrastructure companies as of December 31, 2000, and observed the following: (1) investor and consumer enthusiasm for the Internet sector severely deteriorated during the fourth quarter of 2000; (2) many Internet companies, including those acquired by Excite@Home, experienced significant decelerations in their growth both as a result of economic conditions and due to Internet-sector specific issues such as competition and the weakening of the Internet advertising market; and (3) funding sources for Internet-based consumer businesses, which require considerable amounts of capital, had substantially evaporated as of December 31, 2000. As a result, Excite@Home concluded that fundamental, permanent and significant adverse changes had occurred during the fourth quarter of 2000 in the business climate for companies providing Internet advertising and other web-based services.

In addition, Excite@Home reviewed operating and cash flow projections that existed at the time Excite@Home made the acquisitions and that were used as a basis upon which the decisions to complete the acquisitions were made. These operating and cash flow projections indicated that the acquired companies, over their useful lives, would be profitable and generate positive cash flows. The operating and cash flow projections were compared to operating results after the date of the acquisitions through December 31, 2000, as well as to projected operating results for 2001. These comparisons indicated that certain acquisitions generated operating and cash flow losses through the end of 2000, and were projected to continue generating operating and cash flow losses for the foreseeable future.

As a result of these factors, Excite@Home determined that the intangible assets related to the acquisitions might not be recoverable and conducted impairment tests.

Generally, the impairment tests were performed at an asset group level corresponding to the lowest level at which cash flows independent of other assets could be identified. Each asset group consisted of the goodwill and acquired identifiable intangible assets related to a specific acquisition. Acquired intangible assets were combined for those acquisitions where separately identifiable cash flows that are largely independent of the cash flows of other groups of assets could not be identified.

For each of the asset groups to be tested for impairment, Excite@Home projected undiscounted cash flows over a future projection period of five years, based on Excite@Home's determination of the current remaining useful lives of the asset groups, plus an undiscounted terminal period cash flow to reflect disposition of the entities at the end of their useful lives. Undiscounted future cash flows were estimated using projected net realizable value in a sales transaction (undiscounted cash flows during the expected remaining holding

period until disposition were estimated as negligible). The undiscounted future cash flows were compared to the carrying amount of each asset group and for those asset groups where the carrying amount exceeded the undiscounted future cash flows, Excite@Home concluded that the asset group was impaired.

Excite@Home measured the impairment loss related to impaired asset groups based on the amount by which the carrying amount of the asset group exceeded the fair value of the asset group. Measurement of fair value was based on an analysis by Excite@Home utilizing the best information available in the circumstances using reasonable and supportable assumptions and projections, and including the discounted cash flow and market comparison valuation techniques. The discounted cash flow analysis considered the likelihood of possible outcomes and was based on Excite@Home's best estimate of projected future cash flows, including terminal value cash flows expected to result from the disposition of the asset at the end of its useful life, discounted at our weighted average cost of capital. Weighted average cost of capital was based on historical risk premiums required by investors for companies of Excite@Home's size, industry and capital structure and included risk factors specific to Excite@Home. The market comparison model represented Excite@Home's estimate of the prices that a buyer would be willing to pay currently for similar assets, based on comparable products and services, customer base, risks, earnings capabilities and other factors.

Based on the foregoing, Excite@Home recorded an impairment write-down of $4,609 in the aggregate, which was allocated to each asset group based on a comparison of carrying values and fair values. The impairment write-down within each asset group was allocated first to goodwill, and if goodwill was reduced to zero, to identifiable intangible assets in proportion to carrying values.

Also as a result of the foregoing, AT&T recorded a goodwill and acquisition-related impairment charge of $1,570 associated with the acquisition of our investment in Excite@Home. The write-down of our investment to fair value was determined utilizing discounted expected future cash flows.

Since we consolidated but owned only approximately 23% of Excite@Home, 77% of the charge recorded by Excite@Home was not included as a reduction to AT&T's net income, but rather was eliminated in the Consolidated Statement of Income as "Minority interest income (expense)."

The $759 charge for restructuring and exit plans was primarily due to headcount reductions, mainly in AT&T Business Services, including network services, primarily for the consolidation of customer-care and call centers, as well as synergies created by the MediaOne merger.

Included in exit costs was $503 of cash termination benefits associated with the separation of approximately 7,300 employees as part of voluntary and involuntary termination plans. Approximately one-half of the separations were management employees and one-half were non-management employees. Approximately 6,700 employee separations were related to involuntary terminations and approximately 600 to voluntary terminations.

We also recorded $62 of network lease and other contract termination costs associated with penalties incurred as part of notifying vendors of the termination of these contracts during the year, and net losses of $32 related to the disposition of facilities primarily due to synergies created by the MediaOne merger.

Also included in restructuring and exit costs in 2000 was $144 of benefit plan curtailment costs associated with employee separations as part of these exit plans. Further, we recorded an asset impairment charge of $18 related to the write-down of unrecoverable assets in certain businesses where the carrying value was no longer supported by estimated future cash flows.

During 1999, we recorded $975 of net restructuring and other charges. A $594 in-process research and development charge was recorded reflecting the estimated fair value of research and development projects at TCI, as of the date of acquisition, which had not yet reached technological feasibility or had no alternative future use. The projects identified related to efforts to offer voice over Internet protocol (IP), product-integration efforts for advanced set-top devices that would enable the offering of next-generation digital

services and cost-savings efforts for broadband-telephony implementation. In addition, Excite@Home had research and development efforts underway, including projects to allow for self-provisioning of devices and the development of next-generation client software, network and back-office infrastructure to enable a variety of network devices beyond personal computers, and improved design for the regional data centers' infrastructure.

Also in 1999, a $145 charge for restructuring and exit costs was recorded as part of AT&T's initiative to reduce costs. The restructuring and exit plans primarily focused on the maximization of synergies through headcount reductions in AT&T Business Services, including network operations, primarily for the consolidation of customer-care and call centers.

Included in exit costs was $142 of cash termination benefits associated with the separation of approximately 2,800 employees as part of voluntary and involuntary termination plans. Approximately one-half of the separations were management employees and one-half were non-management employees. Approximately 1,700 employee separations were related to involuntary terminations and approximately 1,100 to voluntary terminations.

We also recorded net losses of $307 related to the government-mandated disposition of certain international businesses that would have competed directly with Concert, and $50 related to a contribution agreement AT&T Broadband entered into with Phoenixstar, Inc. That agreement requires AT&T Broadband to satisfy certain liabilities owed by Phoenixstar and its subsidiaries. In addition, we recorded benefits of $121 related to the settlement of pension obligations for former employees who accepted AT&T's 1998 voluntary retirement incentive program (VRIP) offer.

10. INVESTMENT IN LIBERTY MEDIA GROUP

As a result of our merger with TCI, we acquired Liberty Media Group (LMG). Although LMG was wholly-owned, we accounted for it as an equity method investment since we did not have a controlling financial interest. On August 10, 2001, AT&T completed the split-off of Liberty Media Corporation (LMC) as an independent, publicly-traded company (see Note 2). The operating results of LMG from March 1, 1999, the date of acquisition through July 31, 2001, the deemed effective split-off date for accounting purposes, were reflected as "Equity (losses) earnings from Liberty Media Group" in the Consolidated Statements of Income. The impact of the operating results from August 1 through August 10, 2001, were deemed immaterial to our consolidated results. Our investment in LMG at December 31, 2000, was reflected as "Investment in Liberty Media Group and related receivables, net" in the accompanying Consolidated Balance Sheet.

Upon split-off, AT&T paid LMG $0.8 billion pursuant to a tax sharing agreement, related to TCI net operating losses generated prior to AT&T's merger with TCI. In addition, AT&T received approximately $0.1 billion from LMG related to taxes pursuant to a tax-sharing agreement between LMG and AT&T Broadband which existed prior to the TCI merger. At December 31, 2000, this receivable was included in "Investment in Liberty Media Group and related receivables, net" in the Consolidated Balance Sheet. At December 31, 2001, the remaining receivable from LMG under the tax-sharing agreement was $0.1 billion and was included in "Accounts receivable" in the Consolidated Balance Sheet.

AT&T CORP. AND SUBSIDIARIES (AT&T)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Summarized results of operations for LMG were as follows:

	FOR THE SEVEN MONTHS ENDED JULY 31, 2001	FOR THE YEAR ENDED DECEMBER 31, 2000	FOR THE TEN MONTHS ENDED DECEMBER 31, 1999
Revenue	$ 1,190	$1,526	$ 729
Operating (loss) income	(426)	436	(2,214)
(Loss) income from continuing operations before cumulative effect of accounting change	(2,711)	1,488	(2,022)
Cumulative effect of accounting change	545	--	--
Net (loss) income	$(2,166)	$1,488	$(2,022)

	AT DECEMBER 31, 2000
Current assets	$ 2,954
Noncurrent assets	51,314
Current liabilities	2,962
Noncurrent liabilities	16,668
Minority interest	348

During 2000, certain investees of LMG issued common stock. Changes in the equity of the investees, net of the dilution of LMG's ownership interest, resulted in an increase to AT&T's additional paid-in capital of $355.

11. OTHER INVESTMENTS

We have investments in various companies and partnerships that are accounted for under the equity method of accounting and included within "Other investments and related advances" in the Consolidated Balance Sheets. Under the equity method, investments are stated at initial cost, and are adjusted for subsequent contributions and our share of earnings, losses and distributions. At December 31, 2001 and 2000, we had equity investments (other than LMG) of $4.6 billion and $10.5 billion, respectively. The carrying value of these investments exceeded our share of the underlying reported net assets by approximately $3.1 billion and $8.3 billion, at December 31, 2001 and 2000, respectively. The excess basis, or goodwill is being amortized over periods ranging from 15 to 40 years. Pretax amortization of excess basis was $0.2 billion, $0.5 billion and $0.5 billion in 2001, 2000 and 1999, respectively. The amortization is shown as a component of "Net losses related to other equity investments" in the Consolidated Statements of Income. Effective January 1, 2002, in accordance with the provisions of SFAS No. 142, this excess basis will no longer be amortized (see Note 23). Distributions from equity investments totaled $25, $13, and $85, for the years ended December 31, 2001, 2000 and 1999, respectively.

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AT&T CORP. AND SUBSIDIARIES (AT&T)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Ownership of significant equity investments was as follows:

	AT DECEMBER 31, 2001	AT DECEMBER 31, 2000
Cablevision Systems Corporation	N/A(a)	27.98%(a)
Concert	50.00%(b)	50.00%(b)
AT&T Canada Corporation	21.52%(c)	21.52%(c)
Texas Cable Partnerships	50.00%	50.00%
Net2Phone, Inc.	N/A(d)	31.34%(d)
Insight Midwest LP	50.00%	50.00%
Century-TCI California, LP	25.00%	25.00%
Kansas City Cable Partners	50.00%	50.00%
Midcontinent Communications	50.00%	50.00%
Parnassos, LP	33.33%	33.33%

(a) In June 2001, as a result of AT&T no longer having representation on the Cablevision board of directors, the accounting of our investment in Cablevision was changed from equity method to cost method of accounting. At December 31, 2001, we owned 29.8 million shares, or a 16.8% ownership interest, of Cablevision NY Group Class A common stock, which had a closing market price of $47.45 per share. At December 31, 2000, we owned 48.9 million shares of Cablevision Systems Corporation Class A common stock, which had a closing market price of $84.94 per share.

(b) On October 16, 2001, AT&T announced a decision to unwind Concert, its Global venture with BT formed on January 5, 2000 (see Note 5).

(c) AT&T no longer records equity earnings or losses related to AT&T Canada because AT&T recognized losses in excess of its investment in AT&T Canada (see Note 5).

(d) At December 31, 2000, we owned 18.9 million shares of Net2Phone, Inc. Class A common stock, which had a closing market price of $7.38 per share on that date. In 2001, AT&T recorded a pretax investment impairment charge of $1.1 billion included in "Net losses related to other equity investments" in the Consolidated Statement of Income. This charge primarily represents the difference between the fair market value and the carrying value of our investment in Net2Phone, resulting from the deterioration of market valuations of Internet-related companies. Also, in October 2001, AT&T contributed its investment of 18.9 million shares in Net2Phone to NTOP Holdings, LLC (NTOP), and received 189 units of NTOP ownership. AT&T then sold 160 units of NTOP to LMC Animal Planet, a subsidiary of Liberty Media Corporation, and IDT Corporation. AT&T retained 29 units of NTOP ownership at December 31, 2001, which was accounted for as a cost method investment.

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AT&T CORP. AND SUBSIDIARIES (AT&T)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Summarized combined financial information for investments accounted for under the equity method was as follows:

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
CONCERT			
Revenue	$ 6,189	$7,748	--
Operating (loss) income	(3,574)	329	--
(Loss) income from continuing operations before extraordinary items and cumulative effect of accounting change	(3,609)	103	--
Net (loss) income	(3,609)	103	--

	AT DECEMBER 31,	
	2001	2000
Current assets	$3,744	$4,652
Non-current assets	1,758	4,702
Current liabilities	4,296	4,677
Non-current liabilities	76	2,107
Redeemable preferred stock	--	--
Minority interest	--	--

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
AT&T CANADA			
Revenue	$1,000	$1,001	$ 590
Operating (loss)	(226)	(225)	(248)
(Loss) from continuing operations before extraordinary items and cumulative effect of accounting change	(521)	(351)	(4)
Net (loss)	(518)	(351)	(4)

	AT DECEMBER 31,	
	2001	2000
Current assets	$ 391	$ 227
Non-current assets	2,590	2,661

Current liabilities	256	276
Non-current liabilities	2,963	2,439
Redeemable preferred stock	--	--
Minority interest	--	--

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
OTHER EQUITY INVESTMENTS			
Revenue	$8,150	$18,686	$ 8,376
Operating income (loss)	87	(1,051)	(1,278)
Income (loss)from continuing operations before extraordinary items and cumulative effect of accounting change	729	(1,503)	(2,266)
Net income (loss)	716	(1,550)	(2,373)

	AT DECEMBER 31,	
	2001	2000
Current assets	$ 654	$ 4,994
Non-current assets	11,183	25,015
Current liabilities	1,188	4,042
Non-current liabilities	7,010	17,970
Redeemable preferred stock	7	1,589
Minority interest	151	623

We also have investments accounted for under the cost method of accounting. At December 31, 2001 and 2000, we had cost method investments included in "Other investments and related advances" in the Consolidated Balance Sheets of $19.2 billion and $20.4 billion, respectively. At December 31, 2001 and 2000, approximately $7.9 billion and $6.5 billion, respectively, of our cost investments are indexed to certain long term debt instruments (see Note 12). In addition, there were approximately $0.7 billion and $2.1 billion of investments that were classified as current assets at December 31, 2001 and 2000, respectively, since they are indexed to certain currently maturing debt instruments. Under the cost method, investments are stated at cost, and earnings are recognized to the extent distributions are received from the accumulated earnings of the investee. Distributions received in excess of accumulated earnings are recognized as a reduction of our investment balance. These investments, are covered under the scope of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" and are carried at fair value. Some of our cost method investments are classified as "trading" securities, and are marked-to-market through the income statement. Other cost investments are classified as "available-for-sale" securities, and are marked-to-market through other comprehensive income on the balance sheet. We record an investment impairment charge on our "available-for-sale" securities in "Other (expense) income" in the Consolidated Statement of Income when we believe the decline in the investment value is other than temporary. During 2001, we recorded impairment charges on such securities of $1.1 billion, consisting primarily of charges related to Vodafone plc and Time Warner Telecom of $0.4 billion and $0.3 billion, respectively.

In addition, at December 31, 2001 and 2000, our 25.5% interest in TWE is accounted for as a cost method investment since we do not have the right to exercise significant influence. On February 28, 2001, we exercised our registration rights in TWE and formally requested TWE to begin the process of converting the limited partnership into a corporation with registered equity securities. If the proposed spin-off of AT&T Broadband occurs as currently structured, our investment in TWE will be included in the net assets spun-off.

12. DEBT OBLIGATIONS

DEBT MATURING WITHIN ONE YEAR

	AT DECEMBER 31, 2001	AT DECEMBER 31, 2000
Commercial paper	$ 5,087	$16,234
Short-term notes	3,970	11,505
Currently maturing long-term debt	3,779	3,724
Other	122	375
Total debt maturing within one year	$12,958	$31,838
Weighted-average interest rate of short-term debt	5.4%	6.5%

SECURITIZATIONS

During 2001, AT&T initiated a 364-day accounts receivable securitization program providing for up to $2.7 billion of funding, limited by monthly eligible receivables. Under the program, AT&T Business Services and AT&T Consumer Services accounts receivable were sold on a discounted, revolving basis, to a special purpose, wholly-owned subsidiary of AT&T, which assigns interests in such receivables to unrelated third-party financing entities. The securitization proceeds were recorded as a borrowing and included in "Debt maturing within one year" in the Consolidated Balance Sheet. At December 31, 2001, such short-term notes totaled $2.3 billion. The interest payment for the associated loan was approximately $54 for the year ending December 31, 2001. Interest is currently paid based on a floating London Interbank Offered Rate (LIBOR) set by the corresponding agreements. At December 31, 2001, the borrowing was collateralized by $5.4 billion of accounts receivable.

CREDIT FACILITY

On December 14, 2001, we amended and restated a pre-existing revolving-credit facility. The amended facility, which is syndicated to 30 banks, is for commercial paper back-up and makes $8 billion available to AT&T for a 364-day term. At December 31, 2001, AT&T had not utilized this facility, and currently has the entire $8 billion facility available to us. The credit facility agreement contains a financial covenant that requires AT&T to maintain a net debt-to-EBITDA ratio (as defined in the credit agreement) not exceeding 3.00 to 1.00 for four consecutive quarters ending on the last day of each fiscal quarter. At December 31, 2001, we were in compliance with this covenant. If AT&T were to become noncompliant it could result in the cancellation of the credit facility and any amounts outstanding under the credit facility becoming payable immediately.

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AT&T CORP. AND SUBSIDIARIES (AT&T)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

LONG-TERM DEBT

INTEREST RATES(B)	MATURITIES	AT DECEMBER 31, 2001	2000
DEBENTURES, NOTES AND TRUST PREFERRED SECURITIES(A)			
4.00% -- 6.00%	2002 -- 2009	$ 7,353	$ 6,639
6.06% -- 6.50%	2002 -- 2029	7,253	6,660
6.55% -- 7.50%	2002 -- 2037	8,252	6,470
7.53% -- 8.50%	2002 -- 2097	7,788	5,267
8.60% -- 19.95%*	2002 -- 2038	6,994	7,317
Variable rate	2002 -- 2054	6,744	4,164

	2001	2000
Total debentures, notes and trust preferred securities	44,384	36,517
Other	382	360
Unamortized discount, net	(460)	(64)
Total long-term debt	44,306	36,813
Less: Currently maturing long-term debt	3,779	3,724
Net long-term debt	$40,527	$33,089

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* 19.95% interest rate relates to bank loans held by AT&T Latin America in the amount of $2.7 million

(a) Included in these balances was $858 and $946 representing the remaining excess of the fair value over the recorded value of debt in connection with the TCI and MediaOne mergers at December 31, 2001 and December 31, 2000, respectively. The excess is being amortized to interest expense over the remaining lives of the underlying debt obligations.

(b) The actual interest paid on our debt obligations may have differed from the stated amount due to our entering into interest rate swap contracts to manage our exposure to interest rate risk and our strategy to reduce finance costs (see Note 14).

The following table shows the maturities at December 31, 2001, of the $44,306 in total long-term obligations:

2002	2003	2004	2005	2006	LATER YEARS
$3,779..	$4,753	$5,801	$4,357	$5,867	$19,749

On November 21, 2001, AT&T completed a private bond offering which consists of $1.5 billion in five-year Senior Notes with an interest rate of 6.5%, $2.75 billion in 10 year Senior Notes with an interest rate of 7.30%, $2.75 billion in 30 year Senior Notes with an interest rate of 8.00%, 1.5 billion Euros of two-year Senior Notes with a floating interest rate of Euro Interbank Offered Rate (EURIBOR) plus 1.50% and 2.0 billion Euros of five-year Senior Notes with an interest rate of 6.00%. We received net proceeds of approximately $10.0 billion from the sale of the notes. The proceeds will primarily be utilized to retire short-term indebtedness and for general corporate purposes. The bond offering included provisions that would allow bondholders to require AT&T to repurchase the notes if certain conditions are not met in conjunction with the spin-off or the separation of AT&T Broadband from AT&T at the time of notification to bondholders of the intention to separate AT&T Broadband. These conditions include a maximum debt to EBITDA ratio (adjusted) for pro forma AT&T excluding AT&T Broadband of no more than 2.75 times at specified times and if credit ratings of these notes are downgraded below a certain level.

SUBSIDIARY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUSTS HOLDING SOLELY SUBORDINATED DEBT SECURITIES

Included in long-term and short-term debt are subsidiary-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely subordinated debt securities.

Certain subsidiary trusts of TCI (TCI Trusts) had preferred securities outstanding at December 31, 2001 and 2000, as follows:

SUBSIDIARY TRUST	INTEREST RATE	MATURITY DATE	CARRYING AMOUNT 2001	CARRYING AMOUNT 2000
TCI Communications Financing I..................	8.72%	2045	$ 527	$ 528

TCI Communications Financing II..................	10.00%	2045	513	514
TCI Communications Financing III.................	9.65%	2027	380	357
TCI Communications Financing IV..................	9.72%	2036	204	204
Total..			$1,624	$1,603

The TCI Trusts exist for the purpose of issuing trust preferred securities and investing the proceeds into subordinated deferrable interest notes (subordinated debt securities) of TCI. The subordinated debt securities have interest rates equal to the interest rate of the corresponding trust preferred securities and have maturity dates ranging from 30 to 49 years from the date of issuance. The preferred securities are mandatorily redeemable upon repayment of the subordinated debt securities, and are callable by AT&T. The Financing I and II trust preferred securities were redeemable at face value beginning in January and May 2001, respectively. Financing III trust preferred securities are callable at 104.825% of face value beginning in March 2007. Financing IV trust preferred securities are callable at face value beginning in March 2002.

On February 28, 2002, AT&T called for early redemption Financing I and II preferred securities. On February 26, 2002, AT&T announced that it was notifying holders that it will call Financing IV preferred securities for early redemption on April 1, 2002. At December 31, 2001, the Financing I, II and IV trust preferred securities were reclassed from long-term debt to short-term debt.

TCI effectively provides a full and unconditional guarantee of the TCI Trusts' obligations under the trust preferred securities. During 2000, AT&T provided a full and unconditional guarantee of the trust preferred securities for TCI Communications Financing I, II and IV subsidiary trusts (see Note 21).

AT&T has the right to defer interest payments up to 20 consecutive quarters; as a consequence, dividend payments on the trust preferred securities can be deferred by the trusts during any such interest-payment period.

Certain subsidiary trusts of MediaOne (MediaOne Trusts) had preferred securities outstanding at December 31, 2001 and 2000, as follows:

SUBSIDIARY TRUST	INTEREST RATE	MATURITY DATE	CARRYING AMOUNT 2001	2000
MediaOne Financing A.............................	7.96%	2025	$ 30	$ 30
MediaOne Financing B.............................	8.25%	2036	28	28
MediaOne Finance II..............................	9.50%	2036	214	214
MediaOne Finance III.............................	9.04%	2038	504	504
Total..			$776	$776

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AT&T CORP. AND SUBSIDIARIES (AT&T)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The MediaOne Trusts exist for the purpose of issuing the trust preferred securities and investing the proceeds into subordinated deferrable interest notes (subordinated deferrable notes) of MediaOne Group Funding, Inc., a wholly owned subsidiary of MediaOne. The subordinated deferrable notes have the same interest rate and maturity date as the trust preferred securities to which they relate. All of the subordinated deferrable notes are redeemable by AT&T at a redemption price of $25.00 per security, plus accrued and unpaid interest. Upon redemption of the subordinated deferrable notes, the trust preferred securities will be mandatorily redeemable, at a price of $25.00 per share, plus accrued and unpaid distributions. The 7.96% subordinated deferrable notes became redeemable after September 11, 2000. The 9.50% and 8.25% subordinated deferrable notes became redeemable after October 29, 2001. The 9.04% subordinated deferrable notes are redeemable after October 28, 2003.

On March 4, 2002, AT&T called for early redemption MediaOne Financing A, MediaOne Financing B and MediaOne Financing II preferred securities. At December 31, 2001, the Financing A, B and II preferred securities were reclassed from long-term debt to short-term debt.

MediaOne has effectively provided a full and unconditional guarantee of the MediaOne Trusts' obligations under the trust preferred securities. During 2000, AT&T provided a full and unconditional guarantee of MediaOne's trust preferred securities (see Note 21).

AT&T has the right to defer interest payments up to 20 consecutive quarters; as a consequence, dividend payments on the trust preferred securities can be deferred by the trusts during any such interest-payment period.

EXCHANGEABLE NOTES

Included in long-term and short-term debt are exchangeable notes. During 2001, we issued exchangeable notes which are mandatorily redeemable at AT&T's option into shares of AT&T Wireless and Cablevision NY Group Class A (Cablevision) common stock and Rainbow Media Group Class A (Rainbow Media Group) tracking stock, as applicable or its cash equivalent. During 2000, we issued exchangeable notes which are mandatorily redeemable at AT&T's option into shares of Comcast and Microsoft Corporation (Microsoft) common stock, as applicable, or its cash equivalent. During 1999 and 1998, MediaOne issued exchangeable notes which are mandatorily redeemable at AT&T's option into (i) Vodafone American Depository Receipts (ADRs) held by MediaOne, (ii) the cash equivalent, or (iii) a combination of cash and Vodafone ADRs. The maturity value of these exchangeable notes varies based upon the fair market value of the security it is indexed to.

Following is a summary of the exchangeable notes outstanding at December 31, 2001, which are indexed to 45.8 million shares of AT&T Wireless common stock:

MATURITIES	FACE VALUE	INTEREST RATE	PUT PRICE PER SHARE	CALL PRICE PER SHARE	CARRYING VALUE
2005......................	$220	LIBOR + 0.4%	$14.41	$18.87	$220
2006......................	220	LIBOR + 0.4%	14.41	19.31	219
2006......................	220	LIBOR + 0.4%	14.41	19.74	219

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Following is a summary of the exchangeable notes outstanding at December 31, 2001, which are indexed to 45 million shares of AT&T Wireless common stock:

MATURITIES	FACE VALUE	INTEREST RATE	PUT PRICE PER SHARE	CALL PRICE PER SHARE	CARRYING VALUE
2006......................	$204	LIBOR + 0.4%	$13.57	$19.03	$216
2006......................	201	LIBOR + 0.4%	13.37	19.27	216
2006......................	204	LIBOR + 0.4%	13.57	19.90	216

At maturity, the exchangeable notes will be redeemed, at AT&T's option, with (i) a number of shares of AT&T Wireless common stock equal to the underlying shares multiplied by the exchange ratio, or (ii) its equivalent cash value. The exchange ratio will be calculated at maturity in the following manner:

(a) If the fair market value of a share of AT&T Wireless common stock is greater than the call price, the exchange ratio will be a fraction, the numerator of which is equal to the sum of (i) the put price, plus (ii) the excess of the fair market value of a share of AT&T Wireless common stock over the call price, and the denominator of which is equal to the fair market value of a share of AT&T Wireless common stock;

(b) If the fair market value of a share of AT&T Wireless common stock is less than or equal to the put price, the exchange ratio will be 1;

(c) If the fair market value of a share of AT&T Wireless common stock is less than or equal to the call price but greater than the put price, the exchange ratio will be a fraction, the numerator of which is equal to the put price, and the denominator of which is equal to the fair market value of a share of AT&T Wireless common stock.

Following is a summary of the exchangeable notes outstanding at December 31, 2001, which are indexed to 26.9 million shares of Cablevision common stock:

MATURITY	FACE VALUE	INTEREST RATE	PUT PRICE PER SHARE	CALL PRICE PER SHARE	CARRYIN VALUE
2004.........................	$970	6.50%	$36.05	$43.98	$1,030

At maturity, the exchangeable notes will be redeemed, at AT&T's option, with (i) a number of shares of Cablevision common stock equal to the underlying shares multiplied by the exchange ratio, or (ii) its equivalent cash value. The exchange ratio will be calculated at maturity in the following manner:

(a) If the fair market value of a share of Cablevision common stock is greater than the call price, the exchange ratio will be 0.8197;

(b) If the fair market value of a share of Cablevision common stock is less than or equal to the put price, the exchange ratio will be 1;

(c) If the fair market value of a share of Cablevision common stock is less than or equal to the call price but greater than the put price, the exchange ratio will be a fraction, the numerator of which is equal to the put price, and the denominator of which is equal to the fair market value of a share of Cablevision common stock.

Following is a summary of the exchangeable notes outstanding at December 31, 2001, which are indexed to 9.8 million shares of Rainbow Media Group tracking stock:

MATURITY	FACE VALUE	INTEREST RATE	PUT PRICE PER SHARE	CALL PRICE PER SHARE	CARRYIN VALUE
2005.........................	$220	6.25%	$22.50	$27.45	$196

At maturity, the exchangeable notes will be redeemed, at AT&T's option, with (i) a number of shares of Rainbow Media Group tracking stock equal to the underlying shares multiplied by the exchange ratio, or (ii) its equivalent cash value. The exchange ratio will be calculated at maturity in the following manner:

(a) If the fair market value of a share of Rainbow Media Group tracking stock is greater than the call price, the exchange ratio will be 0.8197;

(b) If the fair market value of a share of Rainbow Media Group tracking stock is less than or equal to the put price, the exchange ratio will be 1;

(c) If the fair market value of a share of Rainbow Media Group tracking stock is less than or equal to the call price but greater than the put price, the exchange ratio will be a fraction, the numerator of which is equal to the put price, and the denominator of which is equal to the fair market value of a share of Rainbow Media Group tracking stock.

Following is a summary of the exchangeable notes outstanding at December 31, 2001 and 2000, which are indexed to 25 million shares of Comcast common stock:

MATURITIES	FACE VALUE	INTEREST RATE	PUT PRICE PER SHARE	CALL PRICE PER SHARE	CARRYING VALU	
					2001	2000
2003....................	$371	6.75%	$41.50	$49.80	$320	$371
2004....................	314	5.50%	41.06	49.27	277	314
2005....................	329	4.63%	39.13	46.96	286	329

At maturity, the exchangeable notes will be redeemed, at AT&T's option, with (i) a number of shares of Comcast common stock equal to the underlying shares multiplied by the exchange ratio, or (ii) its equivalent cash value. The exchange ratio will be calculated at maturity in the following manner:

(a) If the fair market value of a share of Comcast common stock is greater than the call price, the exchange ratio will be 0.8333;

(b) If the fair market value of a share of Comcast common stock is less than or equal to the put price, the exchange ratio will be 1;

(c) If the fair market value of a share of Comcast common stock is less than or equal to the call price but greater than the put price, the exchange ratio will be a fraction, the numerator of which is equal to the put price, and the denominator of which is equal to the fair market value of a share of Comcast common stock.

Following is a summary of the exchangeable notes outstanding at December 31, 2001 and 2000, which are indexed to 10 million shares of Microsoft common stock:

MATURITIES	FACE VALUE	INTEREST RATE	PUT PRICE PER SHARE	CALL PRICE PER SHARE	CARRYING VALU 2001	2000
2003	$227	6.96%	$67.87	$97.39	$201	$145
2004	226	7.00%	67.87	111.64	198	144
2005	226	7.04%	67.87	128.60	196	144

At maturity, the exchangeable notes will be redeemed, at AT&T's option, with (i) a number of shares of Microsoft common stock equal to the underlying shares multiplied by the exchange ratio, or (ii) its equivalent cash value. The exchange ratio will be calculated at maturity in the following manner:

(a) If the fair market value of a share of Microsoft common stock is greater than the call price, the exchange ratio will be a fraction, the numerator of which is equal to the sum of (i) the put price, plus (ii) the excess of the fair market value of a share of Microsoft common stock over the call price, and the denominator of which is equal to the fair market value of a share of Microsoft common stock;

(b) If the fair market value of a share of Microsoft common stock is less than or equal to the put price, the exchange ratio will be 1;

(c) If the fair market value of a share of Microsoft common stock is less than or equal to the call price but greater than the put price, the exchange ratio will be a fraction, the numerator of which is equal to the put price, and the denominator of which is equal to the fair market value of a share of Microsoft common stock.

Following is a summary of the exchangeable notes outstanding at December 31, 2001 and 2000, which are indexed to 22.3 million shares of Comcast common stock:

MATURITIES	FACE VALUE	INTEREST RATE	PUT PRICE PER SHARE	CALL PRICE PER SHARE	CARRYING VALU 2001	2000
2003....................	$267	6.76%	$35.89	$50.64	$244	$267
2004....................	267	6.80%	35.89	58.39	244	267
2005....................	267	6.84%	35.89	67.97	245	267

At maturity, the exchangeable notes will be redeemed, at AT&T's option, with (i) a number of shares of Comcast common stock equal to the underlying shares multiplied by the exchange ratio, or (ii) its equivalent cash value. The exchange ratio will be calculated at maturity in the following manner:

(a) If the fair market value of a share of Comcast common stock is greater than or equal to the call price, the exchange ratio will be a fraction, the numerator of which is equal to the sum of (i) the put price, plus (ii) the excess of the fair market value of a share of Comcast common stock over the call price, and the denominator of which is equal to the fair market value of a share of Comcast common stock;

(b) If the fair market value of a share of Comcast common stock is less than or equal to the put price, the exchange ratio will be 1;

(c) If the fair market value of a share of Comcast common stock is less than the call price but greater than the put price, the exchange ratio will be a fraction, the numerator of which is equal to the put price, and the denominator of which is equal to the fair market value of a share of Comcast common stock.

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AT&T CORP. AND SUBSIDIARIES (AT&T)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Following is a summary of the exchangeable notes outstanding at December 31, 2001 and 2000, which are indexed to Vodafone ADRs:

MATURITIES	FACE VALUE	INTEREST RATE	PUT PRICE PER SHARE	CALL PRICE PER SHARE	CARRYING VALUE 2001	2000
2001.................	$1,686	6.25%	$19.65	$25.10	$ --	$2,337
2002.................	$1,129	7.00%	43.44	51.26	715	1,012

In the third quarter of 2001, exchangeable notes that were indexed to a portion of holdings of Vodafone ADR securities matured. Prior to the settlement, the carrying value of the notes was $1,634. These notes were settled with approximately 70 million shares of Vodafone ADR's and $252 million in cash. Approximately 57 million shares of the Vodafone ADR's used in the settlement were accounted for as "trading" securities and the remaining shares were accounted for as "available-for-sale" securities under SFAS No. 115. The settlement resulted in a pretax loss of approximately $392, which was reclassified from "Other comprehensive income" to "Other (expense) income" in the Consolidated Statement of Income.

The exchangeable notes that mature in 2002 are indexed to 26 million Vodafone ADRs, and will be exchanged at maturity as follows:

(a) If the fair market value of a Vodafone ADR is greater than or equal to the call price, each exchangeable note is equivalent to 0.8475 of a Vodafone ADR;

(b) If the fair market value of a Vodafone ADR is less than or equal to the put price, each exchangeable note is equivalent to one Vodafone ADR; or

(c) If the fair market value of a Vodafone ADR is less than the call price but greater than the put price, each exchangeable note is equivalent to a fraction of a Vodafone ADR equal to (i) the put price divided by (ii) the fair market value of a Vodafone ADR.

The exchangeable notes indexed to AT&T Wireless, Cablevision, Comcast and Microsoft common stock and Rainbow Media Group that are secured by AT&T's investments in AT&T Wireless, Cablevision, Comcast, Microsoft and Rainbow Media Group. The exchangeable notes indexed to Vodafone ADRs that are unsecured obligations, ranking equally in right of payment with all other unsecured and unsubordinated obligations of AT&T.

These exchangeable notes are being accounted for as indexed debt instruments since the maturity value of the debt is dependent upon the fair market value of the underlying securities. These exchangeable notes contain embedded derivatives that require separate accounting as the maturity value of the debt is dependent upon the fair market value of the underlying AT&T Wireless, Cablevision, Rainbow Media Group, Comcast, Microsoft and Vodafone securities, as applicable. The economic characteristics of the embedded derivatives (i.e., equity like features) are not clearly and closely related to that of the host instruments (a debt security). As a result the embedded derivatives are separated from the host debt instrument for valuation purposes and are carried at fair value within the host debt instrument. The embedded derivatives for AT&T Wireless, Cablevision and Rainbow Media Group exchangeable notes are designated as cash flow hedges. These designated options are carried at fair value with changes in fair value recorded, net of income taxes, within "Other comprehensive income" as a component of shareowners' equity. There was no ineffectiveness recognized on the cash flow hedges. The Comcast, Microsoft, Vodafone and certain of the Cablevision and Rainbow Media Group options are undesignated and are carried at fair value with changes in fair value recorded in "Other income (expense)" in the Consolidated Statement of Income.

The options hedge the market risk of a decline in value of AT&T Wireless, Cablevision, Rainbow Media Group, Comcast, Microsoft and Vodafone securities. The market risk of a decline in these securities, below the respective put prices has been eliminated. In addition, any market gains we may earn have been limited to

the call prices, with the exception of certain debt indexed to Comcast stock, the Cablevision stock, Rainbow Media Group and Vodafone ADRs, which provide for our participation in a portion of the market gains above the call price.

Since all the AT&T Wireless, Cablevision and Rainbow Media Group securities and a portion of the Comcast, Microsoft and Vodafone ADR securities are cost method investments being accounted for as "available-for-sale" securities under SFAS No. 115, changes in the maturity value of the options and the underlying securities are being recorded as unrealized gains or losses, net of income taxes, within "Other comprehensive income as a component of shareowners' equity." The remaining portion of the Comcast, Microsoft and Vodafone securities are cost method investments being accounted for as "trading" securities as permitted under SFAS No. 115 and changes in the fair value of the options and the underlying securities are being recorded as net revaluation of certain financial instruments within "Other income (expense)" in the Consolidated Statement of Income.

OTHER DEBT

Included in long-term debt is other debt. During 2000, we entered into a series of purchased and written options on 21.9 million shares of Microsoft common stock, and issued floating rate debt. The carrying value of the debt at both December 31, 2001 and 2000, was $1,369, which pays interest at three-month LIBOR plus 0.4%. The debt in conjunction with the options is, repayable at AT&T's option in either Microsoft stock or cash and matures annually with $458 maturing in 2003 and 2004, and $453 maturing in 2005 (see Note 14).

In addition, during 1999 two subsidiaries of MediaOne, MediaOne SPC IV and MediaOne SPC VI, entered into a series of purchased and written options on Vodafone ADRs contributed to them by MediaOne, and issued floating rate debt. The carrying value of the debt at both December 31, 2001 and 2000, was $1,739, which pays interest at three-month LIBOR plus 0.5%. This debt matures in equal quarterly installments beginning in 2003 and ending in 2005. The assets of MediaOne SPC IV, which are primarily 29.1 million Vodafone ADRs, are available only to pay the creditors of MediaOne SPC IV. Likewise, the assets of MediaOne SPC VI, which are primarily 18.0 million Vodafone ADRs, are available only to pay the creditors of MediaOne SPC VI. MediaOne SPC IV and VI will generate cash to settle these notes by selling its Vodafone ADRs to the market (or to AT&T, at AT&T's option) and cash settle the option (see Note 14).

13. OTHER SECURITIES

PREFERRED STOCK OF SUBSIDIARIES

Prior to the TCI merger, TCI Pacific Communications Inc. (Pacific) issued 5% Class A Senior Cumulative Exchangeable preferred stock, which was outstanding as of December 31, 2001. Each share is exchangeable, from and after August 1, 2001, for approximately 8.365 shares of AT&T common stock (as adjusted for the July 2001 split-off of AT&T Wireless Services, Inc. from AT&T), subject to certain antidilution adjustments. Additionally, Pacific may elect to make any dividend, redemption or liquidation payment in cash, shares of AT&T common stock or a combination of the foregoing.

Dividends on the Pacific preferred stock were $31, $31 and $26 for the years ended December 31, 2001, 2000 and 1999, respectively and are reported within "Minority interest income (expense)" in the Consolidated Statements of Income. The Pacific preferred stock is reflected within "Minority Interest" in the Consolidated Balance Sheets, and aggregated $2.1 billion at both December 31, 2001 and 2000.

As of December 31, 2001, 59 thousand shares of the Pacific preferred stock had been exchanged for 495 thousand shares of AT&T common stock. At December 31, 2001 and 2000 there were approximately 6.2 million and 6.3 million shares outstanding, respectively.

Pacific has elected to exercise its right to redeem all outstanding shares of the Pacific preferred stock, that have not been exchanged as of April 26, 2002, at a price of $102.50 per share plus accrued dividends of $0.96 per share. The redemption price will be paid in AT&T Common Stock, up to a maximum of 52.3 million shares which were registered with the SEC in February of 2002, with any shortfall paid in cash.

COMPANY-OBLIGATED CONVERTIBLE QUARTERLY INCOME PREFERRED SECURITIES OF SUBSIDIARY TRUST HOLDING SOLELY SUBORDINATED DEBT SECURITIES OF AT&T AND RELATED WARRANTS

On June 16, 1999, AT&T Finance Trust I (AT&T Trust), a wholly owned subsidiary of AT&T, completed the private sale of 100 million shares of 5.0% cumulative quarterly income preferred securities (quarterly preferred securities) to Microsoft. Proceeds of the issuance were invested by the AT&T Trust in junior subordinated debentures (debentures) issued by AT&T due 2029, which represent the sole asset of the AT&T Trust.

The quarterly preferred securities pay dividends at an annual rate of 5.0% of the liquidation preference of fifty dollars per security, and are convertible at any time prior to maturity into 88.016 million shares of AT&T common stock (as adjusted for the July 2001 split-off of AT&T Wireless Services, Inc. from AT&T). The quarterly preferred securities are subject to mandatory redemption upon repayment of the debentures at maturity or their earlier redemption. The conversion feature can be terminated, under certain conditions, after three years.

The debentures make a quarterly payment in arrears of 62.5 cents per security on the last day of March, June, September and December of each year. AT&T has the right to defer such interest payments up to 20 consecutive quarters. As a consequence, quarterly dividend payments on the quarterly preferred securities can be deferred by the AT&T Trust during any such interest-payment period. If AT&T defers any interest payments, we may not, among other things, pay any dividends on our common stock until all interest in arrears is paid to the AT&T Trust.

Dividends paid on the quarterly preferred securities were $250, $250 and $135 for the years ended December 31, 2001, 2000 and 1999, respectively, and were reported within "Minority interest income (expense)" in the Consolidated Statements of Income.

On June 16, 1999, AT&T also issued to Microsoft 53 million warrants, each to purchase one share of AT&T common stock at a price of fifty-seven dollars per share at the end of three years (as adjusted for the July 2001 split-off of AT&T Wireless Services, Inc. from AT&T). Alternatively, the warrants are exercisable on a cashless basis. If the warrants are not exercised on the three-year anniversary of the closing date, the warrants expire.

A discount on the quarterly preferred securities equal to the value of the warrants of $306 was recognized and is being amortized over the 30-year life of the quarterly preferred securities as a component of "Minority interest income (expense)" in the Consolidated Statements of Income.

In connection with the merger of Comcast and AT&T Broadband (see Note 2), AT&T Comcast Corporation will assume the quarterly preferred securities. In conjunction with this transaction, Microsoft Corporation has agreed to convert these preferred securities into 115 million shares of AT&T Comcast Corporation common stock.

CENTAUR FUNDING CORPORATION

Centaur Funding Corporation (Centaur), a subsidiary of MediaOne, issued three series of preferred shares prior to AT&T's acquisition of MediaOne. Centaur was created for the principal purpose of raising capital through the issuance of preferred shares and investing those proceeds into notes issued by MediaOne SPC II, a subsidiary of MediaOne. Principal and interest payments from the notes are expected to be

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AT&T CORP. AND SUBSIDIARIES (AT&T)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Centaur's primary source of funds to make dividend and redemption payments on the preferred shares. In addition, the dividend and certain redemption payments on the preferred shares will be determined by reference to the dividend and redemption activity of the preferred stock of AirTouch Communications, Inc. (ATI Shares) held by MediaOne SPC II. Payments on the preferred shares are neither guaranteed nor secured by MediaOne or AT&T. The assets of MediaOne SPC II, which include the ATI shares, are available only to pay the creditors of MediaOne SPC II. These securities remained outstanding at December 31, 2001 and 2000 as follows:

	DIVIDEND RATE	MATURITY DATE	CARRYING AMOUNT 2001	CARRYING AMOUNT 2000
Series A................................	Variable	None	$ 100	$ 100
Series B................................	9.08%	April, 2020	927	927
Series C................................	None	April, 2020	127	118
Total...................................			$1,154	$1,145

The Auction Market Preference Shares, Series A, have a liquidation value of $250 thousand per share and dividends are payable quarterly when declared by Centaur's board of directors out of funds legally available. The 9.08% Cumulative Preference Shares, Series B, have a liquidation value of $1 thousand per share and dividends are payable quarterly in arrears when declared by Centaur's board of directors out of funds legally available. In addition, dividends may be declared and paid only to the extent that dividends have been declared and paid on the ATI shares. The preference shares, Series C, have a liquidation value of $1 thousand per share at maturity. The value of the Series C will be accreted to reach its liquidation value upon maturity. The Series B shares rank equally with the Series C shares as to redemption payments and upon liquidation, and the Series B and Series C shares rank senior to the Series A shares as to redemption payments and upon liquidation. The preference shares issued by Centaur are reflected within "Minority interest" in the Consolidated Balance Sheets.

Dividends on the preferred shares were $99 for the year ended December 31, 2001 and $55 for the period ended December 31, 2000, and were included within "Minority interest income (expense)" in the Consolidated Statements of Income.

CONVERTIBLE PREFERRED STOCK

On January 22, 2001, NTT DoCoMo invested approximately $9.8 billion for 812,512 shares of a new class of AT&T preferred stock with a par value of $1 per share; and five-year warrants to purchase the equivalent of an additional 41.7 million shares of AT&T Wireless Group tracking stock at $35 per share. The $9.8 billion of proceeds were recorded based on their relative fair values as $9.2 billion for the preferred shares, $0.3 billion for the warrants in other current liabilities and $0.3 billion for the amortizable beneficial conversion feature. The beneficial conversion feature represented the excess of the fair value of the preferred shares issued over the proceeds received and were recorded in "Additional paid-in capital" in the Consolidated Balance Sheet. Prior to the split-off of AT&T Wireless Group, the preferred shares, convertible at NTT DoCoMo's option, were economically equivalent to 406 million shares (a 16 percent interest) of AT&T Wireless Group tracking stock.

On July 9, 2001, in conjunction with the split-off of AT&T Wireless Group, these preferred shares were converted into AT&T Wireless common stock. Upon conversion, AT&T reduced its portion of the financial performance and economic value in the AT&T Wireless Group by 178 million shares, and the balance of the 406 million shares came from the issuance of 228 million new shares of AT&T Wireless common stock.

In 2001, included in "Dividends requirements of preferred stock" in the Consolidated Statement of Income, was the amortization of the beneficial conversion feature of $0.3 billion as well as dividends on the preferred shares of $0.3 billion.

14. FINANCIAL INSTRUMENTS

ADOPTION OF SFAS NO. 133

Effective January 1, 2001, AT&T adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and its corresponding amendments under SFAS No. 138. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. The adoption of SFAS No. 133 on January 1, 2001, resulted in a pretax cumulative-effect increase to income of $1.5 billion ($0.9 billion net-of-tax). $0.6 billion ($0.4 billion net-of-tax) and $0.9 billion ($0.5 billion net-of-tax) were attributable to AT&T Group (other than LMG) and LMG, respectively.

AT&T GROUP

AT&T Group's cumulative-effect increase to net income of $0.4 billion was attributable primarily to equity based derivative instruments embedded in indexed debt instruments and warrants held in both public and private companies.

Included in the after-tax cumulative effect benefit of $0.4 billion, was a $0.2 billion benefit for the changes in the valuation of the embedded and non-embedded net purchased options related to the indexed debt instruments and

$0.2 billion benefit for changes in the fair value of warrants.

Upon adoption, AT&T Group, as permitted by SFAS No. 133, reclassified $9.3 billion of securities from "available-for-sale" to "trading." This reclassification resulted in the recognition, in the income statement, of losses previously recorded within accumulated Other Comprehensive Income (OCI). A portion of the loss ($1.6 billion pretax; $1.0 billion net-of-tax) was recorded as part of the cumulative effect of adoption. This loss completely offset a gain for amounts also previously recorded within accumulated OCI on the indexed debt obligation that had been considered a hedge of Comcast, Microsoft and Vodafone available-for-sale securities. The reclassification of securities also resulted in a pretax charge of $1.2 billion ($0.7 billion net-of-tax) recorded in "Other (expense) income" in the Consolidated Statement of Income.

In addition, the adoption of SFAS No. 133 also resulted in a pretax charge to OCI of $10 ($6 net-of-tax) on cash flow hedges. The net derivative loss included in OCI as of January 1, 2001 will be reclassified into earnings over the life of the instruments, of which the last expires in February 2005.

LMG

LMG's cumulative-effect increase to income of $0.5 billion was attributable primarily to separately recording the embedded call option obligations associated with LMG's senior exchangeable debentures. Also included in the cumulative-effect was $87 previously included in OCI related primarily to changes in the fair value of LMG's warrants and options to purchase certain available-for-sale securities.

FINANCIAL INSTRUMENTS

In the normal course of business, we use various financial instruments, including derivative financial instruments, for purposes other than trading. These instruments include letters of credit, guarantees of debt, interest rate swap agreements, foreign currency exchange contracts, option contracts, equity contracts and warrants. Collateral is generally not required for these types of instruments.

By their nature, all such instruments involve risk, including the credit risk of nonperformance by counterparties, and our maximum potential loss may exceed the amount recognized in our balance sheet. However, at December 31, 2001 and 2000, in management's opinion, there was no significant risk of loss in the event of nonperformance of the counterparties to these financial instruments. We control our exposure to credit risk through credit approvals, credit limits and monitoring procedures. We do not have any significant exposure to any individual customer or counterparty, nor do we have any major concentration of credit risk related to any financial instruments.

LETTERS OF CREDIT

Letters of credit are purchased guarantees that ensure our performance or payment to third parties in accordance with specified terms and conditions. Management has determined that the Company's letters of credit do not create additional risk to AT&T. The notional amounts outstanding at December 31, 2001 and 2000 were $696 and $833 respectively. The fair values of the letters of credit, based on the fees paid to obtain the obligations, were immaterial at December 31, 2001 and 2000.

GUARANTEES OF DEBT

From time to time, we guarantee the debt of our subsidiaries and certain unconsolidated joint ventures. TCI, primarily before the merger, had agreed to take certain steps to support debt compliance with respect to obligations aggregating $1,461 at both December 31, 2001 and 2000 of certain cable television partnerships in which TCI has a noncontrolling ownership interest. Although there can be no assurance, management believes that it will not be required to meet its obligations under such guarantees. Additionally, in connection with the restructuring of AT&T in 1996, we issued guarantees for certain debt obligations of our former subsidiaries AT&T Capital Corp. and NCR. The amount of guaranteed debt associated with AT&T Capital Corp. and NCR was $51 at both December 31, 2001 and 2000, respectively. Total notional amounts of guaranteed debt at December 31, 2001 and 2000 were $1,522 and $1,557, respectively. At December 31, 2001 and 2000, there were no quoted market prices for similar agreements.

INTEREST RATE SWAP AGREEMENTS

We enter into interest rate swaps, which are typically designated as either cash flow or fair value hedges, to manage our exposure to changes in interest rates. We enter into swap agreements to manage the fixed/floating mix of our debt portfolio in order to reduce aggregate risk to interest rate movements. Interest rate swaps also allow us to raise funds at floating rates and effectively swap them into fixed rates that are generally lower than those available to us if fixed-rate borrowings were made directly. These agreements involve the exchange of floating-rate for fixed-rate payments or fixed-rate for floating-rate without the exchange of the underlying principal amount. Floating-rate payments are based on rates tied to LIBOR.

The following table indicates the types of swaps in use at December 31, 2001 and 2000, the respective notional amounts and their weighted-average interest rates. Average variable rates are those in effect at the reporting date, and may change significantly over the lives of the contracts:

	2001	2000
Fixed-rate to variable-rate swaps -- notional amount........	$ 500	$ 750
Average receive rate....................................	9.68%	8.16%
Average pay rate..	4.02%	8.16%
Variable-rate to fixed-rate swaps -- notional amount........	$ 218	$ 218
Average receive rate....................................	2.08%	6.81%
Average pay rate..	7.31%	7.31%

In addition, we also have combined interest rate, foreign currency swap agreements for foreign-currency-denominated debt, which hedge our risk to both interest rate and currency movements. At December 31, 2001 and 2000 the notional amounts related to these contracts were $3,826 and $739 respectively. The increase is primarily related to the hedges associated with our Euro bond offering in 2001. The notional amounts of these hedges were approximately $3,087 at December 31, 2001.

The table below summarizes the fair and carrying values of the interest rate swaps. These swaps are valued using current market quotes which were obtained from dealers.

	2001 FAIR/CARRYING VALUE		2000 FAIR/CARRYING VALUE	
	ASSET	LIABILITY	ASSET	LIABILITY
Interest rate swap agreements	$26	$19	$4	$5
Combined interest rate foreign currency swap agreements	18	26	1	3

FOREIGN EXCHANGE

We enter into foreign currency forward contracts to manage our exposure to changes in currency exchange rates related to foreign-currency-denominated transactions. Although we do not designate most of our foreign exchange contracts as accounting hedges, we have certain contracts that are designated as foreign currency cash flow hedges in accordance with SFAS No. 133. In 2001, our foreign exchange contracts consisted principally of Canadian dollars, related to our obligation to purchase the remaining shares of AT&T Canada (the Canadian obligation), Euros, Japanese yen, Swiss francs, and Brazilian reais related to debt. In 2000, our foreign exchange contracts consisted principally of Brazilian reais and Swiss francs related to debt. In addition, we are subject to foreign exchange risk related to other foreign-currency-denominated transactions. The notional amounts under contract at December 31, 2001 and 2000 were $6,422 and $71 respectively. The increase in our foreign currency contract activity was primarily related to foreign exchange contracts entered into relating to the commencement of a Euro commercial paper program and the Canadian obligation with notional amounts outstanding of $5.3 billion respectively at December 31, 2001. The following table summarizes the fair and carrying values of the foreign exchange contracts at December 31, 2001 and 2000.

	2001 FAIR/CARRYING VALUE		2000 FAIR VALUE		2000 CARRYING VALUE	
	ASSET	LIABILITY	ASSET	LIABILITY	ASSET	LIABILITY
Foreign Exchange Contracts	$72	$299	$1	$2	$--	$1

EQUITY COLLARS

In 2000, we entered into three series of option agreements (Microsoft collars) with a single bank counterparty (counterparty) to hedge our exposure to 21.9 million shares of Microsoft common stock. These option agreements, combined with the underlying shares, secure a floating-rate borrowing from the counterparty, the face value of which is equal to the product of (i) the underlying shares multiplied by (ii) the put price. (see Note 12)

The option agreements are a series of purchased and written options that hedge a portion of our holdings in Microsoft common stock. The Microsoft collar is undesignated for accounting purposes in accordance with SFAS No. 133 and is carried on our balance sheet at fair value, with unrealized gains or losses being recorded in "Other income (expense)" in the Consolidated Statement of Income. These unrealized gains or losses are largely offset by the changes in the fair value of a certain number of our shares of Microsoft common stock that are classified as "trading in accordance with SFAS No. 115." The carrying value of the Microsoft collar

was $6 and $419 at December 31, 2001 and 2000, respectively. The fluctuation of the carrying value of the collars is primarily due to the change in the market prices of the underlying shares, which were $66.25 per share and $43.375 per share at December 31, 2001 and 2000, respectively and the adoption of SFAS No. 133, which required valuing the instruments at fair value rather than intrinsic value.

The following is a summary of the Microsoft collars outstanding at December 31, 2001:

MATURITY DATE	2003	2004	2005
Put price per share....................................	$62.48	$ 62.48	$ 62.48
Call price per share...................................	86.26	100.44	118.36

Since the debt and the collar are contracted with the same counterparty, the treatment is similar to a debt instrument with an embedded instrument and will be net settled as follows:

At the expiration of the Microsoft collar, we will satisfy the debt and collar net obligations under the floating-rate debt by delivering (i) a number of Microsoft shares equal to the underlying share amount multiplied by the exchange ratio, or (ii) its equivalent cash value. The exchange ratio will be calculated at expiration in the following manner:

(a) If the fair market value of a share of Microsoft common stock is greater than the call price, the exchange ratio will be a fraction, the numerator of which is equal to the sum of (i) the put price, plus (ii) the excess of the fair market value of a share of Microsoft common stock over the call price, and the denominator of which is equal to the fair market value of a share of Microsoft common stock;

(b) If the fair market value of a share of Microsoft common stock is less than or equal to the put price, the exchange ratio will be 1;

(c) If the fair market value of a share of Microsoft common stock is less than or equal to the call price but greater than the put price, the exchange ratio will be a fraction, the numerator of which is equal to the put price, and the denominator of which is equal to the fair market value of a share of Microsoft common stock.

Prior to our merger with MediaOne, two subsidiaries of MediaOne, MediaOne SPC IV and MediaOne SPC VI, each entered into a series of option agreements ("Vodafone collars") with a single bank counterparty ("counterparty") to hedge its exposure to 47.2 million Vodafone ADRs. In conjunction with the Vodafone collars, MediaOne SPC IV and MediaOne SPC VI also issued floating-rate debt in a series of private placements, the face value of which is equal to the product of (i) the underlying shares multiplied by (ii) the put price. Simultaneous with the execution of the Vodafone collars, MediaOne SPC IV and MediaOne SPC VI each entered into floating-to-fixed interest rate swaps in which future fixed payments were prepaid by each of MediaOne SPC IV and MediaOne SPC VI at inception. Therefore, the on-going interest payments on the floating-rate notes are paid by the counterparty. These prepaid interest rate swaps are designated as cash flow hedges in accordance with SFAS No. 133.

The option agreements are a series of purchased and written options that hedge a portion of our holdings in Vodafone ADRs. The Vodafone collars are undesignated for accounting purposes in accordance with SFAS No. 133 and are carried on our balance sheet at fair value, with unrealized gains or losses being recorded to "Other income (expense)" in the Consolidated Statement of Income. These unrealized gains or losses are largely offset by the changes in the fair value of a certain number of our Vodafone ADRs that are classified as "trading". The carrying value of the Vodafone collars was $462 and $(453) at December 31, 2001 and 2000, respectively. The fluctuation of the carrying value of the collars is primarily due to the change in the per share market price of the underlying ADRs, which was $25.68 per share and $35.81 per share at December 31, 2001 and 2000, respectively, and the adoption of SFAS No. 133, which requires valuing the instruments at fair value rather than intrinsic value.

The following is a summary of the Vodafone collars outstanding at December 31, 2001:

	MATURITY DATE		
MEDIAONE SPC IV VODAFONE COLLARS	2003	2004	2005
Average put price per share	$34.06	$33.78	$33.53
Average call price per share	49.13	48.85	48.60

	MATURITY DATE		
MEDIAONE SPC VI VODAFONE COLLARS	2003	2004	2005
Average put price per share	$39.85	$39.86	$39.86
Average call price per share	57.72	57.72	57.73

Since the debt and the collars are contracted with different counterparties, the instruments will be settled independently. MediaOne SPC IV and MediaOne SPC VI will satisfy its obligations to the floating-rate debt holders by delivering cash equal to the face value (see note 12). At the expiration of the Vodafone collars, MediaOne SPC IV and MediaOne SPC VI will cash settle its collars with the counterparty. Cash settlement of the Vodafone collars will be completed in the following manner:

a. If the fair market value of a Vodafone ADR is greater than the call price, MediaOne SPC IV or MediaOne SPC VI (as appropriate) will pay a sum of cash equal to the excess of the fair market value of a Vodafone ADR over the call price;

b. If the fair market value of a Vodafone ADR is less than the put price, the counterparty will pay to MediaOne SPC IV or MediaOne SPC VI (as appropriate) a sum of cash equal to the excess of the put price over the fair market price of a Vodafone ADR;

c. If the fair market value of a Vodafone ADR is less than or equal to the call price but greater than or equal to the put price, the Vodafone collar will expire worthless and no cash payment will be made or received by MediaOne SPC IV or MediaOne SPC VI (as appropriate).

The net value of (i) the sale of all Vodafone ADRs and (ii) the cash settlement of the Vodafone collars will always be equal to or greater than the face value of the floating-rate notes. Any remaining cash will be retained by MediaOne SPC IV and MediaOne SPC VI and would become available to AT&T for general corporate purposes.

EQUITY OPTION AND EQUITY SWAP CONTRACTS

We enter into equity option and equity swap contracts, which are undesignated in accordance with SFAS No. 133, to manage our exposure to changes in equity prices associated with stock appreciation rights of previously affiliated companies. The notional amounts outstanding on these contracts at December 31, 2001 and 2000 were $360 and $392 million, respectively. The following table summarizes the carrying and fair values of these instruments. Market prices are based on market quotes.

	2001 CARRYING/FAIR VALUE		2000 CARRYING/FAIR VALUE	
	ASSET	LIABILITY	ASSET	LIABILITY
Equity hedges	$--	$85	$2	$100

WARRANTS

We may obtain warrants to purchase equity securities in other private and public companies as a result of certain transactions. Private warrants and public warrants that provide for net share settlement (i.e. allow for

cashless exercise) are considered to be derivative instruments and recognized on our balance sheet at fair value (in accordance with SFAS No. 133). Warrants are not eligible to be designated as hedging instruments because there is no underlying exposure. Instead, these are effectively investments in private and public companies. The fair value of these warrants was $41 at December 31, 2001.

DEBT AND PREFERRED SECURITIES

The carrying value of debt maturing within one year approximates market value. The table below summarizes the carrying and fair values of long-term debt, excluding capital leases, and certain preferred securities. The market values of long-term debt were obtained based on quotes or rates available to us for debt with similar terms and maturities, and the market value of the preferred securities was based on market quotes. It is not practicable to estimate the fair market value of our quarterly preferred securities that aggregated $4,720 and $4,710 at December 31, 2001 and 2000, respectively as there are no current market quotes available on this private placement.

	2001		2000	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VAL
Long-term Debt, excluding capital leases................................	$43,978	$41,845	$32,591	$29,735
Pacific preferred stock................	2,100	948	2,121	595

DERIVATIVE IMPACTS

For the year ended December 31, 2001, "Other comprehensive income", as a component of shareowners' equity, net of tax, included deferred net unrealized losses of $244 relating to derivatives that are designated as cash flow hedges. This amount included net losses of $166 related to the ongoing fair value adjustments of equity based derivative instruments embedded in certain debt instruments, net losses of $78 related to certain swaps and foreign currency transactions.

For the year ended December 31, 2001, "Other (expense) income" in the Consolidated Statement of Income, included net gains of $1,328, relating to ongoing fair value adjustments of undesignated derivatives and derivatives designated as fair value hedges. The fair value adjustments included net gains of $1,247 for equity based derivative instruments related to certain debt instruments, net gains of $81 for changes in the fair value of warrants, swaps and foreign currency transactions. These gains were offset by the ongoing mark-to-market adjustments of the "trading" securities underlying the monetizations of $(983).

15. PENSION, POSTRETIREMENT AND OTHER EMPLOYEE BENEFIT PLANS

We sponsor noncontributory, defined benefit pension plans covering the majority of our employees. Pension benefits for management employees are based principally on career-average pay. Pension benefits for occupational employees are not directly related to pay. Pension trust contributions are made to trust funds held for the sole benefit of plan participants. Our benefit plans for current and certain future retirees include health-care benefits, life insurance coverage and telephone concessions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following table shows the components of the net periodic benefit costs included in our Consolidated Statements of Income:

	PENSION BENEFITS			POSTRETIREMENT BENEFITS		
	FOR THE YEARS ENDED DECEMBER 31,					
	2001	2000	1999	2001	2000	1999
Service cost benefits earned during the period	$ 257	$ 248	$ 247	$ 27	$ 35	$ 54
Interest cost on benefit obligations	951	991	919	346	352	324
Amortization of unrecognized prior service cost	172	174	159	4	4	13
Credit for expected return on plan assets	(1,660)	(1,821)	(1,458)	(201)	(230)	(200)
Amortization of transition asset	(89)	(156)	(158)	--	--	--
Amortization of gains	(181)	(332)	(10)	--	(16)	(1)
Charges for special termination benefits*	188	--	--	28	16	5
Net curtailment losses (gains)*	112	121	--	58	(14)	--
Net settlement losses (gains)*	4	8	(121)	--	--	--
Net periodic benefit (credit)cost	$ (246)	$ (767)	$ (422)	$ 262	$ 147	$ 195

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* Primarily included in "Net restructuring and other charges" in the Consolidated Statements of Income.

In connection with our restructuring plan announced in the fourth quarter of 2001 we recorded a $188 charge related to management employee separation benefits expected to be funded by assets of the AT&T Management Pension Plan. We also recorded pension and postretirement benefit curtailment charges of $170 and a $28 charge related to expanded eligibility for postretirement benefits for certain employees expected to exit under the plan.

In 1998 we offered a voluntary retirement incentive program (VRIP) to employees who were eligible participants in the AT&T Management Pension Plan. Approximately 15,300 management employees accepted the VRIP offer and had terminated employment as of December 31, 1999. The VRIP permitted employees to choose either a total lump-sum distribution of their pension benefits or periodic future annuity payments. Lump-sum pension settlements resulted in settlement gains of $121 recorded in 1999.

The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets, and a statement of the funded status:

	PENSION BENEFITS		POSTRETIREMENT BENEFITS	
	FOR THE YEARS ENDED DECEMBER 31,			
	2001	2000	2001	2000
CHANGE IN BENEFIT OBLIGATIONS:				
Benefit obligation, beginning of year.........	$13,063	$12,868	$ 4,886	$ 4,642
Service cost................................	257	248	27	35
Interest cost...............................	951	991	346	352
Plan amendments.............................	62	32	--	(45)
Actuarial losses (gains)....................	655	5	376	203
Acquisition.................................	--	204	--	38
Benefit payments............................	(1,117)	(1,228)	(407)	(362)
Special termination benefits................	188	--	28	16
Settlements.................................	(17)	(57)	--	--
Curtailment losses..........................	(7)	--	60	7
Benefit obligation, end of year..............	$14,035	$13,063	$ 5,316	$ 4,886
CHANGE IN FAIR VALUE OF PLAN ASSETS:				
Fair value of plan assets, beginning of year.....................................	$21,203	$21,854	$ 2,526	$ 2,852
Actual return on plan assets.................	(1,650)	335	(214)	(128)
Employer contributions......................	66	94	255	159
Acquisition.................................	--	205	--	5
Benefit payments............................	(1,117)	(1,228)	(407)	(362)
Settlements.................................	(17)	(57)	--	--
Fair value of plan assets, end of year........	$18,485	$21,203	$ 2,160	$ 2,526
At December 31,				
Funded (unfunded) benefit obligation..........	$ 4,450	$ 7,992	$(3,156)	$(2,360)
Unrecognized net (gain) loss.................	(2,506)	(6,493)	605	(188)
Unrecognized transition asset................	(34)	(123)	--	--
Unrecognized prior service cost..............	883	1,100	(12)	(9)
Net amount recorded..........................	$ 2,793	$ 2,476	$(2,563)	$(2,557)

At December 31, 2001, our pension plan assets included $31 of AT&T common stock. At December 31, 2000, our pension plan assets included $34 of AT&T common stock and $26 of LMG Series A common stock, and $2 of AT&T Wireless Group common stock.

The following table provides the amounts recorded in our Consolidated Balance Sheets:

	PENSION BENEFITS		POSTRETIREMENT BENEFITS	
	AT DECEMBER 31,			
	2001	2000	2001	2000
Prepaid pension cost	$3,337	$3,003	$ --	$ --
Benefit related liabilities	(648)	(579)	(2,563)	(2,557)
Intangible asset	50	30	--	--
Accumulated other comprehensive income	54	22	--	--
Net amount recorded	$2,793	$2,476	$(2,563)	$(2,557)

Our nonqualified pension plans had an unfunded accumulated benefit obligation of $132 and $125 at December 31, 2001 and 2000, respectively. On January 1, 2001 our postretirement health and life benefit plans were merged into one plan. At December 31, 2000, our postretirement health and telephone benefit plans had accumulated postretirement benefit obligations of $4,282, which were in excess of plan assets of $1,413.

The assumptions in the following table were used in the measurement of the pension and postretirement benefit obligations and the net periodic benefit costs as applicable.

	WEIGHTED-AVERAGE ASSUMPTIONS AT DECEMBER 31:		
	2001	2000	1999
Discount rate	7.25%	7.5%	7.75%
Expected return on plan assets	9.5%	9.5%	9.5%
Rate of compensation increase	4.5%	4.5%	4.5%

We assumed a rate of increase in the per capita cost of covered health-care benefits (the health-care cost trend rate) of 9.5%. This rate was assumed to gradually decline after 2001 to 5.0% by 2012 and then remain level. Assumed health-care cost trend rates have a significant effect on the amounts reported for the health-care plans. A one percentage point increase or decrease in the assumed health-care cost trend rate would increase or decrease the total of the service and interest-cost components of net periodic postretirement health-care benefit cost by $11 and $10, respectively, and would increase or decrease the health-care component of the accumulated postretirement benefit obligation by $155 and $135, respectively.

We also sponsor savings plans for the majority of our employees. The plans allow employees to contribute a portion of their pretax and/or after-tax income in accordance with specified guidelines. We match a percentage of the employee contributions up to certain limits. Our contributions amounted to $185 in 2001, $220 in 2000 and $197 in 1999.

16. STOCK-BASED COMPENSATION PLANS

Under the 1997 Long-term Incentive Program (Program), which was effective June 1, 1997, and amended on May 19, 1999 and March 14, 2000, we grant stock options, performance shares, restricted stock and other awards on AT&T common stock as well as stock options on AT&T Wireless Group tracking stock prior to the split-off of AT&T Wireless.

Under the initial terms of the Program, there were 150 million shares of AT&T common stock available for grant with a maximum of 22.5 million common shares that could be used for awards other than stock options. Subsequent to the 1999 modification, beginning with January 1, 2000, the remaining shares available for grant at December 31 of the prior year, plus 1.75% of the shares of AT&T common stock outstanding on January 1 of each year, become available for grant. Under the amended terms, a maximum of 37.5 million

shares can be used for awards other than stock options. As a result of the equity restructuring of stock options and other awards in connection with the AT&T Wireless split-off, the number of shares available for stock option grants and the number of shares available for other stock-based awards increased by 17.7 million and 2.9 million, respectively. The exercise price of any stock option is equal to the stock price when the option is granted. Generally, the options vest over three or four years and are exercisable up to 10 years from the date of grant.

Under the Program, performance share units are awarded to key employees in the form of either common stock or cash at the end of a three-year period, based on certain financial-performance targets.

On April 27, 2000, AT&T created a new class of stock and completed an offering of AT&T Wireless Group tracking stock. Under the Program, 5% of the outstanding AT&T Wireless Group shares became available for grant with a maximum of 1.25% of the outstanding shares that could be used for awards other than options. On January 1, 2001, the remaining AT&T Wireless Group shares available for grant at December 31, 2000, plus 2% of the outstanding AT&T Wireless Group shares on January 1 became available for grant. The exercise price of any stock option was equal to the stock price when the option was granted. When granted, the options had a two to three and one-half year vesting period. They are exercisable up to 10 years from the date of grant. In 2001 and 2000, there were no grants of awards other than stock options. On April 27, 2000, substantially all employees were granted AT&T Wireless Group tracking stock options.

On July 9, 2001, AT&T completed the split-off of AT&T Wireless Group as a separate, independently traded company. All AT&T Wireless Group tracking stock was converted into AT&T Wireless common stock on a one-for-one basis, and AT&T Wireless common stock held by AT&T was distributed to AT&T common shareowners on a basis of 0.3218 of a share of AT&T Wireless for each AT&T share outstanding. All outstanding AT&T Wireless Group tracking stock options and all AT&T common stock options granted prior to January 1, 2001 were treated in a similar manner. AT&T modified the terms and conditions of all outstanding stock option grants to allow the AT&T Wireless common stock options held by AT&T employees to immediately vest and become exercisable for their remaining contractual term and to also allow the AT&T common stock options held by AT&T Wireless employees to immediately vest and become exercisable for their remaining contractual term. In 2001, AT&T recognized $3 of compensation expense related to these modifications.

Under the AT&T 1996 Employee Stock Purchase Plan (Plan), which was effective July 1, 1996, and amended on May 23, 2001, we are authorized to sell up to 105 million shares of AT&T common stock to our eligible employees through June 30, 2006. Under the terms of the Plan, employees may have up to 10% of their earnings withheld to purchase AT&T's common stock. The purchase price of the stock on the date of exercise is 85% of the average high and low sale prices of shares on the New York Stock Exchange for that day. Under the Plan, we sold approximately 6 million shares to employees in both 2001 and 2000 and 3 million shares to employees in 1999.

We apply APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for our plans. Accordingly, no compensation expense has been recognized for our stock-based compensation plans other than for our performance-based and restricted stock awards and stock appreciation rights (SARs). Stock based-compensation (expense) income was $(121), $253 and $(462) in 2001, 2000 and 1999, respectively. These amounts included (expense) income of $(3), $269 and $(382) in 2001, 2000 and 1999, respectively, related to grants of SARs of affiliated companies held by certain employees subsequent to the TCI merger. We also entered into an equity hedge in 1999 to offset potential future compensation costs associated with these SARs. (Expense) income related to this hedge was $(16), $(324) and $227 in 2001, 2000 and 1999, respectively.

A summary of the AT&T common stock option transactions is shown below:

	2001	WEIGHTED-AVERAGE EXERCISE PRICE	2000	WEIGHTED-AVERAGE EXERCISE PRICE	1999	WEIGHTED-AVERAGE EXERCISE PRICE
			SHARES IN THOUSANDS			
Outstanding at January 1	249,026	$35.82	168,763	$37.42	131,904	$30.41
Options assumed in mergers	--		29,613	$24.71	11,770	$14.79
Options granted	68,402	$22.17	74,570	$36.12	47,927	$57.13
AT&T Wireless split-off adjustments	21,644					
Options and SARs exercised	(5,218)	$11.63	(11,446)	$22.07	(17,858)	$22.87
Options canceled or forfeited	(16,308)	$31.07	(12,474)	$45.61	(4,980)	$42.44
AT DECEMBER 31:						
Options outstanding	317,546	$24.58	249,026	$35.82	168,763	$37.42
Options exercisable	171,446	$26.05	131,450	$30.44	57,894	$28.21
Shares available for grant	34,718		34,204		41,347	

The weighted average exercise prices for the period prior to the AT&T Wireless split-off in 2001, and for the years ended December 31, 2000 and 1999 have not been adjusted to reflect the impact of the split-off.

At December 31, 2001, there were 4.5 million AT&T stock options with 2.2 million tandem SARs outstanding that were originally assumed in connection with our merger with MediaOne. All of the SARs were exercisable at a price of $19.33. There were no SARs exercised during 2001 or 2000.

AT&T CORP. AND SUBSIDIARIES (AT&T)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following table summarizes information about the AT&T common stock options outstanding at December 31, 2001:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AT DECEMBER 31, 2001	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT DECEMBER 31, 2001	WEIGHTED AVERAGE EXERCISE PRICE
	(IN THOUSANDS)			(IN THOUSANDS)	
$2.03 -- $13.65...........	16,245	4.9	$ 7.90	15,767	$ 7.75
$13.70 -- $16.77..........	12,968	8.6	$15.84	3,882	$15.38
$16.85 -- $17.33..........	28,866	9.4	$16.86	1,319	$16.95
$17.39....................	48,088	9.2	$17.39	2,907	$17.39
$17.44 -- $18.49..........	11,193	5.3	$17.88	7,312	$17.78
$18.50....................	14,420	5.6	$18.50	14,420	$18.50
$18.53 -- $19.77..........	9,325	5.7	$19.12	8,159	$19.11
$19.79....................	15,858	5.1	$19.79	15,858	$19.79
$19.88 -- $24.13..........	19,659	5.8	$22.88	14,768	$22.83
$24.23....................	25,088	8.6	$24.23	6,287	$24.23
$24.30 -- $31.74..........	24,575	7.4	$27.98	17,337	$28.89
$31.79....................	23,874	6.1	$31.79	23,874	$31.79
$31.85 -- $34.30..........	19,406	8.1	$34.16	7,372	$34.00
$34.33 -- $44.98..........	22,925	7.7	$38.80	16,105	$38.42
$45.20 -- $46.90..........	25,056	7.1	$45.21	16,079	$45.21
	317,546	7.4	$24.58	171,446	$26.05

A summary of the AT&T Wireless Group tracking stock option transactions is shown below:

	2001	WEIGHTED-AVERAGE EXERCISE PRICE	2000	WEIGHTED-AVERAGE EXERCISE PRICE
		SHARES IN THOUSANDS		
OUTSTANDING AT JANUARY 1.....................	73,626	$29.29	--	$ --
Options granted..............................	4,037	$22.57	76,983	$29.29
Options exercised............................	(1)	$22.03	--	$ --
Options canceled or forfeited................	(2,711)	$29.11	(3,357)	$29.43
Options assumed by AT&T Wireless on July 9th...	(74,951)			
AT DECEMBER 31:				
Options outstanding..........................	--		73,626	$29.29

Options exercisable..........................	--	12,391	$29.48
Shares available for grant....................	--	41,874	

AT&T has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation". If AT&T had ele