

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report: March 28, 2001

AT&T CORP.

A New York Corporation

Commission File No. 1-1105

I.R.S. Employer No.
13-4924710

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a) AT&T Corp. Consolidated financial information

AT&T is making available its audited consolidated financial results and certain other information for the year ended December 31, 2000. Filed as Exhibit 99.1 to this 8-K is the following information:

1. Management's Discussion and Analysis.
2. Seven-Year Summary of Selected Financial Data.
3. Report of Independent Accountants.
4. Consolidated Statements of Income for the Years Ended December 31, 2000, 1999 and 1998.
5. Consolidated Balance Sheets at December 31, 2000 and 1999.
6. Consolidated Statements of Changes in Shareowners' Equity for the Years Ended December 31, 2000, 1999 and 1998.
7. Consolidated Statements of Cash Flows for the Years Ended December 31, 2000, 1999 and 1998.
8. Notes to the Consolidated Financial Statements.

b) AT&T Wireless Group Combined financial information

AT&T is making available the audited combined financial results and certain other information of the AT&T Wireless Group for the year ended December 31, 2000. Filed as Exhibit 99.2 to this 8-K is the following information:

1. Management's Discussion and Analysis.
2. Report of Independent Accountants.
3. Combined Statements of Operations for the Years Ended December 31, 2000, 1999 and 1998.
4. Combined Balance Sheets at December 31, 2000 and 1999.
5. *Combined Statements of Changes in Combined Attributed Net Assets for the Years Ended December 31, 2000, 1999 and 1998.*
6. Combined Statements of Cash Flows for the Years Ended December 31, 2000, 1999 and 1998.
7. Notes to the Combined Financial Statements.

ITEM 7 FINANCIAL STATEMENTS AND EXHIBITS.

c) Exhibits.

Exhibit 23 Consent of PricewaterhouseCoopers LLP

Exhibit 99.1 AT&T Corp. consolidated financial results and certain other information for the year ended December 31, 2000.

Exhibit 99.2 AT&T Wireless Group combined financial results and certain other information for the year ended December 31, 2000.

We hereby consent to the incorporation by reference in the registration statements on Form S-3 for the Shareowner Dividend Reinvestment and Stock Purchase Plan (Registration No. 333-00573), Form S-8 for the AT&T Long Term Savings and Security Plan (Registration No. 333-47257), Forms S-8 for the AT&T Long Term Savings Plan for Management Employees (Registration Nos. 33-34264, 33-29256 and 33-21937), Form S-8 for the AT&T Retirement Savings and Profit Sharing Plan (Registration No. 33-39708), Form S-8 for Shares Issuable Under the Stock Option Plan of the AT&T 1987 Long Term Incentive Program (Registration No. 333-47251), Form S-8 for the AT&T of Puerto Rico, Inc. Long Term Savings Plan for Management Employees (Registration No. 33-50819), Form S-8 for the AT&T of Puerto Rico, Inc. Long Term Savings and Security Plan (Registration No. 33-50817), Post-Effective Amendment No. 1 to Form S-8 Registration Statement (Registration No. 33-54797) for the AT&T 1996 Employee Stock Purchase Plan, Form S-8 for the AT&T Shares for Growth Program (Registration No. 333-47255), Form S-8 for the AT&T 1997 Long Term Incentive Program (Registration No. 33-28665), Form S-3 for the AT&T \$2,600,000,000 Notes and Warrants to Purchase Notes (Registration No. 33-49589), Form S-3 for the AT&T \$3,000,000,000 Notes and Warrants to Purchase Notes (Registration No. 33-59495), Form S-4 for the AT&T 5,000,000 Common Shares (Registration No. 33-57745), and in Post-Effective Amendment Nos. 1, 2 and 3 on Form S-8 to Form S-4 Registration Statement (Registration No. 33-42150) for the NCR Corporation 1989 Stock Compensation Plan (Registration No. 33-42150-01), the NCR Corporation 1984 Stock Option Plan (Registration No. 33-42150-02) and the NCR Corporation 1976 Stock Option Plan (Registration No. 33-42150-03), respectively, and the Post-Effective Amendment Nos. 1, 2, 3 and 5 on Form S-8 to Form S-4 Registration Statement (Registration No. 33-52119) for the McCaw Cellular Communications, Inc. 1983 Non-Qualified Stock Option Plan (Registration No. 33-52119-01), the McCaw Cellular Communications, Inc. 1987 Stock Option Plan (Registration No. 33-52119-02), the McCaw Cellular Communications, Inc. Equity Purchase Plan (Registration No. 33-52119-03) and the McCaw Cellular Communications, Inc. Employee Stock Purchase Plan (Registration No. 33-52119-05), respectively, and Post-Effective Amendment No. 1 on Form S-8 to Form S-4 Registration Statement (Registration No. 33-45302) for the Teradata Corporation 1987 Incentive and Other Stock Option Plan (Registration No. 33-45302-01), Form S-8 for the AT&T Amended and Restated 1969 Stock Option Plan for LIN Broadcasting Corp. (Registration No. 33-63195), and in Post Effective Amendment Nos. 1, 2, 3, 4 and 5 on Form S-8 to Form S-4 Registration Statement (Registration No. 333-49419) for the Teleport Communications Group Inc. 1993 Stock Option Plan (Registration No. 333-49419-01), Teleport Communications Group Inc. 1996 Equity Incentive Plan (Registration No. 333-49419-02), ACC Corp Employee Long Term Incentive Plan (Registration No. 333-49419-03), ACC Corp. Non-Employee Directors' Stock Option Plan (Registration No. 333-49419-04) and ACC Corp. 1996 UK Sharesave Scheme (Registration No. 333-49419-05), and Form S-8 for AT&T Wireless Services, Inc. Employee Stock Purchase Plan (Registration No. 333-52757), and in Post-Effective Amendment Nos. 1 and 2 on Form S-8 and Post-Effective Amendment No. 3 to Form S-4 Registration Statement (Registration No. 333-70279) for the Tele-Communications, Inc. 1998 Incentive Plan, the Tele-Communications, Inc. 1996 Incentive Plan (Amended and Restated), the Tele-Communications, Inc. 1995 Employee Stock Incentive Plan (Amended and Restated), the Tele-Communications, Inc. 1994 Stock Incentive Plan (Amended and Restated), the Tele-Communications, Inc. 1994 Nonemployee Director Stock Option Plan, the Tele-Communications International, Inc., the 1996 Nonemployee Director Stock Option Plan, the Tele-Communications International, Inc. 1995 Stock Incentive Plan (Registration No. 333-70279-01), the Liberty Media 401(K) Savings Plan, the TCI 401(K) Stock Plan (Registration No. 333-70279-02), Form S-3 for the \$13,080,000 Debt Securities and Warrants to Purchase Debt Securities (Registration No. 333-71167), Form S-4 for Vanguard Cellular Systems, Inc. (Registration No. 333-75083), Form S-4 for MediaOne Corp. (Registration No. 333-86019), Form S-4 for Four Media Corp. (Registration No. 333-30250), Form S-8 for AT&T Long Term Savings (Registration No. 333-87935), Form S-3/A for the AT&T Wireless Group Tracking Stock (Registration No. 333-96037), Form S-8 for the AT&T 1997 Long-Term Incentive Plan for AT&T Wireless (Registration No. 333-36130), Form S-4 for Todd AO Corp. (Registration No. 333-36458), Post-Effective Amendment No. 1 to Form S-8 Registration Statement for the AT&T Long Term Savings Plan for Management Employees, the AT&T Long Term Savings Plan—San Francisco, and the AT&T Wireless Services 401(K) Retirement Plan (Registration No. 33-34264-1), Post Effective Amendment No. 1 to Form S-8 Registration Statement for the AT&T Long Term Savings Plan for Management Employees, the AT&T Long Term Savings and Security Plan, the AT&T Retirement Savings and Profit Sharing Plan, the AT&T of Puerto Rico, Inc., Long Term Savings and Security Plan, the AT&T of Puerto Rico, Inc. Long Term Savings Plan for Management Employees, the AT&T Long Term Savings Plan—San Francisco, and the AT&T Wireless Services 401(K) Retirement Plan (Registration No. 333-87935-1), Post Effective Amendment No. 1 on Form S-8 to Form S-4 Registration Statement for the Four Media Company 1997 Stock Plan, the Four Media Company Amended and Restated

Post Effective Amendment No. 1 on Form S-8 to Form S-4 Registration Statement for The Todd-AO Corporation 1986, 1994, 1995 and 1997 Stock Option Plan (Registration No. 333-36458-1), Form S-8 for the AT&T Long Term Savings Plan for Management employees, the AT&T Long Term Savings and Security Plan, the AT&T Retirement Savings and Profit Sharing Plan, the AT&T of Puerto Rico, Inc. Long Term Savings and Security Plan, the AT&T of Puerto Rico, Inc. Long Term Savings Plan for Management Employees, the AT&T Long Term Savings Plan, the AT&T Long Term Savings Plan—San Francisco, and the AT&T Wireless Services 401(K) Retirement Plan (Registration No. 333-43438), Form S-8 for the AT&T 1997 Long Term Incentive Plan (Registration No. 333-43440), Form S-4/A for Video Services Corporation (Registration No. 333-48606), Form S-4/A for the Wireless Exchange Offer (Registration No. 333-52670), Form S-8 for the AT&T Broadband Deferred Compensation Plan (Registration No. 333-53134), and Post Effective Amendment No. 1 on Form S-8 to Form S-4 Registration Statement for the International Post Limited 1993 Long Term Incentive Plan of AT&T Corp. (Registration No. 333-48606-1), of our reports dated March 16, 2001 relating to the consolidated financial statements of AT&T Corp. and its subsidiaries, and March 16, 2001 relating to the combined financial statements of AT&T Wireless Group, which appear in Current Report on Form 8-K of AT&T Corp.

PricewaterhouseCoopers LLP

New York, New York
March 28, 2001

OVERVIEW

AT&T Corp. (AT&T or the company) is among the world's communications leaders, providing voice, data, video and broadband telecommunications services to large and small businesses, consumers and government agencies. We provide domestic and international long distance; regional, local and wireless communications services; cable television and Internet communication services. AT&T also provides billing, directory and calling-card services to support our communications businesses.

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 which 60 million were treasury shares, and made cash payments of approximately \$24 billion.

The merger was recorded under the purchase method of accounting, and accordingly, the results of MediaOne have been included with the financial results of AT&T, within our Broadband segment, since the date of acquisition. Periods prior to the merger were not restated to include the results of MediaOne.

TRACKING STOCKS

On April 27, 2000, AT&T issued a new class of stock to track the performance of AT&T Wireless Group. AT&T sold 360 million shares of AT&T Wireless Group tracking shares at a price of \$29.50 per share. The 360 million shares track approximately 16% of the financial performance of AT&T Wireless Group.

In addition, in connection with the 1999 acquisition of Tele-Communications, Inc. (TCI), renamed AT&T Broadband (Broadband), AT&T issued a separate tracking stock to reflect the financial performance of Liberty Media Group (LMG), TCI's former programming and technology investment businesses. The outstanding Liberty Media Group tracking stock tracks 100% of the financial performance of LMG.

The remaining results of operations of AT&T, including approximately 84% of the financial performance of AT&T Wireless Group, are referred to as the AT&T Common Stock Group and are represented by AT&T common stock.

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 does 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 represent an interest in the economic performance of the net assets of each of the groups.

The earnings attributable to AT&T Wireless Group represent approximately 16% of the earnings from April 27, 2000, through December 31, 2000, and are excluded from the earnings available to AT&T Common Stock Group. Similarly, the earnings and losses related to LMG are excluded from the earnings available to AT&T Common Stock Group.

We do not have a controlling financial interest in LMG for financial accounting purposes; therefore, our ownership in LMG is 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 earnings (losses) from Liberty Media Group" and "Investment in Liberty Media Group and related receivables, net".

asset-based or tracking stocks.

As part of the first phase of the restructuring plan, we are planning an exchange offer that will give AT&T shareowners the opportunity to exchange any portion of their AT&T common shares for shares of AT&T Wireless Group tracking stock, subject to pro-rata. Following the exchange offer and subject to specified conditions, AT&T plans to split-off AT&T Wireless Group from AT&T. We intend, however, to retain up to \$3 billion of shares of AT&T Wireless for future sale, exchange or monetization within six months following the split-off. We expect AT&T Wireless will become an independent, publicly-held company in mid-2001, upon receipt of appropriate tax and other approvals.

In addition to the split-off of AT&T Wireless, we intend to fully separate or issue separate tracking stocks to reflect the financial performance and economic value of each of our other major business units. We plan to create and issue new classes of stock to track the financial performance and economic value of our AT&T Broadband unit and AT&T Consumer unit. We plan to sell some percentage of shares of the AT&T Broadband unit in the fall of 2001. Within 12 months of such sale, we intend to completely separate AT&T Broadband from AT&T, as an asset-based stock. The AT&T Consumer tracking stock is expected to be fully distributed to AT&T shareowners in the second half of 2001.

AT&T expects that these transactions will be tax-free to U.S. shareholders. AT&T's restructuring plan is complicated and involves a substantial number of steps and transactions, including obtaining various conditions, such as Internal Revenue Service (IRS) rulings. In addition, 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 plan. Any or all of the elements of AT&T's restructuring plan may not occur as we currently expect or in the timeframes 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 November 15, 2000, we announced that our board of directors voted to split-off LMG. A new asset-based security will be issued to holders of LMG tracking stock in exchange for their LMG tracking shares. The split-off remains subject to receipt of a favorable tax ruling from the IRS. We expect this split-off to be completed in mid-2001.

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 impact of existing and entry 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 towards consolidation in the telecommunications industry, which trend 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, and the cost of entering new markets necessary to provide, nationwide 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 successful execution of plans to dispose of non-strategic assets as part of an overall corporate deleveraging plan,
- the potential impact of NTT DoCoMo's investment in AT&T, including provisions of the agreements that restrict AT&T Wireless Group's future operations, and provisions that may require AT&T to repurchase DoCoMo's interest in AT&T if AT&T or AT&T Wireless Group fail to meet specified conditions,
- 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 and costs associated with the need to acquire additional wireless spectrum for current and future services,
- 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 in LMG 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 comparison of 2000 results with 1999 was impacted by events, such as acquisitions and dispositions that occurred during these two years. For example, in 2000 we acquired MediaOne and wireless properties in the San Francisco Bay area, which were both included in our 2000 results for part of the year, but were not in 1999 results. In 1999, we acquired TCI, the IBM Global Network (now AT&T Global Network Services, or AGNS) and Vanguard Cellular Systems, Inc. (Vanguard). These businesses were included in 2000 results for a full year, but only a part of 1999 (since their respective dates of acquisition). Further, we disposed of certain international businesses during 1999 and 2000. The results of businesses sold in 1999 were included in 1999 results for part of the year, and were not in 2000 results. Likewise, businesses sold in 2000 were included in 1999 results for the full year and in 2000 results for part of the year.

Year-over-year comparison was also impacted by the consolidation of At Home Corp. (Excite@Home) beginning September 1, 2000, due to corporate-governance changes which gave AT&T a controlling interest. At that time and on December 31, 2000, we had an approximate 23% economic interest and 74% voting interest in Excite@Home. Prior to September 1, 2000, we accounted for our ownership in Excite@Home under the equity method of accounting, which means our investment was included in "Other investments and related advances" in the 1999 Consolidated Balance Sheet and any earnings or losses were included as a component of "Net losses from other equity investments" in the Consolidated Statements of Income. The consolidation of Excite@Home resulted in the inclusion of 100% of its results in each line item of AT&T's Consolidated Balance Sheet and Consolidated Income Statement. The approximate 77% we do not own is shown in the 2000 Consolidated Balance Sheet within "Minority interest" and as a component of "Minority interest income (expense)" in the 2000 Consolidated Statement of Income.

On January 5, 2000, we launched Concert, 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 from other equity investments."

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 1999 results with 1998 was also impacted by the 1999 acquisitions of TCI, AGNS and Vanguard, since 1999 results include these businesses for part of the year, while 1998 does not include them. This comparison is also impacted by the 1999 dispositions of international businesses, which were included in 1999 results for part of the year, but were in 1998 results for the full year.

For the Years Ended December 31,

	2000	1999	1998
	Dollars in millions		
Business Services	\$ 28,488	\$ 27,480	\$ 24,285
Consumer Services	18,976	21,854	22,885
Wireless Services	10,448	7,627	5,406
Broadband	8,217	5,070	—
Other and Corporate	(148)	569	647
Total revenue	\$ 65,981	\$ 62,600	\$ 53,223

by ongoing competition and product substitution.

Total revenue in 1999 increased \$9.4 billion, or 17.6%, compared with 1998. Nearly three-quarters of the increase was due to acquisitions, net of dispositions. The remaining increase was fueled by growth in wireless, business data, business long distance voice and outsourcing revenue, partially offset by the continued decline of consumer long distance voice revenue.

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

For the Years Ended December 31,

	2000	1999	1998
	Dollars in millions		
Costs of services and products	\$ 17,587	\$ 14,594	\$ 10,495

Costs of services and products include the costs of operating and maintaining our networks, costs to support our outsourcing contracts, fees paid to other wireless carriers for the use of their networks (off-network roaming), programming and licensing costs for cable services, costs of wireless handsets sold, the provision for uncollectible receivables and other service-related costs.

These costs increased \$3.0 billion, or 20.5%, in 2000 compared with 1999. Nearly \$2.1 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 higher costs associated with our growing wireless subscriber base and wireless network as well as new outsourcing contracts increased expenses by approximately \$1.5 billion. The higher wireless expenses primarily related to higher costs of handsets sold, due to a 53.5% increase in gross subscriber additions in 2000 compared with 1999. Expenses also increased due to higher video-programming costs principally due to rate increases, and higher costs associated with new broadband services of approximately \$0.3 billion. These increases were partially offset by approximately \$0.9 billion of costs 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.

Costs of services and products rose \$4.1 billion, or 39.1%, in 1999 compared with 1998, primarily due to acquisitions, net of dispositions, which accounted for approximately \$3.7 billion of the increase. The higher costs associated with our growing wireless subscriber base as well as new outsourcing contracts increased expenses by approximately \$1.5 billion. Partially offsetting the 1999 increases were network cost-control initiatives of approximately \$0.4 billion, and approximately \$0.3 billion of lower expenses in Business Services related to per-call compensation expense, provision for uncollectible receivables and gross receipts and property taxes.

For the Years Ended December 31,

	2000	1999	1998
	Dollars in millions		
Access and other connection	\$ 13,518	\$ 14,686	\$ 15,328

Access and other connection expenses decreased 8.0%, to \$13.5 billion in 2000, compared with \$14.7 billion in 1999. Included within access and other connection expenses are costs that we pay to connect domestic calls on the facilities of other service providers. 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 \$0.7 billion of higher costs due to volume increases, and \$0.5 billion as a result of 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.

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. Partly offsetting the decline were costs incurred related to Concert products that AT&T now sells to its customers.

Access and other connection expenses declined \$0.6 billion, or 4.2%, in 1999 compared with the prior year. This decline resulted from \$0.9 billion of mandated reductions in per-minute access rates in 1999 and 1998, and \$0.6 billion of lower international settlement rates resulting from our negotiations with international carriers. Additionally, we continue to manage these costs through more efficient network usage. These reductions were partially offset by \$0.8 billion of higher costs due to volume growth, and \$0.3 billion as a result of increased per-line charges and Universal Service Fund contributions.

For the Years Ended December 31,

	2000	1999	1998
	Dollars in millions		
Selling, general and administrative	\$ 13,303	\$ 13,516	\$ 12,770

Selling, general and administrative (SG&A) expenses decreased \$0.2 billion, or 1.6%, 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 investment returns. Largely offsetting this decrease was more than \$1.4 billion of higher expenses associated with our growing wireless and broadband businesses, and nearly \$0.7 billion of expenses associated with acquisitions and the consolidation of Excite@Home, net of the impact of Concert and dispositions.

SG&A expenses increased \$0.7 billion, or 5.8%, in 1999 compared with 1998. This increase was primarily due to acquisitions, net of dispositions, which resulted in an increase in SG&A expenses of approximately \$1.4 billion. Also contributing to the increase was approximately \$0.4 billion of higher costs to support our growing wireless subscriber base. Partially offsetting these increases were our continued efforts to control costs on a companywide basis, which resulted in lower SG&A expenses of approximately \$0.9 billion, including lower spending for consumer long distance acquisition-programs.

For the Years Ended December 31,

	2000	1999	1998
	Dollars in millions		
Depreciation and other amortization	\$ 7,274	\$ 6,138	\$ 4,378

Depreciation and other amortization expenses rose \$1.1 billion, or 18.5%, in 2000 compared with 1999 and increased \$1.8 billion, or 40.2%, in 1999 compared with 1998. Approximately one-half of the increase in both years was due to acquisitions and the consolidation of Excite@Home, net of dispositions and the impact of Concert, as applicable. The remaining increase was primarily due to a higher asset base resulting from continued infrastructure investment. Total capital expenditures for 2000, 1999 and 1998 were \$14.6 billion, \$13.5 billion and \$8.0 billion, respectively. We continue to focus the vast majority of our capital spending on our growth businesses of broadband, wireless, data and IP and local.

For the Years Ended December 31,

	2000	1999	1998
	Dollars in millions		
Amortization of goodwill, franchise costs and other purchased intangibles	\$ 2,993	\$ 1,301	\$ 251

Amortization of goodwill, franchise costs and other purchased intangibles increased \$1.7 billion, or 130.1%, in 2000 compared with the prior year. This increase was largely attributable to the consolidation of Excite@Home, as well as acquisitions, primarily MediaOne and TCI. Franchise costs represent the value attributable to agreements with local authorities that allow access to homes in Broadband's service areas.

Dollars in millions

Net restructuring and other charges	\$ 7,029	\$ 1,506	\$ 2,514
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During 2000, we recorded \$7.0 billion of net restructuring and other charges, which had an approximate \$0.90 earnings per diluted share impact to the AT&T Common Stock Group. The 2000 charge included \$6.2 billion 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 \$4.6 billion 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 own 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 \$1.6 billion 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 network operations and Business Services, including 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 nonmanagement 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 \$1.5 billion of net restructuring and other charges, which had an approximate \$0.37 earnings per diluted share impact to the AT&T Common Stock Group.

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.

The charge associated with voice-over-IP technology, which allows voice telephony traffic to be digitized and transmitted in IP data packets, was \$225 million as of the date of acquisition. Current voice-over-IP equipment does not yet support many of the features required to connect customer premises equipment to traditional phone networks. Further technical development is also needed to ensure voice quality that is comparable to conventional circuit-switched telephony and to reduce the power consumption of the IP-telephony equipment. We started testing IP-telephony equipment in the field in late-2000 and will continue tests throughout 2001.

The charge associated with product-integration efforts for advanced set-top devices, which will enable us to offer next-generation digital services, was \$114 million as of the acquisition date. The associated technology consists of the development and integration work needed to provide a suite of software tools to run on the digital set-top box hardware platform. It is anticipated that field trials will begin in late-2001 for next-generation digital services.

The charge associated with cost-savings efforts for broadband-telephony implementation was \$101 million as of the date of acquisition. Telephony cost reductions primarily consist of cost savings from the development of a "line of power switch," which allows us to cost effectively provide power for customer telephony equipment through the cable plant. This device will allow us to provide line-powered telephony without burying the cable line to each house. Trials related to our telephony cost reductions are complete, and implementation has begun in certain markets.

Additionally, the in-process research and development charge related to Excite@Home was valued at \$154 million. This charge related to 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.

Although there are technological issues to overcome to successfully complete the acquired in-process research and development, we expect successful completion. We estimate the costs to complete the identified projects will not have a material impact on our results of operations. If, however, we are unable to establish technological feasibility and produce commercially viable products/services, anticipated incremental future cash flows attributable to expected profits from such new products/services may not be realized.

A \$531 million asset impairment charge was recorded in 1999 associated with the planned disposal of certain wireless communications equipment resulting from a program to increase the capacity and operating efficiency of our wireless network. As part of a multivendor program, contracts have been executed with select

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 Business Services and network operations, including the consolidation of customer-care and call centers.

The 1999 restructuring initiatives are projected to yield cash savings of approximately \$250 million per year. This restructuring yielded EBIT savings of approximately \$200 million in 2000, and is expected to save nearly \$400 million per year thereafter. We expect increased spending in growth businesses will largely offset these cash and EBIT savings. The EBIT savings, primarily attributable to reduced personnel-related expenses, will be realized in SG&A expenses and costs of services and products.

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 Broadband entered into with Phoenixstar, Inc. That agreement requires 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 \$57 million, which was fully accrued for at December 31, 2000. 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.

During 1998, we recorded \$2.5 billion of net restructuring and other charges, which had an approximate \$0.59 earnings per diluted share impact to the AT&T Common Stock Group. The bulk of the charge was associated with our overall cost-reduction program and the approximately 15,300 management employees who accepted the VRIP offer. A restructuring charge of \$2,724 million was composed of \$2,254 million and \$169 million for pension and postretirement special-termination benefits, respectively, \$263 million of benefit plan curtailment losses and \$38 million of other administrative costs. We also recorded charges of \$125 million for related facility costs and \$150 million for executive-separation costs. These charges were partially offset by benefits of \$940 million as we settled pension benefit obligations for 13,700 of the total VRIP employees. In addition, the VRIP charges were partially offset by the reversal of \$256 million of 1995 business restructuring reserves primarily resulting from the overlap of VRIP on certain 1995 projects.

Also included in the 1998 net restructuring and other charges were asset impairment charges totaling \$718 million, of which \$633 million was related to our decision not to pursue Total Service Resale (TSR) as a local-service strategy. We also recorded an \$85 million asset impairment charge related to the write-down of unrecoverable assets in certain international operations where the carrying value was no longer supported by future cash flows. This charge was made in connection with the review of certain operations that would have competed directly with Concert.

Additionally, \$85 million of merger-related expenses were recorded in 1998 in connection with the Teleport Communications Group Inc. (TCG) merger, which was accounted for as a pooling of interests. Partially offsetting these charges was a \$92 million reversal of the 1995 restructuring reserve. This reversal reflected reserves no longer deemed necessary. The reversal primarily included separation costs attributed to projects completed at a cost lower than originally anticipated. Consistent with the three-year plan, the 1995 restructuring initiatives were substantially completed by the end of 1998.

For the Years Ended December 31,

	2000	1999	1998
	Dollars in millions		
Operating income	\$ 4,277	\$ 10,859	\$ 7,487

Operating income decreased \$6.6 billion, or 60.6%, in 2000 compared with 1999. The decrease was primarily due to higher net restructuring and other charges of \$5.5 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), reflecting the approximate 77% of Excite@Home we do not own. Partially offsetting these decreases were cost-control initiatives and a larger

efficiencies. Also contributing to the increase was \$1.0 billion of lower net restructuring and other charges.

For the Years Ended December 31,

	2000	1999	1998
	Dollars in millions		
Other income	\$ 1,514	\$ 931	\$ 1,281

Other income increased \$0.6 billion, or 62.4%, in 2000 compared with 1999. This increase was primarily due to greater net gains on sales of businesses and investments of approximately \$1.0 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 Corporation (Comcast) and Cox Communications, Inc. (Cox), the sale of our investment in Lenfest Communications, Inc. (Lenfest) and Celumovil, and a gain recorded as a result of the merger of TeleCorp PCS, Inc. (TeleCorp) and Tritel, Inc. (Tritel) and related transactions. These gains aggregated approximately \$1.0 billion and had an approximate \$0.29 earnings per diluted share impact to the AT&T Common Stock Group. In 1999, we recorded significant gains associated with the sale of our Language Line Services business, a portion of our ownership interest in AT&T Canada as well as our investment in Wood-TV. These gains aggregated approximately \$0.4 billion and had an approximate \$0.07 earnings per diluted share impact to the AT&T Common Stock Group. Offsetting the increases to other 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.

Other income decreased \$0.4 billion, or 27.3%, in 1999 compared with 1998. The decrease was due to lower net gains on sales of businesses and investments of approximately \$0.3 billion as well as lower investment-related income of approximately \$0.2 billion. In 1999, we recorded significant gains associated with the sale of our Language Line Services business, a portion of our ownership interest in AT&T Canada as well as our investment in Wood-TV. These gains aggregated approximately \$0.4 billion and had an approximate \$0.07 earnings per diluted share impact to the AT&T Common Stock Group. In 1998, we recorded significant gains associated with the sale of AT&T Solutions Customer Care, LIN Television Corp. and Smartone Telecommunications Holdings Limited. These gains aggregated approximately \$0.8 billion and had an approximate \$0.18 earnings per diluted share impact to the AT&T Common Stock Group.

For the Years Ended December 31,

	2000	1999	1998
	Dollars in millions		
Interest expense	\$ 3,183	\$ 1,765	\$ 427

Interest expense increased 80.3%, or \$1.4 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, partially offset by higher capitalized interest.

Interest expense increased \$1.3 billion in 1999 compared with 1998, due to a higher average debt balance associated with our acquisitions, including debt outstanding of TCI at the date of acquisition.

For the Years Ended December 31,

	2000	1999	1998
	Dollars in millions		
Provision for income taxes	\$ 3,342	\$ 3,695	\$ 3,049

The effective income tax rate is the provision for income taxes as a percent of income from continuing operations before income taxes. The effective income tax rate was 128.1% in 2000, 36.9% in 1999 and 36.6% in 1998. In 2000, the effective tax rate was negatively impacted by Excite@Home, which is unable to record tax benefits associated with its pretax losses. Therefore the \$4.6 billion restructuring charges taken by

For the Years Ended December 31,

	2000	1999	1998
	Dollars in millions		

Minority interest income (expense)	\$ 4,120	\$ (115)	\$ 21
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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. The \$4.2 billion increase in minority interest 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 decrease in minority interest in 1999 compared with 1998 was primarily due to dividends on preferred securities issued by a subsidiary trust of AT&T in 1999.

For the Years Ended December 31,

	2000	1999	1998
	Dollars in millions		

Equity earnings (losses) from Liberty Media Group	\$ 1,488	\$ (2,022)	—
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Equity earnings from LMG, which are recorded net of income taxes, were \$1.5 billion in 2000, compared with losses of \$2.0 billion in 1999. The increase 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 increase. 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,

	2000	1999	1998
	Dollars in millions		

Net losses from other equity investments	\$ 205	\$ 765	\$ 78
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Net losses from other equity investments, which are recorded net of income taxes, were \$0.2 billion in 2000, a 73.2% improvement compared with 1999. This improvement was primarily a result of the redemption of our investment in AB Cellular which resulted in the distribution of wireless properties in the Los Angeles area to AT&T, which caused AB Cellular to record a gain on the distribution. Our pro rata share of this gain was approximately \$0.4 billion. In addition, in 2000, earnings from our investment in Cablevision Systems Corp. (Cablevision) were approximately \$0.2 billion higher than 1999 due to gains from cable-system sales. Offsetting these increases were losses from our stake in Time Warner Entertainment Company, L.P. (TWE) which we acquired in connection with the MediaOne merger and greater equity losses from Excite@Home, which aggregated approximately \$0.1 billion.

AT&T Common Stock Group:			
Income from continuing operations	\$	3,105	\$ 5,450 \$ 5,235
Earnings from continuing operations per share:			
Basic		0.89	1.77 1.96
Diluted		0.88	1.74 1.94
AT&T Wireless Group:			
Income	\$	76	— —
Earnings per share:			
Basic and diluted		0.21	— —
Liberty Media Group:			
Income (loss)	\$	1,488	\$ (2,022) —
Earnings (loss) per share:			
Basic and diluted		0.58	(0.80) —

Earnings per diluted share (EPS) attributable to the AT&T Common Stock Group were \$0.88 in 2000 compared with \$1.74 in 1999, a decrease of 49.4%. 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 were partially offset by lower losses from equity investments and an increase in other income, primarily associated with higher net gains on sales of businesses and investments, and higher investment-related income. Also impacting EPS was higher operating income associated with our mature long distance businesses.

EPS from continuing operations attributable to the AT&T Common Stock Group on a diluted basis declined 10.3% in 1999, to \$1.74, compared with 1998. The decline was primarily due to the impact of the TCI and AGNS acquisitions, including the impact of shares issued and equity losses of Excite@Home and Cablevision. Partially offsetting these declines were increased income from the remaining operations due to revenue growth and operating expense efficiencies, as well as lower net restructuring and other charges.

EPS for Liberty Media Group was \$0.58 in 2000, compared with a loss of \$0.80 per share for 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. 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 increase. 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.

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 Universal Card Services (UCS), which was sold on April 2, 1998, as discontinued operations. Accordingly, the revenue, costs and expenses, and cash flows of UCS have been excluded from the respective captions in the 1998 Consolidated Statement of Income and Consolidated Statement of Cash Flows, and have been reported through the April 2, 1998 date of disposition as "Income from discontinued operations," net of applicable income taxes; and as "Net cash provided by discontinued operations." The gain associated with the sale of UCS is recorded as "Gain on sale of discontinued operations," net of applicable income taxes.

SEGMENT RESULTS

In support of the services we provided in 2000, we segment our results by the business units that support our primary lines of business: Business Services, Consumer Services, Wireless Services and 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.

The discussion of segment results includes revenue; EBIT (earnings before interest and taxes, including pretax minority interest and net pretax losses of other equity investments); EBITDA [EBIT plus depreciation, amortization and minority interest income (expense) other than Excite@Home]; total assets, and capital additions. The discussion of EBITDA for Wireless Services and Broadband is modified to exclude other income and net losses from equity investments. Total assets for each segment generally include all assets, except intercompany receivables. However, our Wireless Services segment included intercompany receivables from AT&T and the related interest income since these assets relate to the results of the AT&T Wireless Group tracked business. 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. Shared network assets are allocated to the segments and reallocated each January, based on two years of volumes. 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.

EBIT is the primary measure 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 plus net pretax losses from equity investments, pretax minority interest income (expense) and other income. In addition, management also uses EBITDA as a measure of segment profitability and performance, and is defined as EBIT, excluding minority interest income (expense) other than Excite@Home, plus depreciation and amortization. Interest and 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 is meaningful to investors because it provides analysis of operating results using the same measures used by AT&T's chief operating decision makers and provides a return on total capitalization measure. We believe EBITDA is meaningful to investors as a measure of each segment's liquidity consistent with the measure utilized by our 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 \$9.4 billion, \$10.5 billion and \$8.7 billion for the years ended December 31, 2000, 1999 and 1998, respectively. EBITDA for AT&T was \$19.8 billion, \$18.6 billion and \$13.4 billion for the years ended December 31, 2000, 1999 and 1998, respectively. Our calculation 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 taxes which can affect cash flow.

Reflecting the dynamics of our business, we continually review our management model and structure and make adjustments accordingly.

BUSINESS SERVICES

Our Business Services segment offers a variety of global communications services, including long distance, local, and data and IP networking to small and medium-sized businesses, large domestic and multinational businesses and government agencies. Business Services is also a provider of voice, data and IP transport to service resellers (wholesale services).

	2000	1999	1998
	Dollars in millions		
External revenue	\$ 27,691	\$ 26,749	\$ 23,807
Internal revenue	797	731	478
Total revenue	28,488	27,480	24,285
EBIT	6,548	6,136	4,994
EBITDA	10,260	9,488	7,548
Capital additions	6,223	7,511	6,130
At December 31,			
	2000	1999	
Total assets	\$ 34,804	\$ 32,010	

REVENUE

In 2000, Business Services revenue grew \$1.0 billion, or 3.7%, compared with 1999. Approximately \$0.4 billion of the increase was due to the impact of acquisitions, partially offset by the formation of Concert. Strength in data and IP services as well as growth in our outsourcing business contributed \$1.8 billion to the increase. This growth, however, was offset by an approximate \$0.9 billion decline in long distance voice services as a result of continued pricing pressures in the industry.

Revenue in 1999 grew \$3.2 billion, or 13.2%. The acquisition of AGNS contributed approximately \$1.1 billion to the growth. Data, IP and outsourcing services grew approximately \$1.5 billion in 1999 compared with 1998, while long distance voice services and local services contributed approximately \$0.6 billion to the revenue increase.

Data services, which represent the transportation of data, rather than voice, along our network, was impacted by acquisitions and the formation of Concert. Excluding these impacts, data services grew at a high-teens percentage rate in 2000. Growth was led by the continued strength of frame relay services; IP services, which include IP-connectivity services and virtual private network (VPN) services; and high-speed private-line services. Excluding the impact of AGNS, data services grew at a high-teens percentage rate in 1999, led by strength in frame relay and high-speed private-line services.

AT&T Solutions outsourcing revenue grew 47.9% in 2000 and 146.0% in 1999. More than one-half of the 2000 growth and approximately 65% of the 1999 growth was driven by our acquisition of AGNS. The remaining growth in both years was primarily due to growth from new contract signings and add-on business from existing clients.

Excluding the impact of Concert, long distance voice services revenue declined at a mid single-digit percentage rate in 2000 due to a declining average price per minute reflecting the competitive forces within the industry which are expected to continue. Partially offsetting this decline was a high single-digit percentage growth rate in minutes. In 1999, long distance voice revenue grew at a low single-digit percentage rate, as volumes grew at a high-teens percentage rate, which was largely offset by a declining average rate per minute.

Local voice services revenue grew nearly 20% in 2000 and more than 50% in 1999. During 2000, AT&T added more than 867,000 access lines, with the total reaching nearly 2.3 million at the end of the year. During 1999, AT&T added more than 719,000 access lines. Access lines enable AT&T to provide local service to customers by allowing direct connection from customer equipment to the AT&T network. AT&T serves more than 6,000 buildings on-network (buildings where AT&T owns the fiber that runs into the building), representing an increase of approximately 3.5% over 1999. At the end of 1999, AT&T served just over 5,800 buildings on-network compared with approximately 5,200 buildings at the end of 1998.

EBIT/EBITDA

EBIT improved \$0.4 billion, or 6.7%, and EBITDA improved \$0.8 billion, or 8.1%, in 2000 compared with 1999. This improvement reflects 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. Additionally, the EBIT increase was partially offset by an increase in depreciation and amortization expense in 2000 compared with 1999 primarily due to a higher network asset base.

In 1999, EBIT improved \$1.1 billion, or 22.9%, and EBITDA improved \$1.9 billion, or 25.7%, compared with 1998. These increases were driven by revenue growth combined with margin improvement resulting from ongoing cost-control initiatives. The increase in EBIT was offset somewhat by increased depreciation and amortization expenses resulting from increased capital expenditures aimed at data, IP and local services.

OTHER ITEMS

Capital additions decreased \$1.3 billion in 2000, and increased \$1.4 billion in 1999. In 2000, the decrease was a result of lower spending for our long distance network (including the data network). In 1999, the increase was primarily due to additional spending for the build out of our local services SONET transport network.

Total assets increased \$2.8 billion, or 8.7%, at December 31, 2000, compared with December 31, 1999. The increase was primarily due to net increases in property, plant and equipment as a result of capital additions, and a higher accounts receivable balance.

CONSUMER SERVICES

Our Consumer Services segment provides residential customers with a variety of any-distance communications services, including long distance, local toll (intrastate calls outside the immediate local area) and Internet access. In addition, Consumer Services provides transaction services, such as prepaid calling card and operator-handled calling services. Local phone service is also provided in certain areas.

For the Years Ended December 31,

	2000	1999	1998
	<u>Dollars in millions</u>		
Revenue	\$ 18,976	\$ 21,854	\$ 22,885
EBIT	7,090	7,909	6,570
EBITDA	7,650	8,692	7,263
Capital additions	302	656	459
At December 31,	2000	1999	
Total assets	\$ 4,801	\$ 6,279	

REVENUE

Consumer Services revenue declined 13.2%, or \$2.9 billion, in 2000 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, such as Domestic Dial 1, 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

seven days a week, for the same rate. These One Rate offers continue to be well received in the market with more than 12 million customers enrolled since their introduction. In addition, AT&T has been successful in packaging services in the consumer market by giving customers the option of intraLATA service with its One Rate offers. More than 60% of the customers enrolled in One Rate have chosen AT&T as their intraLATA provider.

AT&T's any distance New York Local One Rate offer, which combines both local and long distance service, has experienced high customer acceptance. AT&T ended the year with nearly 760,000 customers under this plan.

In 1999, Consumer Services revenue decreased \$1.0 billion, or 4.5%, on a mid single-digit percentage decline in volumes. The 1999 decline reflects the ongoing competitive nature of the consumer long distance industry, as well as product substitution and market migration away from direct dial and higher-priced calling-card services to rapidly growing wireless services and lower-priced prepaid-card services.

EBIT/EBITDA

EBIT declined \$0.8 billion, or 10.4%, and EBITDA declined \$1.0 billion, or 12.0%, in 2000 compared with 1999. The declines in EBIT and EBITDA 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, primarily the 1999 sale of Language Line Services, and higher restructuring charges. Reflecting our cost-control initiatives, EBIT and EBITDA margins in 2000 improved to 37.4% and 40.3%, respectively, compared with 36.2% and 39.8%, respectively, in 1999.

EBIT grew \$1.3 billion, or 20.4%, and EBITDA grew \$1.4 billion, or 19.7%, in 1999. The EBIT margin improved to 36.2% in 1999 (excluding the gain on the sale of Language Line Services, the 1999 EBIT margin was 35.5%) from 28.7% in the prior year. The EBIT and EBITDA growth for 1999 reflects ongoing cost-reduction efforts, particularly in marketing spending, as well as lower negotiated international settlement rates.

OTHER ITEMS

Capital additions decreased \$0.4 billion, or 54.0%, in 2000 as a result of a planned reduction in spending on the voice network and reduced spending on internal-use software as most of the functionality upgrades were completed in 1999. In 1999, capital additions increased \$0.2 billion, or 42.9%, primarily due to increased spending on internal-use software to add more functionality to our services and in support of AT&T WorldNet Services subscriber growth.

Total assets declined \$1.5 billion, or 23.5%, during 2000. The decline was primarily due to assets transferred to Concert during 2000, as well as lower accounts receivable, reflecting lower revenue.

WIRELESS SERVICES

Our Wireless Services segment offers wireless voice and data services and products to customers in our 850 megahertz (cellular) and 1900 megahertz (Personal Communications Services, or PCS) markets. Wireless Services also includes certain interests in partnerships and affiliates that provide wireless services in the United States and internationally, aviation-communications services and the results of our messaging business through the October 2, 1998 date of sale. Also included are fixed wireless services providing high-speed Internet access and any-distance voice services using wireless technology to residential and small business customers.

EBITDA*	1,581	856
Capital additions	5,339	2,739

At December 31,

	2000	1999
Total assets	\$ 35,184	\$ 23,312

* EBITDA for Wireless Services excludes net earnings (losses) from equity investments and other income.

REVENUE

Wireless Services revenue grew \$2.8 billion, or 37.0%, in 2000, and \$2.2 billion, or 41.1%, in 1999. Approximately \$0.6 billion of the 2000 growth was due to acquisitions, and approximately \$0.2 billion of the 1999 growth was due to the net impact of acquisitions and dispositions. The remaining increases were due to subscriber growth, reflecting the continued successful execution of AT&T's wireless strategy of targeting and retaining specific customer segments, expanding the national wireless footprint, focusing on digital service, and offering simple rate plans. In addition, an increase in average monthly revenue per user (ARPU) contributed to the growth.

Consolidated subscribers grew 58.5% during 2000 to approximately 15.2 million, and grew 33.4% to approximately 9.6 million in 1999. This growth included approximately 3.0 million subscribers from acquisitions closed during 2000, and approximately 900,000 from acquisitions closed during 1999. ARPU was \$68.20 for 2000, a 3.6% increase compared with 1999. ARPU in 1999 was \$65.80, a 14.2% increase from 1998. The average monthly subscriber churn rate in 2000 was 2.9% compared with 2.6% in 1999. Average monthly subscriber churn increased during 2000 as a result of competitive pressures, as well as our efforts to expand to a broader base of consumer segments served (e.g., prepaid wireless services). We expect these factors to continue, which will result in a decline in ARPU.

EBIT/EBITDA

In 2000, EBIT improved \$1.6 billion from a deficit of \$0.5 billion in 1999. Approximately one-half of the improvement was due to higher pretax earnings on equity investments and greater gains on sales of businesses and investments. These items included higher equity earnings due to a gain recorded relating to the redemption of our investment in AB Cellular, as well as a gain on transactions associated with our affiliate investments in TeleCorp and Tritel, and a gain on the sale of Celumovil in 2000. In 1999, we recorded a gain on the sale of WOOD-TV. Also positively impacting the EBIT growth in 2000 was a 1999 asset impairment charge of \$0.5 billion and higher intercompany interest income in 2000 resulting from the AT&T Wireless Group tracking stock offering proceeds attributed to Wireless Services. The remaining EBIT increase was primarily due to increased revenue, partially offset by a related increase in expenses.

In 1999, EBIT declined \$0.9 billion from \$0.4 billion in 1998. The EBIT decline was primarily due to the 1999 asset impairment charge of approximately \$0.5 billion and lower gains on sales of businesses and investments of approximately \$0.5 billion.

EBITDA, which excludes net earnings (losses) from equity investments and other income, increased \$1.1 billion in 2000 to \$1.7 billion. Approximately one-half of the increase was due to the 1999 impairment charge and the remainder was due to increased revenue, partially offset by a related increase in expenses.

In 1999, EBITDA, which excludes net earnings (losses) from equity investments and other income, declined \$0.3 billion to \$0.6 billion. The decline was primarily due to the 1999 asset impairment charge, partially offset by an increase in revenue net of related expenses.

Total assets were \$35.2 billion as of December 31, 2000, an increase of \$11.8 billion, or 50.3%, compared with December 31, 1999. The increase was primarily due to increases in licensing costs, goodwill, and property, plant and equipment associated with the acquisitions that closed in 2000. In addition, property, plant and equipment increased as a result of significant capital expenditures in 2000. These increases were partially offset by a decrease in investments, as Wireless Services previously held equity interests in portions of wireless properties in the San Francisco Bay area and Los Angeles through AB Cellular. These markets were consolidated as of December 31, 2000.

BROADBAND

Our Broadband segment offers a variety of services through our cable broadband network, including traditional analog video and new services such as digital video service, high-speed data service and broadband telephony service.

For the Years Ended December 31,

	2000	1999
	Dollars in millions	
Revenue	\$ 8,217	\$ 5,070
EBIT	(1,175)	(1,475)
EBITDA*	1,709	802
Capital additions	4,963	4,759

At December 31,

	2000	1999
Total assets	\$ 114,681	\$ 53,810

* EBITDA for Broadband excludes net losses from equity investments and other income.

Results of operations for the year ended December 31, 2000, include the results of MediaOne since its acquisition on June 15, 2000, while 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 includes a full 12 months of TCI's results.

REVENUE

Broadband revenue grew \$3.1 billion in 2000, or 62.1%, 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 new services (digital video, high-speed data, and broadband telephony) and a basic-cable rate increase contributed approximately \$0.4 billion to the revenue increase.

At December 31, 2000, Broadband serviced approximately 16.0 million basic-cable customers, passing approximately 28.3 million homes, compared with 11.4 million basic-cable customers, passing approximately 19.7 million homes at December 31, 1999. The increase reflects the acquisition of MediaOne. At December 31, 2000, we provided digital video service to approximately 2.8 million customers, high-speed data service to approximately 1.1 million customers, and broadband telephony service to approximately 547,000 customers. This compares with approximately 1.8 million digital-video customers, approximately 207,000 high-speed data customers, and nearly 8,300 broadband telephony customers at the end of 1999.

EBIT/EBITDA

EBIT in 2000 was a deficit of \$1.2 billion, an improvement of \$0.3 billion, or 20.4%. 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

billion.

EBITDA, which excludes net losses from equity investments and other income, was \$1.7 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 offset these increases.

OTHER ITEMS

Capital additions increased 4.3% to approximately \$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. 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, 2000, were \$114.7 billion compared with \$53.8 billion at December 31, 1999. The increase in total assets was primarily due to the MediaOne acquisition and an increase in property, plant and equipment as a result of capital expenditures, net of depreciation expense. These increases were partially offset by a decrease in the mark-to-market valuation of certain investments.

CORPORATE AND OTHER

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

For the Years Ended December 31,

	2000	1999	1998
	Dollars in millions		
Revenue	\$ (148)	\$ 569	\$ 647
EBIT	(4,167)	(1,625)	(3,248)
EBITDA	(3,171)	(871)	(2,916)
Capital additions	2,150	1,494	594

At December 31,

	2000	1999
Total assets	\$ 18,463	\$ 15,535

REVENUE

Revenue for corporate and other primarily includes the elimination of intercompany revenue of negative \$0.8 billion (an increase of \$0.1 billion from 1999), revenue from Excite@Home of \$0.2 billion (which was consolidated beginning on September 1, 2000), and revenue from our international operations and ventures of \$0.3 billion (a decline of \$0.9 billion from 1999). The international operations and ventures revenue decrease was largely due to the revenue impact of businesses contributed to Concert and due to the impact of the divestment of certain businesses.

For 1999, revenue decreased \$0.1 billion, or 12.0%. The decline was driven by an increase in the elimination of intercompany revenue and the sale of AT&T Solutions Customer Care (ASCC) in 1998, partially offset by growth in international operations and ventures.

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 related to Excite@Home, and operating losses from Excite@Home. Partially offsetting these declines were 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 \$1.0 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.

In 1999, EBIT and EBITDA deficits improved by \$1.6 billion and \$2.0 billion to \$1.6 billion and \$0.9 billion, respectively. The improvements were driven by \$2.1 billion of lower net restructuring and other charges in 1999 compared with 1998, partially offset by lower gains on the sales of businesses and lower interest income, which negatively impacted EBIT and EBITDA by \$0.3 billion. Additionally, EBIT was impacted by dividends on trust preferred securities. In 1998, AT&T recorded a gain on the sale of ASCC.

OTHER ITEMS

Capital additions increased \$0.7 billion in 2000. The increase was driven by our investment in 2000 in Net2Phone, Inc. (Net2Phone), partially offset by lower investments in international nonconsolidated subsidiaries. Capital additions increased \$0.9 billion in 1999 reflecting increased international equity investments that support our global strategy.

Total assets increased \$2.9 billion at December 31, 2000, primarily due to our investments in Concert and Net2Phone.

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. Earnings from LMG were \$1.5 billion in 2000 compared with losses of \$2.0 billion from the date of acquisition through December 31, 1999. The increase 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 increase. 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.

LIQUIDITY

For the Years Ended December 31,

	2000	1999	1998
	Dollars in millions		
CASH FLOW OF CONTINUING OPERATIONS:			
Provided by operating activities	\$ 13,307	\$ 11,521	\$ 10,217
(Used in) provided by investing activities	(39,934)	(27,043)	3,582
Provided by (used in) financing activities	25,729	13,386	(11,049)

In 2000, net cash provided by operating activities of continuing operations increased \$1.8 billion. The increase was primarily driven by an increase in net income excluding the noncash impact of depreciation and amortization, net restructuring and other charges and minority interest income (expense). In 1999, net cash provided by operating activities of continuing operations increased \$1.3 billion, primarily due to an increase in

billion in 1999. During 2000, AT&T used approximately \$21.4 billion for acquisitions of businesses, primarily MediaOne, and spent \$15.5 billion on capital expenditures. During 1999, AT&T spent approximately \$14.3 billion on capital expenditures, approximately \$6.7 billion on acquisitions of businesses, primarily AGNS, and contributed \$5.5 billion of cash to LMG. During 1998, we received \$10.8 billion related to the sales of businesses, including receivables from UCS, partially offset by capital expenditures of \$7.8 billion.

During 2000, net cash provided by financing activities was \$25.7 billion, compared with \$13.4 billion in 1999. In 2000, AT&T received \$10.3 billion from the AT&T Wireless Group tracking stock offering and borrowed an additional \$17.0 billion of short-term debt and \$2.5 billion of net long-term debt. These were partially offset by the payment of \$3.0 billion in dividends. In 1999, AT&T received \$10.2 billion from the issuance of commercial paper and short-term debt, \$5.6 billion from the net issuance of long-term debt and \$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. Cash used in financing activities in 1998 primarily related to repayment of long-term and short-term debt, the acquisition of treasury shares and dividends paid on common stock.

At December 31, 2000, we had current assets of \$17.1 billion and current liabilities of \$50.9 billion. A significant portion of the current liabilities, \$31.9 billion, relates to short-term notes, the majority of which were commercial paper or debt with an original maturity of one year or less. We expect that we will retire a portion of the short-term debt with other financing arrangements, including the monetization of publicly-held securities, sales of certain non-strategic assets and investments, and securitization of certain accounts receivable. At December 31, 2000, we had a current liability of \$2.6 billion, reflecting our obligation under put options held by Comcast and Cox. In January 2001, Comcast and Cox exercised their rights under the put options and elected to receive AT&T stock in lieu of cash. Since December 31, 2000, we have announced the sale of investments or assets, which will result in gross cash proceeds of approximately \$4.6 billion. In addition, 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. We have, however, continued our ongoing discussions with AOL Time Warner for the sale of our stake in TWE.

In connection with the planned split-off of AT&T Wireless, we announced that we will retain up to \$3.0 billion in shares of AT&T Wireless, which we will dispose of within six months following the split-off. Also in connection with the split-off, on March 6, 2001, AT&T Wireless completed a \$6.5 billion global bond offering. AT&T Wireless will ultimately use the proceeds to repay \$4.8 billion in notes receivable and preferred stock that AT&T Common Stock Group holds in AT&T Wireless. In addition on March 23, 2001, AT&T Wireless entered into \$2.5 billion in revolving credit facilities. The facilities include a 364-day tranche and a 5-year tranche. The facilities are for general corporate purposes.

Another aspect of our restructuring is the expected sale, in late-2001, of a new class of stock which will track our Broadband business.

AT&T is in a joint venture with Alaska Native Wireless (ANW). At December 31, 2000, AT&T had committed to fund ANW up to \$2.4 billion based on the outcome of FCC license spectrum auction. In January 2001, the auction was completed and ANW was the highest bidder on approximately \$2.9 billion in licenses.

Since the announced restructuring plans to create four new businesses, AT&T's debt ratings have been under review by the applicable rating agencies. As a result of this review, AT&T's ratings have been downgraded and continued to be on credit watch with negative outlook. These actions will result in an increased cost of future borrowings and will limit our access to the capital markets.

On December 28, 2000, we entered into a 364-day, \$25 billion revolving-credit facility syndicated to 39 banks, which was unused at December 31, 2000. As a result of certain transactions subsequent to December 31, 2000, specifically the investment by NTT DoCoMo of \$9.8 billion for a new class of AT&T preferred stock, and the \$6.5 billion AT&T Wireless bond offering, this credit facility was reduced to \$18.3 billion.

Also in connection with our restructuring, we have reviewed our dividend policy as it relates to each of the new businesses. On December 20, 2000, we announced that the board of directors reduced AT&T's quarterly dividend to \$0.0375 per share, from \$0.22 per share.

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 affiliate companies. In addition, we are exposed to market risk from fluctuations in the prices of securities which we 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 use interest rate swaps to manage the impact of interest rate changes on earnings and cash flows and also to lower our overall borrowing costs. We monitor our interest rate risk on the basis of changes in fair value. Assuming a 10% downward shift in interest rates, the fair value of interest rate swaps and the underlying hedged debt would have changed by \$10 million and \$3 million at December 31, 2000 and 1999, respectively. In 2000, we entered into a combined interest rate, forward contract to hedge foreign-currency-denominated debt. Assuming a 10% downward shift in both interest rates and the foreign currency, the fair value of the contract and the underlying hedged debt would have changed by \$88 million. In addition, certain debt is indexed to the market prices of securities we own. Changes in the market prices of these securities result in changes in the fair value of this debt. Assuming a 10% downward change in the market price of these securities, the fair value of the underlying debt and securities would have decreased by \$534 million at December 31, 2000. Assuming a 10% downward shift in interest rates at December 31, 2000 and 1999, the fair value of unhedged debt would have increased by \$1.2 billion and \$938 million, respectively.

We use forward and option contracts to reduce our exposure to the risk of adverse changes in currency exchange rates. We are subject to foreign exchange risk for foreign-currency-denominated transactions, such as debt issued. In addition, in 1999 we were subject to foreign exchange risk related to reimbursements to foreign telephone companies for their portion of the revenue billed by AT&T for calls placed in the United States to a foreign country. We monitor our foreign exchange rate risk on the basis of changes in fair value. Assuming a 10% appreciation in the U.S. dollar at December 31, 2000 and 1999, the fair value of these contracts would have resulted in additional unrealized losses of \$6 million and \$29 million, respectively. Because these contracts are entered into for hedging purposes, we believe that these losses would be largely offset by gains on the underlying firmly committed or anticipated transactions.

We use equity hedges to manage our exposure to changes in equity prices associated with stock appreciation rights (SARs) of affiliated companies. Assuming a 10% decrease in equity prices of affiliated companies, the fair value of the equity hedges would have decreased by \$29 million and \$81 million at December 31, 2000 and 1999, respectively. Because these contracts are entered into for hedging purposes, we believe that the decrease in fair value would be largely offset by gains on the underlying transaction.

In order to determine the changes in fair value of our various financial instruments, we use certain modeling techniques, namely Black-Scholes, for our SARs and equity collars. We apply rate sensitivity

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,	2000		1999	
	Dollars in millions			
Total assets	\$	242,223	\$	169,406
Total liabilities		129,432		83,388
Total shareowners' equity		103,198		78,927

Total assets increased \$72.8 billion, or 43.0%, at December 31, 2000, primarily due to the impact of the MediaOne acquisition, which resulted in increased goodwill, franchise costs, other investments including TWE and Vodafone Group plc; and the addition of property, plant and equipment. Property, plant and equipment also increased due to capital expenditures made during the year, net of depreciation expense and equipment contributed to Concert. This equipment contribution, as well as a \$1.0 billion loan to Concert, and our investment in Net2Phone are reflected as an increase to other investments. Additionally, other receivables increased due to Concert. Wireless acquisitions, including the impact of consolidating former equity investments, resulted in increased licensing costs.

Total liabilities at December 31, 2000, increased \$46.0 billion, or 55.2%, primarily due to the impact of the MediaOne acquisition, including debt of MediaOne and borrowings to fund the acquisition, as well as the consolidation of Excite@Home. In addition, total debt increased due to the monetization of our investments in Microsoft Corporation and Comcast.

Minority interest increased \$2.5 billion to \$4.9 billion, primarily reflecting the minority interest of our ownership of Excite@Home resulting from the consolidation of Excite@Home beginning September 1, 2000, and the preferred stock outstanding of a MediaOne subsidiary.

Total shareowners' equity was \$103.2 billion at December 31, 2000, an increase of 30.8% from December 31, 1999. This increase was primarily due to the issuance of AT&T common stock for the MediaOne acquisition as well as the issuance of AT&T Wireless Group tracking stock.

The ratio of total debt to total capital, excluding LMG (debt divided by total debt and equity, excluding LMG) was 46.2% at December 31, 2000, compared with 43.0% at December 31, 1999. The equity portion of this calculation includes convertible trust preferred securities, as well as subsidiary redeemable preferred stock. The increase was primarily driven by higher debt associated with the MediaOne merger, largely offset by a higher equity base associated with the MediaOne merger and the AT&T Wireless Group tracking stock offering. The ratio of debt (net of cash) to EBITDA was 3.28X at December 31, 2000, compared with 1.88X at December 31, 1999, reflecting additional debt associated with the MediaOne merger. Included in debt was approximately \$8.7 billion of notes, which are exchangeable into or collateralized by securities we own. Excluding this debt, the ratio of net-debt-to-EBITDA at December 31, 2000, was 2.84X.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." Among other provisions, it requires that entities recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Gains and losses resulting from changes in the fair values of those derivatives would be accounted for depending on the use of the derivative and whether it

In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" as an amendment to SFAS No. 133. This statement provides clarification with regard to certain implementation issues under SFAS No. 133 on specific types of hedges.

On January 1, 2001, AT&T adopted SFAS No. 133. We recorded a cumulative effect of an accounting change, net of applicable income taxes, of approximately \$1.4 billion of income, or approximately \$0.34 per diluted share, primarily attributable to fair value adjustments of debt instruments, including those acquired in conjunction with the MediaOne merger, as well as to our warrant portfolio. In addition, in connection with the adoption of SFAS No. 133, we reclassified certain investment securities, which support debt that is indexed to those securities, from "available-for-sale" to "trading." This reclassification resulted in the recognition of a charge of \$2.8 billion (\$1.7 billion after income taxes), or approximately \$0.43 per diluted share, which was recorded as a reduction of other income. As available-for-sale securities, changes in fair value were previously included within other comprehensive income as a component of shareowners' equity. In addition, LMG recorded a cumulative effect of an accounting change, net of applicable income taxes, of approximately \$0.8 billion of income, or approximately \$0.31 per share.

The impact of the adoption of SFAS No. 133, as amended by SFAS No. 138, on AT&T's future results of operations is dependent upon the fair values of our derivatives and related financial instruments and could result in pronounced quarterly fluctuations in other income in future periods.

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities — a Replacement of FASB Statement No. 125." This statement provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. Under these standards, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. This statement provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. This statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. AT&T does not expect that the adoption of SFAS No. 140 will have a material impact on AT&T's results of operations, financial position or cash flows.

SUBSEQUENT EVENTS

On January 12, 2001, AT&T announced that Cox and Comcast had exercised their rights to sell a combined total of 60.4 million shares of Excite@Home Series A common stock to AT&T as part of an agreement announced in August 2000 to reorganize Excite@Home's governance. Cox and Comcast elected to receive shares of AT&T common stock in exchange for their Excite@Home shares. AT&T is currently in discussions to renegotiate the terms of the put options which may result in a change to the number of shares of AT&T stock that Cox and Comcast will receive, as well as the number of Excite@Home shares, if any AT&T receives. There can be no assurances that an agreement will be reached with Cox and Comcast.

On January 22, 2001, AT&T and NTT DoCoMo (DoCoMo) finalized an agreement whereby DoCoMo invested approximately \$9.8 billion for a new class of AT&T preferred stock, termed DoCoMo Wireless tracking stock, that is economically equivalent to 406 million shares of AT&T Wireless Group tracking stock and reflects approximately 16% of the financial performance and economic value of AT&T Wireless Group. AT&T allocated \$6.2 billion of the proceeds to AT&T Wireless Group. Each share of DoCoMo Wireless tracking stock is convertible at any time into AT&T Wireless Group tracking stock. Upon the conversion of the DoCoMo Wireless tracking stock, AT&T will reduce its portion of the financial performance and economic value in AT&T Wireless Group by 178 million shares, and the balance of the 406 million shares will come from the issuance of 228 million new shares of AT&T Wireless Group tracking stock. Additionally, upon completion of the

interest under this right will be treated as preferred stock dividends with charges recorded as a reduction of AT&T Common Stock Group earnings. In addition, DoCoMo acquired 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. As part of the agreement, DoCoMo obtained a seat on AT&T's board of directors until AT&T Wireless is split-off from AT&T as a separate public company, which is expected to occur later in 2001. At that time, DoCoMo will retain representation on the new public AT&T Wireless board.

In January 2001, AT&T entered into agreements with certain network equipment vendors, which extend through 2004, to purchase next-generation wireless network equipment for a total of approximately \$1.8 billion.

On February 27, 2001, AT&T entered into an agreement with Vodafone Group plc to sell our 10% stake in Japan Telecom Co. Ltd for approximately \$1.35 billion in cash. The transaction is expected to be completed in April 2001 and will result in a gain.

On March 1, 2001, AT&T Wireless completed a private placement of \$6.5 billion in notes. The notes pay interest at rates ranging from 7.35% to 8.75% per annum, with maturity dates ranging from 2006 to 2031. The notes include customary covenants and registration rights.

On March 23, 2001, AT&T Wireless entered into \$2.5 billion in revolving credit facilities. The facilities consist of a 364-day facility of \$1.25 billion and a five-year revolving credit facility of \$1.25 billion. The facilities may be used for general corporate purposes and are subject to customary covenants and events of default.

	2000 ¹	1999 ²	1998		1996	1995	1994
RESULTS OF OPERATIONS AND EARNINGS PER SHARE							
Revenue	\$ 65,981	\$ 62,600	\$ 53,223	\$ 51,577	\$ 50,688	\$ 48,449	\$ 46,063
Operating income	4,277	10,859	7,487	6,836	8,709	5,169	7,393
Income from continuing operations	4,669	3,428	5,235	4,249	5,458	2,981	4,230
AT&T Common Stock Group:							
Income from continuing operations	3,105	5,450	5,235	4,249	5,458	2,981	4,230
Earnings per basic share	0.89	1.77	1.96	1.59	2.07	1.15	1.65
Earnings per diluted share	0.88	1.74	1.94	1.59	2.07	1.14	1.64
Dividends declared per share	0.6975	0.88	0.88	0.88	0.88	0.88	0.88
AT&T Wireless Group ³ :							
Income	76	—	—	—	—	—	—
Earnings per basic and diluted share	0.21	—	—	—	—	—	—
Liberty Media Group ^{3,4} :							
Income (loss)	1,488	(2,022)	—	—	—	—	—
Earnings (loss) per basic and diluted share	0.58	(0.80)	—	—	—	—	—
ASSETS AND CAPITAL							
Property, plant and equipment, net	\$ 51,161	\$ 39,618	\$ 26,903	\$ 24,203	\$ 20,803	\$ 16,453	\$ 14,721
Total assets-continuing operations	242,223	169,406	59,550	59,994	55,838	54,365	47,926
Total assets	242,223	169,406	59,550	61,095	57,348	62,864	57,817
Long-term debt	33,092	23,217	5,556	7,857	8,878	8,913	9,138
Total debt	65,039	35,850	6,727	11,942	11,351	21,081	18,720
Mandatorily redeemable preferred securities	2,380	1,626	—	—	—	—	—
Shareowners' equity	103,198	78,927	25,522	23,678	21,092	17,400	18,100
Debt ratio ⁵	46.2%	43.0%	20.9%	33.5%	35.0%	54.8%	50.8%
Gross capital expenditures	14,566	13,511	7,981	7,714	7,084	4,659	3,504
OTHER INFORMATION							
Operating income as a percent of revenue	6.5%	17.3%	14.1%	13.3%	17.2%	10.7%	16.1%
Income from continuing operations attributable to AT&T Common Stock Group as a percent of revenue	4.8%	8.7%	9.8%	8.2%	10.8%	6.2%	9.2%
Return on average common equity ⁶	6.2%	15.2%	25.3%	19.7%	27.1%	0.4%	29.5%
Employees-continuing operations ⁶	165,600	147,800	107,800	130,800	128,700	126,100	116,400
Data at year-end:							
AT&T stock price per share	17.25	50.81	50.50	40.87	27.54	29.60	22.97
AT&T Wireless Group stock price per share	17.31	—	—	—	—	—	—
Liberty Media Group A stock price per share ³	13.56	28.41	—	—	—	—	—
Liberty Media Group B stock price per share ³	18.75	34.38	—	—	—	—	—

- On April 27, 2000, AT&T issued 15.6% of AT&T Wireless Group (AWE) tracking stock. AT&T Common Stock Group results exclude the portion of AT&T Wireless Group that is represented by the tracking stock and exclude Liberty Media Group (LMG). In addition, on June 15, 2000, AT&T completed the acquisition of MediaOne Group, Inc.
- In connection with the March 9, 1999, merger with Tele-Communications, Inc., AT&T issued separate tracking stock for LMG. LMG is accounted for as an equity investment.
- No dividends have been declared for AWE or LMG tracking stocks.
- LMG earnings per share amounts and stock prices have been restated to reflect the June 2000 two-for-one stock split.
- Debt ratio reflects debt as a percent of total capital (debt plus equity, excluding LMG). For purposes of this calculation, equity includes convertible quarterly trust preferred securities as well as redeemable preferred stock of subsidiary.
- Data provided excludes LMG.

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
Chairman of the Board,
Chief Executive Officer

Charles H. Noski
Senior Executive Vice President,
Chief Financial Officer

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 shareholders' 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, 2000 and 1999, and the results of their operations and their cash flows for each of the three years ended December 31, 2000, in conformity with accounting principles generally accepted in the United States. 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 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 and \$38,460 million as of December 31, 2000 and 1999, respectively, 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, 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 the opinion expressed above.

PricewaterhouseCoopers LLP
New York, New York
March 16, 2001

	1999		1998
	Dollars in millions (except per share amounts)		
Revenue	\$ 65,981	\$ 62,600	\$ 53,223
Operating Expenses			
Costs of services and products (excluding depreciation of \$5,457, \$4,947 and \$3,362, included below)	17,587	14,594	10,495
Access and other connection	13,518	14,686	15,328
Selling, general and administrative	13,303	13,516	12,770
Depreciation and other amortization	7,274	6,138	4,378
Amortization of goodwill, franchise costs and other purchased intangibles	2,993	1,301	251
Net restructuring and other charges	7,029	1,506	2,514
Total operating expenses	61,704	51,741	45,736
Operating income	4,277	10,859	7,487
Other income	1,514	931	1,281
Interest expense	3,183	1,765	427
Income from continuing operations before income taxes, minority interest and earnings (losses) from equity investments	2,608	10,025	8,341
Provision for income taxes	3,342	3,695	3,049
Minority interest income (expense)	4,120	(115)	21
Equity earnings (losses) from Liberty Media Group	1,488	(2,022)	—
Net losses from other equity investments	205	765	78
Income from continuing operations	4,669	3,428	5,235
Discontinued Operations			
Income from discontinued operations (net of income taxes of \$6)	—	—	10
Gain on sale of discontinued operations (net of income taxes of \$799)	—	—	1,290
Income before extraordinary loss	4,669	3,428	6,535
Extraordinary loss (net of income taxes of \$80)	—	—	137
Net income	\$ 4,669	\$ 3,428	\$ 6,398
AT&T Common Stock Group—per basic share:			
Income from continuing operations	\$ 0.89	\$ 1.77	\$ 1.96
Income from discontinued operations	—	—	—
Gain on sale of discontinued operations	—	—	0.48
Extraordinary loss	—	—	0.05
AT&T Common Stock Group earnings	\$ 0.89	\$ 1.77	\$ 2.39
AT&T Common Stock Group—per diluted share:			
Income from continuing operations	\$ 0.88	\$ 1.74	\$ 1.94
Income from discontinued operations	—	—	—
Gain on sale of discontinued operations	—	—	0.48
Extraordinary loss	—	—	0.05
AT&T Common Stock Group earnings	\$ 0.88	\$ 1.74	\$ 2.37
AT&T Wireless Group:			
Earnings per share:			
Basic and diluted	\$ 0.21	\$ —	\$ —
Liberty Media Group:			
Earnings (loss) per share:			

	2000	1999
	Dollars in millions	
ASSETS		
Cash and cash equivalents	\$ 126	\$ 1,024
Receivables, less allowances of \$1,379 and \$1,281	11,144	9,813
Other receivables	1,703	640
Investments	2,102	—
Deferred income taxes	812	1,287
Other current assets	1,200	1,120
TOTAL CURRENT ASSETS	17,087	13,884
Property, plant and equipment, net	51,161	39,618
Franchise costs, net of accumulated amortization of \$1,664 and \$697	48,218	32,693
Licensing costs, net of accumulated amortization of \$1,762 and \$1,491	13,626	8,548
Goodwill, net of accumulated amortization of \$850 and \$363	31,478	7,445
Investment in Liberty Media Group and related receivables, net	34,290	38,460
Other investments and related advances	34,261	19,366
Prepaid pension costs	3,003	2,464
Other assets	9,099	6,928
TOTAL ASSETS	\$ 242,223	\$ 169,406
LIABILITIES		
Accounts payable	\$ 6,455	\$ 6,771
Payroll and benefit-related liabilities	2,423	2,651
Debt maturing within one year	31,947	12,633
Liability under put options	2,564	—
Other current liabilities	7,478	6,152
TOTAL CURRENT LIABILITIES	50,867	28,207
Long-term debt	33,092	23,217
Long-term benefit-related liabilities	3,670	3,964
Deferred income taxes	36,713	24,199
Other long-term liabilities and deferred credits	5,090	3,801
TOTAL LIABILITIES	129,432	83,388
Minority Interest	4,883	2,391
Company Obligated Convertible Quarterly Income Preferred Securities of Subsidiary Trust Holding Solely Subordinated Debt Securities of AT&T	4,710	4,700
SHAREOWNERS' EQUITY		
Common Stock:		
AT&T Common Stock, \$1 par value, authorized 6,000,000,000 shares; issued and outstanding 3,760,151,185 shares (net of 416,887,452 treasury shares) at December 31, 2000, and 3,196,436,757 shares (net of 287,866,419 treasury shares) at December 31, 1999	3,760	3,196
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, and 2,313,557,460 shares at December 31, 1999	2,364	2,314
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, and 216,842,228 shares at December 31, 1999	206	217
Additional paid-in capital	90,496	59,526
Guaranteed ESOP obligation	—	(17)
Retained earnings	7,408	6,712
Accumulated other comprehensive income	(1,398)	6,979
TOTAL SHAREOWNERS' EQUITY	103,198	78,927
TOTAL LIABILITIES AND SHAREOWNERS' EQUITY	\$ 242,223	\$ 169,406

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

AT&T Common Shares			
Balance at beginning of year	\$ 3,196	\$ 2,630	\$ 2,684
Shares issued (acquired), net:			
Under employee plans	3	—	2
For acquisitions	607	566	(56)
Other*	(46)	—	—
Balance at end of year	<u>3,760</u>	<u>3,196</u>	<u>2,630</u>
AT&T Wireless Group Common Stock			
Balance at beginning of year	—	—	—
Shares issued:			
For stock offering	360	—	—
Under employee plans	2	—	—
Balance at end of year	<u>362</u>	<u>—</u>	<u>—</u>
Liberty Media Group Class A Common Stock			
Balance at beginning of year	2,314	—	—
Shares issued (acquired), net:			
For acquisitions	62	2,280	—
Other	(12)	34	—
Balance at end of year	<u>2,364</u>	<u>2,314</u>	<u>—</u>
Liberty Media Group Class B Common Stock			
Balance at beginning of year	217	—	—
Shares issued (acquired), net:			
For acquisitions	(11)	220	—
Other	—	(3)	—
Balance at end of year	<u>206</u>	<u>217</u>	<u>—</u>
Additional Paid-In Capital			
Balance at beginning of year	59,526	15,195	17,121
Shares issued (acquired), net:			
Under employee plans	98	431	67
For acquisitions	23,097	42,425	(2,105)
Other*	(2,767)	323	112
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	530	667	—
Other	97	179	—
Balance at end of year	<u>90,496</u>	<u>59,526</u>	<u>15,195</u>
Guaranteed ESOP Obligation			
Balance at beginning of year	(17)	(44)	(70)
Amortization	17	27	26
Balance at end of year	<u>—</u>	<u>(17)</u>	<u>(44)</u>
Retained Earnings			
Balance at beginning of year	6,712	7,800	3,981
Net income	4,669	3,428	6,398
Dividends declared	(2,485)	(2,807)	(2,230)
Treasury shares issued at less than cost	(1,488)	(1,709)	(370)
Other changes	—	—	21
Balance at end of year	<u>7,408</u>	<u>6,712</u>	<u>7,800</u>

* Activity in 2000 primarily represents AT&T stock received from Cox Communications, Inc. in exchange for an entity owning cable systems and certain other assets.

AT&T accounts for treasury stock as retired stock, and as of December 31, 2000 and 1999, had 417 million and 288 million treasury shares, respectively, of which 346 million and 216 million shares, respectively, were owned by AT&T Broadband subsidiaries. In addition, 70 million treasury shares related to the purchase of AT&T shares previously owned by Liberty Media Group.

We have 100 million authorized shares of preferred stock at \$1 par value. No preferred stock was issued or outstanding.

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

OPERATING ACTIVITIES

	1999		1998
	Dollars in millions		
Net income	\$ 4,669	\$ 3,428	\$ 6,398
Deduct: Income from discontinued operations	—	—	10
Gain on sale of discontinued operations	—	—	1,290
Add: Extraordinary loss on retirement of debt	—	—	137

Income from continuing operations

Adjustments to reconcile net income to net cash provided by operating activities of continuing operations:

Net gains on sales of businesses and investments	(1,683)	(682)	(959)
Net restructuring and other charges	6,793	1,209	2,362
Depreciation and amortization	10,267	7,439	4,629
Provision for uncollectible receivables	1,393	1,416	1,389
Deferred income taxes	1,054	145	(128)
Minority interest (income) expense	(4,357)	8	(55)
Net equity (earnings) losses from Liberty Media Group	(1,488)	2,022	—
Net losses from other equity investments	395	1,155	68
Increase in receivables	(3,350)	(2,891)	(1,577)
(Decrease) increase in accounts payable	(773)	116	(467)
Net change in other operating assets and liabilities	4	(1,679)	5
Other adjustments, net	383	(165)	(285)

NET CASH PROVIDED BY OPERATING ACTIVITIES OF CONTINUING OPERATIONS

13,307 11,521 10,217

INVESTING ACTIVITIES

Capital expenditures and other additions	(15,524)	(14,306)	(7,817)
Proceeds from sale or disposal of property, plant and equipment	600	286	104
(Increase) decrease in other receivables	(1,052)	17	6,403
Net acquisitions of licenses	(247)	(6)	(97)
Sales of marketable securities	96	—	2,003
Purchases of marketable securities	—	—	(1,696)
Equity investment distributions and sales	1,352	1,875	1,516
Equity investment contributions and purchases	(3,412)	(8,121)	(1,281)
Net (acquisitions) dispositions of businesses including cash acquired	(21,410)	(6,711)	4,507
Other investing activities, net	(337)	(77)	(60)

NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES OF CONTINUING OPERATIONS

(39,934) (27,043) 3,582

FINANCING ACTIVITIES

Proceeds from long-term debt issuances	4,601	8,396	17
Retirement of long-term debt	(2,118)	(2,807)	(2,610)
Issuance of convertible securities	—	4,638	—
Redemption of redeemable securities	(152)	—	—
Issuance of AT&T common shares	99	—	32
Issuance of AT&T Wireless Group common shares	10,314	—	—
Net acquisition of treasury shares	(581)	(4,624)	(3,321)
Dividends paid on common stock	(3,047)	(2,712)	(2,187)
Dividends on preferred securities	(294)	(135)	—
Increase (decrease) in short-term borrowings, net	16,973	10,238	(3,033)
Other financing activities, net	(66)	392	53

NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES OF CONTINUING OPERATIONS

25,729 13,386 (11,049)

NET CASH PROVIDED BY DISCONTINUED OPERATIONS

Net (decrease) increase in cash and cash equivalents	(898)	(2,136)	2,842
Cash and cash equivalents at beginning of year	1,024	3,160	318

Cash and cash equivalents at end of year

\$ 126 \$ 1,024 \$ 3,160

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

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. This represents the majority of our investments. Investments in which we have less than a 20% ownership interest and in which there is no significant influence 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 shareholders' equity. Gains and losses from foreign currency transactions are included in results of operations.

REVENUE RECOGNITION

We recognize long distance, local and wireless services revenue based upon minutes of traffic processed or contracted fee schedules. Cable 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, are deferred and amortized over the customer relationship period. The revenue and related expenses associated with the sale of wireless handsets and accessories are recognized when the products are delivered and accepted by customers, as this is considered to be a separate earnings process from the sale of wireless services. 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. During 2000, we adopted Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements". The adoption did not have a material impact on our results of operations or financial condition.

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 \$1,995, \$1,804 and \$1,920 in 2000, 1999 and 1998, respectively. Of these amounts, \$288, \$320 and \$622 were cash incentives to acquire customers in 2000, 1999 and 1998, respectively.

INVESTMENT TAX CREDITS

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.

range from 10 to 40 years. The group method is used for most depreciable assets, including the majority of communications and network equipment. 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. The unit method is primarily used for large computer systems and support assets. When we sell assets that were depreciated using the unit method, we include the related gains or losses in other 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, including capitalized software, is depreciated on a straight-line basis.

LICENSING COSTS

Licensing costs are costs incurred to acquire cellular and personal communications services (PCS) licenses. Amortization begins with the commencement of service to customers and is computed using the straight-line method over periods of 35 or 40 years.

FRANCHISE COSTS

Franchise costs include the value attributed 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 40 years.

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.

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.

loss is recognized for the difference between the fair value and carrying value of the asset. In addition, in accordance with Accounting Principles Board (APB) Opinion No. 17, "Intangible Assets", we continue to evaluate the amortization periods to determine whether events or circumstances warrant revised amortization periods.

DERIVATIVE FINANCIAL INSTRUMENTS

We use various financial instruments, including derivative financial instruments, for purposes other than trading. We do not use derivative financial instruments for speculative purposes. Derivatives, used as part of our risk-management strategy, must be designated at inception as a hedge and measured for effectiveness both at inception and on an ongoing basis. Gains and losses related to qualifying hedges of foreign currency firm commitments are deferred in current assets or liabilities and recognized as part of the underlying transactions as they occur. All other foreign exchange contracts are marked to market on a current basis, and the respective gains or losses are recognized in other income. Interest rate differentials associated with interest rate swaps used to hedge AT&T's debt obligations are recorded as an adjustment to interest payable or receivable, with the offset to interest expense over the life of the swaps. If we terminate an interest rate swap agreement, the gain or loss is deferred and amortized over the remaining life of the liability. Cash flows from financial instruments are classified in the Consolidated Statements of Cash Flows under the same categories as the cash flows from the related assets, liabilities or anticipated transactions.

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 long-term contracts, allowance for doubtful accounts, depreciation and amortization, employee benefit plans, taxes, restructuring reserves and contingencies.

CONCENTRATIONS

As of December 31, 2000, 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 licenses 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.

2. RESTRUCTURING OF AT&T

On October 25, 2000, we 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. Upon completion of the plan, AT&T Wireless, AT&T Broadband, AT&T Business and AT&T Consumer will all be represented by asset-based or tracking stocks.

As part of the first phase of the restructuring plan, we are planning an exchange offer that will give AT&T shareowners the opportunity to exchange any portion of their AT&T common shares for shares of AT&T Wireless Group tracking stock, subject to pro-rata. Following the exchange offer and subject to specified conditions, AT&T plans to split-off AT&T Wireless Group from AT&T. We intend, however, to retain up to \$3 billion of shares of AT&T Wireless for future sale, exchange or monetization within six months following the split-off. We expect AT&T Wireless will become an independent, publicly-held company in mid-2001, upon receipt of appropriate tax and other approvals.

In addition to the split-off of AT&T Wireless, we intend to fully separate or issue separate tracking stocks to reflect the financial performance and economic value of each of our other major business units. We plan to create and issue new classes of stock to track the financial performance and economic value of our AT&T Broadband unit and AT&T Consumer unit. We plan to sell some percentage of shares of the AT&T Broadband unit in the fall of 2001. Within 12 months of such sale, we intend to completely separate AT&T Broadband from AT&T, as an asset-based stock. The AT&T Consumer tracking stock is expected to be fully distributed to AT&T shareowners in the second half of 2001.

AT&T expects that these transactions will be tax-free to U.S. shareholders. AT&T's restructuring plan is complicated and involves a substantial number of steps and transactions, including obtaining various conditions, such as Internal Revenue Service (IRS) rulings. In addition, 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 timeframes 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 November 15, 2000, AT&T announced that our board of directors voted to split-off Liberty Media Group (LMG), which we acquired through our acquisition of Tele-Communications, Inc. A new asset-based security will be issued to holders of LMG tracking stock in exchange for their LMG tracking shares. The split-off remains subject to receipt of a favorable tax ruling from the IRS. We expect this split-off to be completed in mid-2001.

INCLUDED IN SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Research and development expenses

	2000	1999	1998
	\$ 402	\$ 550	\$ 513

OTHER INCOME

Investment-related income

Net gains on sales of businesses and investments

Mark-to-market charge on put options

Investment impairment charges

Miscellaneous, net

	\$ 514	\$ 222	\$ 389
	1,683	682	959
	(537)	—	—
	(248)	(40)	—
	102	67	(67)

Total other income

\$ 1,514 \$ 931 \$ 1,281

DEDUCTED FROM INTEREST EXPENSE

Capitalized interest

\$ 299 \$ 143 \$ 197

SUPPLEMENTARY BALANCE SHEET INFORMATION

At December 31,

PROPERTY, PLANT AND EQUIPMENT

Communications, network and other equipment

Buildings and improvements

Land and improvements

Total property, plant and equipment

Accumulated depreciation

Property, plant and equipment, net

	2000	1999
	\$ 74,550	\$ 60,985
	8,951	8,104
	531	586
	84,032	69,675
	(32,871)	(30,057)
	\$ 51,161	\$ 39,618

SUPPLEMENTARY SHAREOWNERS' EQUITY INFORMATION

For the Years Ended December 31,

OTHER COMPREHENSIVE INCOME

Net foreign currency translation adjustment [net of income taxes of \$(181), \$87 and \$(3)]

Net revaluation of securities [net of income taxes of \$(5,166), \$4,506 and \$(35)]

Net minimum pension liability adjustment [net of income taxes of \$(1), \$7 and \$(15)]

Total other comprehensive income

	2000	1999	1998
	\$ (309)	\$ 148	\$ (5)
	(8,067)	6,878	(25)
	(1)	12	9
	\$ (8,377)	\$ 7,038	\$ (21)

In 2000, other comprehensive income included LMG's foreign currency translation adjustments totaling \$(202), net of applicable income taxes, revaluation of LMG's available-for-sale securities totaling \$(6,117), net of applicable income taxes, and the recognition of previously unrecognized available-for-sale securities totaling \$(635), net of applicable income taxes.

In 1999, other comprehensive income included LMG's foreign currency translation adjustments totaling \$60, net of applicable income taxes, and revaluation of LMG's available-for-sale securities totaling \$6,497, net of applicable income taxes.

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 Broadband segment.

Approximately \$16 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 \$7 billion of other net assets. In addition, included was approximately \$14 billion in deferred income 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 preliminary goodwill of approximately \$20 billion, which is being amortized on a straight-line basis over 40 years. AT&T may make refinements to the allocation of the purchase price in future periods as the related fair value appraisals of certain assets and liabilities are finalized.

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 subsidiaries continue to hold these shares, which are reflected as treasury stock in the accompanying Consolidated Balance Sheets.

In addition, TCI simultaneously combined its Liberty Media Group programming business with its TCI Ventures Group technology investment business, forming LMG. In connection with the closing, AT&T issued

AT&T does not have a controlling financial interest for financial accounting purposes in LMG. Therefore, our investment in LMG has been reflected as an investment accounted for under the equity method in the accompanying consolidated financial statements. The amounts attributable to LMG are reflected as "Equity earnings (losses) from Liberty Media Group" and "Investment in Liberty Media Group and related receivables, net" in the accompanying consolidated financial statements. As a separate tracking stock, all of the earnings or losses related to LMG are excluded from the earnings available to the holders of AT&T common stock.

Each share of Liberty Media Group Class A common stock is entitled to 0.0375 of a vote, and each share of Liberty Media Group Class B common stock is entitled to 0.375 of a vote.

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. 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 Statement of Financial Accounting Standards (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 that is being amortized on a straight-line basis over 20 years as a component of "Equity earnings (losses) from Liberty Media Group."

Revenue	67,306	\$	66,236	
Net income	5,617		6,452	
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 AT&T Wireless Group shares	361		—	
Weighted-average Liberty Media Group shares	2,572		2,519	
AT&T Common Stock Group earnings per common share:				
Basic	\$	1.08	\$	2.30
Diluted	\$	1.07	\$	2.23
AT&T Wireless Group earnings per common share:				
Basic and diluted	\$	0.21	\$	—
Liberty Media Group earnings (loss) per 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. OTHER MERGERS, ACQUISITIONS, STOCK OFFERING, VENTURE, DISPOSITIONS AND DISCONTINUED OPERATIONS

AB CELLULAR

On December 29, 2000, AB Cellular completed the redemption of AT&T's equity interest in AB Cellular. Prior to that date, AT&T held a 55.62% equity interest in AB Cellular, which was formed in 1998 with BellSouth, with each party having a 50% voting interest. AB Cellular owned, controlled and supervised wireless properties in Los Angeles, Houston, and Galveston, Texas. BellSouth exercised an option available to it, which resulted in AB Cellular redeeming AT&T's interest in AB Cellular in exchange for 100% of the net assets of the Los Angeles property. AB Cellular recognized a significant gain upon completion of the transaction. Accordingly, net losses from other equity investments included \$603 representing our portion of this gain, and other income included a net pretax loss of \$184 related to the difference between the carrying value of our investment in AB Cellular and the fair market value of the Los Angeles property. As a result of this transaction, we consolidated the Los Angeles property. The consolidation resulted in licensing costs of \$2.2 billion, goodwill of \$0.8 billion, other net assets of \$0.6 billion and the removal of our investment in AB Cellular of \$3.8 billion.

TELECORP PCS, INC.

On November 13, 2000, two of AT&T's wireless affiliates, TeleCorp PCS, Inc. (TeleCorp) and Tritel, Inc., merged as part of a stock transaction. In connection with the merger, AT&T contributed to TeleCorp rights to acquire wireless licenses in Wisconsin and Iowa, paid approximately \$20 in cash and extended the term of its brand license agreement through July 2005, in exchange for approximately 9.3 million additional common shares in the newly merged entity. In a separate transaction, AT&T exchanged certain additional wireless licenses and rights to acquire licenses in the Wisconsin and Iowa markets, and made a cash payment of

On August 28, 2000, AT&T and Excite@Home Corporation (Excite@Home) announced shareholder approval of a new board of directors and governance structure for Excite@Home and completion of the extension of distribution contracts with AT&T, Cox Communications, Inc. (Cox) and Comcast Corporation (Comcast). 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.

In exchange for Cox and Comcast relinquishing their rights under the shareholder agreement, AT&T granted put options to Cox and Comcast on a combined total of 60.4 million shares of Excite@Home Series A common stock. The put options provide Cox and Comcast with the right to convert their Excite@Home shares into either AT&T stock or cash at their option, at any time between January 1, 2001 and June 4, 2002, at the higher of (i) \$48 per share or (ii) the 30-day average trading price at the time of exercise (beginning 15 trading days prior to the exercise date, and ending 15 days after the exercise date). The maximum amount that AT&T would be required to pay in cash or stock is approximately \$2.9 billion based on the \$48 strike price. 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 income. For the year, changes in fair market value resulted in a pretax expense of \$537. Subsequent to December 31, 2000, Cox and Comcast exercised their put options, electing to receive AT&T common shares (see Note 22).

Also, in connection with the distribution agreements which extend through 2008, AT&T obtained the right to purchase up to approximately 25 million Excite@Home Series A shares and 25 million Series B shares. In addition, Cox and Comcast will each receive new warrants to purchase two Series A shares for each home its cable system passes. These warrants will vest in installments every six months beginning in June 2001, and will be fully vested by June 2006 if Cox and Comcast elect to continue their extended non-exclusive distribution agreements through that period.

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.

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 is intended to track the financial performance and economic value of AT&T's wireless services' business. The net proceeds to AT&T after deducting 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 for general corporate purposes. The remaining net proceeds of \$3.3 billion were utilized by AT&T for general corporate purposes. Holders of AT&T

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 television systems serving approximately 312,000 customers and certain other net assets. Specifically, AT&T exchanged \$1.1 billion of investments and related advances, \$0.9 billion of franchise costs and \$0.5 billion of other net assets for stock valued at \$2.7 billion on March 15, 2000. The transaction resulted in a pretax gain of \$189.

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 \$224.

CONCERT

On January 5, 2000, AT&T and British Telecommunications plc (BT) announced financial closure of Concert, their global communications joint venture. AT&T contributed all of its international gateway-to-gateway assets, as well as the economic value of approximately 270 multinational customers specifically targeted for direct sales by Concert.

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 \$179.

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.

TELEPORT COMMUNICATIONS GROUP INC.

On July 23, 1998, AT&T completed a merger with Teleport Communications Group Inc. (TCG) pursuant to an agreement and plan of merger dated January 8, 1998. Each share of TCG common stock was exchanged for 1.4145 shares of AT&T common stock, resulting in the issuance of 272.4 million shares in the transaction. The merger was accounted for as a pooling of interests, and accordingly, AT&T's results of operations, financial position and cash flows were restated to reflect the merger. In 1998, we recognized \$85 of merger-related expenses. Premerger TCG revenue was \$455, and net losses were \$118, for the six months ended

On March 3, 1998, AT&T sold its 45% common share interest in LIN Television Co., a subsidiary of LIN Broadcasting Company, for \$742 to Hicks, Muse, Tate and Furst Inc. We recognized a pretax gain of \$317. Also on March 3, 1998, AT&T sold AT&T Solutions Customer Care to MATRIX Marketing Inc., a teleservices unit of Cincinnati Bell, for \$625. AT&T recognized a pretax gain of \$350 in 1998 on the sale.

DISCONTINUED OPERATIONS

On April 2, 1998, AT&T sold AT&T Universal Card Services Inc. (UCS) for \$3,500 to Citigroup, Inc. The after-tax gain resulting from the disposal of UCS was \$1,290, or \$0.48 per diluted share. Included in the transaction was a cobranding and joint-marketing agreement. In addition, we received \$5,722 in settlement of receivables from UCS.

The consolidated financial statements of AT&T reflect UCS as a discontinued operation. Accordingly, the revenue, costs and expenses, and cash flows of this business have been excluded from the respective captions in the 1998 Consolidated Statement of Income and Consolidated Statement of Cash Flows, and have been reported through the date of disposition as "Income from discontinued operations," net of applicable income taxes, and as "Net cash provided by discontinued operations" for all periods presented. The gain associated with this sale is reflected as "Gain on sale of discontinued operations," net of applicable income taxes.

Summarized financial information for UCS was as follows:

For the Year Ended December 31,	1998
Revenue	\$ 365
Income before income taxes	16
Net income	10

No interest expense was allocated to UCS in 1998 due to the immateriality of the amounts; however, UCS recorded direct interest expense of \$85 in 1998, primarily related to amounts payable to AT&T.

6. EARNINGS PER COMMON SHARE AND POTENTIAL COMMON SHARE

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

For the Years Ended December 31,	2000	1999	1998
AT&T Common Stock Group	\$ 3,105	\$ 5,450	\$ 5,235
AT&T Wireless Group	76	—	—
Liberty Media Group	1,488	(2,022)	—
Income from continuing operations	\$ 4,669	\$ 3,428	\$ 5,235

Basic earnings per share (EPS) for AT&T Common Stock Group for 2000, 1999 and 1998 were computed by dividing AT&T Common Stock Group income by the weighted-average number of shares outstanding during the year.

Diluted EPS for AT&T Common Stock Group was 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. Shares issuable upon conversion of preferred stock of subsidiaries, convertible debt securities of subsidiary, stock options and other performance awards 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. Computed on a yearly basis, the dividends would have an after-tax impact to earnings of approximately \$155. Assuming conversion of the securities, the dividends would no longer be included as a reduction to net income and the securities would convert into 67 million shares of AT&T common stock.

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	1998
Income	\$ 3,105	\$ 5,450	\$ 5,235
Income impact of assumed conversion of preferred stock of subsidiary	32	26	—
Income adjusted for conversion of securities	\$ 3,137	\$ 5,476	\$ 5,235
Shares in millions			
Weighted-average common shares	3,486	3,082	2,676
Stock options	19	35	24
Preferred stock of subsidiary	40	33	—
Convertible debt securities of subsidiary	—	2	—
Weighted-average common shares and potential common shares	3,545	3,152	2,700

Basic EPS for AT&T Wireless Group for the period from April 27, 2000, the stock offering date, through December 31, 2000, was computed by dividing AT&T Wireless Group income by the weighted-average number of shares outstanding of AT&T Wireless Group of 361 million. There were no potentially dilutive securities outstanding at December 31, 2000.

Basic EPS for LMG was computed by dividing LMG income (loss) by the weighted-average number of shares outstanding of LMG of 2,572 million in 2000 and 2,519 million from the 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 has indicated that these contracts are generally settled in cash. There were 96 million and 124 million of these potentially dilutive securities outstanding at December 31, 2000 and 1999, respectively. The diluted earnings per share calculation for 2000 also excludes approximately 700,000 warrants outstanding at December 31, 2000, which were antidilutive. In addition, since LMG had a loss in 1999, the impact of any potential shares would have been antidilutive.

7. NET RESTRUCTURING AND OTHER CHARGES

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.

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 FAS 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, we 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

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 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 own 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)."

The \$759 charge for restructuring and exit plans was primarily due to headcount reductions, mainly in network operations and Business Services, including 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 nonmanagement 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.

Balance at January 1, 1997	\$ 413	\$ 434	\$ 60	\$ 907
Additions	150	125	—	275
Deductions	(445)	(190)	(30)	(665)
Balance at December 31, 1998	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

Deductions reflect cash payments of \$245, \$209 and \$369, for 1998, 1999 and 2000, respectively. These payments included cash termination benefits of \$124, \$40 and \$257, respectively, which were primarily funded through cash from operations. Deductions also reflect noncash utilization of \$420, \$43 and \$170 for 1998, 1999 and 2000, respectively. Noncash utilization included deferred severance payments primarily related to executives, and a reversal in 1998 of \$348 related to the 1995 restructuring plan. Nearly 75% of the employees affected by the 1999 and 2000 restructuring charges have left their positions as of December 31, 2000.

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 \$1,506 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. We began testing IP-telephony equipment in the field in late-2000, we anticipate beginning field trials for next-generation digital services in late-2001, and have completed trials related to our telephony cost reductions and implementation has begun in certain markets. Although there are technological issues to overcome to successfully complete the acquired in-process research and development, we expect successful completion. If, however, AT&T is unable to establish technological feasibility and produce commercially viable products/services, anticipated incremental future cash flows attributable to expected profits from such new products/services may not be realized.

A \$531 asset impairment charge was recorded in 1999 associated with the planned disposal of certain wireless communications equipment resulting from a program to increase the capacity and operating efficiency of our wireless network. As part of a multivendor program, contracts have been executed with select vendors to replace significant portions of our wireless infrastructure equipment in the western United States and the metropolitan New York markets. The program is intended to provide Wireless Services with the

expected future cash flows of these assets through the date of disposal. Since the assets will remain in service from the date of the decision to dispose of these assets to the disposal date, the remaining net book value of the assets will be depreciated over this period. As of December 31, 2000, approximately \$320 of the asset impairment reserve has been utilized for assets that have been disposed of and written off. The remaining net book value of these assets was approximately \$23 at December 31, 2000, which will be depreciated over an estimated remaining useful life of three months.

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 Business Services and network operations, including 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 nonmanagement 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 Broadband entered into with Phoenixstar, Inc. That agreement requires 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.

During 1998, we recorded \$2,514 of net restructuring and other charges. The bulk of the charge was associated with our overall cost-reduction program and the approximately 15,300 management employees who accepted the VRIP offer. A restructuring charge of \$2,724 was composed of \$2,254 and \$169 for pension and postretirement special-termination benefits, respectively, \$263 of benefit plan curtailment losses and \$38 of other administrative costs. We also recorded charges of \$125 for related facility costs and \$150 for executive-separation costs. These charges were partially offset by benefits of \$940 as we settled pension benefit obligations of 13,700 of the total VRIP employees. In addition, the VRIP charges were partially offset by the reversal of \$256 of 1995 business restructuring reserves primarily resulting from the overlap of VRIP on certain 1995 projects.

Also included in the 1998 net restructuring and other charges were asset impairment charges totaling \$718, of which \$633 was related to our decision not to pursue Total Service Resale (TSR) as a local-service strategy. We also recorded an \$85 asset impairment charge related to the write-down of unrecoverable assets in certain international operations where the carrying value was no longer supported by future cash flows. This charge was made in connection with the review of certain operations that would have competed directly with Concert.

Additionally, \$85 of merger-related expenses was recorded in 1998 in connection with the TCG merger, which was accounted for as a pooling of interests. Partially offsetting these charges was a \$92 reversal of the 1995 restructuring reserve. This reversal reflected reserves no longer deemed necessary. The reversal primarily included separation costs attributed to projects completed at a cost lower than originally anticipated.

the equity method (see Note 4). Summarized results of operations for Liberty Media Group were as follows:

	For the Year Ended December 31, 2000	For the Ten Months Ended December 31, 1999
Revenue	\$ 1,526	\$ 729
Operating income (loss)	436	(2,214)
Net income (loss)	1,488	(2,022)
	At December 31,	
	2000	1999
Current assets	\$ 2,954	\$ 3,387
Noncurrent assets	51,314	55,297
Current liabilities	2,962	3,370
Noncurrent liabilities	16,668	16,853
Minority interest	348	1

During 2000 and 1999, certain investees of Liberty Media Group 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 and \$109 in 2000 and 1999, respectively.

9. OTHER INVESTMENTS

We have investments in various companies and partnerships that are accounted for under the equity method and included within "Other investments and related advances" in the accompanying 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, 2000 and 1999, we had equity investments (other than LMG) of \$13,624 and \$18,454, respectively. The carrying value of these investments exceeded our share of the underlying reported net assets by approximately \$8,720 and \$12,530, at December 31, 2000 and 1999, respectively. The goodwill is being amortized over periods ranging from 15 to 40 years. Pretax amortization of goodwill was \$571, \$495, and \$52 in 2000, 1999, and 1998, respectively. The amortization is shown net of income taxes as a component of "Net losses from other equity investments" in the accompanying Consolidated Statements of Income. Distributions from equity investments totaled \$214, \$317 and \$360, for the years ended December 31, 2000, 1999 and 1998, respectively.

Concert	50.00%(b)	—
Time Warner Texas	50.00%	50.00%
Net2Phone, Inc.	31.34%(c)	—
Insight Midwest LP	50.00%	50.00%
EuroTel Praha, spol. s.r.o.	24.50%	—
Century-TCI California, LP	25.00%	25.00%
Rogers Wireless Communications, Inc.	16.65%(d)	16.65%(d)
TeleCorp PCS, Inc.	22.99%	15.67%
Kansas City Cable Partners	50.00%	50.00%
Parnassos, LP	33.33%	33.33%
ACC Acquisitions, LLC	50.00%	—
Far EastOne Telecommunications, Ltd.	22.70%	13.87%
AB Cellular	— (e)	55.62%(e)
At Home Corporation	— (f)	25.00%(f)
Lenfest Communications, Inc.	—	50.00%
Bresnan Communications Group LLC	—	50.00%

- (a) At December 31, 2000 and 1999, we owned 48,942,172 shares of Cablevision Systems Corporation Class A common stock, which had a closing market price of \$84.94 and \$75.50 per share, respectively, on those dates. Cablevision Systems Corporation (Cablevision) redeemed all of its outstanding preferred stock and issued additional common stock, and issued shares of its common stock for acquisitions. As a result of these transactions, AT&T's ownership interest in Cablevision decreased from 32.04% to 27.98%. Due to the dilution of AT&T's ownership interest in Cablevision, net of the increase in Cablevision's equity, AT&T recorded a net decrease to additional paid-in capital of \$170 in 2000.
- (b) On January 5, 2000, we formed Concert, our global-communications joint venture with BT.
- (c) At December 31, 2000, we owned 18,900,000 shares of Net2Phone, Inc. Class A common stock, which had a closing market price of \$7.38 per share on that date.
- (d) This investment is accounted for under the equity method because of our ability to elect certain members of the board of directors of this entity, which we believe provides us with significant influence.
- (e) On December 29, 2000, AB Cellular completed the redemption of our equity interest in AB Cellular. Voting interest in AB Cellular was 50% at December 31, 1999.
- (f) On August 28, 2000, AT&T and Excite@Home announced the closing of their extension contracts and governance reorganization. As a result of the governance changes, AT&T gained a controlling interest and began consolidating Excite@Home's results on September 1, 2000. As of December 31, 2000, AT&T had an approximate 23% economic interest and 74% voting interest in Excite@Home. We owned 7,924,422 and 63,720,000 shares of Excite@Home Class A common stock at December 31, 2000 and 1999, respectively, which had closing market prices of \$5.53 and \$42.88 per share, respectively, on those dates. We also owned 86,595,578 and 30,800,000 shares of Excite@Home Class B common stock at December 31, 2000 and 1999, respectively, which are not publicly traded. During 2000 and 1999, Excite@Home issued shares of its common stock for various acquisitions. As a result of these transactions, AT&T's economic interest in Excite@Home decreased from 25% to 23% in 2000, and from 38% to 25% in 1999, respectively. Due to the resulting increase in Excite@Home's equity, net of the dilution of AT&T's ownership interest in Excite@Home, AT&T recorded an increase to additional paid-in capital of \$116 and \$527 in 2000 and 1999, respectively.

Revenue	\$	32,663	\$	12,751	\$	4,488
Operating (loss) income		(583)		(1,384)		239
(Loss) income from continuing operations before extraordinary items and cumulative effect of a change in accounting principle		(1,005)		(2,701)		147
Net (loss) income		(1,373)		(2,897)		53

At December 31,

	2000	1999
	(Unaudited)	
Current assets	\$ 12,274	\$ 7,616
Noncurrent assets	44,748	38,008
Current liabilities	12,181	6,209
Noncurrent liabilities	26,337	19,422
Redeemable preferred stock	7,316	6,457
Minority interest	621	1,740

In addition, we have a 25.51% interest in TWE. This investment is "held-for-sale" at December 31, 2000. Accordingly, we are no longer recording equity earnings (losses) on this investment.

We also have investments accounted for under the cost method of accounting. Under this 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, which are covered under the scope of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," are classified as "available-for-sale" and are carried at fair value with any unrealized gain or loss, net of income taxes, being included within other comprehensive income as a component of shareowners' equity. Approximately \$2,102 of these investments have been classified as current assets since they are indexed to certain currently maturing debt instruments.

	2000	1999
Commercial paper	\$ 16,234	\$ 5,974
Short-term notes	11,505	5,000
Currently maturing long-term debt	3,724	1,355
Other	484	304
	<hr/>	<hr/>
Total debt maturing within one year	\$ 31,947	\$ 12,633
	<hr/>	<hr/>
Weighted-average interest rate of short-term debt	6.5%	5.3%

In February 2000, we entered into a 364-day, \$10 billion syndicated credit facility upon the expiration of existing credit facilities. On December 28, 2000, we entered into a new 364-day, \$25 billion credit facility syndicated to 39 banks. As a result, the outstanding \$10 billion credit facility was terminated. The credit facility is for commercial paper back-up and was unused at December 31, 2000. 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, 2000, we were in compliance with this covenant.

At December 31, 1999, we had a 364-day, \$7 billion revolving-credit facility with a consortium of 42 lenders. We also had additional 364-day, revolving-credit facilities of \$3 billion. These lines were for commercial paper back-up and were unused at December 31, 1999.

LONG-TERM OBLIGATIONS

At December 31,

DEBENTURES, NOTES AND TRUST PREFERRED SECURITIES ^(a)

Interest Rates ^(b)	Maturities	2000	1999
4.00% - 6.00%	2001-2018	\$ 6,639	\$ 5,251
6.25% - 6.50%	2001-2029	6,660	4,367
6.55% - 7.50%	2001-2037	7,840	3,701
7.53% - 8.50%	2001-2097	5,267	4,762
8.60% - 11.13%	2001-2045	7,320	5,389
Variable rate	2001-2054	2,794	867
		<hr/>	<hr/>
Total debentures, notes and trust preferred securities		36,520	24,337
Other		360	362
Unamortized discount, net		(64)	(127)
		<hr/>	<hr/>
Total long-term obligations		36,816	24,572
Less: Currently maturing long-term debt		3,724	1,355
		<hr/>	<hr/>
Net long-term obligations		\$ 33,092	\$ 23,217

(a) Included in these balances was \$946 and \$975 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, 2000 and December 31, 1999, respectively. The excess is being amortized 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 12).

On January 26, 1999, AT&T filed a registration statement with the SEC for the offering and sale of up to \$10 billion of notes and warrants to purchase notes, resulting in a total available shelf registration of \$13.1 billion. On March 26, 1999, AT&T issued \$8 billion in notes. We received net proceeds of approximately \$7.9 billion from the sale of the notes. The proceeds were utilized to repay commercial paper issued in connection with the TCI merger and toward funding the share repurchase program. On September 14, 1999, AT&T completed a \$450 bond offering in connection with the same registration statement. The proceeds from the issuance were utilized for general corporate purposes.

Included in long-term debt are subsidiary-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely subordinated debt securities, exchangeable notes and other exchangeable debt acquired in connection with the TCI and MediaOne mergers.

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, 2000 and 1999, as follows:

Subsidiary Trust	Interest Rate	Maturity Date	Carrying Amount	
			2000	1999
TCI Communications Financing I	8.72%	2045	\$ 528	\$ 528
TCI Communications Financing II	10.00%	2045	514	521
TCI Communications Financing III	9.65%	2027	357	360
TCI Communications Financing IV	9.72%	2036	204	217
Total			\$ 1,603	\$ 1,626

The TCI Trusts were created for the exclusive purpose of issuing trust preferred securities and investing the proceeds thereof 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 are callable 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. TCI effectively provides a full and unconditional guarantee of the TCI Trusts' obligations under the trust preferred securities. In 2000, AT&T provided a full and unconditional guarantee of the trust preferred securities for TCI Communications Financing I, II and IV subsidiary trusts.

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.

MediaOne Finance I	7.96%	2025	\$	30
MediaOne Finance II	8.25%	2036		28
MediaOne Finance II	9.50%	2036		214
MediaOne Finance III	9.04%	2038		504
				776
Total			\$	776

The MediaOne Trusts exist for the purpose of issuing the trust preferred securities and investing the proceeds thereof 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 MediaOne Group Funding, Inc. or MediaOne 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 are redeemable after October 29, 2001. The 9.04% subordinated deferrable notes are redeemable after October 28, 2003. MediaOne has effectively provided a full and unconditional guarantee of the MediaOne Trusts' obligations under the trust preferred securities. In 2000, AT&T provided a full and unconditional guarantee of MediaOne's trust preferred securities.

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

During 2000, we issued debt (exchangeable notes) which is 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 MediaOne'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, 2000, which are indexed to 25 million shares of Comcast common stock:

Maturity Date	2003	2004	2005
Face value	\$ 371	\$ 314	\$ 329
Interest rate	6.75%	5.50%	4.63%
Put price	41.50	41.06	39.13
Call price	49.80	49.27	46.96
Carrying value at December 31, 2000	\$ 371	\$ 314	\$ 329

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, 2000, which are indexed to 10 million shares of Microsoft common stock:

<u>Maturity Date</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Face value	\$ 227	\$ 226	\$ 226
Interest rate	6.96%	7.00%	7.04%
Put price	67.87	67.87	67.87
Call price	97.39	111.64	128.60
Carrying value at December 31, 2000	\$ 145	\$ 144	\$ 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, 2000, which are indexed to 22.3 million shares of Comcast common stock:

<u>Maturity Date</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Face value	\$ 267	\$ 267	\$ 267
Interest rate	6.76%	6.80%	6.84%
Put price	35.89	35.89	35.89
Call price	50.64	58.39	67.97
Carrying value at December 31, 2000	\$ 267	\$ 267	\$ 267

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.

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

Maturity Date	2001	2002
Face value	\$ 1,686	\$ 1,129
Interest rate	6.25%	7.00%
Put price	19.65	43.44
Call price	25.10	51.26
Carrying value at December 31, 2000	\$ 2,337	\$ 1,012

The exchangeable notes that mature in 2001 are indexed to 29 million Vodafone ADRs, and will be exchanged at maturity based upon a redemption value of \$9.00 in cash plus 2 1/2 times the fair market value of a Vodafone ADR (maturity price), as follows:

- (a) If the maturity price is greater than or equal to \$9.00 plus 2 1/2 times the call price per share, each exchangeable note is equivalent to 0.8101 of the maturity price;
- (b) If the maturity price is less than or equal to \$9.00 plus 2 1/2 times the put price per share, each exchangeable note is equivalent to the maturity price; or
- (c) If the maturity price is less than \$71.75 per share but greater than \$58.125 per share, each exchangeable note is equivalent to \$58.125.

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 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 Comcast, Microsoft and Vodafone

Since the Comcast, Microsoft, and Vodafone securities are cost method investments being accounted for as "available-for-sale" securities under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," changes in the maturity value of the exchangeable notes 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 exchangeable notes indexed to Comcast common stock and Microsoft common stock are secured by the Comcast and Microsoft investments AT&T owns. The exchangeable notes indexed to Vodafone ADRs are unsecured obligations, ranking equally in right of payment with all other unsecured and unsubordinated obligations of AT&T.

OTHER EXCHANGEABLE 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 December 31, 2000, was \$1,369, which pays interest at the three-month London Inter-Bank Offered Rate (LIBOR) plus 0.4%. The debt matures annually with \$458 maturing in 2003 and 2004, and \$453 maturing in 2005, and is repayable at AT&T's option in either Microsoft stock or cash.

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 December 31, 2000, was \$1,739, which pays interest at the 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.

This table shows the maturities at December 31, 2000, of the \$36.816 in total long-term obligations:

<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Later Years</u>
\$ 3,724	\$ 2,661	\$ 3,093	\$ 4,112	\$ 4,182	\$ 19,044

11. 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 remains outstanding. There were 6.3 million shares authorized and outstanding at December 31, 2000 and 1999. Each share is exchangeable, from and after August 1, 2001, for approximately 6.3 shares of AT&T common stock, 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. The Pacific preferred stock is reflected within "Minority Interest" in the accompanying Consolidated Balance Sheets, and aggregated \$2.1 billion at December 31, 2000 and 1999.

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 \$50 per security, and are convertible at any time prior to maturity into 66.667 million shares of AT&T common stock. 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 will 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 on the quarterly preferred securities were \$250 and \$135 for the years ended December 31, 2000 and 1999, respectively, and are reported within "Minority interest income (expense)" in the accompanying Consolidated Statements of Income.

On June 16, 1999, AT&T also issued to Microsoft 40 million warrants, each to purchase one share of AT&T common stock at a price of \$75 per share at the end of three years. 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 accompanying Consolidated Statements of Income.

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 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

Series A	Variable	None	\$	100
Series B	9.08%	April 21, 2020		927
Series C	None	April 21, 2020		118
				1,145
Total			\$	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 accompanying 2000 Consolidated Balance Sheet.

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

12. FINANCIAL INSTRUMENTS

In the normal course of business, we use various financial instruments, including derivative financial instruments, for purposes other than trading. We do not use derivative financial instruments for speculative purposes. These instruments include letters of credit, guarantees of debt, interest rate swap agreements, foreign currency exchange contracts, option contracts and equity hedges. 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, 2000 and 1999, 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. Letters of credit do not create any additional risk to AT&T.

GUARANTEES OF DEBT

From time to time, we guarantee the debt of our subsidiaries and certain unconsolidated joint ventures. Prior to the merger, TCI had agreed to take certain steps to support debt compliance with respect to obligations aggregating \$1,461 and \$1,720 at December 31, 2000 and 1999, respectively, of certain cable television partnerships in which TCI has a non-controlling ownership interest. Although there can be no

INTEREST RATE SWAP AGREEMENTS

We enter into interest rate swaps to manage our exposure to changes in interest rates and to lower our overall costs of financing. 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 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, fixed-rate for floating-rate payments or floating-rate for other floating-rate payments without the exchange of the underlying principal amount. Fixed interest rate payments at December 31, 2000, were at rates ranging from 6.05% to 8.20%. Floating-rate payments are based on rates tied to the LIBOR. 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.

The following table indicates the types of swaps in use at December 31, 2000 and 1999, 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.

	2000	1999
Fixed to variable swaps—notional amount	\$ 750	\$ 1,800
Average receive rate	8.16%	6.89%
Average pay rate	8.16%	6.67%
Variable to fixed swaps—notional amount	\$ 218	\$ 229
Average receive rate	6.81%	6.30%
Average pay rate	7.31%	6.77%
Variable to variable swaps—notional amount	\$ 739	\$ 495
Average receive rate	1.74%	6.63%
Average pay rate	5.42%	6.53%

The weighted-average remaining terms of the swap contracts were 11 and seven years at December 31, 2000 and 1999, respectively.

FOREIGN EXCHANGE

We enter into foreign currency exchange contracts, including forward and option contracts, to manage our exposure to changes in currency exchange rates related to foreign-currency-denominated transactions. In 2000, this consisted principally of Brazilian reais and Swiss francs related to debt. In 1999, this consisted principally of European Union currency (Euro), British pounds sterling and Japanese Yen contracts related to the reimbursement to foreign telephone companies for their portion of the revenue billed by AT&T for calls placed in the United States to a foreign country and other foreign currency payables and receivables. In addition, we are subject to foreign exchange risk related to other foreign-currency-denominated transactions.

COLLARS

We enter into option agreements to hedge our exposure on debt that is indexed to securities we own. During 2000, we entered into a series of purchased and written options related to a portion of our holdings in Microsoft stock (Microsoft collar), which is indexed to floating rate debt. The collar has been designated and is

At the expiration of the Microsoft collar, if the price of a Microsoft share is equal to or less than the put price of \$62.48, we would exercise the put option and deliver all underlying shares of Microsoft common stock and receive cash equal in value to (i) the put price, multiplied by (ii) the underlying share amount. Alternatively, at our option, we can elect not to deliver the underlying shares and instead settle the put option by receiving cash equal in value to the (i) the difference between the put price minus the fair value of one Microsoft share, multiplied by (ii) the underlying share amount. If the price of a Microsoft share is greater than the call price, which range from \$86.26 to \$118.36, then the call option would be exercised and we would deliver all underlying shares and receive cash equal in value to (i) the call price, multiplied by (ii) the underlying share amount. At our option, we can elect not to deliver the underlying shares and instead settle the call option by paying cash equal in value to the (i) the difference between the call price minus the fair value of one Microsoft share, multiplied by (ii) the underlying share amount. Any cash received by AT&T from the exercise or settlement of either put or call option would be used to retire the floating rate debt. We would retain cash in excess of the call price from a call option exercise. If the price of a Microsoft share is between the put price and the call price, the collar will expire without value.

Prior to our merger with MediaOne, two subsidiaries of MediaOne, MediaOne SPC IV and MediaOne SPC VI, entered into a series of purchased and written options (Vodafone collars) on Vodafone ADRs contributed to them by MediaOne, and issued floating rate debt. The Vodafone collars have been designated and are effective as a hedge of the market risk associated with our investment in Vodafone ADRs. The Vodafone collars are carried at fair value, with unrealized gains or losses, net of income taxes, being recorded within other comprehensive income as a component of shareowners' equity, together with any change in the fair value of the Vodafone ADRs. The carrying value of the Vodafone collars was \$453 at December 31, 2000.

At the expiration of the MediaOne SPC IV collar, we will receive cash if the market value of a Vodafone ADR is less than approximately \$34.00 per share, effectively eliminating downside risk on the stock below \$34.00 per share. Conversely, if the market value of a Vodafone ADR is greater than approximately \$49.00 per share, we will be required to pay cash, which will be offset by the corresponding increase in the value of the Vodafone ADR. This Vodafone collar expires quarterly beginning in 2003 and ending in 2005.

At the expiration of the MediaOne SPC VI collar, we will receive cash if the market value of a Vodafone ADR is less than approximately \$40.00 per share, effectively eliminating downside risk on the stock below \$40.00 per share. Conversely, if the market value of a Vodafone ADR is greater than approximately \$58.00 per share, we will be required to pay cash, which will be offset by the corresponding increase in the value of the Vodafone ADR. This Vodafone collar expires quarterly beginning in 2003 and ending in 2005.

EQUITY HEDGES

We enter into equity hedges to manage our exposure to changes in equity prices associated with stock appreciation rights of affiliated companies.

FAIR VALUES OF FINANCIAL INSTRUMENTS INCLUDING DERIVATIVE FINANCIAL INSTRUMENTS

The following table summarizes the notional amounts of material financial instruments. The notional amounts represent agreed-upon amounts on which calculations of dollars to be exchanged are based. They do not represent amounts exchanged by the parties and, therefore, are not a measure of our exposure. Our exposure is limited to the fair value of the contracts with a positive fair value plus interest receivable, if any, at the reporting date.

Interest rate swap agreements	968	\$ 2,524
Combined interest rate foreign currency swap agreements	739	—
Foreign exchange forward contracts	71	1,881
Option contracts	3,108	—
Equity hedges	392	495
Letters of credit	852	243
Guarantees of debt	1,607	1,848

The following tables show the valuation methods, the carrying amounts and estimated fair values of material financial instruments.

<u>FINANCIAL INSTRUMENT</u>	<u>VALUATION METHOD</u>
Debt excluding capital leases	Market quotes or rates available to us for debt with similar terms and maturities
Letters of credit	Fees paid to obtain the obligations
Guarantees of debt	There are no quoted market prices for similar agreements available
Interest rate swap agreements	Market quotes obtained from dealers
Combined interest rate foreign currency swap agreements	Market quotes obtained from dealers
Foreign exchange contracts	Market quotes
Option contracts	Black-Scholes option-pricing model
Equity hedges	Market quotes
Preferred securities	Market quotes*

* It is not practicable to estimate the fair market value of our quarterly preferred securities that aggregated \$4,710 and \$4,700 at December 31, 2000 and 1999, respectively. There are no current market quotes available on this private placement.

	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Debt excluding capital leases	\$ 64,542	\$ 61,686	\$ 35,507	\$ 34,092
Pacific preferred stock	2,121	595	2,121	1,929

	2000				1999			
	Carrying Amount		Fair Value		Carrying Amount		Fair Value	
	Asset	Liab.	Asset	Liab.	Asset	Liab.	Asset	Liab.
Interest rate swap agreements	\$ 4	\$ 5	\$ 4	\$ 5	\$ 28	\$ 27	\$ 6	\$ 29
Combined interest rate foreign currency swap agreements	1	3	1	3	—	—	—	—
Foreign exchange forward contracts	—	1	1	2	—	26	1	28
Equity hedges	2	100	2	100	313	2	313	—

benefit plans for current and certain future retirees include health-care benefits, life insurance coverage and telephone concessions.

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

For the Years Ended December 31,	Pension Benefits			Postretirement Benefits		
	2000	1999	1998	2000	1999	1998
Service cost benefits earned during the period	\$ 248	\$ 247	\$ 275	\$ 35	\$ 54	\$ 56
Interest cost on benefit obligations	991	919	940	352	324	322
Amortization of unrecognized prior service cost	174	159	135	4	13	(2)
Credit for expected return on plan assets	(1,821)	(1,458)	(1,570)	(230)	(200)	(173)
Amortization of transition asset	(156)	(158)	(175)	—	—	—
Amortization of gains	(332)	(10)	—	(16)	(1)	—
Charges for special termination benefits*	—	—	2,254	16	5	169
Net curtailment losses (gains)*	121	—	140	(14)	—	141
Net settlement losses (gains)*	8	(121)	(921)	—	—	—
Net periodic benefit (credit) cost	\$ (767)	\$ (422)	\$ 1,078	\$ 147	\$ 195	\$ 513

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

On January 26, 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. In connection with the VRIP, we recorded pretax charges in 1998 for pension and postretirement plan special-termination benefits of \$2.254 and \$169, respectively. We also recorded pension and postretirement plan pretax charges of \$120 and \$143, respectively, which are included within net curtailment losses in 1998. The special-termination benefits reflect the value of pension benefit improvements and expanded eligibility for postretirement benefits. The VRIP also permitted employees to choose either a total lump-sum distribution of their pension benefits or periodic future annuity payments.

As of December 31, 1999, all 15,300 employees had terminated employment under the VRIP. AT&T has settled the pension obligations covering about 15,100 of these employees, the remainder of which either chose to defer commencing their pension benefits or elected to receive an annuity distribution. Lump-sum pension settlements totaling \$5.2 billion, including a portion of the special-pension termination benefits referred to above, resulted in settlement gains of \$121 and \$940 recorded in 1999 and 1998, respectively.

	2000	1999	2000	1999
<i>Change in benefit obligations:</i>				
Benefit obligation, beginning of year	\$ 12,868	\$ 14,443	\$ 4,642	\$ 5,168
Service cost	248	247	35	54
Interest cost	991	919	352	324
Plan amendments	32	558	(45)	4
Actuarial losses (gains)	5	(1,683)	203	(579)
Acquisition	204	—	38	—
Benefit payments	(1,228)	(1,062)	(362)	(334)
Special termination benefits	—	—	16	5
Settlements	(57)	(554)	—	—
Curtailment losses	—	—	7	—
Benefit obligation, end of year	\$ 13,063	\$ 12,868	\$ 4,886	\$ 4,642
<i>Change in fair value of plan assets:</i>				
Fair value of plan assets, beginning of year	\$ 21,854	\$ 18,567	\$ 2,852	\$ 2,476
Actual return on plan assets	995	4,855	(128)	385
Employer contributions	94	48	159	325
Acquisition	205	—	5	—
Benefit payments	(1,228)	(1,062)	(362)	(334)
Settlements	(57)	(554)	—	—
Fair value of plan assets, end of year	\$ 21,863	\$ 21,854	\$ 2,526	\$ 2,852
At December 31,				
Funded (unfunded) benefit obligation	\$ 8,800	\$ 8,986	\$ (2,360)	\$ (1,790)
Unrecognized net gain	(7,301)	(8,457)	(188)	(800)
Unrecognized transition asset	(123)	(279)	—	—
Unrecognized prior service cost	1,100	1,362	(9)	55
Net amount recorded	\$ 2,476	\$ 1,612	\$ (2,557)	\$ (2,535)

At December 31, 2000, our pension plan assets included \$34 of AT&T common stock, \$26 of Liberty Media Group Series A common stock, and \$2 of AT&T Wireless Group common stock. At December 31, 1999, our pension plan assets included \$82 of AT&T common stock and \$34 of Liberty Media Group Series A common stock.

Prepaid pension cost	\$ 3,003	\$ 2,464	\$ —	\$ —
Benefit related liabilities	(579)	(918)	(2,557)	(2,535)
Intangible asset	30	46	—	—
Accumulated other comprehensive income	22	20	—	—
	<u>2,476</u>	<u>1,612</u>	<u>(2,557)</u>	<u>(2,535)</u>
Net amount recorded	\$ 2,476	\$ 1,612	\$ (2,557)	\$ (2,535)

Our nonqualified pension plans had an unfunded accumulated benefit obligation of \$125 and \$118 at December 31, 2000 and 1999, respectively. Our postretirement health and telephone concession benefit plans had accumulated postretirement benefit obligations of \$4,282 and \$4,021 at December 31, 2000 and 1999, respectively, which were in excess of plan assets of \$1,413 and \$1,635 at December 31, 2000 and 1999, respectively.

The assumptions used in the measurement of the pension and postretirement benefit obligations are shown in the following table:

At December 31,	2000	1999	1998
Weighted-average assumptions:			
Discount rate	7.5%	7.75%	6.5%
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 7.6%. This rate was assumed to gradually decline after 2000 to 4.5% by 2010 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 \$9 and \$9, respectively, and would increase or decrease the health-care component of the accumulated postretirement benefit obligation by \$125 and \$122, 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 \$280 in 2000, \$234 in 1999 and \$204 in 1998.

14. 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.

Under 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. 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. There are a maximum of 37.5 million shares that may be used for awards other than stock options. The exercise

1987 Long-term Incentive Program performance share units with the same terms were also awarded to key employees based on AT&T's return-to-equity performance compared with a target.

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 may be used for awards other than options. Beginning with January 1, 2001, the remaining AT&T Wireless Group shares available for grant at December 31 of the prior year, plus 2% of the outstanding AT&T Wireless Group shares on January 1 of each year, become available for grant. The exercise price of any stock option is equal to the stock price when the option is granted. Generally, the options vest over two to three and one-half years and are exercisable up to 10 years from the date of grant. In 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.

Under the AT&T 1996 Employee Stock Purchase Plan (Plan), which was effective July 1, 1996, we are authorized to sell up to 75 million shares of AT&T common stock to our eligible employees. 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 2000 and 3 million shares to employees in both 1999 and 1998.

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 income (expense) was \$253, \$(462) and \$(157) in 2000, 1999 and 1998, respectively. These amounts included income (expense) of \$269 and \$(382) in 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 \$(297) and \$247 in 2000 and 1999, respectively.

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

Shares in thousands	2000		1999		1998	
		Weighted-Average Exercise Price		Weighted-Average Exercise Price		Weighted-Average Exercise Price
Outstanding at January 1,	168,763	\$ 37.42	131,904	\$ 30.41	110,972	\$ 24.77
Options assumed in mergers	29,613	\$ 24.71	11,770	\$ 14.79	—	—
Options granted	74,570	\$ 36.12	47,927	\$ 57.13	46,148	\$ 41.69
Options and SARs exercised	(11,446)	\$ 22.07	(17,858)	\$ 22.87	(18,894)	\$ 21.95
Options canceled or forfeited	(12,474)	\$ 45.61	(4,980)	\$ 42.44	(6,322)	\$ 31.64
At December 31:						
Options outstanding	249,026	\$ 35.82	168,763	\$ 37.42	131,904	\$ 30.41
Options exercisable	131,450	\$ 30.44	57,894	\$ 28.21	35,472	\$ 23.13
Shares available for grant	34,204		41,347		91,838	

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at December 31, 2000	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at December 31, 2000	Weighted-Average Exercise Price
	(in thousands)			(in thousands)	
\$2.69 - \$18.08	21,182	5.0	\$ 11.23	20,206	\$ 10.99
\$18.15 - \$24.49	16,914	6.2	\$ 22.51	11,808	\$ 22.57
\$24.50	15,451	6.6	\$ 24.50	15,451	\$ 24.50
\$24.55 - \$26.18	8,664	6.2	\$ 25.33	8,664	\$ 25.33
\$26.21	17,299	6.1	\$ 26.21	17,299	\$ 26.21
\$26.33 - \$31.97	20,246	6.6	\$ 30.31	12,501	\$ 29.98
\$32.09	25,551	9.6	\$ 32.09	141	\$ 32.09
\$32.19 - \$42.04	26,908	8.5	\$ 36.91	10,147	\$ 39.57
\$42.10	26,975	7.1	\$ 42.10	17,531	\$ 42.10
\$42.19 - \$45.44	20,017	9.1	\$ 45.25	1,927	\$ 44.45
\$45.48 - \$59.75	23,581	8.6	\$ 51.33	9,293	\$ 50.40
\$59.88 - \$62.13	26,238	8.1	\$ 59.89	6,482	\$ 59.89
	<u>249,026</u>	7.5	\$ 35.82	<u>131,450</u>	\$ 30.44

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

Shares in thousands	2000	Weighted-Average Exercise Price
Outstanding at January 1,	—	\$ —
Options granted	76,983	\$ 29.29
Options exercised	—	\$ —
Options canceled or forfeited	(3,357)	\$ 29.43
At December 31:		
Options outstanding	73,626	\$ 29.29
Options exercisable	12,391	\$ 29.48
Shares available for grant	41,874	

Range of Exercise Prices	Number Outstanding at December 31, 2000 (in thousands)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Exercisable at December 31, 2000 (in thousands)	Weighted-Average Exercise Price
\$17.06 - \$21.00	305	9.9	\$ 17.91	—	\$ —
\$24.47	1,741	9.8	\$ 24.47	—	\$ —
\$26.00 - \$28.53	1,865	9.5	\$ 27.62	122	\$ 27.21
\$29.50	69,715	9.3	\$ 29.50	12,269	\$ 29.50
	<u>73,626</u>	9.3	\$ 29.29	<u>12,391</u>	\$ 29.48

		1999	1998
AT&T Common Stock Group:			
Income from continuing operations	\$ 2,625	\$ 5,193	\$ 5,078
Income from discontinued operations	—	—	7
Gain on sale of discontinued operations	—	—	1,290
Extraordinary loss	—	—	137
Income	\$ 2,625	\$ 5,193	\$ 6,238
Earnings per AT&T Common Stock Group common share—basic:			
Continuing operations	\$ 0.75	\$ 1.68	\$ 1.90
Discontinued operations	—	—	—
Gain on sale of discontinued operations	—	—	0.48
Extraordinary loss	—	—	0.05
AT&T Common Stock Group earnings	\$ 0.75	\$ 1.68	\$ 2.33
Earnings per AT&T Common Stock Group common share—diluted:			
Continuing operations	\$ 0.74	\$ 1.65	\$ 1.88
Discontinued operations	—	—	—
Gains on sale of discontinued operations	—	—	0.48
Extraordinary loss	—	—	0.05
AT&T Common Stock Group earnings	\$ 0.74	\$ 1.65	\$ 2.31
AT&T Wireless Group:			
Income	\$ 51	\$ —	\$ —
Earnings per share:			
Basic and diluted	\$ 0.14	\$ —	\$ —

The pro forma effect on net income for 1998 may not be representative of the pro forma effect on net income of future years because the SFAS No. 123 method of accounting for pro forma compensation expense has not been applied to options granted prior to January 1, 1995.

The weighted-average fair values at date of grant for AT&T common stock options granted during 2000, 1999 and 1998 were \$12.10, \$15.64 and \$9.75, respectively, and were estimated using the Black-Scholes option-pricing model. The weighted-average risk-free interest rates applied for 2000, 1999 and 1998 were 6.29%, 5.10% and 5.33%, respectively. The following assumptions were applied for 2000, 1999 and 1998, respectively: (i) expected dividend yields of 1.6%, 1.7% and 2.1%, (ii) expected volatility rates of 33.5%, 28.3% and 23.8% and (iii) expected lives of 4.7 years in 2000 and 4.5 years for 1999 and 1998.

The weighted-average fair values at date of grant for AT&T Wireless Group tracking stock options granted during 2000 was \$14.20 and was estimated using the Black-Scholes option-pricing model. The following weighted-average assumptions were applied for 2000: (i) risk-free rate of 6.53%, (ii) expected volatility rate of 55.0% and (iii) expected life of 3.9 years.

For the Years Ended December 31,

		1999	1998
U.S. federal statutory income tax rate	35%	35%	35%
Federal income tax at statutory rate	\$ 913	\$ 3,509	\$ 2,920
Amortization of investment tax credits	(23)	(10)	(14)
State and local income taxes, net of federal income tax effect	176	247	199
In-process research and development write-off	—	208	—
Amortization of intangibles	111	43	28
Foreign rate differential	104	56	30
Taxes on repatriated and accumulated foreign income, net of tax credits	(84)	(45)	(36)
Research and other credits	(40)	(64)	(91)
Valuation allowance	—	(78)	37
Investment dispositions, acquisitions and legal entity restructurings	(477)	(94)	(153)
Operating losses and charges relating to Excite@Home	2,757	—	—
Other differences, net	(95)	(77)	129
Provision for income taxes	\$ 3,342	\$ 3,695	\$ 3,049
Effective income tax rate	128.1%	36.9%	36.6%

The U.S. and foreign components of income from continuing operations before income taxes and the provision for income taxes are presented in this table:

For the Years Ended December 31,

	2000	1999	1998
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES			
United States	\$ 3,014	\$ 9,595	\$ 8,047
Foreign	(406)	430	294
Total	\$ 2,608	\$ 10,025	\$ 8,341
PROVISION FOR INCOME TAXES			
CURRENT			
Federal	\$ 1,878	\$ 2,691	\$ 2,784
State and local	196	415	232
Foreign	89	100	41
	2,163	3,206	3,057
DEFERRED			
Federal	1,136	527	(68)
State and local	71	(36)	74
Foreign	(5)	8	—
	1,202	499	6
Deferred investment tax credits	(23)	(10)	(14)
Provision for income taxes	\$ 3,342	\$ 3,695	\$ 3,049

In addition, we also recorded current and deferred income tax expenses (benefits) related to minority interest and net equity losses on other equity investments in the amounts of \$(154) and \$(125) in 2000, \$(94) and \$(344) in 1999 and \$143 and \$(120) in 1998, respectively.

At December 31,

	2000	1999
LONG-TERM DEFERRED INCOME TAX LIABILITIES		
Property, plant and equipment	\$ 9,123	\$ 7,678
Investments	10,716	7,304
Franchise costs	18,571	11,998
Other	2,826	1,156
Total long-term deferred income tax liabilities	<u>41,236</u>	<u>28,136</u>
LONG-TERM DEFERRED INCOME TAX ASSETS		
Business restructuring	127	120
Net operating loss/credit carryforwards	710	710
Employee pensions and other benefits, net	1,470	1,359
Reserves and allowances	99	376
Other	2,867	1,603
Valuation allowance	(750)	(231)
Total net long-term deferred income tax assets	<u>4,523</u>	<u>3,937</u>
Net long-term deferred income tax liabilities	<u>\$ 36,713</u>	<u>\$ 24,199</u>
CURRENT DEFERRED INCOME TAX LIABILITIES		
Investments	\$ 670	\$ —
Other	309	427
Total current deferred income tax liabilities	<u>979</u>	<u>427</u>
CURRENT DEFERRED INCOME TAX ASSETS		
Business restructuring	155	47
Employee pensions and other benefits	436	562
Reserves and allowances	639	682
Other	600	423
Valuation allowance	(39)	—
Total net current deferred income tax assets	<u>1,791</u>	<u>1,714</u>
Net current deferred income tax assets	<u>\$ 812</u>	<u>\$ 1,287</u>

At December 31, 2000, we had net operating loss carryforwards (tax-effected), excluding Excite@Home, for federal and state income tax purposes of \$79 and \$164, respectively, expiring through 2015. In addition, we had federal tax credit carryforwards of \$145, of which \$64 have no expiration date and \$81 expire through 2005. We also had state tax credit carryforwards (tax-effected) of \$32 expiring through 2003. In connection with the TCI merger, we acquired certain federal and state net operating loss carryforwards subject to a valuation allowance of \$59. If, in the future, the realization of these acquired deferred tax assets becomes more likely than not, any reduction of the associated valuation allowance will be allocated to reduce franchise costs and other purchased intangibles.

At December 31, 2000, Excite@Home had net operating loss carryforwards (tax effected) for federal and state income tax purposes of \$290 expiring through 2020. Utilization of Excite@Home's net operating loss

Excite@Home provided a valuation allowance in an amount equal to its net deferred tax assets of \$702 as of December 31, 2000. Approximately \$142 of Excite@Home's valuation allowance at December 31, 2000, is attributable to stock option deductions, the benefit of which will be credited to paid-in capital when realized. Approximately \$269 of Excite@Home's valuation allowance at December 31, 2000, is attributable to deferred tax assets that, if realized, will be allocated to first reduce goodwill, then other purchased intangibles, and then income tax expense.

On November 15, 2000, we announced our intention to split-off LMG. The split-off of LMG remains subject to the receipt of necessary approvals, including a favorable tax ruling from the IRS. Pursuant to the tax-sharing agreement dated March 9, 1999 between AT&T and LMG, in the event LMG is split-off, AT&T would be required to reimburse LMG approximately \$830 for the value of certain TCI pre-acquisition net operating loss carryforwards. Also, in connection with a tax-sharing agreement between LMG and TCI that was executed prior to AT&T's acquisition of TCI, LMG would be obligated to pay AT&T approximately \$138 upon its split-off from AT&T.

16. COMMITMENTS AND CONTINGENCIES

In the normal course of business we are subject to proceedings, lawsuits and other claims, including proceedings under laws and regulations related to environmental and other matters. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Consequently, we are unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to these matters at December 31, 2000. These matters could affect the operating results of any one quarter when resolved in future periods. However, we believe that after final disposition, any monetary liability or financial impact to us beyond that provided for at year-end would not be material to our annual consolidated financial statements.

We lease land, buildings and equipment through contracts that expire in various years through 2037. Our rental expense under operating leases was \$980 in 2000, \$827 in 1999 and \$742 in 1998. The total of minimum rentals to be received in the future under noncancelable operating subleases as of December 31, 2000, was \$209.

The following table shows our future minimum commitments due under noncancelable operating and capital leases at December 31, 2000:

	Operating Leases	Capital Leases
2001	\$ 830	\$ 149
2002	700	137
2003	602	87
2004	519	66
2005	413	63
Later years	1,218	175
<u>Total minimum lease payments</u>	<u>\$ 4,282</u>	<u>677</u>
Less: Amount representing interest		(179)
<u>Present value of net minimum lease payments</u>		<u>\$ 498</u>

totalled \$432 as of December 31, 2000 and extend through 2004.

AT&T has committed to provide funding to a joint venture with other investors, Alaska Native Wireless (ANW), which was formed in November 2000 to participate in the Federal Communication Commission's recent license spectrum auction. The auction was concluded in January 2001 and ANW was the highest bidder on approximately \$2.9 billion in licenses. AT&T has committed to fund approximately \$2.6 billion to ANW to fund ANW's purchase of licenses. At December 31, 2000, AT&T had provided approximately \$229 of funding and has committed to provide additional funding of approximately \$2.4 billion consisting primarily of debt securities of ANW. At the fifth anniversary of the first date on which licenses are granted to ANW, the other owners of ANW have rights to require AT&T to purchase their equity interests. If such rights are exercised five years after the license grant date, the purchase price would be approximately \$950 and would be payable, at our option, in either cash or marketable securities. In the event that these rights are exercised before the fifth anniversary, or in the event that the winning bid is rejected, or if any licenses granted to ANW are revoked or challenged, the amount that AT&T would be required to pay would be less than \$950.

Through a joint venture (70% owned by AT&T and 30% owned by BT), AT&T and BT have a 31% ownership of AT&T Canada Corp. as a result of the 1999 merger between AT&T Canada Corp. and MetroNet Communications, Corp. In connection with this merger, the AT&T and BT joint venture has the right to call, or arrange for another entity to call, the remaining 69% of AT&T Canada for the greater of Cdn\$40.56 per share, which represented the projected value as of December 31, 2000, with an accretion of 4% each quarter that began on June 30, 2000, or the then-appraised fair market value. If we do not exercise our call rights by June 30, 2003, the shares would be put up for auction, and the AT&T and BT joint venture would have to make the shareholders whole for the difference between the proceeds received in auction and the greater of the fair market value or the accreted value. The exact timing of any purchase will likely be partially dependent upon the future status of Canadian foreign-ownership regulations.

17. RELATED PARTY TRANSACTIONS

AT&T has various related party transactions with Concert as a result of the closure of this global venture in early January 2000.

Included in revenue for the year ended December 31, 2000, is \$1,080, for services provided to Concert.

Included in access and other connection expenses for the year ended December 31, 2000, are charges from Concert representing costs incurred on our behalf to connect calls made to foreign countries (international settlements) and costs paid by AT&T to Concert for distributing Concert products totaling \$2,364.

During the first quarter of 2000, AT&T contributed property, plant and equipment of approximately \$1,600 to Concert. AT&T also loaned \$1,000 to Concert; that loan is included within "Other investments and related advances" in the accompanying 2000 Consolidated Balance Sheet. Interest income of \$67 was recognized for the year ended December 31, 2000.

At December 31, 2000, AT&T had a floating rate loan payable to Concert in the amount of \$126. The loan, which is due on demand, is included in "Debt maturing within one year" in the accompanying Consolidated Balance Sheet. Interest expense was \$6 for the year ended December 31, 2000.

programming expenses related to services from LMG. These expenses amounted to \$239 for the year ended December 31, 2000 and \$184 for the 10 months ended December 31, 1999, respectively.

Included in "Investment in Liberty Media Group and related receivables, net" was \$155 and \$27 at December 31, 2000 and 1999, respectively, primarily related to taxes pursuant to a tax-sharing agreement between LMG and Broadband. That agreement existed prior to the TCI merger.

18. SEGMENT REPORTING

AT&T's results are segmented according to the way we manage our business: Business Services, Consumer Services, Wireless Services and Broadband.

Our Business Services segment offers a variety of global communications services, including long distance, local, and data and Internet protocol (IP) networking, to small and medium-sized businesses, large domestic and multinational businesses and government agencies. Business Services is also a provider of voice, data and IP transport to service resellers (wholesale services). Also included in the Business Services segment is AT&T Solutions, our outsourcing and network-management business.

Our Consumer Services segment provides a variety of any-distance communications services, including long distance, local toll (intrastate calls outside the immediate local area) and Internet access to residential customers. In addition, Consumer Services provides prepaid calling card and operator-handled calling services. Local phone service is also provided in certain areas.

Our Wireless Services segment offers wireless voice and data services and products to customers in our 850 megahertz (cellular) and 1900 megahertz (Personal Communications Services, or PCS) markets. Wireless Services also includes certain interests in partnerships and affiliates that provide wireless services in the United States and internationally, aviation-communications services and fixed wireless services. Fixed wireless provides high-speed Internet access and any-distance voice services using wireless technology to residential and small business customers.

Our Broadband segment offers a variety of services through our cable broadband network, including traditional analog video and new services such as digital video, high-speed data and broadband telephony.

The balance of AT&T's operations (excluding LMG) is included in a "Corporate and Other" category. This category reflects corporate staff functions and the elimination of transactions between segments, as well as the results of Excite@Home and international operations and ventures. LMG is not an operating segment of AT&T because AT&T does not have a controlling financial interest in LMG for financial accounting purposes. Therefore, we account for this investment under the equity method. Additionally, LMG's results are not reviewed by the chief operating decision-makers for purposes of determining resources to be allocated.

Total assets for our reportable segments generally include all assets, except intercompany receivables. However, our Wireless Services segment included intercompany receivables from AT&T and the related interest income since these assets relate to the results of the AT&T Wireless Group tracked business. 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 category. Shared network assets are allocated to the segments and reallocated each January based on two years of volumes. 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.

REVENUE

For the Years Ended December 31,

	2000	1999	1998
Business Services external revenue	\$ 27,691	\$ 26,749	\$ 23,807
Business Services internal revenue	797	731	478
Total Business Services revenue	28,488	27,480	24,285
Consumer Services external revenue	18,976	21,854	22,885
Wireless Services external revenue	10,448	7,627	5,406
Broadband external revenue	8,203	5,069	—
Broadband internal revenue	14	1	—
Total Broadband revenue	8,217	5,070	—
Total reportable segments	66,129	62,031	52,576
Corporate and Other	(148)	569	647
Total revenue	\$ 65,981	\$ 62,600	\$ 53,223

DEPRECIATION AND AMORTIZATION*

For the Years Ended December 31,

	2000	1999	1998
Business Services	\$ 3,714	\$ 3,352	\$ 2,554
Consumer Services	561	783	693
Wireless Services	1,678	1,246	1,051
Broadband	3,068	1,636	—
Total reportable segments	9,021	7,017	4,298
Corporate and Other	1,246	422	331
Total depreciation and amortization	\$ 10,267	\$ 7,439	\$ 4,629

* Includes the amortization of goodwill, franchise costs and other purchased intangibles.

EARNINGS (LOSSES) FROM OTHER EQUITY INVESTMENTS

For the Years Ended December 31,

	2000	1999	1998
Wireless Services	\$ 382	\$ (10)	\$ 30
Broadband	(215)	(396)	—
Total reportable segments	167	(406)	30
Corporate and Other	(372)	(359)	(108)
Total net losses from other equity investments	\$ (205)	\$ (765)	\$ (78)

Consumer Services	7,090	7,909	6,570
Wireless Services	1,175	(473)	418
Broadband	(1,175)	(1,475)	—
	<u> </u>	<u> </u>	<u> </u>
Total reportable segments	13,594	12,097	11,982
Corporate and Other	(4,167)	(1,625)	(3,248)
Pretax minority interest income (expense)	4,031	(163)	34
Pretax losses from other equity investments	395	1,155	68
Interest expense	(3,183)	(1,765)	(427)
	<u> </u>	<u> </u>	<u> </u>
Total income before income taxes	\$ 2,608	\$ 10,025	\$ 8,341

ASSETS

At December 31,

	2000	1999	1998
Business Services	\$ 34,804	\$ 32,010	\$ 22,189
Consumer Services	4,801	6,279	6,185
Wireless Services	35,184	23,312	19,416
Broadband	114,681	53,810	—
	<u> </u>	<u> </u>	<u> </u>
Total reportable segments	189,470	115,411	47,790
Corporate and Other assets:			
Other segments	6,892	3,386	3,016
Prepaid pension costs	3,003	2,464	2,074
Deferred income taxes	720	899	1,156
Other corporate assets	7,848	8,786	5,514
Investment in Liberty Media Group and related receivables, net	34,290	38,460	—
	<u> </u>	<u> </u>	<u> </u>
Total assets	\$ 242,223	\$ 169,406	\$ 59,550

EQUITY INVESTMENTS (EXCLUDING LMG)

At December 31,

	2000	1999	1998
Wireless Services	\$ 3,080	\$ 4,409	\$ 3,766
Broadband	6,470	10,327	—
	<u> </u>	<u> </u>	<u> </u>
Total reportable segments	9,550	14,736	3,766
Corporate and Other	4,074	3,718	491
	<u> </u>	<u> </u>	<u> </u>
Total equity investments	\$ 13,624	\$ 18,454	\$ 4,257

CAPITAL ADDITIONS

For the Years Ended December 31,

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Business Services	\$ 6,223	\$ 7,511	\$ 6,130
Consumer Services	302	656	459
Wireless Services	5,553	2,739	2,395
Broadband	4,963	4,759	—
	<u>17,041</u>	<u>15,665</u>	<u>8,984</u>
Total reportable segments			
Corporate and Other	2,150	1,494	594
	<u>19,191</u>	<u>17,159</u>	<u>9,578</u>
Total capital additions			

Geographic information is not presented due to the immateriality of revenue attributable to international customers.

Reflecting the dynamics of our business, we continually review our management model and structure and make adjustments accordingly.

19. CONSOLIDATING CONDENSED FINANCIAL INFORMATION

In conjunction with the issuance of AT&T Wireless Group and Liberty Media Group tracking stocks, AT&T has separated for financial reporting purposes in all periods the AT&T Common Stock Group, Liberty Media Group and AT&T Wireless Group. Below is the consolidating financial information reflecting the businesses of these individual groups, including the allocation of expenses between the groups in accordance with our allocation policies, as well as other related party transactions such as sales of services between groups and interest income and expense on intercompany borrowings. The AT&T Common Stock Group presented below excludes its retained portion of the value of AT&T Wireless Group. AT&T does not have a controlling financial interest in LMG for financial accounting purposes; therefore, our ownership in LMG is reflected as an investment accounted for under the equity method and is reflected as such in the consolidating financial statements below.

AT&T Wireless Group, purchases long distance and other network-related services from AT&T at market-based prices and accordingly such amounts are eliminated. Prior to the offering of AT&T Wireless Group tracking stock, the capital structure of AT&T Wireless Group had been assumed based upon AT&T's historical capital ratio adjusted for certain items. Intercompany interest rates are intended to be substantially equivalent to the interest rate that AT&T Wireless Group would be able to obtain or receive if it were a stand-alone entity. General corporate overhead related to AT&T's corporate headquarters and common support divisions has been allocated to AT&T Wireless Group based on the ratio of AT&T Wireless Group's external costs and expenses to AT&T's consolidated external costs and expenses, adjusted for any functions that AT&T Wireless Group performs on its own. The consolidated income tax provision, related tax payments or refunds, and deferred tax balances of AT&T have been allocated to AT&T Wireless Group based principally on the taxable income and tax credits directly attributable to AT&T Wireless Group.

Pursuant to the Inter-Group agreement, AT&T does not allocate general overhead expenses to Liberty Media Group and only charges Liberty Media Group for specific services that Liberty Media Group receives from AT&T pursuant to service agreements or similar arrangements. Additionally, as Liberty Media Group operates independent of AT&T, there is no cash or debt allocated to them.

Condensed Income Statement For the year ended December 31, 2000

	AT&T Common Stock Group	AT&T Wireless Group	Liberty Media Group	Eliminations/ Reclassifications(1)	Consolidated AT&T Corp.
External Revenue	\$ 55,533	\$ 10,448	\$	\$	\$ 65,981
Inter-group revenue	321			(321)	
Total Revenue	55,854	10,448		(321)	\$ 65,981
Operating Expenses					
Costs of services and products	13,001	4,969		(383)	17,587
Access and other connection	13,140			378	13,518
Selling, general and administrative	10,001	3,302			13,303
Depreciation and other amortization	5,923	1,686		(335)	7,274

Inter-group expenses		529		(321)	
Total operating expenses	51,551	10,486		(3)	61,704
Operating income (loss)	4,303	(38)		12	4,277
Other income (expense)	1,150	391		(27)	1,514
Inter-group interest income	326	143		(469)	
Interest expense	3,294	(111)			3,183
Inter-group interest expense	143	196		(339)	
Income before income taxes, minority interest and earnings (losses) from equity investments	2,342	411		(145)	2,608
Provision for income taxes	3,199	141		2	3,342
Minority interest income	4,092			28	4,120
Equity earnings from Liberty Media Group			1,488		1,488
Net earnings (losses) from other equity investments	(585)	388		(8)	(205)
Net income	2,650	658	1,488	(127)	4,669
Dividend requirements on preferred stock held by AT&T, net		130		(130)	
Net income after preferred stock dividends	\$ 2,650	\$ 528	\$ 1,488	\$ 3	\$ 4,669

(1) Includes the elimination of inter-group transactions, consolidating entries as well as reclassifications and adjustments related to AT&T Wireless Group tracking stock.

	Wireless Group	Media Group	Eliminations Reclassification	Consolidated AT&T Corp.
ASSETS				
Cash and cash equivalents	\$ 64	\$ 62	\$	\$ 126
Receivables	11,053	2,010	(216)	12,847
Deferred income taxes	719	93		812
Other current assets	2,890	417	(5)	3,302
Short-term note due from related party	638		(638)	
TOTAL CURRENT ASSETS	15,364	2,582	(859)	17,087
Property, plant and equipment, net	41,269	9,892		51,161
Franchise costs, net	48,218			48,218
Licensing costs, net		13,627	(1)	13,626
Goodwill, net	26,782	5,816	(1,120)	31,478
Investment in Liberty Media Group and related receivables, net			34,290	34,290
Other investments and related advances	30,876	3,385		34,261
Other assets	10,984		1,118	12,102
Long-term assets due from related party	4,800		(4,800)	
TOTAL ASSETS	\$ 178,293	\$ 35,302	\$ (5,662)	\$ 242,223
LIABILITIES				
Debt maturing within one year	\$ 31,838	\$ 109	\$	\$ 31,947
Short-term debt due to related party		638	(638)	
Liability under put options	2,564			2,564
Other current liabilities	13,709	2,907	(260)	16,356
TOTAL CURRENT LIABILITIES	48,111	3,654	(898)	50,867
Long-term debt	33,089		3	33,092
Long-term debt due to related party		1,800	(1,800)	
Deferred income taxes	32,054	4,659		36,713
Other long-term liabilities and deferred credits	8,493	271	(4)	8,760
TOTAL LIABILITIES	121,747	10,384	(2,699)	129,432

(1) Includes the elimination of inter-group transactions, consolidating entries as well as reclassifications and adjustments related to AT&T Wireless Group tracking stock.

	Gro	Group	Group	Reclassification	Corp.
Minority Interest	4,842	41			4,883
Company-Obligated Convertible Quarterly Income Preferred Securities of a Subsidiary Trust Holding Solely Subordinated Debt Securities of AT&T	4,710				4,710
SHAREOWNERS' EQUITY					
AT&T Common Stock				3,760	3,760
AT&T Wireless Group Common Stock				362	362
Liberty Media Group Class A Common Stock				2,364	2,364
Liberty Media Group Class B Common Stock				206	206
Other shareowners' equity	46,994	21,877	34,290	(6,655)	96,506
Other shareowners' equity due to related party		3,000		(3,000)	
TOTAL SHAREOWNERS' EQUITY	46,994	24,877	34,290	(2,963)	103,198
TOTAL LIABILITIES AND SHAREOWNERS' EQUITY	\$ 178,293	\$ 35,302	\$ 34,290	\$ (5,662)	\$ 242,223

(1) Includes the elimination of inter-group transactions, consolidating entries as well as reclassifications and adjustments related to AT&T Wireless Group tracking stock.

	Wireless Group	AT&T Group	AT&T Group	Eliminations/Reclassifications(1)	Consolidated AT&T Corp.
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 11,684	\$ 1,635	\$	\$ (12)	\$ 13,307
INVESTING ACTIVITIES					
Capital expenditures and other additions	(10,912)	(4,012)			(14,924)
Equity investment distributions and sales	992	360			1,352
Equity investment contributions and purchases	(1,767)	(1,645)			(3,412)
Net acquisitions of businesses including cash acquired	(16,647)	(4,763)			(21,410)
Other	(2,113)	(465)		1,038	(1,540)
NET CASH USED IN INVESTING ACTIVITIES	(30,447)	(10,525)		1,038	(39,934)
FINANCING ACTIVITIES					
Proceeds from long-term debt issuance	4,601				4,601
Retirement of long-term debt	(2,118)				(2,118)
Issuance of AT&T Wireless Group common stock	3,314	7,000			10,314
Dividends paid	(3,047)				(3,047)
Increase in short-term borrowings, net	17,009	638		(674)	16,973
Other	(1,951)	1,309		(352)	(994)
NET CASH PROVIDED BY FINANCING ACTIVITIES	17,808	8,947		(1,026)	25,729
Net (decrease) increase in cash and cash equivalents	(955)	57			(898)
Cash and cash equivalents at beginning of year	1,019	5			1,024
Cash and cash equivalents at end of period	\$ 64	\$ 62	\$	\$	\$ 126

(1) Includes the elimination of inter-group transactions, consolidating entries as well as reclassifications and adjustments related to AT&T Wireless Group tracking stock.

	Wireless Group	Media Group	Liberty Media Group	Reclassification	Consolidated AT&T Corp.
Revenue	\$ 54,973	\$ 7,627	\$	\$	\$ 62,600
Inter-group revenue	227			(227)	
Total Revenue	55,200	7,627		(227)	62,600
Operating Expenses					
Costs of services and products	11,158	3,676		(240)	14,594
Access and other connection	14,439			247	14,686
Selling, general and administrative	11,243	2,273			13,516
Depreciation and other amortization	5,137	1,253		(252)	6,138
Amortization of goodwill, franchise costs and other purchased intangibles	1,057			244	1,301
Net restructuring and other charges	976	531		(1)	1,506
Inter-group expenses	(333)	560		(227)	
Total operating expenses	43,677	8,293		(229)	51,741
Operating income (loss)	11,523	(666)		2	10,859
Other income (expense)	824	122		(15)	931
Inter-group interest income	270			(270)	
Interest expense	1,755	(78)		88	1,765
Inter-group interest expense		214		(214)	
Income (loss) before income taxes, minority interest and earnings (losses) from equity investments	10,862	(680)		(157)	10,025
Provision for income taxes	4,016	(294)		(27)	3,695
Minority interest income (expense)	(132)			17	(115)
Equity earnings from Liberty Media Group			(2,022)		(2,022)
Net earnings (losses) from other equity investments	(760)	(19)		14	(765)
Income (loss)	5,954	(405)	(2,022)	(99)	3,428
Dividend requirements on preferred stock held by AT&T, net		56		(56)	
Net income (loss) after preferred stock dividends	\$ 5,954	\$ (461)	\$ (2,022)	\$ (43)	\$ 3,428

(1) Includes the elimination of inter-group transactions, consolidating entries as well as reclassifications and adjustments related to AT&T Wireless Group tracking stock.

	Wireless Group	Wireless Group	Wireless Group	Eliminations and Reclassifications	Consolidated AT&T Corp.
ASSETS					
Cash and cash equivalents	\$ 1,019	\$ 5	\$	\$	\$ 1,024
Receivables	9,241	1,300		(88)	10,453
Deferred income taxes	1,160	127			1,287
Other current assets	929	196		(5)	1,120
TOTAL CURRENT ASSETS	12,349	1,628		(93)	13,884
Property, plant and equipment, net	33,366	6,349		(97)	39,618
Franchise costs, net	32,693				32,693
Licensing costs, net		8,571		(23)	8,548
Goodwill, net	5,310	2,462		(327)	7,445
Investment in Liberty Media Group and related receivables, net			38,460		38,460
Other investments and related advances	14,856	4,502		8	19,366
Other assets	9,065			327	9,392
Long-term assets due from related party	4,400			(4,400)	
TOTAL ASSETS	\$ 112,039	\$ 23,512	\$ 38,460	\$ (4,605)	\$ 169,406
LIABILITIES					
Debt maturing within one year	\$ 12,479	\$ 154	\$	\$	\$ 12,633
Other current liabilities	13,711	2,143		(280)	15,574
TOTAL CURRENT LIABILITIES	26,190	2,297		(280)	28,207
Long-term debt	23,213			4	23,217
Long-term debt due to related party		3,400		(3,400)	
Deferred income taxes	20,507	3,750		(58)	24,199
Other long-term liabilities and deferred credits	7,722	48		(5)	7,765
TOTAL LIABILITIES	77,632	9,495		(3,739)	83,388

(1) Includes the elimination of inter-group transactions, consolidating entries as well as reclassifications and adjustments related to AT&T Wireless Group tracking stock.

	Group	Group	Group	Eliminations Reclassification	Consolidated Corp.
Minority Interest	2,371	20			2,391
Company-Obligated Convertible Quarterly Income Preferred Securities of a Subsidiary Trust Holding Solely Subordinated Debt					
Securities of AT&T	4,700				4,700
SHAREOWNERS' EQUITY					
AT&T Common Stock				3,196	3,196
AT&T Wireless Group Common Stock					
Liberty Media Group Class A Common Stock				2,314	2,314
Liberty Media Group Class B Common Stock				217	217
Other shareowners' equity	27,336	12,997	38,460	(5,593)	73,200
Other shareowners' equity due to related party		1,000		(1,000)	
TOTAL SHAREOWNERS' EQUITY	27,336	13,997	38,460	(866)	78,927
TOTAL LIABILITIES AND SHAREOWNERS' EQUITY	\$ 112,039	\$ 23,512	\$ 38,460	\$ (4,605)	\$ 169,406

(1) Includes the elimination of inter-group transactions, consolidating entries as well as reclassifications and adjustments related to AT&T Wireless Group tracking stock.

	Wireless Group	Media Group	Communications Group	Reclassifications(1)	Consolidated AT&T Corp.
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 10,907	\$ 867	\$	\$ (253)	\$ 11,521
INVESTING ACTIVITIES					
Capital expenditures and other additions	(11,795)	(2,272)		47	(14,020)
Equity investment distributions and sales	1,639	236			1,875
Equity investment contributions and purchases	(7,837)	(284)			(8,121)
Net acquisitions of businesses including cash acquired	(6,955)	244			(6,711)
Other	(960)	(47)		941	(66)
NET CASH USED IN INVESTING ACTIVITIES	(25,908)	(2,123)		988	(27,043)
FINANCING ACTIVITIES					
Proceeds from long-term debt issuance	8,396				8,396
Retirement of long-term debt	(2,807)				(2,807)
Issuance of convertible securities	4,638				4,638
Net acquisition of treasury shares	(4,624)				(4,624)
Dividends paid	(2,712)				(2,712)
Increase in short-term borrowings, net	10,173	65			10,238
Other	(177)	1,169		(735)	257
NET CASH PROVIDED BY FINANCING ACTIVITIES	12,887	1,234		(735)	13,386
Net decrease in cash and cash equivalents	(2,114)	(22)			(2,136)
Cash and cash equivalents at beginning of year	3,133	27			3,160
Cash and cash equivalents at end of period	\$ 1,019	\$ 5	\$	\$	\$ 1,024

Includes elimination of inter-group transactions, consolidating entries as well as reclassifications and adjustments related to AT&T Wireless Group tracking stock.

	Wireless Group	Wireless Group	Eliminations Reclassifications(1)	Consolidated AT&T Corp.
Revenue	\$ 47,817	\$ 5,406	\$	\$ 53,223
Inter-group revenue	73		(73)	
Total Revenue	47,890	5,406	(73)	53,223
Operating Expenses:				
Costs of services and products	8,336	2,363	(204)	10,495
Access and other connection	15,117		211	15,328
Selling, general and administrative	10,845	1,931	(6)	12,770
Depreciation and other amortization	3,534	1,079	(235)	4,378
Amortization of goodwill, franchise costs and other purchased intangibles	44		207	251
Net restructuring and other charges	2,514	120	(120)	2,514
Inter-group expenses	(183)	256	(73)	
Total operating expenses	40,207	5,749	(220)	45,736
Operating income (loss)	7,683	(343)	147	7,487
Other income	811	650	(180)	1,281
Inter-group interest income	246		(246)	
Interest expense	515	(70)	(18)	427
Inter-group interest expense		190	(190)	
Income from continuing operations before income taxes, minority interest and earnings (losses) from equity investments	8,225	187	(71)	8,341
Provision for income taxes	2,996	59	(6)	3,049
Minority interest income			21	21
Net earnings (losses) from other equity investments	(108)	36	(6)	(78)
Income from continuing operations	5,121	164	(50)	5,235
Dividend requirements on preferred stock held by AT&T, net		56	(56)	
Income from continuing operations after preferred stock dividends	\$ 5,121	\$ 108	\$ 6	\$ 5,235

(1) Includes the elimination of inter-group transactions, consolidating entries as well as reclassifications and adjustments related to AT&T Wireless Group tracking stock.

	Stock Group	Wireless Group	Eliminations/ Reclassifications(1)	Consolidated AT&T Corp.
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 9,928	\$ 414	\$ (125)	\$ 10,217
INVESTING ACTIVITIES				
Capital expenditures and other additions	(6,509)	(1,219)	15	(7,713)
Decrease in other receivables	6,303		100	6,403
Net sales of marketable securities	307			307
Equity investment distributions and sales	148	1,354	14	1,516
Equity investment contributions and purchases	(1,118)	(156)	(7)	(1,281)
Net acquisitions of businesses including cash acquired	4,183	324		4,507
Other	(60)	(65)	(32)	(157)
NET CASH PROVIDED BY INVESTING ACTIVITIES	3,254	238	90	3,582
FINANCING ACTIVITIES				
Proceeds from long-term debt issuance				
Retirement of long-term debt	(2,610)			(2,610)
Net acquisition of treasury shares	(3,321)			(3,321)
Dividends paid	(2,187)			(2,187)
Increase in short-term borrowings, net	(3,076)	43		(3,033)
Other	833	(674)	(57)	102
NET CASH USED IN FINANCING ACTIVITIES	(10,361)	(631)	(57)	(11,049)
NET CASH PROVIDED BY DISCONTINUED OPERATIONS			92	92
Net increase in cash and cash equivalents	2,821	21		2,842
Cash and cash equivalents at beginning of year	312	6		318
Cash and cash equivalents at end of period	\$ 3,133	\$ 27	\$	\$ 3,160

(1) Includes the elimination of inter-group transactions, consolidating entries as well as reclassifications and adjustments related to AT&T Wireless Group tracking stock.

Operating income (loss) ²	2,402	2,267	2,954	(4,346)
Net income	\$ 2,683	\$ 2,884	\$ 3,072	\$ (3,120)
AT&T Common Stock Group:				
Earnings (loss) per share:				
Basic	\$.55	\$.54	\$.35	\$ (.45)
Diluted	.54	.53	.35	(.45)
Dividends declared	\$.22	\$.22	\$.22	\$.0375
AT&T Wireless Group ³ :				
Earnings (loss) per share:				
Basic and diluted	\$ —	\$.06	\$ (.01)	\$.16
Liberty Media Group ³ :				
Earnings (loss) per share:				
Basic and diluted ⁴	\$.37	\$.10	\$.68	\$ (.57)
Stock price ⁵ :				
AT&T common stock				
High	\$ 61.00	\$ 58.81	\$ 35.19	\$ 30.00
Low	44.31	31.25	27.25	16.50
Quarter-end close	56.25	31.63	29.38	17.25
AT&T Wireless Group common stock				
High	—	36.00	29.56	24.94
Low	—	23.56	20.50	16.38
Quarter-end close	—	27.88	20.88	17.31
Liberty Media Group Class A common stock ⁴				
High	30.72	29.94	26.56	19.25
Low	24.44	19.19	17.44	10.75
Quarter-end close	29.63	24.25	18.00	13.56
Liberty Media Group Class B common stock ⁴				
High	36.56	32.69	32.63	20.63
Low	27.00	22.13	18.75	12.75
Quarter-end close	32.81	32.50	18.75	18.75

AT&T Common Stock Group:

Earnings per share:

Basic	\$.39	\$.50	\$.51	\$.36
Diluted	\$.38	\$.49	\$.50	\$.36
Dividends declared	\$.22	\$.22	\$.22	\$.22
Liberty Media Group ³ :				
Loss per share:				
Basic and diluted ⁴	\$.02	\$.21	\$.09	\$.48
Stock price ⁵ :				
AT&T common stock				
High	\$ 64.08	\$ 63.00	\$ 59.00	\$ 61.00
Low	50.58	50.06	41.81	41.50
Quarter-end close	53.20	55.81	43.50	50.81
Liberty Media Group Class A common stock ⁴				
High	14.53	18.52	19.84	28.34
Low	10.95	13.13	15.44	17.94
Quarter-end close	13.15	18.38	18.66	28.41
Liberty Media Group Class B common stock ⁴				
High	14.56	18.63	19.88	34.38
Low	11.13	13.69	16.00	19.31
Quarter-end close	13.44	18.63	19.88	34.38

1. Results have been restated to reflect certain franchise tax expenses as revenue and expense in the amount of \$21 in first quarter 1999, \$61 in second quarter 1999, \$63 in third quarter 1999, \$64 in fourth quarter 1999 and \$65 in first quarter 2000. This restatement had no impact on operating income or net income.
2. Operating income (loss) included net restructuring and other charges of \$773 in first quarter 2000, \$24 in third quarter 2000, \$6,232 in fourth quarter 2000, \$731 in first quarter 1999 and \$804 in fourth quarter 1999. Second quarter 1999 included a net restructuring and other charges benefit of \$29.
3. No dividends have been declared on AT&T Wireless Group or Liberty Media Group (LMG) common stocks.
4. Amounts have been restated to reflect the June 2000 two-for-one split of LMG common stock.
5. Stock prices obtained from the New York Stock Exchange Composite Tape.

resulting from changes in the fair values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The effective date for this standard was delayed via the issuance of SFAS No. 137. The effective date for SFAS No. 133 is now for fiscal years beginning after June 15, 2000, though earlier adoption is encouraged and retroactive application is prohibited. For AT&T, this means that the standard must be adopted no later than January 1, 2001.

In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," as an amendment to SFAS No. 133. This statement provides clarification with regard to certain implementation issues under SFAS No. 133 on specific types of hedges.

On January 1, 2001, AT&T adopted SFAS No. 133. We recorded a cumulative effect of an accounting change, net of applicable income taxes, of approximately \$1,370 of income, or approximately \$0.34 per diluted share, primarily attributable to fair value adjustments of debt instruments, including those acquired in conjunction with the MediaOne merger, as well as to our warrant portfolio. In addition, in connection with the adoption of SFAS No. 133, we reclassified certain investment securities, which support debt that is indexed to those securities, from "available-for-sale" to "trading." This reclassification resulted in the recognition of a charge of \$1,724, or approximately \$0.43 per diluted share, net of applicable taxes, which was recorded as a reduction of other income. As available-for-sale securities, changes in fair value were previously included within other comprehensive income as a component of shareowners' equity. In addition, LMG recorded a cumulative effect of an accounting change, net of applicable income taxes, of approximately \$800 of income, or approximately \$0.31 per share.

The impact of the adoption of SFAS No. 133, as amended by SFAS No. 138, on AT&T's future results of operations is dependent upon the fair values of our derivatives and related financial instruments and could result in pronounced quarterly fluctuations in other income in future periods.

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities — a Replacement of FASB Statement No. 125." This statement provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. Under these standards, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. This statement provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. This statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. AT&T does not expect that the adoption of SFAS No. 140 will have a material impact on AT&T's results of operations, financial position or cash flows.

22. SUBSEQUENT EVENTS

On January 12, 2001, AT&T announced that Cox and Comcast had exercised their rights to sell a combined total of 60.4 million shares of Excite@Home Series A common stock to AT&T as part of an agreement announced in August 2000 to reorganize Excite@Home's governance. Cox and Comcast elected to receive shares of AT&T common stock in exchange for their Excite@Home shares. AT&T is currently in discussions to renegotiate the terms of the put options which may result in a change to the number of shares

economically equivalent to 406 million shares of AT&T Wireless Group tracking stock and reflects approximately 16% of the financial performance and economic value of AT&T Wireless Group. AT&T allocated \$6.2 billion of the proceeds to AT&T Wireless Group. Each share of DoCoMo Wireless tracking stock is convertible at any time into AT&T Wireless Group tracking stock. Upon the conversion of the DoCoMo Wireless tracking stock, AT&T will reduce its portion of the financial performance and economic value in AT&T Wireless Group by 178 million shares, and the balance of the 406 million shares will come from the issuance of 228 million new shares of AT&T Wireless Group tracking stock. Additionally, upon completion of the planned split-off of AT&T Wireless, the DoCoMo Wireless tracking stock and related warrants will automatically be converted into AT&T Wireless Group tracking stock and thereafter be exchanged on the same terms as all other shares of AT&T Wireless Group tracking stock in the split-off. In the event that AT&T has not split-off AT&T Wireless by specified dates beginning January 1, 2002, DoCoMo will have the right, at its election, to require AT&T to repurchase from DoCoMo the preferred shares initially issued to them at DoCoMo's original purchase price plus interest up to the date of payment. The interest under this right will be treated as preferred stock dividends, with charges recorded as a reduction of AT&T Common Stock Group earnings. In addition, DoCoMo acquired 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. As part of the agreement, DoCoMo obtained a seat on AT&T's board of directors until AT&T Wireless Group is split-off from AT&T as a separate public company, which is expected to occur later in 2001. At that time, DoCoMo will retain representation on the new public AT&T Wireless board. Receipt of the DoCoMo proceeds reduced AT&T's existing \$25 billion credit facility by \$1.8 billion.

In January 2001, AT&T entered into agreements with certain network equipment vendors, which extend through 2004, to purchase next-generation wireless network equipment for a total of approximately \$1.8 billion.

On February 27, 2001, AT&T entered into an agreement with Vodafone Group plc to sell our 10% stake in Japan Telecom Co. Ltd for approximately \$1.35 billion in cash. The transaction is expected to be completed in April 2001 and will result in a gain.

On March 1, 2001, AT&T Wireless completed a private placement of \$6.5 billion in notes. The notes pay interest at rates ranging from 7.35% to 8.75% per annum, with maturity dates ranging from 2006 to 2031. The notes include customary covenants and registration rights. As a result of the issuance of these notes, AT&T's existing \$25 billion credit facility was reduced by \$4.8 billion.

On March 23, 2001, AT&T Wireless entered into \$2.5 billion in revolving credit facilities. The facilities consist of a 364-day facility of \$1.25 billion and a five-year revolving credit facility of \$1.25 billion. The facilities may be used for general corporate purposes and are subject to customary covenants and events of default.

AT&T WIRELESS GROUP FINANCIAL
(an integrated business of AT&T)

AT&T Wireless Group is an integrated business of AT&T Corp. and not a stand-alone entity. As AT&T Wireless Group is a tracking stock of AT&T, separate financial statements are not required to be filed. We are providing these financial statements to provide additional disclosures to investors to allow them to assess the financial performance of AT&T Wireless Group. Presenting separate financial statements for AT&T Wireless Group does not indicate that we have changed title to any assets or responsibility for any liabilities, and does not purport to affect the rights of any of AT&T's creditors. Holders of AT&T Wireless Group tracking stock do not have claims against the assets of AT&T Wireless Group. Instead, AT&T Wireless Group shareholders own a separate class of AT&T common stock that is intended to reflect the financial performance and economic value of AT&T's wireless services' businesses.

AT&T Wireless Group is an integrated business of AT&T and is not a separate legal entity. On April 27, 2000, AT&T completed an offering of 15.6%, or 360 million shares, of AT&T Wireless Group tracking stock at an offering price of \$29.50 per share. AT&T Wireless Group tracking stock is a class of AT&T common stock, which is intended to provide holders with financial returns based on the financial performance and economic value of AT&T's wireless services' businesses. AT&T Wireless Group tracking stock issued in the offering reflected only a portion of the authorized shares. The remaining 84.4% has been reserved for the benefit of AT&T Common Stock Group (which consists of the operations of AT&T other than those attributed to AT&T tracking stocks) and is intended to be reflected in AT&T common stock.

AT&T Wireless Group includes the results of its mobility and fixed wireless businesses, as well as its international operations, which primarily include the earnings or losses associated with equity interests in international wireless communications ventures and partnerships.

The combined financial statements of AT&T Wireless Group primarily include the legal entity results of AT&T Wireless Services, Inc and its subsidiaries (AWS), AT&T Wireless Group, LLC (AWG), AT&T Wireless PCS, LLC and its subsidiaries (AWPCS), and Winston, Inc. and its subsidiaries (Winston), all of which are direct subsidiaries of AT&T Corp., as of December 31, 2000. In February 2001, the legal entities of Winston and AWPCS as well as certain assets of AWG were transferred to AWS. The remaining assets and liabilities of AWG will be transferred prior to the split-off.

On October 25, 2000, AT&T announced its decision to present an exchange offer to AT&T common shareowners to allow them to exchange any portion of shares of AT&T common stock for shares of AT&T Wireless Group tracking stock. On December 22, 2000, AT&T filed a registration statement for the exchange offer with the Securities and Exchange Commission, which was amended on February 23, 2001. AT&T anticipates that the exchange offer will be completed during the second quarter of 2001. AT&T Wireless Group will continue to be a part of AT&T following the completion of the exchange offer.

Also on October 25, 2000, AT&T announced its restructuring plan. In connection with their restructuring plan, following the completion of the exchange offer and subject to certain conditions, AT&T intends to split-off AT&T Wireless Group from AT&T. These conditions include the receipt of a favorable ruling on the split-off from the Internal Revenue Service (IRS) and satisfaction of conditions contained in AT&T's new \$25 billion credit agreement, including the repayment of AT&T Wireless Group's intercompany obligations to AT&T. The split-off, which is anticipated to be completed in mid-2001, would include several steps. These steps include transferring substantially all of the assets and liabilities of AT&T Wireless Group to AT&T Wireless Services, Inc., mandatorily exchanging all issued and outstanding shares of AT&T Wireless Group tracking stock, including those issued in the exchange offer, for shares of AT&T Wireless Services common stock, and distributing a majority of the shares of AT&T Wireless Services common stock held by AT&T Common Stock Group, to holders of AT&T common stock on a pro rata basis. On February 14, 2001, AT&T announced its intention to retain up to \$3 billion of shares of AT&T Wireless Services for its own account for sale or exchange within six months of the split-off, subject to receipt of a satisfactory IRS ruling.

In January 2001, NTT DoCoMo, a leading Japanese wireless communications company, invested \$9.8 billion in a security of AT&T that, like AT&T Wireless Group tracking stock, is intended to reflect a portion of the financial performance and economic value of AT&T Wireless Group. AT&T Wireless Group, through AT&T Wireless Group, LLC, was allocated \$6.2 billion of the proceeds from DoCoMo's \$9.8 billion investment in AT&T. AT&T retained the remaining \$3.6 billion of the DoCoMo investment proceeds as consideration for the reduction in AT&T's retained portion of AT&T Wireless Group's value. Following the split-off, this investment will be converted into approximately 16% of AT&T Wireless Services' common shares. DoCoMo also received warrants at an exercise price of \$35 per AT&T Wireless Group tracking share equivalent that would represent an approximate additional 1.6% of AT&T Wireless Services' common shares after the split-off. As part of this investment, AT&T Wireless Group, through AT&T Wireless Services, Inc., has entered into a strategic alliance

Acquisitions

On December 29, 2000, AT&T Wireless Group, through AWS and AWPCS, completed the acquisition of a wireless system in Houston, which covers a population base of approximately five million potential customers and served approximately 180 thousand subscribers as of the acquisition date. Also on December 29, 2000, AT&T Wireless Group's equity interest in AB Cellular, an entity which owned cellular properties in Los Angeles, Houston and Galveston, Texas, was redeemed. In consideration for their equity interest, AT&T Wireless Group, through AWS, received 100% of the net assets of the Los Angeles property. The Los Angeles property covers a population base of approximately 15 million potential customers and had approximately 1.3 million subscribers as of December 31, 2000. On November 14, 2000, AT&T Wireless Group, through AWPCS, completed a transaction with their affiliate Telecorp PCS which resulted in AT&T Wireless Group acquiring wireless systems in several New England markets. On October 2, 2000, AT&T Wireless Group, through AWPCS, completed the acquisition of a wireless system in Indianapolis. Combined, the New England and Indianapolis markets cover a population base of approximately 4 million potential customers, and served approximately 145 thousand subscribers as of their acquisition dates.

On September 29, 2000, AT&T Wireless Group, through AWS, completed the acquisition of a wireless system in San Diego, which covers a population base of 3 million potential customers. Also, during the third quarter, AT&T Wireless Group, through AWS, completed its acquisition of a wireless system on the Big Island of Hawaii. Combined, these two markets served more than 180 thousand subscribers as of their acquisition dates.

In June 2000, AT&T Wireless Group, through AWS, closed the acquisition of the remaining 50% partnership interest it previously did not own in CMT Partners (Bay Area Properties). The Bay Area Properties cover a population base exceeding 7 million potential customers and, as of the acquisition date, served nearly 1 million subscribers. Also in June, AT&T Wireless Group, through AWS, completed its acquisition of Wireless One Network, L.P. (Wireless One). Wireless One owns and operates wireless systems in Northwest and Southwest Florida covering a population base of 1.6 million potential customers and had approximately 190 thousand subscribers as of the acquisition date.

In February 2000, AWS and Dobson Communications Corporation, through a joint venture, acquired American Cellular Corporation. AT&T contributed cash equal to AWS' interest in the joint venture to AT&T Wireless Group as of the date of the acquisition. This acquisition increased AT&T Wireless Group's coverage in New York State and several mid-west markets by adding approximately 450 thousand subscribers as of the acquisition date.

Forward-Looking Statements

Except for the historical statements and discussions contained herein, statements herein constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including without limitation, statements concerning future business prospects, revenue, operating performance, working capital, liquidity, capital needs, and general industry growth rates and AT&T Wireless Group's performance relative thereto. These forward-looking statements rely on a number of assumptions concerning future events, including AT&T Wireless Group's ability to achieve a significant market penetration in new markets. These forward-looking statements are subject to a number of uncertainties and other factors, many of which are outside AT&T Wireless Group's control, that could cause actual results to differ materially from such statements. AT&T and AT&T Wireless Group disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Total revenue includes wireless voice and data services, the sale of handsets and accessories, and revenue associated with the aviation communications and fixed wireless operations. AT&T Wireless Group records revenue as services are provided or when the product is sold. Services revenue primarily includes monthly recurring charges, airtime and toll usage charges, and roaming charges billed to subscribers for usage outside of AT&T Wireless Group's network as well as charges billed to other wireless providers for roaming on AT&T Wireless Group's network. The revenue and related expenses associated with the sales of wireless handsets and accessories are recognized when the products are delivered and accepted by the customer, as this is considered to be a separate earnings process from the sale of wireless services.

Total revenue increased 37.0% to \$10.448 billion for the year ended December 31, 2000, compared with the prior year. Total revenue increased 29.6% for the year ended December 31, 2000, compared with 1999, adjusted to exclude the Bay Area Properties for the six months ended December 31, 2000, and to exclude Vanguard Cellular for the period January 2000 to April 2000, to correlate results with 1999, due to the May 1999 acquisition. The revenue increase for the year ended December 31, 2000, was primarily due to growth in our mobility business revenue, including both growth in services and equipment revenue.

Services revenue for the year ended December 31, 2000, was \$9,376 million, an increase of \$2,553 million, or 37.4%, compared with 1999. The services revenue growth was driven by strong consolidated subscriber growth. Additionally, an increase in average monthly revenue per user (ARPU) for the year ended December 31, 2000, compared with the prior year, contributed to the revenue growth. AT&T Digital One Rate service, including additional calling plans introduced in August 2000 as well as the AT&T Regional and Digital advantage plans announced during the second quarter of 2000, continue to contribute to growth in subscribers as well as an increase in ARPU.

As of December 31, 2000, AT&T Wireless Group had nearly 15.2 million consolidated subscribers, an increase of 58.5%, compared with the prior year, of which 90.1% were digital subscribers, up from 79.2% as of December 31, 1999. Consolidated subscribers at December 31, 2000, included approximately 3.0 million subscribers associated with acquisitions that closed during 2000. Net consolidated wireless subscriber additions in the year ended December 31, 2000, totaled nearly 2.6 million, a 67.5% increase over the prior year, including 865 thousand during the fourth quarter. AT&T Wireless Group's average monthly churn rate for the year ended December 31, 2000, was 2.9% compared with 2.6% for the year ended December 31, 1999. AT&T Wireless Group's average monthly churn increased during 2000 as a result of competitive pressures, as well as AT&T Wireless Group's efforts to expand the customers they serve to a broader base of consumer segments. Total subscribers, including partnership markets in which AT&T Wireless Group does not own a controlling interest, were over 15.7 million at the end of 2000, a 28.9% increase over the prior year. Due to the redemption of AT&T Wireless Group's interest in AB Cellular during the fourth quarter of 2000, the Houston market subscribers of AB Cellular are no longer included in AT&T Wireless Group's total subscribers. Ending total subscribers included approximately 450 thousand subscribers associated with AT&T Wireless Group's acquisition of American Cellular in February 2000.

AT&T Wireless Group's ARPU for the year ended December 31, 2000, was \$68.2, an increase of \$2.4, or 3.6%, compared with 1999. The increase was primarily due to increased minutes of use per subscriber, driven in part by the continued success of AT&T Digital One Rate service and other rate plans introduced in 2000. AT&T Wireless Group's ARPU trended downward during the second half of 2000 as a result of market segmentation efforts. Despite this, AT&T Wireless Group's ARPU remained higher than the wireless industry average during the year ended December 31, 2000, excluding AT&T Wireless Group. As a result of our market segmentation efforts, AT&T Wireless Group anticipates that ARPU will decline in 2001 relative to 2000.

Costs of services

Costs of services include the costs to place calls over the network (including the costs to operate and maintain AT&T Wireless Group's network as well as roaming costs paid to other wireless providers) and the charges paid to connect calls on other networks, including those of AT&T.

Costs of services for the year ended December 31, 2000, were \$3,169 million, an increase of \$589 million, or 22.9%, compared with 1999. This increase was due primarily to growth in the mobility subscriber base and their increased minutes of use which resulted in an increase in the access and other connection charges paid to connect calls on other networks, including AT&T, as well as the costs to maintain AT&T Wireless Group's network. The costs of services associated with AT&T Wireless Group's fixed wireless business increased during 2000 as a result of the commercial launch of service in several markets. Additionally, during the fourth quarter, AT&T Wireless Group's costs of services included asset write-offs associated with changes in AT&T Wireless Group's strategy for markets that overlap with AT&T's broadband markets.

Costs of equipment sales

Costs of equipment sales include the costs of the handsets and accessories provided to AT&T Wireless Group customers. Costs of equipment sales for the year ended December 31, 2000 were \$2,041 million. This was an increase of \$775 million, or 61.2%, compared with 1999. This increase was due primarily to higher gross subscriber additions in 2000 compared with the prior year.

Selling, general and administrative

Selling, general and administrative expenses for the year ended December 31, 2000, were \$3,590 million, compared with \$2,663 million for the year ended December 31, 1999, representing an increase of 34.8%. This increase was largely attributable to higher marketing and selling costs, primarily advertising and commissions, associated with the increase in gross consolidated subscriber additions for the year ended December 31, 2000, compared to 1999. Cost per gross subscriber addition (CPGA), which includes the costs of handset subsidies recorded in costs of equipment sales, was \$367 for both the year ended December 31, 2000, and 1999. In addition, growth in the wireless customer base resulted in an increase in information technology and customer care related expenses.

Depreciation and amortization

Depreciation and amortization expenses for the year ended December 31, 2000, were \$1,686 million, an increase of \$433 million, or 34.5%, compared with 1999. This increase primarily resulted from growth in AT&T Wireless Group's depreciable asset base resulting from capital expenditures to increase the capacity of the network and improve call quality. Total capital expenditures were \$4,287 million and \$2,476 million for the years ended December 31, 2000 and 1999, respectively. Additionally, amortization expense, which includes amortization of licensing costs, goodwill, and other intangibles, increased for the year ended December 31, 2000, as a result of the 1999 acquisitions of Vanguard Cellular and Honolulu Cellular, as well as the 2000 acquisitions, primarily the Bay Area Properties and Wireless One which closed during June 2000.

Asset impairment and restructuring charges

During the fourth quarter of 1999, AT&T Wireless Group recorded a \$531 million asset impairment charge primarily associated with the planned disposal of wireless communications equipment resulting from a program to increase capacity and operating efficiency of the wireless network.

December 31, 2000, was due primarily to the pretax gain of \$379 million on the transactions associated with AT&T Wireless Group's affiliate investment in Telecorp PCS, interest income on the note receivable from AT&T, partially offset by a pretax loss of \$184 million associated with the acquisition of the Los Angeles cellular property resulting from AB Cellular's redemption of AT&T Wireless Group's equity interest in AB Cellular, as well as pretax gains recorded in 1999.

Interest expense

Interest expense consists primarily of interest on intercompany debt due to AT&T less interest expense capitalized. Interest expense for the year ended December 31, 2000, was \$85 million, a decrease of \$51 million, or 37.4%, compared with 1999. The decrease was due to higher levels of capitalized interest as a result of increased capital expenditures, as well as lower levels of average outstanding debt due to AT&T. The decrease in the average outstanding debt due to AT&T was attributable to the recapitalization of \$2.0 billion of long term debt due to AT&T into 9% cumulative preferred stock held by AT&T subsequent to the offering of AT&T Wireless Group tracking stock. These decreases were partially offset by a higher rate of interest charged on the intercompany debt in 2000 versus the prior year.

Provision (benefit) for income taxes

The provision for income taxes for the year ended December 31, 2000, was \$141 million, compared with a benefit of \$294 million for the year ended December 31, 1999. The effective income tax rate for the year ended December 31, 2000 was 34.1%, compared with 43.2%, for the year ended December 31, 1999. The effective rate for 2000 was impacted by increased goodwill and other purchased intangibles amortization expense associated with the 1999 and 2000 acquisitions as well as the sale of a foreign equity investment during 2000. The effective income tax rate for 1999 was impacted by the benefit from a change in the valuation allowance and other estimates, offset by amortization of goodwill and other purchased intangibles.

Net equity earnings (losses) from investments

Net equity earnings (losses) from investments, net of tax, was \$388 million of earnings for the year ended December 31, 2000, compared with \$19 million of losses for 1999. The increase was primarily due to a \$372 million after-tax gain included in equity earnings for AT&T Wireless Group's portion of the gain recognized by AB Cellular on the redemption of AT&T Wireless Group's equity interest in AB Cellular.

Dividend requirements on preferred stock held by AT&T

At December 31, 2000 and 1999, AT&T Wireless Group had outstanding, \$3.0 billion and \$1.0 billion, respectively, of preferred stock held by AT&T that pays dividends at 9% per annum. Long-term debt due to AT&T of \$2.0 billion was recapitalized into an additional \$2.0 billion of 9% cumulative preferred stock held by AT&T following the offering. Dividend requirements on this preferred stock for the year ended December 31, 2000, were \$130 million and for the year ended December 31, 1999, were \$56 million, net of amounts recorded in accordance with the tax sharing agreement.

FOR THE YEAR ENDED DECEMBER 31, 1999 COMPARED WITH THE YEAR ENDED DECEMBER 31, 1998

Revenue

Total revenue for the year ended December 31, 1999, was \$7,627 million, an increase of \$2,221 million, or 41.1%, compared with 1998. AT&T Wireless Group's 1999 results included Vanguard Cellular since its acquisition on May 3, 1999, and 1998 results included its messaging business until its sale on October 2,

contributed to the increase in ARPU for subscribers by acquiring and retaining high value customers, who have a significantly higher ARPU than an average subscriber.

Services revenue for the year ended December 31, 1999, was \$6,823 million, an increase of \$2,044 million, or 42.8%, compared with 1998.

As of December 31, 1999, AT&T Wireless Group had 9.6 million consolidated subscribers, an increase of 33.4% compared with the prior year, of which 79.2% were digital subscribers, up from 60.7% as of December 31, 1998. Included in these figures were approximately 700 thousand subscribers from our acquisition of Vanguard Cellular in May 1999, approximately 125 thousand subscribers from our acquisition of Honolulu Cellular in August 1999 and approximately 45 thousand subscribers from our acquisition of Bakersfield Cellular in April 1999. Including AT&T Wireless Group's partnership markets, approximately 9.4 million of the 12.2 million total subscribers were digital subscribers as of December 31, 1999.

AT&T Wireless Group's ARPU for the year ended December 31, 1999 was \$65.8, an increase of \$8.2, or 14.2%, compared with 1998. The increase was primarily due to increased minutes of use per subscriber, driven in part by the success of AT&T Digital One Rate service. AT&T Wireless Group's ARPU remained significantly higher than the wireless industry average during 1999, excluding AT&T Wireless Group.

Equipment revenue for the year ended December 31, 1999 was \$804 million, an increase of \$177 million, or 28.2%, compared with 1998. The increase was primarily due to a 25.1% increase in gross consolidated subscriber additions in 1999 compared with 1998. As an integral part of the wireless service offering, AT&T Wireless Group supplies to its new subscribers a selection of handsets at competitive prices, which are generally offered at or below cost.

Costs of services

Costs of services for the year ended December 31, 1999 were \$2,580 million. This was an increase of \$1,152 million, or 80.7%, compared with 1998. The increase was due primarily to roaming expenses associated with the success of AT&T Digital One Rate service as off-network roaming minutes of use increased by 194.7% for the year ended December 31, 1999, compared with 1998.

Although roaming expenses continued to impact results for the year ended December 31, 1999, the rate of roaming expense growth declined significantly during the latter half of 1999, as AT&T Wireless Group introduced initiatives to aggressively migrate more minutes onto AT&T Wireless Group's network as well as reduced intercarrier roaming rates. AT&T Wireless Group continued to seek to decrease roaming expenses through capital spending for network expansion, acquisitions and affiliate launches. Roaming rates also declined significantly as a result of renegotiated roaming agreements and the deployment of IRDB technology, which assists in identifying favorable roaming partners in areas not included in AT&T Wireless Group's network. All of these efforts resulted in a reduction of approximately 18% in the average roaming rate per minute paid to other carriers for the year ended December 31, 1999, compared with 1998.

Costs of equipment sales

Costs of equipment sales for the year ended December 31, 1999 were \$1,266 million. This was an increase of \$266 million, or 26.6%, compared with 1998. This increase was primarily the result of increased gross subscriber additions in 1999 compared with 1998. Gross subscriber additions increased 25.1% for the year ended 1999 compared with the prior year.

associated with the larger consolidated subscriber base.

Depreciation and amortization

Depreciation and amortization expenses for the year ended December 31, 1999 were \$1.253 billion, an increase of \$174 million, or 16.1%. This increase primarily resulted from a larger asset base and additional amortization of goodwill and other purchased intangibles associated with the acquisition of Vanguard Cellular. Capital expenditures for the year ended December 31, 1999 and 1998, were \$2,476 million and \$1,136 million, respectively.

Asset impairment and restructuring charges

During the fourth quarter of 1999, AT&T Wireless Group recorded a \$531 million asset impairment charge primarily associated with the planned disposal of wireless communications equipment resulting from a program to increase capacity and operating efficiency of the wireless network. Asset impairment and restructuring charges for the year ended December 31, 1998 were \$120 million, which represented the write-down of unrecoverable assets associated with non-strategic businesses.

Other income

Other income for the year ended December 31, 1999 was \$122 million. Other income for the year ended December 31, 1998 was \$650 million. The decrease was due primarily to the pretax gains on sales in 1998 of LIN Television Corporation of \$342 million, SmarTone Telecommunications Holdings Limited of \$128 million and PriceCellular of \$67 million.

Interest expense

Interest expense consists primarily of interest on intercompany debt due to AT&T. Interest was charged at 7.25% per annum for the year ended December 31, 1999 and 7.75% per annum for the year ended December 31, 1998. Interest expense for the year ended December 31, 1999 was \$136 million, an increase of \$16 million, or 13.3%, compared with 1998. The increase was due to a higher level of average debt outstanding, partially offset by the impact of the lower rate charged by AT&T in 1999.

Provision (benefit) for income taxes

The benefit for income taxes for the year ended December 31, 1999 was \$294 million, compared with a tax provision of \$59 million for the year ended December 31, 1998. The benefit for income taxes in 1999 was primarily due to the pre-tax loss for the period coupled with changes in the valuation allowance and other estimates. The effective income tax rates for the years ended December 31, 1999 and 1998, were 43.2% and 31.6%, respectively. The effective income tax rate for 1998 was impacted by the effect of state taxes, net of federal benefit, and the amortization of intangibles, partially offset by the effects of changes in the valuation allowance and other estimates.

Net equity earnings (losses) from investments

Net equity earnings (losses) from investments, net of tax, was a loss of \$19 million for the year ended December 31, 1999, compared with earnings of \$36 million for 1998. The decrease was primarily a result of increased losses associated with affiliate investments. Additionally, equity losses increased in 1999 compared with 1998 due to losses associated with financial commitments related to certain investments.

The continued expansion of AT&T Wireless Group's network and footprint, including spectrum auctions, and service offerings, and the marketing and distribution of its products and services, will continue to require substantial capital. AT&T Wireless Group has funded its operations by offering proceeds attributed from AT&T, intercompany borrowings from AT&T and internally generated funds, as well as capital contributions from AT&T prior to the offering. Capital contributions from AT&T prior to the offering included acquisitions made by AT&T that have been attributed to AT&T Wireless Group. Noncash capital contributions from AT&T to AT&T Wireless Group related to acquisitions and initial investments funded by AT&T totaled \$539 million, \$2,553 million, and \$982 million for the years ended December 31, 2000, 1999, and 1998, respectively.

The April 2000 offering of AT&T Wireless Group tracking stock resulted in net proceeds to AT&T after deducting underwriter's discount and related fees and expenses of \$10.3 billion. AT&T attributed \$7.0 billion of the net proceeds to AT&T Wireless Group in the form of an intercompany note receivable, which was repaid by December 31, 2000, and was used primarily to fund acquisitions and capital expenditures.

On May 1, 2000, following the offering, AT&T Wireless Group recapitalized \$2.0 billion of outstanding intercompany indebtedness to AT&T into an additional \$2.0 billion of 9% cumulative preferred stock held by AT&T. In conjunction with the recapitalization, AT&T Wireless Group's long-term debt due to AT&T was recapitalized to be 10 year term debt that bears interest at a fixed rate of 8.1% per annum.

Currently, financing activities for AT&T Wireless Group are managed by AT&T on a centralized basis and are subject to the review of AT&T Wireless Group's capital stock committee. AT&T Wireless Group capital stock committee is selected by AT&T's board of directors to oversee the interaction between businesses of AT&T Common Stock Group and AT&T Wireless Group in accordance with the AT&T Wireless Group Policy Statement. Under the AT&T Wireless Group Policy Statement, all material transactions between AT&T Common Stock Group and AT&T Wireless Group are determined and governed by a process of fair dealing. Sources for AT&T Wireless Group's future financing requirements may include the borrowing of funds, including additional short-term floating rate debt from AT&T and/or third-party debt. Loans from AT&T to any member of AT&T Wireless Group have been made at interest rates and on other terms and conditions intended to be substantially equivalent to the interest rates and other terms and conditions that AT&T Wireless Group would be able to obtain from third parties, including the public markets, as a non-affiliate of AT&T without the benefit of any guaranty by AT&T. This policy contemplates that these loans will be made on the basis set forth above regardless of the interest rates and other terms and conditions on which AT&T may have acquired the funds. If, however, AT&T incurs any fees or charges in order to keep available funds for use by AT&T Wireless Group, those fees or charges will be allocated to AT&T Wireless Group.

In association with the intended split-off of AT&T Wireless Group from AT&T announced on October 25, 2000, AT&T and AT&T Wireless Services, Inc. anticipate that they will enter into a separation and distribution agreement that will govern the terms of the split-off. As part of this agreement, AT&T Wireless Services will agree, upon completion of the split-off, to repay the full amount of the principal and accrued but unpaid interest or face value and accrued but unpaid dividends, of all outstanding indebtedness owned by AT&T Wireless Group to AT&T, and all preferred stock in AT&T Wireless Group held by AT&T.

On January 22, 2001, AT&T closed their transaction with NTT DoCoMo. AT&T attributed \$6.2 billion of the approximate \$9.8 billion of proceeds received from DoCoMo to AT&T Wireless Group in the form of an intercompany note receivable. AT&T Wireless Group intends to utilize the proceeds to continue executing their strategy to expand their capacity, enlarge their footprint, create an advanced mobile internet and invest in other strategic growth initiatives, as well as to satisfy intercompany obligations.

corporate purposes and are subject to customary covenants, representations and warranties and events of default. In addition, the Facilities contain financial covenants providing for a maximum total debt to total consolidated Operational EBITDA ratio (as defined in the facilities agreement) not to exceed 4:0 to 1:0 for AT&T Wireless Group and a minimum interest coverage ratio of 3.5:1.0. From the date of the closing of the Facilities until the date of the split-off of AT&T Wireless Group, AWS will be prohibited from declaring and/or paying dividends. The Facility also specifies limitations on AT&T's and AT&T Wireless Group's ability to consummate the split-off including a provision that it will constitute an event of default if the split-off is consummated without obtaining a favorable tax ruling from the IRS or an unqualified tax opinion that the split-off will qualify as a tax-free transaction. In addition, the existence of an obligation by AT&T Wireless Group to repurchase equity interests from DoCoMo may under certain circumstances constitute an event of default.

On March 1, 2001, AT&T Wireless Group, through AWS, completed a private placement of \$6.5 billion in Senior Notes with maturity dates from 2006 to 2031. The notes pay interest at rates ranging from 7.350% to 8.750% per annum, and include customary covenants. The notes include registration rights, such that AWS is required to exchange the notes for a new issue of notes registered under the Securities Act of 1933 and are to be declared effect no later than 240 days after the issue date.

AT&T performs cash management functions on behalf of AT&T Wireless Group. Substantially all of AT&T Wireless Group's cash balances are swept to AT&T on a daily basis, where they are managed and invested by AT&T. Prior to the offering of AT&T Wireless Group tracking stock, transfers of cash to and from AT&T were reflected as a component of combined attributed net assets, with no interest income or expense reflected. Subsequent to the offering, transfers are reflected as changes in the note receivable from AT&T. Cash balances maintained and reported by AT&T Wireless Group primarily represent cash balances for which no right of offset exists with AT&T.

Net cash provided by operating activities for the year ended December 31, 2000, was \$1,635 million, compared with \$867 million for the year ended December 31, 1999. The increase in cash provided by operating activities was primarily due to an increase in operating income excluding depreciation and amortization, and the asset impairment and restructuring charge in 1999, resulting from revenue growth and expense leveraging, and an increase in operating and payroll related accruals, partially offset by increases in inventories and accounts receivable.

Net cash used in investing activities for the year ended December 31, 2000, was \$10,525 million, compared with \$2,123 million for the year ended December 31, 1999. The investing activities included on AT&T Wireless Group's statements of cash flows include cash expenditures or receipts of cash for investing transactions directly attributable to the wireless group operations, and those legal entities that comprise the financial statements of AT&T Wireless Group. These amounts are representative of what AT&T Wireless Group would report on a stand-alone basis. The increase was due primarily to the acquisitions of wireless systems in Houston, Indianapolis and San Diego, the Bay Area Properties, and Wireless One. Equity investment purchases increased primarily due to the acquisition of equity interests in international ventures, acquired from AT&T in association with their acquisition of MediaOne. In addition, capital expenditures increased as a result of efforts to increase network capacity in existing markets as well as to expand the national footprint.

Net cash provided by financing activities for the year December 31, 2000, was \$8,947 million, compared with \$1,234 million for the year ended December 31, 1999. The increase was primarily due to proceeds attributed from the offering of AT&T Wireless Group tracking stock, short-term debt borrowed from AT&T as well as increased transfers from AT&T prior to the offering, to fund acquisitions and higher capital expenditures.

\$238 million of cash provided by investing activities in 1998. The difference was due primarily to higher capital expenditures to upgrade and increase capacity in existing markets as well as to expand the national footprint, and lower cash proceeds associated with the sales of equity investments. Net cash provided by financing activities for the year ended December 31, 1999 was \$1,234 million compared with \$631 million of cash used in financing activities in 1998 due to increased transfers and debt financing from AT&T to fund the higher capital expenditures during 1999.

EBITDA, defined as earnings before interest and taxes, excluding other income, plus depreciation and amortization, is the primary measure used by the chief operating decision-makers to measure our ability to generate cash flow. EBITDA may or may not be consistent with the calculation of EBITDA for other public companies and should not be viewed by investors as an alternative to generally accepted accounting principles, measures of performance or to cash flows from operating, investing and financing activities as a measure of liquidity.

EBITDA for the year ended December 31, 2000, was \$1,648 million, compared with \$587 million for the year ended December 31, 1999. On an operational basis, adjusted to exclude the 1999 asset impairment and restructuring charge of \$531 million, EBITDA increased \$530 million or 47.3%. The increase was primarily the result of revenue growth and lower off-network roaming expenses. These increases were partially offset by increased customer acquisition costs associated with the increase in gross subscriber additions, increased network costs attributable to the growth in subscribers and their minutes of use, and increased information technology and customer care related costs to support growth in the subscriber base.

For our mobility business, EBITDA for the year ended December 31, 2000, was \$1,884 million, compared with \$670 million for the year ended December 31, 1999. Excluding the 1999 asset impairment and restructuring charge, mobility EBITDA increased \$686 million or 57.2%.

For our fixed wireless business, EBITDA for the year ended December 31, 2000, was a deficit of \$228 million, compared with a deficit of \$75 million the year ended December 31, 1999. Excluding the 1999 asset impairment and restructuring charge, fixed wireless EBITDA decreased \$156 million or 213.4%.

EBITDA margins were 15.8% for the year ended December 31, 2000, compared with 14.7% for the year and December 31, 1999, excluding the 1999 asset impairment and restructuring charge. The improvement in EBITDA margins for the year ended December 31, 2000, compared to the year ended December 31, 1999, was primarily driven by revenue growth and expense leveraging, primarily off-network roaming expenses, partially offset by increased customer acquisition and customer care costs associated with growth in the subscriber base.

EBITDA margins for our mobility business were 18.0% for the year ended December 31, 2000, compared with 15.7% for the year ended December 31, 1999, excluding the 1999 asset impairment and restructuring charge.

EBITDA for the year ended December 31, 1999 was \$587 million compared with \$736 million for the year ended December 31, 1998. Excluding pretax asset impairment and restructuring charges of \$531 million in 1999 and \$120 million in 1998, EBITDA was \$1,118 million for 1999, which represented an increase of \$262 million, or 30.6%, compared with 1998. This increase was attributable to increases in total revenue and an improving margin as SG&A expenses declined as a percentage of revenue.

For our mobility business, EBITDA for the year ended December 31, 1999, was \$670 million, compared with \$794 million for the year ended December 31, 1998. Excluding pretax asset impairment and restructuring charges of \$528 million in 1999 and \$120 million in 1998, EBITDA was \$1,198 million for 1999 compared with \$914 million for 1998.

Excluding the aforementioned property asset impairment and restructuring charges in 1999 and 1998, EBITDA margins for our mobility business were 15.7% for the year ended December 31, 1999, compared with 16.9% for the year ended December 31, 1998.

FINANCIAL CONDITION

Total assets were \$35,302 million as of December 31, 2000, an increase of \$11,790 million, or 50.1%, compared with December 31, 1999. The increase was due primarily to increases in licensing costs, goodwill, and property, plant and equipment associated with the acquisitions closed in 2000, including the acquisitions of Wireless One, L.P. and wireless systems in the San Francisco Bay Area, San Diego, Indianapolis, Houston and Los Angeles. In addition, the increase in property, plant and equipment was a result of significant capital expenditures for the year ended December 31, 2000. These increases were partially offset by a decrease in investments as AT&T Wireless Group previously held equity interests in portions of the Bay Area Properties, and the Los Angeles market, through their interest in AB Cellular. These markets were consolidated as of December 31, 2000.

Total liabilities were \$10,384 million as of December 31, 2000, a increase of \$889 million, or 9.4%, compared with December 31, 1999. The increase was primarily due to increases in deferred income taxes as a result of gains recorded during the fourth quarter, as well as increased marketing, business tax and other operating accruals. These increases were partially offset by a net decrease in intercompany indebtedness to AT&T.

Combined attributed net assets was \$24,887 million as of December 31, 2000, an increase of \$10,880 million, or 77.7%, compared with December 31, 1999. The increase was primarily due to the attribution of offering proceeds to AT&T Wireless Group, net transfers from AT&T prior to the offering to fund capital expansion and acquisitions, as well as the additional \$2.0 billion of preferred stock issued to AT&T.

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2000, the Financial Accounting Standards Board (FASB) issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—A Replacement of FASB No. 125". This statement provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. Under these standards, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. This statement provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. This statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. AT&T Wireless Group does not expect that the adoption of SFAS No. 140 will have a material impact on its results of operations, financial position or cash flows.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". Among other provisions, it requires that entities recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Gains and losses resulting from changes in the fair values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The effective date of this standard was delayed via the issuance of SFAS No. 137. The effective date for SFAS No. 133 is now for fiscal years beginning after June 15, 2000, though earlier adoption is encouraged and retroactive application is prohibited. For AT&T Wireless Group, this means that the standard must be adopted no later than January 1, 2001. In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" as an amendment to SFAS No. 133. This statement provides clarification with regard to certain

SUBSEQUENT EVENTS

In January 2001, AT&T Wireless Group executed agreements with certain network equipment vendors, related to the development of its next-generation network strategy. These agreements require AT&T Wireless Group to buy equipment from these vendors totaling approximately \$1.8 billion through 2004.

Effective January 1, 2001, AT&T Wireless Group implemented the results of a review of the estimated service lives of certain wireless communications equipment, primarily electronics. Lives were shortened to fully depreciate all such equipment within seven years. Similar equipment acquired after January 1, 2001, will have useful lives no longer than seven years.

On January 22, 2001, AT&T Wireless Group, through AWS, completed its previously announced transaction with DoCoMo. See Note 1 for further discussion of the transaction.

On November 17, 2000, AT&T Wireless Group announced that AT&T's board of directors had approved an agreement under which AT&T Wireless Group would purchase \$200 in Series AA preferred stock from Dobson Communications Corporation. AT&T Wireless Group, through AWS, completed this transaction on February 8, 2001. The Series AA preferred stock acquired has a liquidation preference of \$1,000 per share and is exchangeable into Series A convertible preferred stock. If the Series AA preferred stock is exchanged into Series A convertible preferred stock, AT&T Wireless Group will increase its ownership interest in Dobson, on an as converted to common stock basis, from its current ownership of 4.6% to approximately 11.6%.

On March 23, 2001, AT&T Wireless Group, through AWS, entered into Competitive Advance and Revolving Credit Facilities (the "Facilities") in the aggregate amount of \$2.5 billion consisting of and up to \$1.25 billion 364-day Competitive Advance and Revolving Credit Facility and an up to \$1.25 billion Five-Year Competitive Advance and Revolving Credit Facility. The facilities are subject to a facility fee and utilization fee and bear interest at variable rates based upon, in various cases, LIBOR, the prime rate or the rates on overnight Federal funds transactions. The Facilities may be used for general corporate purposes and are subject to customary covenants, representations and warranties and events of default. In addition, the Facilities contain financial covenants providing for a maximum total debt to total Consolidated Operational EBITDA ratio (as defined in the facilities agreement) not to exceed 4:0 to 1:0 for AT&T Wireless Group and a minimum interest coverage ratio of 3.5:1.0. From the date of the closing of the Facilities until the date of the split-off of AT&T Wireless Group, AWS will be prohibited from declaring and/or paying dividends. The Facility also specifies limitations on AT&T's and AT&T Wireless Group's ability to consummate the split-off including a provision that it will constitute an event of default if the split-off is consummated without obtaining a favorable tax ruling from the IRS or an unqualified tax opinion that the split-off will qualify as a tax-free transaction. In addition, the existence of an obligation by AT&T Wireless Group to repurchase equity interests from DoCoMo may under certain circumstances constitute an event of default.

On February 26, 2001, AT&T agreed to sell its entire interest in Japan Telecom for approximately \$1.35 billion. The net after-tax proceeds are expected to be approximately \$1 billion. AT&T has indicated that the net after-tax proceeds will be split evenly between AT&T and AT&T Wireless Group. AT&T Wireless Group anticipates that it will recognize a significant gain on the transaction.

On March 1, 2001, AT&T Wireless Group, through AWS, completed a private placement of \$6.5 billion in Senior Notes with maturity dates from 2006 to 2031. The notes pay interest at rates ranging from 7.350% to 8.750% per annum, and include customary covenants. The notes include registration rights, such that AWS is required to exchange the notes for a new issue of notes registered under the Securities Act of 1933 and are to be declared effect no later than 240 days after the issue date.

in combined attributed net assets and cash flows present fairly, in all material respects, the financial position of AT&T Wireless Group at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of AT&T Wireless Group's management; our responsibility is to express an opinion on these financial statements based on our audits. 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 provide a reasonable basis for our opinion.

AT&T Wireless Group is a fully integrated business unit of AT&T Corp.; consequently, as indicated in Note 1, these combined financial statements have been derived from the consolidated financial statements and accounting records of AT&T Corp. and reflect certain assumptions and allocations. Moreover, as indicated in Note 1, AT&T Wireless Group relies on AT&T Corp. for administrative, management and other services. The financial position, results of operations and cash flows of AT&T Wireless Group could differ from those that would have resulted had AT&T Wireless Group operated autonomously or as an entity independent of AT&T Corp. As more fully discussed in Note 1, the combined financial statements of AT&T Wireless Group should be read in conjunction with the audited consolidated financial statements of AT&T Corp.

PRICEWATERHOUSECOOPERS LLP

March 16, 2001

New York, New York

Years Ended December 31,

	2000	1999	1998
Revenue			
Services revenue	\$ 9,376	\$ 6,823	\$ 4,779
Equipment revenue	1,072	804	627
Total revenue	10,448	7,627	5,406
Operating expenses			
Costs of services (excluding depreciation of \$1,047, \$732, \$599, included below)	3,169	2,580	1,428
Costs of equipment sales	2,041	1,266	1,000
Selling, general and administrative	3,590	2,663	2,122
Depreciation and amortization	1,686	1,253	1,079
Asset impairment and restructuring charges	—	531	120
Total operating expenses	10,486	8,293	5,749
Operating loss	(38)	(666)	(343)
Other income	534	122	650
Interest expense	85	136	120
Income (loss) before income taxes	411	(680)	187
Provision (benefit) for income taxes	141	(294)	59
Net equity earnings (losses) from investments	388	(19)	36
Net income (loss)	658	(405)	164
Dividend requirements on preferred stock held by AT&T, net	130	56	56
Net income (loss) after preferred stock dividends	\$ 528	\$ (461)	\$ 108

See Notes to Combined Financial Statements

At December 31,

	2000	1999
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ASSETS

Cash and cash equivalents	\$ 62	\$ 5
Accounts receivable, less allowances of \$193 and \$130	1,892	1,300
Inventories	335	162
Income tax receivable	118	—
Deferred income taxes	93	127
Prepaid expenses and other current assets	82	34
Total Current Assets	2,582	1,628
Property, plant and equipment, net	9,892	6,349
Licensing costs, net of accumulated amortization of \$1,761 and \$1,519	13,627	8,571
Investments in and advances to unconsolidated subsidiaries	3,385	4,502
Goodwill and other assets, net	5,816	2,462
Total Assets	\$ 35,302	\$ 23,512

LIABILITIES

Accounts payable	\$ 1,080	\$ 780
Payroll and benefit-related liabilities	432	291
Due on demand notes payable	109	154
Short-term debt due to AT&T	638	—
Other current liabilities	1,395	1,072
Total Current Liabilities	3,654	2,297
Long-term debt due to AT&T	1,800	3,400
Deferred income taxes	4,659	3,750
Other long-term liabilities	271	48
Total Liabilities	10,384	9,495
Minority Interest	41	20
Combined Attributed Net Assets	24,877	13,997
Total Liabilities and Combined Attributed Net Assets	\$ 35,302	\$ 23,512

See Notes to Combined Financial Statements

For the Years Ended December 31.

	2000	1999	1998
Combined Attributed Net Assets:			
Balance at beginning of year	\$ 13,997	\$ 11,532	\$ 11,187
Net income (loss) after preferred stock dividends	528	(461)	108
Proceeds attributed from offering of AT&T Wireless Group tracking stock	7,000	—	—
Proceeds from shares issued for employee plans	41	—	—
Preferred stock issued to AT&T	2,000	—	—
Transfers from AT&T, net	1,345	2,897	288
Net revaluation of investments	(34)	29	(51)
Balance at end of year	\$ 24,877	\$ 13,997	\$ 11,532
Summary of Total Comprehensive Income:			
Net income (loss) after preferred stock dividends	\$ 528	\$ (461)	\$ 108
Dividend requirements on preferred stock held by AT&T, net	130	56	56
Net income (loss)	658	(405)	164
Net revaluation of investments (net of taxes of \$(22), \$18, and \$(31))	(34)	29	(51)
Total Comprehensive Income	\$ 624	\$ (376)	\$ 113

See Notes to Combined Financial Statements

(In Millions)

	For the Years Ended December 31,		
	2000	1999	1998
Operating activities			
Net income (loss)	\$ 658	\$ (405)	\$ 164
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Net gains on sale/exchange of businesses and investments	(362)	(99)	(600)
Asset impairment and restructuring charges	—	531	120
Depreciation and amortization	1,686	1,253	1,079
Deferred income taxes	585	(85)	(39)
Net equity earnings from investments	(505)	(149)	(115)
Minority interests in consolidated subsidiaries	(28)	(17)	(35)
Provision for uncollectible receivables	314	200	99
Increase in accounts receivable	(853)	(514)	(307)
(Increase) decrease in inventories	(142)	27	(32)
(Decrease) increase in accounts payable	(48)	(11)	123
Net change in other operating assets and liabilities	330	136	(43)
Net cash provided by operating activities	<u>1,635</u>	<u>867</u>	<u>414</u>
Investing activities			
Capital expenditures and other additions	(4,012)	(2,272)	(1,219)
Net acquisitions of licenses	(247)	(47)	(65)
Equity investment distributions and sales	360	236	1,354
Equity investment contributions, advances and purchases	(1,645)	(284)	(156)
Net (acquisitions) dispositions of businesses including cash acquired	(4,763)	244	324
Deposits on long-lived assets	(218)	—	—
Net cash (used in) provided by investing activities	<u>(10,525)</u>	<u>(2,123)</u>	<u>238</u>
Financing activities			
Increase in short-term borrowings	—	65	43
Net increase in short-term debt due to AT&T	638	—	—
Increase in long-term debt due to AT&T	400	900	100
Proceeds attributed from offering of AT&T Wireless Group tracking stock	7,000	—	—
Proceeds from shares issued for employee plans	41	—	—
Dividend requirements on preferred stock, net	(130)	(56)	(56)
Transfers from (to) AT&T, net	1,001	344	(694)
Other financing activities, net	(3)	(19)	(24)
Net cash provided by (used in) financing activities	<u>8,947</u>	<u>1,234</u>	<u>(631)</u>
Net increase (decrease) in cash and cash equivalents	<u>57</u>	<u>(22)</u>	<u>21</u>
Cash and cash equivalents at beginning of year	<u>5</u>	<u>27</u>	<u>6</u>
Cash and cash equivalents at end of year	<u>\$ 62</u>	<u>\$ 5</u>	<u>\$ 27</u>

See Notes to Combined Financial Statements

1. Background and Basis of Presentation

Background

AT&T Wireless Group is an integrated business of AT&T and is not a separate legal entity. On April 27, 2000, AT&T completed an offering of 15.6%, or 360 million shares, of AT&T Wireless Group tracking stock at an offering price of \$29.50 per share. AT&T Wireless Group tracking stock is a class of AT&T common stock, which is intended to provide holders with financial returns based on the financial performance and economic value of AT&T's wireless services' businesses. AT&T Wireless Group tracking stock issued in the offering reflected only a portion of the authorized shares. The remaining 84.4% has been reserved for the benefit of AT&T Common Stock Group (which consists of the operations of AT&T other than those attributed to AT&T tracking stocks) and is intended to be reflected in AT&T common stock.

On October 25, 2000, AT&T announced its decision to present an exchange offer to AT&T common shareowners to allow them to exchange any portion of shares of AT&T common stock for shares of AT&T Wireless Group tracking stock. On December 22, 2000, AT&T filed a registration statement for the exchange offer with the Securities and Exchange Commission, which was amended on February 23, 2001. AT&T anticipates that the exchange offer will be completed during the second quarter of 2001. AT&T Wireless Group will continue to be a part of AT&T following the completion of the exchange offer.

Also on October 25, 2000, AT&T announced its restructuring plan. In connection with its restructuring plan, following the completion of the exchange offer and subject to certain conditions, AT&T intends to split-off AT&T Wireless Group from AT&T. These conditions include the receipt of a favorable ruling on the split-off from the Internal Revenue Service (IRS) and satisfaction of conditions contained in AT&T's new \$25 billion credit agreement, including the repayment of AT&T Wireless Group's intercompany obligations to AT&T. The split-off, which is anticipated to be completed in mid-2001, would include several steps. These steps include transferring substantially all of the assets and liabilities of AT&T Wireless Group to AT&T Wireless Services, Inc., mandatorily exchanging all issued and outstanding shares of AT&T Wireless Group tracking stock, including those issued in the exchange offer, for shares of AT&T Wireless Services common stock, and distributing a majority of the shares of AT&T Wireless Services common stock held by AT&T Common Stock Group, to holders of AT&T common stock on a pro rata basis. On February 14, 2001, AT&T announced its intention to retain up to \$3 billion of shares of AT&T Wireless Services for its own account for sale or exchange within six months of the split-off, subject to receipt of a satisfactory IRS ruling.

In January 2001, NTT DoCoMo, a leading Japanese wireless communications company, invested \$9.8 billion in a security of AT&T that, like AT&T Wireless Group tracking stock, is intended to reflect a portion of the financial performance and economic value of AT&T Wireless Group. AT&T Wireless Group, through AT&T Wireless Group, LLC, was allocated \$6.2 billion of the proceeds from DoCoMo's \$9.8 billion investment in AT&T. AT&T retained the remaining \$3.6 billion of the DoCoMo investment proceeds as consideration for the reduction in AT&T's retained portion of AT&T Wireless Group's value. Following the split-off, this investment will be converted into approximately 16% of AT&T Wireless Services' common shares. DoCoMo also received warrants at an exercise price of \$35 per AT&T Wireless Group tracking share equivalent that would represent an approximate additional 1.6% of AT&T Wireless Services' common shares after the split-off. As part of this investment, AT&T Wireless Group, through AT&T Wireless Services, Inc., has entered into a strategic alliance with DoCoMo to develop mobile multimedia services on a global-standard, high-speed wireless network. DoCoMo may require the repurchase of its investment at DoCoMo's original purchase price, plus interest, if

AT&T Wireless Group is an integrated business of AT&T. AT&T Wireless Group includes the results of its mobility and fixed wireless businesses, as well as its international operations, which primarily include the earnings or losses associated with equity interests in international wireless communications ventures and partnerships. The combined financial statements reflect the results of operations, financial position, changes in combined attributed net assets and cash flows of AT&T Wireless Group as if it were a separate entity for all periods presented. The financial information included herein may not necessarily reflect the combined results of operations, financial position, changes in equity and cash flows of AT&T Wireless Group had it been a separate, stand-alone entity during the periods presented. The combined financial statements of AT&T Wireless Group should be read in conjunction with AT&T's Form 10-K for the year ended December 31, 2000.

The combined financial statements of AT&T Wireless Group conform to generally accepted accounting principles. The combined financial statements reflect the assets, liabilities, revenue and expenses directly attributable to AT&T Wireless Group, as well as allocations deemed reasonable by management, to present the results of operations, financial position and cash flows of AT&T Wireless Group on a stand-alone basis. The allocation methodologies have been described within the notes to the combined financial statements where appropriate.

The combined financial statements of AT&T Wireless Group primarily include the legal entity results of AT&T Wireless Services, Inc. and its subsidiaries (AWS), AT&T Wireless Group, LLC (AWG), AT&T Wireless PCS, LLC and its subsidiaries (AWPCS), and Winston, Inc. and its subsidiaries (Winston), all of which were direct subsidiaries of AT&T Corp., as of December 31, 2000. In February 2001, the legal entities of Winston and AWPCS as well as certain assets of AWG were transferred to AWS. The remaining assets and liabilities of AWG will be transferred prior to the split-off.

The April 2000 offering of AT&T Wireless Group tracking stock resulted in net proceeds to AT&T, after deducting underwriter's discount and related fees and expenses, of \$10.3 billion. AT&T attributed \$7.0 billion of the net proceeds to AT&T Wireless Group, in the form of a note receivable, which was repaid by December 31, 2000, primarily to fund acquisitions and capital expenditures. Interest on the note receivable was calculated based upon the average daily balance outstanding at a rate equal to the one month London InterBank Offered Rate (LIBOR) minus six basis points, a rate intended to be equivalent to the rate AT&T Wireless Group would receive if it were a stand-alone entity.

Prior to the offering of AT&T wireless group tracking stock, the capital structure of AT&T Wireless Group had been assumed based upon AT&T's historical capital ratio adjusted for certain items. In determining the allocation between short- and long-term debt and preferred stock, we considered factors such as prospective financing requirements for the business, working capital commitments and future requirements, and peer group analysis. This resulted in \$3.4 billion in long-term debt due to AT&T at December 31, 1999, paying annual interest at 7.25%. In addition, as of December 31, 1999, AT&T Wireless Group had issued and outstanding, \$1.0 billion of 9% cumulative preferred stock held by AT&T that, subject to the approval of AT&T Wireless Group capital stock committee, is redeemable at the option of AT&T. The preferred stock is included

rate that AT&T Wireless Group would be able to obtain from third parties, including the public markets, as a non-affiliate of AT&T without the benefit of any guaranty by AT&T.

During December 2000, AT&T Wireless Group, through AWS, obtained a short-term revolving loan from AT&T, which is included in "Short-term debt due to AT&T" in the accompanying combined balance sheets. At December 31, 2000, the amount outstanding under the loan was \$638, paying interest monthly at the average seven-day commercial paper rate, which was 8.37% at December 31, 2000. The revolving loan matures on December 29, 2001. The loan was repaid in full in January 2001.

Changes in combined attributed net assets prior to the offering primarily represented net transfers to or from AT&T, after giving effect to the net income or loss of AT&T Wireless Group during the period, and were assumed to be settled in cash. AT&T's capital contributions for purchase business combinations and initial investments in joint ventures and partnerships which AT&T attributed to AT&T Wireless Group have been treated as noncash transactions prior to the offering.

AT&T performs cash management functions on behalf of the AT&T Wireless Group. Substantially all of the AT&T Wireless Group's cash balances are swept to AT&T on a daily basis, where they are managed and invested by AT&T. Prior to the offering of the AT&T Wireless Group tracking stock, transfers of cash to and from AT&T were reflected as a component of combined attributed net assets, with no interest income or expense reflected. Subsequent to the offering, transfers were reflected as changes in the note receivable from or short-term debt payable to AT&T. Cash balances maintained and reported by the AT&T Wireless Group primarily represent cash balances for which no right of offset exists with AT&T.

General corporate overhead related to AT&T's corporate headquarters and common support divisions has been allocated to AT&T Wireless Group as it was not deemed practicable to specifically identify such common costs to AT&T Wireless Group. These allocations were based on the ratio of AT&T Wireless Group's external costs and expenses to AT&T's consolidated external costs and expenses, adjusted for any functions that AT&T Wireless Group performs on its own. However, the costs of these services charged to AT&T Wireless Group are not necessarily indicative of the costs that would have been incurred if AT&T Wireless Group had performed these functions entirely as a stand-alone entity, nor are they indicative of costs that will be charged or incurred in the future.

Consolidated income tax provision, related tax payments or refunds, and deferred tax balances of AT&T have been allocated to AT&T Wireless Group based principally on the taxable income and tax credits directly attributable to AT&T Wireless Group. These allocations reflect AT&T Wireless Group's contribution to AT&T's consolidated taxable income and the consolidated tax liability and tax credit position. The AT&T Common Stock Group and AT&T Wireless Group have entered into a tax sharing agreement that provides for tax sharing payments based on the taxes or tax benefits of a hypothetical affiliated group consisting of AT&T Common Stock Group and AT&T Wireless Group. Based on this agreement, the consolidated tax liability before credits is allocated between the groups, based on each group's contribution to consolidated taxable

2. Summary of Significant Accounting Policies

Cash Equivalents

All highly liquid investments with original maturities of generally three months or less are considered to be cash equivalents.

Cash Flows

For purposes of the combined statements of cash flows, all transactions between AT&T Wireless Group and AT&T, except for purchase business combinations and initial investments in joint ventures and partnerships which were funded by AT&T and contributed by AT&T to AT&T Wireless Group prior to the offering, have been accounted for as having been settled in cash at the time the transaction was recorded by AT&T Wireless Group.

Inventories

Inventories, which consist principally of handsets and accessories, are recorded at the lower of cost or market. Cost is principally determined by the first-in, first-out (FIFO) method. Market is determined using replacement cost.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, unless impaired, and depreciation is determined based upon the assets' estimated useful lives. Depreciation is calculated on a straight-line basis according to the following useful lives:

Wireless communications systems and other equipment	3-15 years
Building and improvements	5-20 years

When AT&T Wireless Group sells, disposes or retires assets, the related gains or losses are included in operating results.

During 1998, AT&T Wireless Group completed a review of the estimated service lives of certain wireless communications equipment. As a result, effective January 1, 1998, the estimated service lives of such equipment were changed from 12 years to varying periods ranging primarily from seven to ten years, with certain assets being changed to 15 years, depending on the nature of the equipment. The net impact of these changes to 1998 results was an annual increase in depreciation expense of approximately \$42 and an annual reduction in net income of approximately \$26. See Note 14 for further discussion associated with an additional change in depreciable lives.

substantially ready for use. Costs incurred during the preliminary project stage, as well as maintenance and training costs, are expensed as incurred. AT&T Wireless Group also capitalizes initial operating-system software costs and amortizes them over the life of the associated hardware.

AT&T Wireless Group 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.

Licensing Costs

Licensing costs are primarily incurred to acquire cellular (850 megahertz) and PCS (1900 megahertz) licenses. In addition, licensing costs include costs incurred to acquire 38 gigahertz and 2.3 gigahertz licenses. Amortization begins with the commencement of service to customers and is computed using the straight-line method over periods of 35 or 40 years.

Capitalized Interest

AT&T Wireless Group capitalizes interest which is applicable to the construction of additions to property, plant, and equipment and the acquisitions of licenses until the assets are placed into service. These costs are amortized over the related assets' estimated useful lives.

Investments

Investments in which AT&T Wireless Group, primarily held by AWS and AWPCS, exercises significant influence but which AT&T Wireless Group does not control are accounted for under the equity method. Under the equity method, investments are stated at initial cost and are adjusted for AT&T Wireless Group's subsequent contributions and its share of earnings or losses, and distributions. The excess of the carrying value of investment over the underlying book value of the investee's net assets is being amortized over periods ranging from 20 to 40 years.

Investments in which AT&T Wireless Group has no significant influence over the investee are accounted for under the cost method. Investments covered under the scope of Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities," are classified as "available for sale" and are carried at fair value. Unrealized gains or losses, net of tax, are included within combined attributed net assets as "Net revaluation of investments".

Goodwill

Goodwill is the excess of the purchase price over the fair value of net assets acquired in business combinations accounted for as a purchase. Goodwill is amortized on a straight-line basis over periods not exceeding 40 years.

changes. For assets AT&T Wireless Group intends to hold for use, 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. For assets AT&T Wireless Group intends to dispose of, a loss is recognized for the amount that the estimated fair value, less costs to sell, is less than the carrying value of the assets. In addition, in accordance with Accounting Principles Board Opinion No. 17, "Intangible Assets", AT&T Wireless Group continues to evaluate the amortization periods to determine whether events or circumstances warrant revised amortization periods. Additionally, AT&T Wireless Group periodically evaluates the useful lives of its wireless communications systems and other equipment based on changes in technological and industry conditions.

Revenue Recognition

Wireless services revenue is recognized based upon minutes of traffic processed and contracted fees. Customer activation fees, along with the related costs, are deferred and amortized over the customer relationship period. The revenue and related expenses associated with the sale of wireless handsets and accessories are recognized when the products are delivered and accepted by the customer, as this is considered to be a separate earnings process from the sale of wireless services. During 2000, we adopted Securities and Exchange Commission Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements". The adoption did not have a material impact on our results of operations or financial condition.

Advertising and Promotional Costs

Costs of advertising and promotions are expensed as incurred. Advertising and promotional expenses were \$618, \$386, and \$344, in 2000, 1999 and 1998, respectively.

Income Taxes

AT&T Wireless Group is not a separate taxable entity for federal and state income tax purposes and its results of operations are included in the consolidated federal and state income tax returns of AT&T and its affiliates. AT&T Wireless Group's provision or benefit for income taxes is based upon its contribution to the overall income tax liability of AT&T and its affiliates as described in Note 1.

Issuance of Common Stock By Affiliates

Changes in AT&T Wireless Group's 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 in combined attributed net assets.

results could differ from those estimates. Estimates are used when accounting for certain items such as the allowance for doubtful accounts, depreciation and amortization, taxes, valuation of investments and asset impairment and restructuring charges.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform with current year presentations.

Concentrations

AT&T Wireless Group purchases a substantial portion of its wireless infrastructure equipment from three major suppliers. Additionally, four primary vendors provide AT&T Wireless Group's multi-network handsets. Further, AT&T Wireless Group relies on one vendor to provide substantially all of its billing services. Loss of any of these suppliers could adversely impact operations temporarily until a comparable substitute could be found. AT&T Wireless Group does not have a concentration of available sources of labor or services, nor does AT&T Wireless Group have any significant concentration of business transacted with a particular customer, that could, if suddenly eliminated, severely impact operations.

3. Recent Accounting Pronouncements

In September 2000, the Financial Accounting Standards Board (FASB) issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—A Replacement of FASB No. 125". This statement provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. Under these standards, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. This statement provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. This statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. AT&T Wireless Group does not expect that the adoption of SFAS No. 140 will have a material impact on its results of operations, financial position or cash flows.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". Among other provisions, it requires that entities recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Gains and losses resulting from changes in the fair values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The effective date of this standard was delayed via the issuance of SFAS No. 137. The effective date for SFAS No. 133 is now for fiscal years beginning after June 15, 2000, though earlier adoption is encouraged and retroactive application is prohibited. For AT&T

4. Acquisitions and Dispositions

During 2000, 1999 and 1998, AT&T Wireless Group, through AWS, AWPCS and Winston, completed certain transactions as part of its overall strategy to expand its wireless footprint and divest itself of non core interests. The net pretax gains recognized were \$362, \$99 and \$600 in 2000, 1999 and 1998, respectively. The pretax gains and losses from the sale and exchange transactions are included in "Other income" in the accompanying combined statements of operations. A summary of the significant transactions follows.

In November 1998, AT&T Wireless Group, through AWS, and BellSouth combined their jointly owned cellular properties in Los Angeles, Houston and Galveston, Texas, plus cash, to form AB Cellular Holding, LLC (AB Cellular), which owned, controlled and supervised all three properties. AT&T Wireless Group held a 55.62% equity interest in AB Cellular, however, held a 50% voting interest, therefore, this investment was accounted for under the equity method. Pursuant to the AB Cellular Limited Liability Company Agreement, there were redemption provisions that allowed BellSouth, commencing in December 2000, to alter the ownership structure of AB Cellular pursuant to one of three options. On December 4, 2000, BellSouth announced its election to have AB Cellular exercise its option to redeem AT&T Wireless Group's 55.62% equity interest. On December 29, 2000, AB Cellular completed the redemption of AT&T Wireless Group's 55.62% equity interest in AB Cellular, and in exchange, AT&T Wireless Group, through AWS, received 100% of the net assets of the Los Angeles cellular property. As a result of the redemption, AB Cellular recognized a significant gain on the transaction based on the estimated fair value of the net assets of the Los Angeles cellular property on the date of redemption. AT&T Wireless Group's net equity earnings for the year ended December 31, 2000, included \$372 reflecting its proportionate share of the gain. The net assets of the Los Angeles cellular property were recorded at fair value and resulted in a pretax loss of \$184 to AT&T Wireless Group. The excess of the fair value of the Los Angeles cellular property over the fair value of net tangible assets received, based on a preliminary allocation, totaled \$3,174 and has been assigned to licensing costs, goodwill and other intangible assets and is being amortized over periods of five to 40 years. We may make refinements to the allocation of the fair value of assets acquired in future periods as the related fair value appraisals of certain assets and liabilities are finalized. As a result of this transaction, AT&T Wireless Group's results include a non-cash reduction to investments of \$3,756, associated with the redemption of its equity interest in AB Cellular.

On November 13, 2000, TeleCorp PCS, Inc. (Telecorp) completed its merger agreement with Tritel, Inc., as part of a stock transaction. Pursuant to the terms of the agreement, each company merged with a separate newly formed subsidiary of a new holding company named TeleCorp PCS, Inc., upon consummation of the transaction. Prior to the merger, AT&T Wireless Group, through AWPCS, held equity interests in each of TeleCorp and Tritel which were both affiliates of AT&T Wireless Group. In connection with the merger, AT&T

AWPCS, completed an exchange of certain wireless licenses and rights to acquire additional licenses in the Wisconsin and Iowa markets, as well as made a cash payment of approximately \$80. In return, AT&T Wireless Group received TeleCorp's PCS licenses and wireless systems in several New England markets. The acquisition of the wireless systems was recorded as a purchase. Accordingly, the operating results have been included in the accompanying combined financial statements since the date of acquisition. The excess of aggregate fair value of total assets acquired over the fair value of net tangible assets acquired, based on a preliminary allocation, totaled \$268 and has been assigned to licensing costs, goodwill and other intangible assets and is being amortized over periods of five to 40 years. AT&T Wireless Group recognized a pretax gain of \$379 associated with these transactions.

On October 2, 2000, AT&T Wireless Group, through AWPCS, completed its acquisition of a wireless system in Indianapolis for approximately \$530 in cash. The transaction was recorded as a purchase. Accordingly, the operating results of Indianapolis have been included in the accompanying combined financial statements since the date of acquisition. The excess of aggregate purchase price over the fair value of net tangible assets acquired, based on a preliminary allocation, totaled \$494 and has been assigned to licensing costs, goodwill and other intangible assets and is being amortized over periods of five to 40 years. We may make refinements to the allocations of the purchase prices in future periods as the related fair value appraisals of certain assets and liabilities are finalized.

On June 19, 2000, AT&T Wireless Group announced that it had signed definitive agreements to acquire wireless systems in the San Francisco Bay Area, San Diego and Houston. On December 29, 2000, AT&T Wireless Group, through AWS and AWPCS, completed the acquisition of the wireless system in Houston for approximately \$1.0 billion in cash. On September 29, 2000, AT&T Wireless Group, through AWS, completed the acquisition of the wireless system in San Diego, for approximately \$500 in cash. On June 29, 2000, AT&T Wireless Group, through AWS, completed the acquisition of Vodafone Airtouch plc's 50% partnership interest in CMT Partners (the Bay Area Properties), which holds a controlling interest in five Bay Area markets including San Francisco and San Jose, for approximately \$1.8 billion in cash, thereby giving AT&T Wireless Group a 100% ownership interest in this partnership. These transactions were recorded as purchases. Accordingly, the operating results of the acquired entities have been included in the accompanying combined financial statements since their dates of acquisition. The excess of aggregate purchase price over the fair value of net tangible assets acquired, based on preliminary allocations, totaled \$3,082 and has been assigned to licensing costs, goodwill and other intangible assets and is being amortized over periods of five to 40 years. We may make refinements to the allocations of the purchase prices in future periods as the related fair value appraisals of certain assets and liabilities are finalized. Prior to consummation of this transaction, AT&T Wireless Group's 50% ownership interest in CMT Partners was accounted for as an equity investment. As a result of the transaction, \$190 was reclassified from investments to goodwill on the accompanying combined balance sheet.

On June 1, 2000, AT&T Wireless Group, through AWS, completed its acquisition of the assets of Wireless One Network, L.P., for \$859 in cash, acquiring wireless systems in Northwest and Southwest Florida. The

In June 2000, AT&T Wireless Group, through AWS, sold its interest in two equity investments for cash resulting in pretax gains of approximately \$141.

On August 2, 1999, AT&T, through AWPCS, completed its acquisition of Honolulu Cellular Telephone Company for \$194 in cash. AT&T contributed its interest in Honolulu Cellular to AT&T Wireless Group as of the acquisition date. This transaction was accounted for as a purchase. Accordingly, the operating results of Honolulu Cellular Telephone Company have been included in the accompanying combined financial statements since the date of acquisition. The excess of aggregate purchase price over the fair value of net tangible assets acquired totaled \$154, and has been allocated to licensing costs and goodwill and is being amortized over 40 years.

On May 3, 1999, AT&T, through Winston, acquired Vanguard Cellular Systems, Inc. (Vanguard) and has contributed its interest in Vanguard to AT&T Wireless Group as of the date of acquisition. Under the agreement, each Vanguard shareholder was entitled to elect to receive either cash or AT&T stock in exchange for their Vanguard shares subject to the limitation that the overall consideration would consist of 50% AT&T stock and 50% cash. Consummation of the merger resulted in the issuance of approximately 12.6 million AT&T shares and payment of \$485 in cash. In addition, Vanguard had approximately \$550 in debt, which was subsequently repaid by AT&T. The merger with Vanguard was recorded as a purchase. Accordingly the operating results of Vanguard have been included in the accompanying combined financial statements since the date of acquisition. The excess of aggregate purchase price over the fair value of net tangible assets acquired totaled \$1,436 and has been assigned to licensing costs, goodwill and other intangible assets and is being amortized over periods of five to 40 years. Additionally, AT&T Wireless Group recorded \$241 in deferred tax liabilities associated with this transaction.

In April 1999, AT&T Wireless Group, through AWS, acquired Bakersfield Cellular Telephone Company in exchange for several cellular markets in Texas and cash of \$77. The acquisition was accounted for as a purchase. The excess of aggregate purchase price, including markets exchanged, over the fair value of net tangible assets acquired totaled \$104, and has been allocated to licensing costs and goodwill and is being amortized over 40 years.

In addition to the acquisitions of Honolulu Cellular, Vanguard and Bakersfield Cellular, AT&T Wireless Group, through AWS and other direct subsidiaries of AT&T, acquired other cellular markets in Utah, Oregon, California, Idaho, and Louisiana during 1999. All of these acquisitions were accounted for as purchases. The excess of aggregate purchase prices over the fair value of net tangible assets acquired totaled \$220, and has been allocated to licensing costs and is being amortized over 40 years.

In May 1999, AT&T Wireless Group, through AWPCS, sold its net assets in the geographic area of San Juan, Puerto Rico, including a portion of the PCS license, to TeleCorp PCS, Inc. for cash and preferred stock of TeleCorp resulting in a pretax gain of \$11.

In the fourth quarter of 1998, AT&T Wireless Group, through AWPCS, sold its net assets in the geographic area of Norfolk, Virginia, including a portion of the PCS license, to Triton PCS Holdings, Inc. for cash and preferred stock of Triton resulting in a pretax gain of \$29.

Also in the fourth quarter of 1998, AT&T Wireless Group, through AWPCS, sold a portion of its net assets in the geographic areas of Cincinnati and Dayton, Ohio, including portions of the PCS licenses, to Cincinnati Bell Wireless, LLC for cash and an ownership interest. A pretax gain of \$24 was recognized on this transaction.

On October 2, 1998, AT&T Wireless Group, through AWS, sold its one-way messaging services business and a narrowband PCS license to Metrocall, Inc. in exchange for cash and preferred stock of Metrocall. A pretax loss of \$5 was recognized on this transaction. AT&T Wireless Group subsequently distributed its investment in the preferred stock of Metrocall to AT&T.

In the second quarter of 1998, AT&T Wireless Group, through AWS, sold, for cash, its interest in two equity investments and recognized pretax gains of \$195.

In the first quarter of 1998, AT&T Wireless Group, through AWS, sold, for cash, its equity interest in LIN Television Corp. and recognized a pretax gain of \$342.

5. Asset Impairment and Restructuring Charges

During the fourth quarter of 1999, AT&T Wireless Group recorded a \$531 asset impairment charge primarily associated with the planned disposal of certain wireless communications equipment resulting from a program to increase capacity and operating efficiency of the wireless network. As part of a multi-vendor program, contracts have been executed with certain vendors to replace significant portions of the wireless infrastructure equipment in the Western United States and the metropolitan New York markets. The program is intended to provide AT&T Wireless Group with the newest technology available and allow it to evolve to new next-generation digital technology, which is designed to provide high-speed data capabilities.

The planned disposal of the existing wireless infrastructure equipment required an evaluation of asset impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," to write-down these assets to their fair value, which was estimated by discounting the expected future cash flows to be generated by these assets from their use and eventual disposition through the date of disposal. Since the assets will remain in service from the date of the decision to dispose of these assets to the disposal date, the impairment has been recorded as accumulated depreciation and the remaining net book value of the assets will be depreciated over this shortened period. As of December 31, 2000, approximately \$320 of the asset impairment reserve has been utilized for assets that have been disposed of and written off. The remaining net book value of these assets was approximately \$23 at December 31, 2000, which will be depreciated over an estimated remaining useful life of 3 months.

Supplementary Income Statement Information

	For the Years Ended December 31,		
	2000	1999	1998
Other income:			
Interest income	\$ 146	\$ 4	\$ 15
Minority interests in consolidated subsidiaries	28	17	35
Net gains on sale/exchange of businesses and investments	362	99	600
Miscellaneous, net	(2)	2	—
Total Other Income	\$ 534	\$ 122	\$ 650

Supplementary Balance Sheet Information

	At December 31,	
	2000	1999
Property, plant and equipment, net:		
Wireless communications systems and other equipment	\$ 14,319	\$ 10,127
Land, buildings and improvements	316	255
Total property, plant and equipment	14,635	10,382
Accumulated depreciation	(4,743)	(4,033)
Property, plant and equipment, net	\$ 9,892	\$ 6,349
Goodwill and other assets, net:		
Goodwill	\$ 4,937	\$ 2,303
Accumulated amortization	(241)	(168)
Goodwill, net	4,696	2,135
Other assets	1,384	544
Accumulated amortization	(264)	(217)
Other assets, net	1,120	327
Goodwill and other assets, net	\$ 5,816	\$ 2,462
Included in other current liabilities:		
Advertising and promotion accruals	\$ 179	\$ 162
Business tax accruals	258	139

7. Investments

AT&T Wireless Group, primarily through AWS and AWPCS, holds investments in ventures and partnerships that provide AT&T Wireless Group access to additional domestic and international wireless markets. Substantially all of these investments are accounted for under the equity method.

At December 31, 2000 and 1999, AT&T Wireless Group had equity method investments of \$3,080 and \$4,409, respectively. Amortization of excess carrying value of \$25, \$19 and \$52 in 2000, 1999 and 1998, respectively, is reflected as a component of net equity earnings in the accompanying combined statements of operations. At December 31, 2000 and 1999, the carrying value of investments accounted for under the equity method exceeded our share of the underlying reported net assets by approximately \$446 and \$551, respectively. AT&T Wireless Group received distributions based on its equity interest in these investments of \$201, \$232 and \$233 for the years ended December 31, 2000, 1999 and 1998, respectively.

Ownership of significant equity investments is as follows:

	At December 31,			
	2000		1999	
AB Cellular	N/A	(1)	55.62%	(1)
CMT Partners	N/A	(2)	50.00%	(2)
ACC Acquisitions, LLC	50.00%	(3)	N/A	(3)
Triton PCS Holdings, Inc.	16.71%	(4)	16.80%	(4)
TeleCorp PCS, Inc.	22.99%	(5)	15.67%	(5)
Tritel, Inc.	N/A	(6)	21.64%	(6)
Cincinnati Bell Wireless, LLC	19.90%	(7)	19.90%	(7)
Alaska Native Wireless, LLC	39.90%	(8)	N/A	(8)
Rogers Wireless Communications, Inc.	16.65%	(9)	16.65%	(9)
Japan Telecom	5.00%	(10)	N/A	(10)
EuroTel Praha, spol. s.r.o.	24.50%	(11)	N/A	(11)
Far EastOne Telecommunications, Ltd.	22.70%	(12)	13.87%	(12)

(1) See Note 4 for further discussion related to the redemption of AT&T Wireless Group's equity interest in AB Cellular in December 2000.

(2) See Note 4 related to AT&T Wireless Group's acquisition of the remaining 50% interest in CMT Partners in June 2000.

and jointly controlled by Doherty and AT&T Wireless Group. Accordingly, this investment is accounted for as an equity method investment in the accompanying combined financial statements.

- (4) During 1998, AT&T Wireless Group, through AWPCS, entered into a venture with Triton PCS Holdings, Inc. to build and operate digital wireless networks in the Southeast and MidAtlantic areas of the United States. AT&T Wireless Group contributed licenses to the venture in exchange for preferred stock. The effect of the above transaction resulted in a non-cash reclassification of license balances of approximately \$101 to investments. Additionally during the fourth quarter of 1998, AT&T Wireless Group, through AWPCS, sold its net assets in the geographic area of Norfolk, Virginia, including a portion of the PCS license, to Triton for cash and preferred stock. Ownership percentages reflect AT&T Wireless Group's ownership of common stock, assuming conversion of all currently convertible preferred shares to common stock. In addition, AT&T Wireless Group, through AWPCS, holds redeemable preferred shares in this investment, which are not currently convertible to common stock. These preferred shares have certain liquidation preference rights.
- (5) During 1998, AT&T Wireless Group, through AWPCS, entered into a venture with TeleCorp PCS, Inc. to build and operate digital wireless networks in portions of New England and the Midwestern and Southeastern United States. AT&T Wireless Group contributed licenses to the venture in exchange for preferred stock. The effect of the above transaction resulted in a non-cash reclassification of license balances of approximately \$40 to investments. Additionally in May 1999, AT&T Wireless Group sold, through AWPCS, its net assets in the geographic area of San Juan, Puerto Rico, including a portion of the PCS license, to TeleCorp for cash and preferred stock. In November 2000, Telecorp completed a merger with Tritel. See Note 4 regarding the discussion of the merger. Ownership percentages reflect AT&T Wireless Group's ownership of common stock, assuming conversion of all currently convertible preferred shares to common stock. In addition, AT&T Wireless Group holds, through AWPCS, redeemable preferred shares in this investment, which are not currently convertible to common stock. These preferred shares have certain liquidation preference rights.
- (6) In January 1999, AT&T Wireless Group, through AWPCS, entered into a venture with Tritel, Inc. to build and operate a digital wireless network across parts of the Southwestern United States. AT&T Wireless Group contributed licenses to the venture in exchange for preferred stock. The effect of the above transaction resulted in a non-cash reclassification of license balances of approximately \$94 to investments. In November 2000, Telecorp completed a merger with Tritel. See Note 4 regarding the discussion of the merger. The December 31, 1999, ownership percentage reflected AT&T Wireless Group's ownership of common stock, assuming conversion of all convertible preferred shares, as of December 31, 1999, to common stock. In addition, the AT&T Wireless Group, through AWPCS, held redeemable preferred shares as of December 31, 1999, in this investment, which were not convertible to common stock. These preferred shares had certain liquidation preference rights.

- (6) During November 2000, AT&T Wireless Group, through AWS, joined with others in the formation of a venture, Alaska Native Wireless, LLC. It participated in the Federal Communications Commission's recent auction of license spectrum in the 1900 megahertz band, which is used to provide wireless services. AT&T Wireless Group provided funding to the joint venture through a combination of a non-controlling equity interest and debt securities of Alaska Native Wireless totaling approximately \$229 as of December 31, 2000. AT&T Wireless Group has made certain future commitments related to this joint venture. See Note 12 for further discussion of outstanding commitments.
- (9) In August 1999, AT&T and British Telecommunications plc through a newly created joint venture acquired a 33.3% ownership interest in Rogers Wireless Communications, Inc., formerly Rogers Cantel Mobile Communications, Inc., for approximately \$934 in cash. AT&T contributed its interest in the joint venture to AT&T Wireless Group as of the date of acquisition. The investment is owned equally by AT&T Wireless Group, through AWS, and British Telecommunications plc. This investment is accounted for under the equity method because of our ability to elect certain members of the board of directors of this entity, which we believe provides us with significant influence.
- (10) In the first quarter of 2000, AT&T Wireless Group was allocated one-half of AT&T's interest in Japan Telecom, which is held through a joint venture with British Telecommunications plc. This investment is accounted for under the equity method because of our ability to elect certain members of the board of directors of this entity, which we believe provides us with significant influence. See Note 14 for discussion of subsequent events associated with Japan Telecom.
- (11) On October 2, 2000, AT&T Wireless Group, through AWS, completed its acquisition of several interests in international ventures, including Eurotel Praha in the Czech Republic, acquired by AT&T as a result of its acquisition of MediaOne in June 2000. AT&T Wireless Group acquired these interests from AT&T for approximately \$1 billion in cash, which was determined based upon a third party valuation. Additionally, AT&T Wireless Group assumed deferred tax liabilities totaling approximately \$200 which were transferred from AT&T.
- (12) On December 8, 2000, AT&T Wireless Group, through AWS, exercised its options to purchase additional shares of stock in its equity investment in Far Eastone Telecommunications, Ltd. AT&T Wireless Group paid approximately \$205 for the additional shares and increased its ownership percentage to 22.70%.

For the Years Ended
December 31,

	2000	1999	1998
Revenue	\$ 15,221	\$ 3,466	\$ 2,065
Operating income (loss)	287	(141)	448
Net income (loss)	1,002	(190)	453

Condensed income statement information includes the results of AB Cellular and CMT Partners prior to their consolidation by AT&T Wireless Group. The net income in 2000 includes the gain recognized by AB Cellular associated with the redemption of AT&T Wireless Group's equity interest in December 2000.

Condensed Balance Sheet Information

	As of December 31,	
	2000	1999
Current assets	\$ 4,024	\$ 2,900
Noncurrent assets	21,792	8,867
Current liabilities	2,439	1,215
Noncurrent liabilities	10,008	3,131

Current assets are comprised primarily of cash, accounts receivable and other current assets. Noncurrent assets are comprised primarily of net goodwill and other assets, net licenses and net property, plant and equipment. Current liabilities are comprised primarily of operating accruals and accounts payable. Noncurrent liabilities are comprised primarily of long-term debt and deferred income taxes.

AT&T Wireless Group also has investments accounted for under the cost method of accounting. Under this method, investments are stated at cost, and earnings are recognized to the extent distributions are received in excess of accumulated earnings of the investee. Distributions received in excess of accumulated earnings are recognized as a reduction of our investment balance. These investments, which are covered under the scope of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," are classified as "available-for-sale" and are carried at fair value with any unrealized gain or loss, net of tax, being included within our other comprehensive income as a component of combined attributed net assets.

8. Income Taxes

AT&T Wireless Group is not a separate taxable entity for federal and state income tax purposes and its results of operations are included in the consolidated federal and state income tax returns of AT&T and its

	2000	1999	1998
U.S. federal statutory income tax rate	35%	35%	35%
Federal income tax at statutory rate	\$ 144	\$ (238)	\$ 65
State and local income taxes, net of federal income tax effect	—	(20)	5
Dividends received deduction	—	—	(2)
Amortization of intangibles	19	17	12
Sale of foreign investment	(31)	—	—
Change in valuation allowance and other estimates	—	(50)	(17)
Other differences, net	9	(3)	(4)
Provision (benefit) for income taxes	\$ 141	\$ (294)	\$ 59
Effective income tax rate	34.1%	43.2%	31.6%
Provision (benefit) for income taxes:			
Current:			
Federal	\$ (370)	\$ (207)	\$ 83
State and local	(74)	(2)	15
	<u>\$ (444)</u>	<u>\$ (209)</u>	<u>\$ 98</u>
Deferred:			
Federal	\$ 499	\$ (41)	\$ (38)
State and local	86	(44)	(1)
	<u>\$ 585</u>	<u>\$ (85)</u>	<u>\$ (39)</u>
Provision (benefit) for income taxes	\$ 141	\$ (294)	\$ 59

Deferred income tax liabilities are taxes AT&T Wireless Group expects to pay in future periods. Similarly, deferred income tax assets are recorded for expected reductions in taxes payable in future periods. Deferred income taxes arise because of differences in the book and tax bases of certain assets and liabilities.

Long-term deferred income tax liabilities:		
Property, plant and equipment and licenses	\$ (3,618)	\$ (3,246)
Investments	(989)	(508)
Other	(74)	(49)
	<u> </u>	<u> </u>
Total long-term deferred income tax liabilities	\$ (4,681)	\$ (3,803)
Long-term deferred income tax assets:		
Net operating loss/credit carryforwards	\$ 37	\$ 65
Valuation allowance	(15)	(12)
	<u> </u>	<u> </u>
Total net long-term deferred income tax assets	22	\$ 53
	<u> </u>	<u> </u>
Net long-term deferred income tax liabilities	\$ (4,659)	\$ (3,750)
Current deferred income tax liabilities:		
Total current deferred income tax liabilities	\$ —	\$ —
Current deferred income tax assets:		
Employee benefits	\$ 11	\$ 11
Reserves and allowances	65	101
Other	17	15
	<u> </u>	<u> </u>
Total current deferred income tax assets	\$ 93	\$ 127
	<u> </u>	<u> </u>
Current deferred income tax assets	\$ 93	\$ 127

At December 31, 2000, AT&T Wireless Group had net operating loss carryforwards for federal and state income tax purposes of \$21 and \$619, respectively, expiring through 2019. AT&T Wireless Group also has federal tax credit carryforwards of \$29 which are not subject to expiration. AT&T Wireless Group recorded a valuation allowance to reflect the estimated amount of deferred tax assets which, more likely than not, will not be realized by AT&T Wireless Group.

The realization of AT&T Wireless Group's deferred tax assets is not dependent upon the consolidated tax group of AT&T. On a stand alone, separate company basis, AT&T Wireless Group has sufficient reversing taxable temporary differences to warrant recognition of its deferred tax assets without the need for any additional valuation allowance. AT&T Wireless Group received payments under its tax sharing arrangement with AT&T for the net domestic tax losses and credits it had generated. These payments were recorded as a reduction to the related deferred tax assets.

AT&T previously announced that it intends to split-off AT&T Wireless Group (see Note 1). If it were determined that the split-off failed to qualify as a tax-free transaction, a tax liability would be created which would have a material effect on AT&T Wireless Group. In addition, there may be tax costs associated with the split-off that result from AT&T Wireless Group ceasing to be a member of the AT&T consolidated tax return group, as well as from pre-split transactions. If incurred, these costs could be material to AT&T Wireless Group's results.

9. Employee Benefit Plan

AT&T Wireless Group sponsors a savings plan for the majority of its employees. The plan allows employees to contribute a portion of their pretax income in accordance with specified guidelines. The plan matches a percentage of employee contributions up to certain limits. In addition, AT&T Wireless Group may make discretionary or profit sharing contributions. Contributions amounted to \$60, \$37 and \$31 in 2000, 1999 and 1998, respectively.

10. Stock-Based Compensation Plans

Under the AT&T 1997 Long-term Incentive Program (Program), which was effective June 1, 1997, and amended on May 19, 1999 and on March 14, 2000, AT&T grants 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.

Under the Program, there were 150 million shares of common stock available for grant with a maximum of 22.5 million common shares that could be used for awards other than stock options. 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. There is a maximum of 37.5 million shares that may be used for awards other than stock options. 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 AT&T's total shareholder return and certain financial performance targets. Under the 1987 Long-term Incentive Program, performance share units with the same terms were also awarded to key employees based on AT&T's return-to-equity performance compared with a target.

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 as amended on March 14, 2000, 5% of the outstanding AT&T Wireless Group tracking shares became available for grant with a maximum of 1.25% of the outstanding shares that may be used for awards other than options. Beginning with January 1, 2001 the remaining AT&T Wireless Group shares available for grant at December 31 of the prior year plus 2.0% of outstanding AT&T Wireless Group tracking shares on January 1 of each year become available for grant. The exercise price of any stock option is equal to the stock price when the option is granted. Generally, the options vest over two to three and one half years and are exercisable up to 10 years from the date of grant. In 2000 there were no grants of awards other than stock options. On April 27, 2000, AT&T granted AT&T Wireless Group tracking stock options to substantially all AT&T and AT&T Wireless Group employees.

Under the AT&T 1996 Employee Stock Purchase Plan (Plan), which was effective July 1, 1996, AT&T is authorized to issue up to 75 million shares of AT&T common stock to its eligible employees. 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, AT&T sold approximately 1,127 thousand shares to AT&T Wireless Group employees in 2000, approximately 424 thousand shares in 1999 and approximately 535 thousand shares in 1998.

periods presented.

AT&T and AT&T Wireless Group have adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." If AT&T Wireless Group had elected to recognize compensation costs based on the fair value at the date of grant for AT&T awards granted to AT&T Wireless Group employees in 2000, 1999 and 1998, and for AT&T Wireless Group awards granted to AT&T Wireless Group employees in 2000, consistent with the provisions of SFAS No. 123, AT&T Wireless Group's net income (loss) would have been adjusted to reflect additional compensation expense resulting in the following pro forma amounts:

	For the Years Ended December 31,		
	2000	1999	1998
Net income (loss)	\$ 481	\$ (464)	\$ 127

The pro forma effect on net income for 1998 may not be representative of the pro forma effect on net income (loss) of future years because the SFAS No. 123 method of accounting for pro forma compensation expense has not been applied to options granted prior to January 1, 1995, as all such options were fully vested by the end of 1998.

There were approximately 53,308 thousand AT&T Wireless Group stock options granted to AT&T Wireless Group employees during 2000. At the date of grant the weighted-average exercise price of these options granted was \$29.23. The weighted-average fair value at date of grant was \$14.43 and was estimated using the Black-Scholes option-pricing model. The following weighted-average assumptions were applied: (i) expected volatility rate of 55.0%, (ii) expected life of 4 years and (iii) risk-free interest rate of 6.52%.

AT&T granted approximately 1,082 thousand, 9,438 thousand and 10,503 thousand stock options to AT&T Wireless Group employees during 2000, 1999 and 1998, respectively. At the date of grant, the weighted-average exercise price for AT&T options granted to AT&T Wireless Group employees during 2000, 1999 and 1998 were \$48.05, \$59.35 and \$41.86, respectively. The weighted-average fair values at date of grant for AT&T options granted to AT&T Wireless Group employees during 2000, 1999 and 1998 were \$14.26, \$15.36 and \$9.80, respectively, and were estimated using the Black-Scholes option-pricing model. The following weighted-average assumptions were applied for 2000, 1999 and 1998, respectively: (i) expected dividend yields of 1.7%, 1.7% and 2.1%, (ii) expected volatility rates of 31.2%, 27.2% and 23.8%, and (iii) risk-free interest rates of 6.69%, 4.71% and 5.27% and (iv) expected lives of 3.9 years, 4.9 years and 4.5 years.

11. Fair Values of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and other current liabilities are a reasonable estimate of their fair value due to the short-term nature of these instruments. The fair value of the short-term and long-term debt due to AT&T approximates its carrying value.

December 31, 2000. AT&T Wireless Group also makes routine filings with the Federal Communications Commission and state regulatory authorities. These matters could affect the operating results of any of our quarters when resolved in future periods. However, AT&T Wireless Group believes that after final disposition any monetary liability or financial impact to us beyond that provided for at year-end would not be material to our annual combined financial statements.

During January 2001, AT&T closed its previously announced agreement with DoCoMo. Pursuant to this agreement, DoCoMo may require the repurchase of its investment at DoCoMo's original purchase price, plus interest, if AT&T does not complete the split-off by specified dates beginning January 1, 2002, or if AT&T Wireless Group fails to meet specified technological milestones. See Note 1 for further discussion related to the DoCoMo investment.

AT&T Wireless Group has entered into various purchase commitments for network equipment as well as handsets, related to the development of its next-generation strategy. Those commitments totaled \$432 as of December 31, 2000. These commitments expire between 2001 and 2004.

During November 2000, AT&T Wireless Group joined with others in the formation of a venture, Alaska Native Wireless, which participated in the Federal Communication Commission's recent auction of license spectrum in the 1900 megahertz band, which is used to provide wireless services. In January 2001, the auction was completed, and Alaska Native Wireless was the high bidder on approximately \$2.9 billion in licenses. AT&T Wireless Group has committed to fund \$2.6 billion to Alaska Native Wireless to fund Alaska Native Wireless' purchase of licenses. As of December 31, 2000, AT&T Wireless Group funded approximately \$229 of the commitment through a combination of a non-controlling equity interest and debt securities of Alaska Native Wireless. Additionally, in February 2001, AT&T Wireless Group funded an additional \$80. The remaining approximate \$2.3 billion of additional funding will be made when such licenses are granted, and will take the form of non-convertible notes of Alaska Native Wireless. At the fifth anniversary of the first date on which licenses won in the auction are granted to Alaska Native Wireless, and in addition to other means by which they may transfer their interests, the other owners of Alaska Native Wireless have the right to require AT&T Wireless Group to purchase their equity interests. If this right were exercised five years after license grant, the purchase price could be as much as approximately \$950 and would be payable, at AT&T Wireless Group's option, in cash or marketable securities. The right to require AT&T Wireless Group to purchase these interests may be exercised before the five-year anniversary of the license grant if the conditions of certain FCC regulations restricting the free transferability of certain licenses offered in this auction are met earlier. If the right were exercised earlier, the purchase price would be calculated in generally the same way as if exercised at five years, except that a discount would be applied. In certain circumstances, if a winning bid of Alaska Native Wireless is rejected or if any license granted to it is revoked, AT&T Wireless Group would be obligated to compensate other owners for making capital available to the venture. In certain circumstances, if the grant of the licenses is challenged, AT&T Wireless Group may be obligated to purchase the interests of other owners. Depending on when such revocation or challenge takes place, the amount may be material but will be less than the \$950 purchase price described above.

AT&T Wireless Group leases land, buildings and equipment through contracts that expire in various years through 2037. Rental expense under operating leases was \$271 in 2000, \$205 in 1999, and \$181 in 1998. The

During 2000 and 1999, AT&T Wireless Group expensed \$28 and \$82, respectively, for losses associated with commitments related to certain equity investments. Included in the 1999 loss of \$82 was AT&T Wireless Group's commitment of \$63 to fund the long-term debt obligations of one of its equity investments, which fully satisfied AT&T Wireless Group's commitment for this equity investment.

AT&T Wireless Group also has various other purchase commitments for materials, supplies and other items incidental to the ordinary course of business which are not significant individually, nor in the aggregate.

13. Related Party Transactions

As discussed in Note 1, AT&T has provided necessary working capital requirements to AT&T Wireless Group, through AWG and AWS, via an attribution of a portion of the offering proceeds, intercompany debt and preferred stock, as well as capital contributions prior to the offering. Intercompany debt is reflected in the accompanying combined balance sheets as "Short-term debt due to AT&T" and "Long-term debt due to AT&T." Preferred stock held by AT&T is included in "Combined attributed net assets" in the accompanying combined balance sheets. In addition, AT&T Wireless Group loaned the proceeds back to AT&T via an intercompany note receivable.

Intercompany interest income on the note receivable from AT&T for the year ended December 31, 2000, totaled \$143. There was no intercompany interest income for the years ended December 31, 1999 and 1998. The intercompany interest income was determined based upon the methodology described in Note 1 and is included within other income in the accompanying combined statements of operations.

Intercompany debt and interest expense was assumed based upon the methodology discussed in Note 1. Intercompany debt was \$2,438 and \$3,400 at December 31, 2000 and 1999, respectively, of which \$638 represented short-term debt at December 31, 2000. Intercompany interest expense was \$196, \$214, and \$190, for the years ended December 31, 2000, 1999 and 1998, respectively, of which \$123, \$88 and \$75, was capitalized as of December 31, 2000, 1999, and 1998, respectively.

The 9% cumulative preferred stock held by AT&T was \$3.0 billion and \$1.0 billion as of December 31, 2000, and 1999, respectively. Dividend requirements were \$130, \$56 and \$56, for the years ended December 31, 2000, 1999 and 1998, respectively.

AT&T Wireless Group, through AWS, purchases long distance and other network-related services from AT&T at market-based prices. For the years ended December 31, 2000, 1999 and 1998, these amounts totaled \$241, \$170 and \$65, respectively. These amounts are reflected within costs of services in the accompanying combined statements of operations.

AT&T has allocated general corporate overhead expenses, including finance, legal, marketing, use of the AT&T brand, planning and strategy and human resources to AT&T Wireless Group, as well as costs for AT&T employees who directly support AT&T Wireless Group, amounting to \$56, \$40 and \$42, for the years ended

direct sales force who were employees of AT&T, as well as commissions and marketing support costs reimbursed to AT&T for costs incurred to acquire customers on AT&T Wireless Group's behalf. Effective January 1, 2000, the aforementioned sales force became employees of AT&T Wireless Group, through AWS. These charges amounted to \$67, \$223 and \$65, for the years ended December 31, 2000, 1999 and 1998, respectively.

AT&T Wireless Group, through AWS, purchases their administrative telephone services from AT&T. These amounts are included within selling, general and administrative expenses and totaled \$104, \$69, and \$50 for the years ended December 31, 2000, 1999 and 1998, respectively.

AT&T Wireless Group, through AWS, sells receivables to AT&T for wireless customers whose wireless charges are combined ("bundled") with their long distance charges into one bill. Accounts receivable in the accompanying combined balance sheets included \$97 and \$83 as of December 31, 2000 and 1999, respectively, associated with receivables from AT&T for these bundled customers. Selling, general and administrative expenses included \$38, \$36 and \$22 for the years ended December 31, 2000, 1999 and 1998, respectively, and costs of services included \$38, \$29 and \$14, for the years ended December 31, 2000, 1999, and 1998, respectively, for the billing and collection fees charged by AT&T.

AT&T Wireless Group, through AWS, utilizes the AT&T remittance processing organization to process customer payments into AT&T's lockbox. AT&T Wireless Group paid \$23, \$22 and \$12, to AT&T for reimbursement of its costs associated with these services for the years ended December 31, 2000, 1999 and 1998, respectively. These costs are included with selling, general and administrative expenses on the accompanying combined statements of operations.

14. Subsequent Events

In January 2001, AT&T Wireless Group executed agreements with certain network equipment vendors, related to the development of its next-generation network strategy. These agreements require AT&T Wireless Group to buy equipment from these vendors totaling approximately \$1.8 billion through 2004.

Effective January 1, 2001, AT&T Wireless Group implemented the results of a review of the estimated service lives of certain wireless communications equipment, primarily electronics. Lives were shortened to fully depreciate all such equipment within seven years. Similar equipment acquired after January 1, 2001, will have useful lives no longer than seven years.

On January 22, 2001, AT&T Wireless Group, through AWS, completed its previously announced transaction with DoCoMo. See Note 1 for further discussion of the transaction.

On November 17, 2000, AT&T Wireless Group announced that AT&T's board of directors had approved an agreement under which AT&T Wireless Group would purchase \$200 in Series AA preferred stock from Dobson Communications Corporation. AT&T Wireless Group, through AWS, completed this transaction on February 8, 2001. The Series AA preferred stock acquired has a liquidation preference of \$1,000 per share

Facilities (the "Facilities") in the aggregate amount of \$2.5 billion consisting of an up to \$1.25 billion 364-day Competitive Advance and Revolving Credit Facility and an up to \$1.25 billion Five-Year Competitive Advance and Revolving Credit Facility. The facilities are subject to a facility fee and utilization fee and bear interest at variable rates based upon, in various cases, LIBOR, the prime rate or the rates on overnight Federal funds transactions. The Facilities may be used for general corporate purposes and are subject to customary covenants, representations and warranties and events of default. In addition, the Facilities contain financial covenants providing for a maximum total debt to total Consolidated Operational EBITDA ratio (as defined in the facilities agreement) not to exceed 4:0 to 1:0 for AT&T Wireless Group and a minimum interest coverage ratio of 3.5:1.0. From the date of the closing of the Facilities until the date of the split-off of AT&T Wireless Group, AWS will be prohibited from declaring and/or paying dividends. The Facility also specifies limitations on AT&T's and AT&T Wireless Group's ability to consummate the split-off including a provision that it will constitute an event of default if the split-off is consummated without obtaining a favorable tax ruling from the IRS or an unqualified tax opinion that the split-off will qualify as a tax-free transaction. In addition, the existence of an obligation by AT&T Wireless Group to repurchase equity interests from DoCoMo may under certain circumstances constitute an event of default.

On February 26, 2001, AT&T agreed to sell its entire interest in Japan Telecom for approximately \$1.35 billion. The net after-tax proceeds are expected to be approximately \$1 billion. AT&T has indicated that the net after-tax proceeds will be split evenly between AT&T and AT&T Wireless Group. AT&T Wireless Group anticipates that it will recognize a significant gain on the transaction.

On March 1, 2001, AT&T Wireless Group, through AWS, completed a private placement of \$6.5 billion in Senior Notes with maturity dates from 2006 to 2031. The notes pay interest at rates ranging from 7.350% to 8.750% per annum, and include customary covenants. The notes include registration rights, such that AWS is required to exchange the notes for a new issue of notes registered under the Securities Act of 1933 and are to be declared effective no later than 240 days after the issue date.

DATE: October 3, 2001

SUBJECT: A-311140; F0002; F0003; F0004

TO: Bureau of Fixed Utility Services

FROM:  James J. McNulty, Secretary

DOCKETED
OCT 03 2001

Application of AT&T Broadband Phone of Pennsylvania, LLC

We attach hereto a copy of the Application of AT&T Broadband Phone of Pennsylvania, LLC, for approval to provide telecommunication services as a Reseller of Toll Services docketed at A-311140, as a Competitive Local Exchange Carrier docketed at A-311140 F0002, as a Competitive Access Provider docketed at A-311140 F0003, and as a Interexchange Facilities-Based Carrier docketed at A-311140 F0004 to the public in the Commonwealth of Pennsylvania, which has been captioned and docketed to the above number.

The Protest period for this application will expire on October 16, 2001.

This matter is being referred to your Bureau to schedule it for consideration by the Commission at Public Meeting.

jih

Attachment

**DOCUMENT
FOLDER**

COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P. O. BOX 3265, HARRISBURG PA 17105-3265

October 3, 2001

IN REPLY PLEASE
REFER TO OUR FILE
A-311140; F0002; F0003; F0004

ROBERT C. BARBER
STEPHANIE BALDANZI
3033 CHAIN BRIDGE ROAD
OAKTON VA 22185

Dear Sir/Madam:

Please be advised that the Application of AT&T Broadband Phone of Pennsylvania, LLC to provide telecommunications services as a Reseller of Toll Services docketed at A-311140, as a Competitive Local Exchange Carrier docketed at A-311140 F0002, as a Competitive Access Provider docketed at A-311140 F0003, and as a Interexchange Facilities-Based Carrier docketed at A-311140 F0004 to the public in the Commonwealth of Pennsylvania, has been reviewed and found to be in compliance with the filing requirements of the Commission's Opinion and Order entered June 3, 1996, at Docket Number M-00960799.

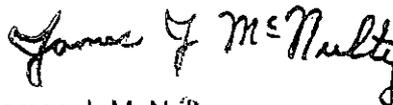
The protest period for this application will expire on October 16, 2001.

This matter is being referred to the Bureau of Fixed Utility Services to schedule it for consideration by the Commission at Public Meeting.

Please be advised that you now have provisional authority to do business in Pennsylvania.

Should you have any further questions concerning this matter, please do not hesitate to contact me.

Sincerely,



James J. McNulty
Secretary

JJM:jih

DOCKETED
OCT 03 2001
**DOCUMENT
FOLDER**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

RECEIPT

The addressee named here has paid the PA P.U.C. for the following bill:

KJR

ROBERT C. BARBER
WOLF BLOCK SCHORR & SOLIS-COHEN
1650 ARCH ST. 22ND FLOOR
PHILADELPHIA, PA 19103

DATE 10/5/01
RECEIPT # 198984

IN RE: Application fees for AT&T BROADBAND PHONE LLC (ALSO INCLUDES DOCKET #'S
A-311140F0003 & A-311140F0002)

Docket Numbers A-311140 and A-311140F0004..... \$250.00

REVENUE ACCOUNT: 001780-017601-102

CHECK NUMBER: 1089
CHECK AMOUNT: \$250.00

C. Joseph Meisinger
(for Department of Revenue)

DOCUMENT
FOLDER

DOCKETED

OCT 09 2001