AT&T INC.
Form 10-Q
August 03, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
x	For the quarterly period ended June 30, 2017
	or
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 1-8610

AT&T INC.

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

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

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

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

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

Large accelerated filer [X]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]
	Emerging growth company [ ]

If an emerging growth company, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Yes [ ]
No [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ]
No [X]

At July 31, 2017, there were 6,140 million common shares outstanding.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Operating Revenues				
Service	$36,538	$37,142	$72,994	$74,243
Equipment	3,299	3,378	6,208	6,812
Total operating revenues	39,837	40,520	79,202	81,055
Operating Expenses				
Cost of services and sales				
Equipment	4,138	4,260	7,986	8,635
Broadcast, programming and operations	4,898	4,701	9,872	9,330
Other cost of services (exclusive of depreciation and amortization shown separately below)	9,218	9,514	18,283	18,910
Selling, general and administrative	8,113	8,909	16,600	17,350
Depreciation and amortization	6,147	6,576	12,274	13,139
Total operating expenses	32,514	33,960	65,015	67,364
Operating Income	7,323	6,560	14,187	13,691
Other Income (Expense)				
Interest expense	(1,395)	(1,258)	(2,688)	(2,465)
Equity in net income (loss) of affiliates	14	28	(159)	41
Other income (expense) – net	128	91	108	161
Total other income (expense)	(1,253)	(1,139)	(2,739)	(2,263)
Income Before Income Taxes	6,070	5,421	11,448	11,428
Income tax expense	2,056	1,906	3,860	4,028
Net Income	4,014	3,515	7,588	7,400
Less: Net Income Attributable to Noncontrolling Interest	(99)	(107)	(204)	(189)
Net Income Attributable to AT&T	$3,915	$3,408	$7,384	$7,211
Basic Earnings Per Share Attributable to AT&T	$0.63	$0.55	$1.19	$1.17
Diluted Earnings Per Share Attributable to AT&T	$0.63	$0.55	$1.19	$1.17
Weighted Average Number of Common Shares Outstanding – Basic (in millions)	6,165	6,174	6,166	6,173
Weighted Average Number of Common Shares Outstanding – with Dilution (in millions)	6,184	6,195	6,185	6,193
Dividends Declared Per Common Share	$0.49	$0.48	$0.98	$0.96

See Notes to Consolidated Financial Statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Net income	$4,014	$3,515	$7,588	$7,400
Other comprehensive income (loss), net of tax:				
Foreign currency:				
Foreign currency translation adjustment (includes $(10), $0, $(4) and $0 attributable to noncontrolling interest), net of taxes of $115, $136, $506 and $126	(33)	218	339	174
Available-for-sale securities:				
Net unrealized gains (losses), net of taxes of $29, $2, $44 and $(13)	50	5	83	(21)
Reclassification adjustment included in net income, net of taxes of $(7), $2, $(4) and $0	(12)	3	(7)	-
Cash flow hedges:				
Net unrealized gains (losses), net of taxes of $(279), $(208), $(272) and $(141)	(517)	(387)	(504)	(263)
Reclassification adjustment included in net income, net of taxes of $5, $5, $10 and $10	9	9	19	19
Defined benefit postretirement plans:				
Net prior service credit arising during period, net of taxes of $594, $0, $594 and $0	969	-	969	-
Amortization of net prior service credit included in net income, net of taxes of $(151), $(131), $(290) and $(262)	(247)	(214)	(475)	(429)
Other comprehensive income (loss)	219	(366)	424	(520)
Total comprehensive income	4,233	3,149	8,012	6,880
Less: Total comprehensive income attributable to noncontrolling interest	(89)	(107)	(200)	(189)
Total Comprehensive Income Attributable to AT&T	$4,144	$3,042	$7,812	$6,691

See Notes to Consolidated Financial Statements.

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

	June 30, 2017 (Unaudited)	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	$ 25,617	$ 5,788
Accounts receivable - net of allowances for doubtful accounts of $732 and $661	14,997	16,794
Prepaid expenses	1,371	1,555
Other current assets	11,562	14,232
Total current assets	53,547	38,369
Property, plant and equipment	323,098	319,648
Less: accumulated depreciation and amortization	(196,914)	(194,749)
Property, Plant and Equipment – Net	126,184	124,899
Goodwill	105,546	105,207
Licenses	95,864	94,176
Customer Lists and Relationships – Net	12,414	14,243
Other Intangible Assets – Net	7,980	8,441
Investments in Equity Affiliates	1,615	1,674
Other Assets	17,645	16,812
Total Assets	$ 420,795	$ 403,821
Liabilities and Stockholders' Equity		
Current Liabilities		
Debt maturing within one year	$ 10,831	$ 9,832
Accounts payable and accrued liabilities	26,471	31,138
Advanced billing and customer deposits	4,371	4,519
Accrued taxes	3,331	2,079
Dividends payable	3,008	3,008
Total current liabilities	48,012	50,576
Long-Term Debt	132,824	113,681
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	61,926	60,128
Postemployment benefit obligation	31,422	33,578
Other noncurrent liabilities	20,753	21,748
Total deferred credits and other noncurrent liabilities	114,101	115,454
Stockholders' Equity		
Common stock ($1 par value, 14,000,000,000 authorized at June 30, 2017 and December 31, 2016: issued 6,495,231,088 at June 30, 2017 and December 31, 2016)	6,495	6,495
Additional paid-in capital	89,471	89,604
Retained earnings	36,067	34,734
Treasury stock (355,448,811 at June 30, 2017 and 356,237,141 at December 31, 2016, at cost)	(12,697)	(12,659)
Accumulated other comprehensive income	5,389	4,961
Noncontrolling interest	1,133	975
Total stockholders' equity	125,858	124,110
Total Liabilities and Stockholders' Equity	$ 420,795	$ 403,821

See Notes to Consolidated Financial Statements.

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

	Six months ended June 30, 2017	2016
Operating Activities		
Net income	$7,588	$7,400
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,274	13,139
Undistributed loss (earnings) from investments in equity affiliates	167	(22)
Provision for uncollectible accounts	795	705
Deferred income tax expense	964	1,767
Net loss (gain) from sale of investments, net of impairments	12	(85)
Actuarial loss (gain) on pension and postretirement benefits	(259)	-
Changes in operating assets and liabilities:		
Accounts receivable	119	(364)
Other current assets	471	2,229
Accounts payable and other accrued liabilities	(2,761)	(3,032)
Equipment installment receivables and related sales	907	464
Deferred fulfillment costs	(796)	(1,190)
Retirement benefit funding	(280)	(280)
Other - net	(1,041)	(2,524)
Total adjustments	10,572	10,807
Net Cash Provided by Operating Activities	18,160	18,207
Investing Activities		
Capital expenditures:		
Purchase of property and equipment	(10,750)	(9,702)
Interest during construction	(473)	(437)
Acquisitions, net of cash acquired	1,224	(485)
Dispositions	51	107
Sale of securities, net	-	500
Net Cash Used in Investing Activities	(9,948)	(10,017)
Financing Activities		
Net change in short-term borrowings with original maturities of three months or less	(2)	-
Issuance of long-term debt	24,115	10,140
Repayment of long-term debt	(6,118)	(9,129)
Purchase of treasury stock	(458)	(197)
Issuance of treasury stock	24	119
Dividends paid	(6,021)	(5,899)
Other	77	(1,137)
Net Cash Provided by (Used in) Financing Activities	11,617	(6,103)
Net increase in cash and cash equivalents	19,829	2,087
Cash and cash equivalents beginning of year	5,788	5,121
Cash and Cash Equivalents End of Period	$25,617	$7,208
Cash paid during the six months ended June 30 for:		
Interest	$3,095	$2,914
Income taxes, net of refunds	$1,470	$2,468

See Notes to Consolidated Financial Statements.

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

	June 30, 2017	
	Shares	Amount
Common Stock		
Balance at beginning of year	6,495	$6,495
Issuance of stock	-	-
Balance at end of period	6,495	$6,495
Additional Paid-In Capital		
Balance at beginning of year		$89,604
Issuance of treasury stock		4
Share-based payments		(137)
Balance at end of period		$89,471
Retained Earnings		
Balance at beginning of year		$34,734
Net income attributable to AT&T ($1.19 per diluted share)		7,384
Dividends to stockholders ($0.98 per share)		(6,053)
Other		2
Balance at end of period		$36,067
Treasury Stock		
Balance at beginning of year	(356)	$(12,659)
Repurchase and acquisition of common stock	(13)	(504)
Issuance of treasury stock	14	466
Balance at end of period	(355)	$(12,697)
Accumulated Other Comprehensive Income Attributable to AT&T, net of tax		
Balance at beginning of year		$4,961
Other comprehensive income attributable to AT&T		428
Balance at end of period		$5,389
Noncontrolling Interest		
Balance at beginning of year		$975
Net income attributable to noncontrolling interest		204
Distributions		(174)
Acquisition of noncontrolling interest		132
Translation adjustments attributable to noncontrolling interest, net of taxes		(4)
Balance at end of period		$1,133
Total Stockholders' Equity at beginning of year		$124,110
Total Stockholders' Equity at end of period		$125,858

See Notes to Consolidated Financial Statements.

AT&T INC.
JUNE 30, 2017

For ease of reading, AT&T Inc. is referred to as "we," "AT&T" or the "Company" throughout this document, and the names of the particular subsidiaries and affiliates providing the services generally have been omitted. AT&T is a holding company whose subsidiaries and affiliates operate in the communications and digital entertainment services industry. Our subsidiaries and affiliates provide services and equipment that deliver voice, video and broadband services both domestically and internationally. You should read this document in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2016. The results for the interim periods are not necessarily indicative of those for the full year.

In the tables throughout this document, percentage increases and decreases that are not considered meaningful are denoted with a dash.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Dollars in millions except per share amounts

NOTE 1. PREPARATION OF INTERIM FINANCIAL STATEMENTS

Basis of Presentation These consolidated financial statements include all adjustments that are necessary to present fairly the results for the presented interim periods, consisting of normal recurring accruals and other items. The consolidated financial statements include the accounts of the Company and our subsidiaries and affiliates over which we exercise control.

All significant intercompany transactions are eliminated in the consolidation process. Investments in unconsolidated subsidiaries and partnerships where we have significant influence are accounted for under the equity method. Earnings from certain investments accounted for using the equity method are included for periods ended within up to one quarter of our period end. We also record our proportionate share of our equity method investees' other comprehensive income (OCI) items, including cumulative translation adjustments.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, including estimates of probable losses and expenses. Actual results could differ from those estimates.

Recently Adopted Accounting Standards
Income Taxes As of January 1, 2017, we adopted Accounting Standards Update (ASU) No. 2016-16, "Income Taxes (Topic 740)" (ASU 2016-16), with modified retrospective application, resulting in our recognition of an immaterial adjustment to retained earnings. Under ASU 2016-16, we recognize the income tax effects of intercompany sales or transfers of assets other than inventory (e.g., intellectual property or property, plant and equipment) during the period of intercompany sale or transfer instead of the period of either sale or transfer to a third party or recognition of depreciation or impairment.

New Accounting Standards
Pension and Other Postretirement Benefits In March 2017, the Financial Accounting Standards Board (FASB) issued ASU No. 2017-07, "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" (ASU 2017-07), which changes the presentation of periodic benefit cost components. Under ASU 2017-07, we will continue to present service costs within our operating expenses but present amortization of prior service credits and other components of our net periodic benefit cost in "other income (expense) – net" in our consolidated statements of income. ASU 2017-07 is effective for annual reporting periods beginning after December 15, 2017. See Note 5 for our components of net periodic benefit cost.

Revenue Recognition In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" (ASC 606), and has modified the standard thereafter. This standard replaces existing revenue recognition rules with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. ASC 606, as amended, becomes effective for annual reporting periods beginning after December 15, 2017, at which point we plan to adopt the standard using the "modified retrospective method." Under that method, we will apply the rules to all contracts existing as of January 1, 2018, recognizing in beginning retained earnings an adjustment for the cumulative effect of the change and providing additional disclosures comparing results to previous accounting standards.

AT&T INC.
JUNE 30, 2017

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

NOTE 2. EARNINGS PER SHARE

A reconciliation of the numerators and denominators of basic and diluted earnings per share for the three months and six months ended June 30, 2017 and 2016, is shown in the table below:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Numerators				
Numerator for basic earnings per share:				
Net Income	$4,014	$3,515	$7,588	$7,400
Less: Net income attributable to noncontrolling interest	(99)	(107)	(204)	(189)
Net Income attributable to AT&T	3,915	3,408	7,384	7,211
Dilutive potential common shares:				
Share-based payment	2	2	6	6
Numerator for diluted earnings per share	$3,917	$3,410	$7,390	$7,217
Denominators (000,000)				
Denominator for basic earnings per share:				
Weighted average number of common shares outstanding	6,165	6,174	6,166	6,173
Dilutive potential common shares:				
Share-based payment (in shares)	19	21	19	20
Denominator for diluted earnings per share	6,184	6,195	6,185	6,193
Basic earnings per share attributable to AT&T	$0.63	$0.55	$1.19	$1.17
Diluted earnings per share attributable to AT&T	$0.63	$0.55	$1.19	$1.17

AT&T INC.
JUNE 30, 2017

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

NOTE 3. OTHER COMPREHENSIVE INCOME

Changes in the balances of each component included in accumulated other comprehensive income (accumulated OCI) are presented below. All amounts are net of tax and exclude noncontrolling interest.

	Foreign Currency Translation Adjustment	Net Unrealized Gains (Losses) on Available-for-Sale Securities	Net Unrealized Gains (Losses) on Cash Flow Hedges	Defined Benefit Postretirement Plans	Accumulated Other Comprehensive Income
Balance as of December 31, 2016	$ (1,995)	$ 541	$ 744	$ 5,671	$ 4,961
Other comprehensive income (loss) before reclassifications	343	83	(504)	969	891
Amounts reclassified from accumulated OCI	- [1]	(7) [1]	19 [2]	(475) [3]	(463)
Net other comprehensive income (loss)	343	76	(485)	494	428
Balance as of June 30, 2017	$ (1,652)	$ 617	$ 259	$ 6,165	$ 5,389

Foreign Currency Translation Adjustment	Net Unrealized Gains (Losses) on Available-for-Sale Securities	Net Unrealized Gains (Losses) on Cash Flow	Defined Benefit Postretirement Plans	Accumulated Other Comprehensive Income

			Hedges		
Balance as of December 31, 2015	$ (1,198)	$ 484	$ 16	$ 6,032	$ 5,334
Other comprehensive income (loss) before reclassifications	174	(21)	(263)	-	(110)
Amounts reclassified from accumulated OCI	- [1]	- [1]	19 [2]	(429) [3]	(410)
Net other comprehensive income (loss)	174	(21)	(244)	(429)	(520)
Balance as of June 30, 2016	$ (1,024)	$ 463	$ (228)	$ 5,603	$ 4,814

[1] (Gains) losses are included in Other income (expense) - net in the consolidated statements of income.
[2] (Gains) losses are included in Interest expense in the consolidated statements of income. See Note 6 for additional information.
[3] The amortization of prior service credits associated with postretirement benefits, net of amounts capitalized as part of construction labor, are included in Cost of services and sales and Selling, general and administrative in the consolidated statements of income (see Note 5).

NOTE 4. SEGMENT INFORMATION

Our segments are strategic business units that offer products and services to different customer segments over various technology platforms and/or in different geographies that are managed accordingly. We analyze our segments based on Segment Contribution, which consists of operating income, excluding acquisition-related costs and other significant items (as discussed below), and equity in net income (loss) of affiliates for investments managed within each segment. We have four reportable segments: (1) Business Solutions, (2) Entertainment Group, (3) Consumer Mobility and (4) International.

We also evaluate segment performance based on EBITDA and/or EBITDA margin, which is defined as Segment Contribution excluding equity in net income (loss) of affiliates and depreciation and amortization. We believe EBITDA to be a relevant and useful measurement to our investors as it is part of our internal management reporting and planning processes and it is an important metric that management uses to evaluate segment operating performance. EBITDA does not give effect to cash used for debt service requirements and thus does not reflect available funds for distributions, reinvestment or other discretionary uses. EBITDA margin is EBITDA divided by total revenues.

The Business Solutions segment provides services to business customers, including multinational companies; governmental and wholesale customers; and individual subscribers who purchase wireless services through employer-sponsored plans. We provide advanced IP-based services including Virtual Private Networks (VPN); Ethernet-related products and broadband, collectively referred to as fixed strategic services; as well as traditional data and voice products. We utilize our wireless and wired networks to provide a complete communications solution to our business customers.

The Entertainment Group segment provides video, internet, voice communication, and interactive and targeted advertising services to customers located in the United States or in U.S. territories. We utilize our copper and IP-based wired network and our satellite technology.

The Consumer Mobility segment provides nationwide wireless service to consumers, wholesale and resale wireless subscribers located in the United States or in U.S. territories. We utilize our network to provide voice and data services, including high-speed internet, video and home monitoring services over wireless devices.

The International segment provides entertainment services in Latin America and wireless services in Mexico. Video entertainment services are provided to primarily residential customers using satellite technology. We utilize our regional and national networks in Mexico to provide consumer and business customers with wireless data and voice communication services. Our international subsidiaries conduct business in their local currency, and operating results are converted to U.S. dollars using official exchange rates.

In reconciling items to consolidated operating income and income before income taxes, Corporate and Other includes: (1) operations that are not considered reportable segments and that are no longer integral to our operations or which we no longer actively market, and (2) impacts of corporate-wide decisions for which the individual segments are not being evaluated, including interest costs and expected return on plan assets for our pension and postretirement benefit plans.

Certain operating items are not allocated to our business segments, and those include:

- Acquisition-related items which consists of (1) items associated with the merger and integration of acquired businesses and (2) the noncash amortization of intangible assets acquired in acquisitions.
- Certain significant items which consists of (1) noncash actuarial gains and losses from pension and other postretirement benefits, (2) employee separation charges associated with voluntary and/or strategic offers, (3) losses resulting from abandonment or impairment of assets and (4) other items for which the segments are not being evaluated.

Interest expense and other income (expense) – net, are managed only on a total company basis and are, accordingly, reflected only in consolidated results.

Our operating assets are utilized by multiple segments and consist of our wireless and wired networks as well as our satellite fleet. We manage our assets to provide for the most efficient, effective and integrated service to our customers, not by segment, and, therefore, asset information and capital expenditures by segment are not presented. Depreciation is allocated based on asset utilization by segment.

AT&T INC.
JUNE 30, 2017

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

For the three months ended June 30, 2017

	Revenues	Operations and Support Expenses	EBITDA	Depreciation and Amortization	Operating Income (Loss)	Equity in Net Income (Loss) of Affiliates	Segment Contribution
Business Solutions	$ 17,107	$ 10,313	$ 6,794	$ 2,335	$ 4,459	$ -	$ 4,459
Entertainment Group	12,682	9,558	3,124	1,458	1,666	(11)	1,655
Consumer Mobility	7,791	4,520	3,271	871	2,400	-	2,400
International	2,026	1,772	254	311	(57)	25	(32)
Segment Total	39,606	26,163	13,443	4,975	8,468	$ 14	$ 8,482
Corporate and Other	231	87	144	2	142		
Acquisition-related items	-	281	(281)	1,170	(1,451)		
Certain significant items	-	(164)	164	-	164		
AT&T Inc.	$ 39,837	$ 26,367	$ 13,470	$ 6,147	$ 7,323		

For the six months ended June 30, 2017

	Revenues	Operations and Support Expenses	EBITDA	Depreciation and Amortization	Operating Income (Loss)	Equity in Net Income (Loss) of Affiliates	Segment Contribution
Business Solutions	$ 33,955	$ 20,489	$ 13,466	$ 4,647	$ 8,819	$ -	$ 8,819
Entertainment Group	25,305	19,159	6,146	2,877	3,269	(17)	3,252
Consumer Mobility	15,531	9,048	6,483	1,744	4,739	-	4,739
International	3,955	3,531	424	601	(177)	45	(132)
Segment Total	78,746	52,227	26,519	9,869	16,650	$ 28	$ 16,678
Corporate and Other	456	308	148	33	115		
Acquisition-related items	-	488	(488)	2,372	(2,860)		
Certain significant items	-	(282)	282	-	282		
AT&T Inc.	$ 79,202	$ 52,741	$ 26,461	$ 12,274	$ 14,187		

AT&T INC.
JUNE 30, 2017

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

For the three months ended June 30, 2016

	Revenues	Operations and Support Expenses	EBITDA	Depreciation and Amortization	Operating Income (Loss)	Equity in Net Income (Loss) of Affiliates	Segment Contribution
Business Solutions	$ 17,579	$ 10,857	$ 6,722	$ 2,521	$ 4,201	$ -	$ 4,201
Entertainment Group	12,711	9,569	3,142	1,489	1,653	(2)	1,651
Consumer Mobility	8,186	4,680	3,506	932	2,574	-	2,574
International	1,828	1,723	105	298	(193)	9	(184)
Segment Total	40,304	26,829	13,475	5,240	8,235	$ 7	$ 8,242
Corporate and Other	216	293	(77)	20	(97)		
Acquisition-related items	-	233	(233)	1,316	(1,549)		
Certain significant items	-	29	(29)	-	(29)		
AT&T Inc.	$ 40,520	$ 27,384	$ 13,136	$ 6,576	$ 6,560		

For the six months ended June 30, 2016

	Revenues	Operations and Support Expenses	EBITDA	Depreciation and Amortization	Operating Income (Loss)	Equity in Net Income (Loss) of Affiliates	Segment Contribution
Business Solutions	$ 35,188	$ 21,659	$ 13,529	$ 5,029	$ 8,500	$ -	$ 8,500
Entertainment Group	25,369	19,147	6,222	2,977	3,245	1	3,246
Consumer Mobility	16,514	9,592	6,922	1,854	5,068	-	5,068
International	3,495	3,311	184	575	(391)	23	(368)
Segment Total	80,566	53,709	26,857	10,435	16,422	$ 24	$ 16,446
Corporate and Other	489	670	(181)	37	(218)		
Acquisition-related items	-	528	(528)	2,667	(3,195)		
Certain significant items	-	(682)	682	-	682		
AT&T Inc.	$ 81,055	$ 54,225	$ 26,830	$ 13,139	$ 13,691		

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AT&T INC.
JUNE 30, 2017

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
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The following table is a reconciliation of Segment Contribution to "Income Before Income Taxes" reported on our consolidated statements of income.

	Second Quarter		Six Month Period	
	2017	2016	2017	2016
Business Solutions	$4,459	$4,201	$8,819	$8,500
Entertainment Group	1,655	1,651	3,252	3,246
Consumer Mobility	2,400	2,574	4,739	5,068
International	(32)	(184)	(132)	(368)
Segment Contribution	8,482	8,242	16,678	16,446
Reconciling Items:				
Corporate and Other	142	(97)	115	(218)
Merger and integration charges	(281)	(233)	(488)	(528)
Amortization of intangibles acquired	(1,170)	(1,316)	(2,372)	(2,667)
Actuarial gain (loss)	259	-	259	-
Employee separation costs	(60)	(29)	(60)	(54)
Gain on wireless spectrum transactions	63	-	181	736
Venezuela devaluation	(98)	-	(98)	-
Segment equity in net (income) loss of affiliates	(14)	(7)	(28)	(24)
AT&T Operating Income	7,323	6,560	14,187	13,691
Interest expense	1,395	1,258	2,688	2,465
Equity in net income (loss) of affiliates	14	28	(159)	41
Other income (expense) - net	128	91	108	161
Income Before Income Taxes	$6,070	$5,421	$11,448	$11,428

NOTE 5. PENSION AND POSTRETIREMENT BENEFITS

Many of our employees are covered by one of our noncontributory pension plans. We also provide certain medical, dental, life insurance and death benefits to certain retired employees under various plans and accrue actuarially determined postretirement benefit costs. Our objective in funding these plans, in combination with the standards of the Employee Retirement Income Security Act of 1974, as amended (ERISA), is to accumulate assets sufficient to provide benefits described in the plans to employees upon their retirement.

In 2013, we made a voluntary contribution of a preferred equity interest in AT&T Mobility II LLC, the primary holding company for our domestic wireless business, to the trust used to pay pension benefits under our qualified pension plans. The preferred equity interest had a value of $8,294 at June 30, 2017. The trust is entitled to receive cumulative cash distributions of $560 per annum, which are distributed quarterly by AT&T Mobility II LLC to the trust, in equal amounts and accounted for as contributions. We distributed $280 to the trust during the six months ended June 30, 2017. So long as we make the distributions, we will have no limitations on our ability to declare a dividend or repurchase shares. This preferred equity interest is a plan asset under ERISA and is recognized as such in the plan's separate financial statements. However, because the preferred equity interest is not unconditionally transferable to an unrelated party, it is not reflected in plan assets in our consolidated financial statements and instead has been eliminated in consolidation.

We recognize actuarial gains and losses on pension and postretirement plan assets in our operating results at our annual measurement date of December 31, unless earlier remeasurements are required. During the second quarter of 2017, a substantive plan change involving the frequency of considering potential health reimbursement account credit increases was communicated to our retirees. This plan change resulted in additional prior service credits recognized in other comprehensive income, reducing our liability by $1,563. Such credits will be amortized through earnings over a period approximating the average service period to full eligibility. Upon our adoption of ASU 2017-07, the amortization of these prior service credits will be recorded in other income (expense) - net. The plan change also triggered a remeasurement of our postretirement benefit obligation, resulting in an actuarial gain of $259 recognized in the second quarter of 2017.

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The following table details pension and postretirement benefit costs included in operating expenses in the accompanying consolidated statements of income. A portion of these expenses is capitalized as part of internal construction projects, providing a small reduction in the net expense recorded. Service costs and prior service credits are reported in our segment results while interest costs and expected return on plan assets are included with Corporate and Other (see Note 4).

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Pension cost:				
Service cost – benefits earned during the period	$282	$278	$564	$556
Interest cost on projected benefit obligation	484	495	968	990
Expected return on assets	(784)	(780)	(1,567)	(1,558)
Amortization of prior service credit	(31)	(25)	(62)	(51)
Net pension (credit) cost	$(49)	$(32)	$(97)	$(63)
Postretirement cost:				
Service cost – benefits earned during the period	$34	$48	$75	$96
Interest cost on accumulated postretirement benefit obligation	202	243	424	486
Expected return on assets	(79)	(89)	(159)	(178)
Amortization of prior service credit	(366)	(319)	(702)	(638)
Actuarial (gain) loss	(259)	-	(259)	-
Net postretirement (credit) cost	$(468)	$(117)	$(621)	$(234)
Combined net pension and postretirement (credit) cost	$(517)	$(149)	$(718)	$(297)

The decrease in the combined net pension and postretirement costs in the second quarter and first six months reflects higher amortization of prior service credits as well as decreasing corporate bond rates, which contributed to lower interest costs.

As part of our second-quarter 2017 remeasurement, we decreased the weighted-average discount rate used to measure our postretirement benefit obligation to 4.10%. The discount rate in effect for determining postretirement service and interest costs after remeasurement is 4.50% and 3.30%, respectively. Including the effects of our plan change and remeasurement, the total estimated prior service credits that will be amortized from accumulated OCI into net periodic benefit cost over the last half of 2017 is $764 ($474 net of tax) for postretirement benefits.

We also provide senior- and middle-management employees with nonqualified, unfunded supplemental retirement and savings plans. For the second quarter ended 2017 and 2016, net supplemental pension benefits costs not included in the table above were $23 and $24. For the first six months of 2017 and 2016, net supplemental pension benefit costs were $45 and $47.

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NOTE 6. FAIR VALUE MEASUREMENTS AND DISCLOSURE

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

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

Level 2 Inputs to the valuation methodology include:
- Quoted prices for similar assets and liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted market prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.
- Fair value is often based on developed models in which there are few, if any, external observations.

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

The valuation methodologies described above may produce a fair value calculation that may not be indicative of future net realizable value or reflective of future fair values. We believe our valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used since December 31, 2016.

Long-Term Debt and Other Financial Instruments
The carrying amounts and estimated fair values of our long-term debt, including current maturities, and other financial instruments, are summarized as follows:

	June 30, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Notes and debentures[1]	$142,816	$151,338	$122,381	$128,726
Bank borrowings	2	2	4	4
Investment securities	2,556	2,556	2,587	2,587

[1] Includes credit agreement borrowings.

The carrying amount of debt with an original maturity of less than one year approximates market value. The fair value measurements used for notes and debentures are considered Level 2 and are determined using various methods, including quoted prices for identical or similar securities in both active and inactive markets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
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Following is the fair value leveling for available-for-sale securities and derivatives as of June 30, 2017 and December 31, 2016:

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Available-for-Sale Securities				
Domestic equities	$1,276	$-	$ -	$1,276
International equities	659	-	-	659
Fixed income bonds	-	370	-	370
Asset Derivatives[1]				
Interest rate swaps	-	57	-	57
Cross-currency swaps	-	294	-	294
Interest rate locks	-	3	-	3
Liability Derivatives[1]				
Interest rate swaps	-	(42)	-	(42)
Cross-currency swaps	-	(2,631)	-	(2,631)
Interest rate locks	-	(82)	-	(82)

[1] Derivatives designated as hedging instruments are reflected as "Other assets," "Other noncurrent liabilities" and, for a portion of interest rate swaps, "Other current assets" in our consolidated balance sheets.

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Available-for-Sale Securities				
Domestic equities	$1,215	$-	$ -	$1,215
International equities	594	-	-	594
Fixed income bonds	-	508	-	508
Asset Derivatives[1]				
Interest rate swaps	-	79	-	79
Cross-currency swaps	-	89	-	89
Liability Derivatives[1]				
Interest rate swaps	-	(14)	-	(14)
Cross-currency swaps	-	(3,867)	-	(3,867)

[1] Derivatives designated as hedging instruments are reflected as "Other assets," "Other noncurrent liabilities" and, for a portion of interest rate swaps, "Other current assets" in our consolidated balance sheets.

Investment Securities
Our investment securities include equities, fixed income bonds and other securities. A substantial portion of the fair values of our available-for-sale securities was estimated based on quoted market prices. Investments in securities not traded on a national securities exchange are valued using pricing models, quoted prices of securities with similar

characteristics or discounted cash flows. Realized gains and losses on securities are included in "Other income (expense) – net" in the consolidated statements of income using the specific identification method. Unrealized gains and losses, net of tax, on available-for-sale securities are recorded in accumulated OCI. Unrealized losses that are considered other than temporary are recorded in "Other income (expense) – net" with the corresponding reduction to the carrying basis of the investment. Fixed income investments of $220 have maturities of less than one year, $33 within one to three years, $32 within three to five years and $85 for five or more years.

Our cash equivalents (money market securities), short-term investments (certificate and time deposits) and nonrefundable customer deposits are recorded at amortized cost, and the respective carrying amounts approximate fair values. Short-term investments and nonrefundable customer deposits are recorded in "Other current assets" and our investment securities are recorded in "Other Assets" on the consolidated balance sheets.

Derivative Financial Instruments
We enter into derivative transactions to manage certain market risks, primarily interest rate risk and foreign currency exchange risk. This includes the use of interest rate swaps, interest rate locks, foreign exchange forward contracts and combined interest rate foreign exchange contracts (cross-currency swaps). We do not use derivatives for trading or speculative purposes. We record derivatives on our consolidated balance sheets at fair value that is derived from observable market data, including yield curves and foreign exchange rates (all of our derivatives are Level 2). Cash flows associated with derivative instruments are presented in the same category on the consolidated statements of cash flows as the item being hedged.

Fair Value Hedging We designate our fixed-to-floating interest rate swaps as fair value hedges. The purpose of these swaps is to manage interest rate risk by managing our mix of fixed-rate and floating-rate debt. These swaps involve the receipt of fixed-rate amounts for floating interest rate payments over the life of the swaps without exchange of the underlying principal amount. Accrued and realized gains or losses from interest rate swaps impact interest expense in the consolidated statements of income. Unrealized gains on interest rate swaps are recorded at fair market value as assets, and unrealized losses on interest rate swaps are recorded at fair market value as liabilities. Changes in the fair values of the interest rate swaps are exactly offset by changes in the fair value of the underlying debt. Gains or losses realized upon early termination of our fair value hedges are recognized in interest expense. In the six months ended June 30, 2017 and June 30, 2016, no ineffectiveness was measured on interest rate swaps designated as fair value hedges.

Cash Flow Hedging We designate our cross-currency swaps as cash flow hedges. We have entered into multiple cross-currency swaps to hedge our exposure to variability in expected future cash flows that are attributable to foreign currency risk generated from the issuance of our Euro, British pound sterling, Canadian dollar and Swiss franc denominated debt. These agreements include initial and final exchanges of principal from fixed foreign currency denominated amounts to fixed U.S. dollar denominated amounts, to be exchanged at a specified rate that is usually determined by the market spot rate upon issuance. They also include an interest rate swap of a fixed or floating foreign currency-denominated rate to a fixed U.S. dollar denominated interest rate.

Unrealized gains on derivatives designated as cash flow hedges are recorded at fair value as assets, and unrealized losses on derivatives designated as cash flow hedges are recorded at fair value as liabilities. For derivative instruments designated as cash flow hedges, the effective portion is reported as a component of accumulated OCI until reclassified into interest expense in the same period the hedged transaction affects earnings. The gain or loss on the ineffective portion is recognized as "Other income (expense) – net" in the consolidated statements of income in each period. We evaluate the effectiveness of our cross-currency swaps each quarter. In the six months ended June 30, 2017 and June 30, 2016, no ineffectiveness was measured on cross-currency swaps designated as cash flow hedges.

Periodically, we enter into and designate interest rate locks to partially hedge the risk of changes in interest payments attributable to increases in the benchmark interest rate during the period leading up to the probable issuance of fixed-rate debt. We designate our interest rate locks as cash flow hedges. Gains and losses when we settle our interest rate locks are amortized into income over the life of the related debt, except where a material amount is deemed to be ineffective, which would be immediately reclassified to "Other income (expense) – net" in the consolidated statements of income. Over the next 12 months, we expect to reclassify $59 from accumulated OCI to interest expense due to the amortization of net losses on historical interest rate locks.

We hedge a portion of the exchange risk involved in anticipation of highly probable foreign currency-denominated transactions. In anticipation of these transactions, we often enter into foreign exchange contracts to provide currency at a fixed rate. Gains and losses at the time we settle or take delivery on our designated foreign exchange contracts are amortized into income in the same period the hedged transaction affects earnings, except where an amount is deemed to be ineffective, which would be immediately reclassified to "Other income (expense) – net" in the consolidated statements of income. In the six months ended June 30, 2017 and June 30, 2016, no ineffectiveness was measured on foreign exchange contracts designated as cash flow hedges.

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Collateral and Credit-Risk Contingency We have entered into agreements with our derivative counterparties establishing collateral thresholds based on respective credit ratings and netting agreements. At June 30, 2017, we had posted collateral of $2,297 (a deposit asset) and held collateral of $13 (a receipt liability). Under the agreements, if AT&T's credit rating had been downgraded one rating level by Fitch Ratings, before the final collateral exchange in June, we would have been required to post additional collateral of $133. If DIRECTV Holdings LLC's credit rating had been downgraded below BBB- (S&P), we would have been required to post additional collateral of $239. At December 31, 2016, we had posted collateral of $3,242 (a deposit asset) and held no collateral. We do not offset the fair value of collateral, whether the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) exists, against the fair value of the derivative instruments.

Following are the notional amounts of our outstanding derivative positions:

	June 30, 2017	December 31, 2016
Interest rate swaps	$ 10,775	$ 9,650
Cross-currency swaps	38,694	29,642
Interest rate locks	5,000	-
Total	$ 54,469	$ 39,292

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

Effect of Derivatives on the Consolidated Statements of Income

	Three months ended June 30,		Six months ended June 30,	
Fair Value Hedging Relationships	2017	2016	2017	2016
Interest rate swaps (Interest expense):				
Gain (Loss) on interest rate swaps	$ (23)	$ 5	$ (48)	$ 71
Gain (Loss) on long-term debt	23	(5)	48	(71)

In addition, the net swap settlements that accrued and settled in the quarter ended June 30 were offset against interest expense.

	Three months ended June 30,		Six months ended June 30,	
Cash Flow Hedging Relationships	2017	2016	2017	2016
Cross-currency swaps:				
Gain (Loss) recognized in accumulated OCI	$ (717)	$ (595)	$ (697)	$ (404)
Interest rate locks:				
Gain (Loss) recognized in accumulated OCI	(79)	-	(79)	-

Interest income (expense) reclassified from accumulated OCI into income	(14)	(14)	(29)	(29)

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NOTE 7. ACQUISITIONS, DISPOSITIONS AND OTHER ADJUSTMENTS

Acquisitions
Auction 1000 On April 13, 2017, the Federal Communications Commission (FCC) announced that we were the successful bidder for $910 of spectrum in 18 markets. We provided the FCC an initial deposit of $2,348 in July 2016 and received a refund of $1,438 in April 2017.

Dispositions
YP Holdings LLC In June 2017, YP Holdings LLC was acquired by Dex Media. Our second-quarter results include a gain of $36 for our portion of the proceeds.

Pending Acquisitions
Time Warner Inc. On October 22, 2016, we entered into and announced a merger agreement (Merger Agreement) to acquire Time Warner Inc. (Time Warner) in a 50% cash and 50% stock transaction for $107.50 per share of Time Warner common stock, or approximately $85,400 at the date of the announcement (Merger). Combined with Time Warner's net debt at March 31, 2017, the total transaction value is approximately $107,160. Each share of Time Warner common stock will be exchanged for $53.75 per share in cash and a number of shares of AT&T common stock equal to the exchange ratio. If the average stock price (as defined in the Merger Agreement) at the time of closing the Merger is between (or equal to) $37.411 and $41.349 per share, the exchange ratio will be the quotient of $53.75 divided by the average stock price. If the average stock price is greater than $41.349, the exchange ratio will be 1.300. If the average stock price is less than $37.411, the exchange ratio will be 1.437. Post-transaction, Time Warner shareholders will own between 14.4% and 15.7% of AT&T shares on a fully-diluted basis based on the number of AT&T shares outstanding. The cash portion of the purchase price will be financed with new debt and cash.

Time Warner is a global leader in media and entertainment whose major businesses encompass an array of some of the most respected and successful media brands. The deal combines Time Warner's vast library of content and ability to create new premium content for audiences around the world with our extensive customer relationships and distribution, one of the world's largest pay-TV subscriber bases and leading scale in TV, mobile and broadband distribution.

The Merger Agreement was approved by Time Warner shareholders on February 15, 2017 and remains subject to review by the U.S. Department of Justice and certain foreign jurisdictions. The FCC has stated that it does not believe it will need to review the deal as no licenses are involved. It is also a condition to closing that necessary consents from foreign governmental entities must be obtained. The transaction is expected to close before year-end 2017. If the Merger is terminated as a result of reaching the termination date (and at that time one or more of the conditions relating to certain regulatory approvals have not been satisfied) or there is a final, non-appealable order preventing the transaction relating to antitrust laws, communications laws, utilities laws or foreign regulatory laws, then under certain circumstances, we would be obligated to pay Time Warner $500.

Other Events
FirstNet On March 30, 2017, the First Responder Network Authority (FirstNet) announced its selection of AT&T to build and manage the first nationwide broadband network dedicated to America's first responders. FirstNet expects to provide 20 MHz of valuable telecommunications spectrum and success-based payments of $6,500 over the next five years to support network buildout. The actual reach of the network and our investment over the 25-year period will be determined by the number of individual states electing to participate in FirstNet. As of July 31, 2017, seven states

have opted-in to the program. We do not expect FirstNet to materially impact our 2017 results.

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NOTE 8. SALES OF EQUIPMENT INSTALLMENT RECEIVABLES

We offer our customers the option to purchase certain wireless devices in installments over a period of up to 30 months and, in many cases, they have the right to trade in the original equipment for a new device within a set period and have the remaining unpaid balance satisfied. As of June 30, 2017 and December 31, 2016, gross equipment installment receivables of $3,920 and $5,665 were included on our consolidated balance sheets, of which $2,230 and $3,425 are notes receivable that are included in "Accounts receivable - net."

In 2014, we entered into an uncommitted agreement pertaining to the sale of equipment installment receivables and related security with Citibank and various other relationship banks as purchasers (collectively, the Purchasers). Under this agreement, we transfer certain receivables to the Purchasers for cash and additional consideration upon settlement of the receivables, referred to as the deferred purchase price. In June 2017, we modified the agreement with the Purchasers such that we receive more upfront cash consideration at the time the receivables are transferred to the Purchasers. Additionally, in the event a customer trades in a device prior to the end of the installment contract period, we agree to make a payment to the Purchasers equal to any outstanding remaining installment receivable balance. Accordingly, we record a guarantee obligation to the Purchasers for this estimated amount at the time the receivables are transferred. Under the terms of the agreement, we continue to bill and collect the payments from our customers on behalf of the Purchasers. Since inception, cash proceeds received, net of remittances (excluding amounts returned as deferred purchase price), were $3,946.

The following table sets forth a summary of equipment installment receivables sold during the three and six months ended June 30, 2017 and 2016:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Gross receivables sold	$1,752	$1,845	$4,598	$4,327
Net receivables sold[1]	1,599	1,671	4,220	3,927
Cash proceeds received	1,415	1,126	2,847	2,647
Deferred purchase price recorded	293	563	1,482	1,282
Guarantee obligation recorded	74	-	74	-

[1] Receivables net of allowance, imputed interest and trade-in right guarantees.

The deferred purchase price and guarantee obligation are initially recorded at estimated fair value and subsequently carried at the lower of cost or net realizable value. The estimation of their fair values is based on remaining installment payments expected to be collected and the expected timing and value of device trade-ins. The estimated value of the device trade-ins considers prices offered to us by independent third parties that contemplate changes in value after the launch of a device model. The fair value measurements used for the deferred purchase price and the guarantee obligation are considered Level 3 under the Fair Value Measurement and Disclosure framework (see Note 6).

The following table shows the equipment installment receivables, previously sold to the Purchasers, which we repurchased in exchange for the associated deferred purchase price during the three months and six months ended

June 30, 2017 and 2016:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Fair value of repurchased receivables	$337	$ -	$714	$532
Carrying value of deferred purchase price	301	-	640	539
Gain (loss) on repurchases[1]	$36	$ -	$74	$(7)

[1] These gains (losses) are included in "Selling, general and administrative" in the consolidated statements of income.

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At June 30, 2017 and December 31, 2016, our deferred purchase price receivable was $3,648 and $3,090, respectively, of which $2,232 and $1,606 are included in "Other current assets" on our consolidated balance sheets, with the remainder in "Other Assets." Our maximum exposure to loss as a result of selling these equipment installment receivables is limited to the total amount of our deferred purchase price and guarantee obligation.

The sales of equipment installment receivables did not have a material impact on our consolidated statements of income or to "Total Assets" reported on our consolidated balance sheets. We reflect the cash flows related to the arrangement as operating activities in our consolidated statements of cash flows because the cash received from the Purchasers upon both the sale of the receivables and the collection of the deferred purchase price is not subject to significant interest rate risk.

Derecognized Installment Receivables
The following table sets forth a summary of equipment installment receivables that were sold to Purchasers and are no longer considered our assets.

	2017
Outstanding derecognized receivables at January 1,	$7,232
Gross receivables sold	4,598
Collections on cash purchase price	(2,337)
Collections on deferred purchase price	(382)
Fees	(48)
Trade ins and other	(141)
Fair value of repurchased receivables	(714)
Outstanding derecognized receivables at June 30,	$8,208

NOTE 9. SUBSEQUENT EVENT
On July 27, 2017, we initiated a debt offering for $22,500 that will be completed on August 7, 2017. The proceeds will be used for general corporate purposes, including funding the cash consideration for the Time Warner acquisition. Upon settlement of the debt offering, we expect to terminate our bridge loan credit agreement.

Details for the offering are as follows:
- $750 of floating rate notes due 2023.
- $1,750 of 2.850% global notes due 2023.
- $3,000 of 3.400% global notes due 2024.
- $5,000 of 3.900% global notes due 2027.
- $4,500 of 4.900% global notes due 2037.
- $5,000 of 5.150% global notes due 2050.
- $2,500 of 5.300% global notes due 2058.

The notes detailed above, along with $7,301 of floating rate and global notes issued in June 2017, are subject to a special mandatory redemption feature. If we do not consummate the Time Warner acquisition pursuant to the merger agreement on or prior to April 22, 2018, or, if prior to such date, the merger agreement is terminated, then in either case, we must redeem the notes at a redemption price equal to 101% of the principal amount of the notes, plus accrued but unpaid interest.

In conjunction with this offering, we settled our interest rate locks.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Dollars in millions except per share and per subscriber amounts

RESULTS OF OPERATIONS

AT&T is a holding company whose subsidiaries and affiliates operate in the communications and digital entertainment services industry. Our subsidiaries and affiliates provide services and equipment that deliver voice, video and broadband services both domestically and internationally. You should read this discussion in conjunction with the consolidated financial statements and accompanying notes. A reference to a "Note" in this section refers to the accompanying Notes to Consolidated Financial Statements.

Consolidated Results Our financial results in the second quarter and for the first six months of 2017 and 2016 are summarized as follows:

	Second Quarter			Six-Month Period		
	2017	2016	Percent Change	2017	2016	Percent Change
Operating Revenues						
Service	$36,538	$37,142	(1.6)%	$72,994	$74,243	(1.7)%
Equipment	3,299	3,378	(2.3)	6,208	6,812	(8.9)
Total Operating Revenues	39,837	40,520	(1.7)	79,202	81,055	(2.3)
Operating expenses						
Cost of services and sales						
Equipment	4,138	4,260	(2.9)	7,986	8,635	(7.5)
Broadcast, programming and operations	4,898	4,701	4.2	9,872	9,330	5.8
Other cost of services	9,218	9,514	(3.1)	18,283	18,910	(3.3)
Selling, general and administrative	8,113	8,909	(8.9)	16,600	17,350	(4.3)
Depreciation and amortization	6,147	6,576	(6.5)	12,274	13,139	(6.6)
Total Operating Expenses	32,514	33,960	(4.3)	65,015	67,364	(3.5)
Operating Income	7,323	6,560	11.6	14,187	13,691	3.6
Income Before Income Taxes	6,070	5,421	12.0	11,448	11,428	0.2
Net Income	4,014	3,515	14.2	7,588	7,400	2.5
Net Income Attributable to AT&T	$3,915	$3,408	14.9 %	$7,384	$7,211	2.4 %

Overview

Operating revenues decreased $683, or 1.7%, in the second quarter and $1,853, or 2.3%, for the first six months of 2017.
Service revenues decreased $604, or 1.6%, in the second quarter and $1,249, or 1.7%, for the first six months of 2017. The decreases were primarily due to continued declines in legacy wireline voice and data products and lower wireless service revenues reflecting increased adoption of unlimited plans. These were partially offset by increased revenues from video and strategic business services.

Equipment revenues decreased $79, or 2.3%, in the second quarter and $604, or 8.9%, for the first six months of 2017. The decreases were primarily due to lower wireless handset sales, driven by a continuing low rate of customer device upgrades and strong Bring Your Own Device (BYOD) participation. Equipment revenue is becoming increasingly unpredictable as many customers are choosing to upgrade devices less frequently or are bringing their own.

Operating expenses decreased $1,446, or 4.3%, in the second quarter and $2,349, or 3.5%, for the first six months of 2017.

Equipment expenses decreased $122, or 2.9%, in the second quarter and $649, or 7.5%, for the first six months of 2017. The decreases were driven by a decline in devices sold reflecting a change in customer buying habits.

Broadcast, programming and operations expenses increased $197, or 4.2%, in the second quarter and $542, or 5.8%, for the first six months of 2017, reflecting annual content cost increases.

Other cost of services expenses decreased $296, or 3.1%, in the second quarter and $627, or 3.3%, for the first six months of 2017. The decreases reflect our continued focus on cost management and the utilization of automation and digitalization where appropriate. Also contributing to the decreases were lower Federal Universal Service Fund (USF) rates and fees and an actuarial gain due to remeasurement of our postretirement benefit obligation. These expense declines were partially offset by an increase in amortization of deferred customer fulfillment cost.

Selling, general and administrative expenses decreased $796, or 8.9%, in the second quarter and $750, or 4.3%, for the first six months of 2017. The decreases were attributable to our disciplined cost management, lower advertising costs and an actuarial gain due to remeasurement of our postretirement benefit obligation. The decrease in the first six months was partially offset by lower gains on wireless spectrum transactions during 2017 than in the comparable period of 2016.

Depreciation and amortization expense decreased $429, or 6.5%, in the second quarter and $865, or 6.6%, for the first six months of 2017. Depreciation expense decreased $281, or 5.3%, in the second quarter and $569, or 5.4%, for the first six months of 2017. The decreases were primarily due to our fourth-quarter 2016 change in estimated useful lives and salvage values of certain assets associated with our transition to an IP-based network, which accounted for $327 of the decrease in the second quarter and $654 of the decrease for the first six months. These decreases were partially offset by increases resulting from ongoing capital spending for upgrades and expansion.

Amortization expense decreased $148, or 11.2%, in the second quarter and $296, or 11.1%, for the first six months of 2017 due to lower amortization of intangibles for the customer lists associated with acquisitions.

Operating income increased $763, or 11.6%, in the second quarter and $496, or 3.6%, for the first six months of 2017. Our operating income margin in the second quarter increased from 16.2% in 2016 to 18.4% in 2017, and the first six months increased from 16.9% in 2016 to 17.9% in 2017.

Interest expense increased $137, or 10.9%, in the second quarter and $223, or 9.0%, for the first six months of 2017. The increases were primarily due to higher debt balances and average interest rates when compared to the prior year. Fees paid to secure financing for pending acquisitions also contributed to higher expenses in 2017.

Equity in net income (loss) of affiliates decreased $14 in the second quarter and $200 for the first six months of 2017, predominantly from losses from our legacy publishing business (which we sold in June 2017), partially offset by income from our investments in video-related businesses.

Other income (expense) – net increased $37, or 40.7%, in the second quarter and decreased $53, or 32.9%, for the first six months. The increase in the second quarter was primarily due to growth in interest and dividend income of $54, including interest on tax-related settlements, and net gains from the sale of non-strategic assets and investments of $8. These increases were partially offset by foreign exchange pressure.

The decrease for the first six months was primarily due to additional net losses from the sale of non-strategic assets totaling $97 and foreign exchange pressure, partially offset by growth in interest and dividend income of $55.

Income taxes increased $150, or 7.9%, in the second quarter of 2017 and decreased $168, or 4.2%, for the first six months of 2017. Our effective tax rate was 33.9% for the second quarter and 33.7% for the first six months of 2017, as compared to 35.2% for the second quarter and 35.2% for the first six months of 2016. The increase in income tax expense for the second quarter was primarily due to higher income before income taxes in 2017. The decrease in income tax expense for the first six months of 2017 was primarily due to the recognition of tax benefits related to the restructuring of a portion of our wireless business, which also resulted in decreases in our effective tax rate for the second quarter and the first six months of 2017.

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Selected Financial and Operating Data

	June 30,	
Subscribers and connections in (000s)	2017	2016
Domestic wireless subscribers	136,500	131,805
Mexican wireless subscribers	13,082	9,955
North American wireless subscribers	149,582	141,760
North American branded subscribers	104,421	99,557
North American branded net additions	1,626	2,596
Domestic satellite and over-the-top video subscribers	21,347	20,454
AT&T U-verse® (U-verse) video subscribers	3,853	4,869
Latin America satellite video subscribers [1]	13,622	12,523
Total video subscribers	38,822	37,846
Total domestic broadband connections	15,686	15,641
Network access lines in service	12,791	15,284
U-verse VoIP connections	5,853	5,593
Debt ratio [2]	53.3%	50.5%
Net debt ratio [3]	43.8%	47.6%
Ratio of earnings to fixed charges [4]	3.84	4.01
Number of AT&T employees	260,480	277,200

[1] Excludes subscribers of our International segment equity investments in SKY Mexico, in which we own a 41% stake. At March 31, 2017, SKY Mexico had 8.0 million subscribers.
[2] Debt ratios are calculated by dividing total debt (debt maturing within one year plus long-term debt) by total capital (total debt plus total stockholders' equity) and do not consider cash available to pay down debt. See our "Liquidity and Capital Resources" section for discussion.
[3] Net debt ratios are calculated by deriving total debt (debt maturing within one year plus long-term debt) less cash available by total capital (total debt plus total stockholders' equity).
[4] See Exhibit 12.

Segment Results

Our segments are strategic business units that offer different products and services over various technology platforms and/or in different geographies that are managed accordingly. Our segment results presented in Note 4 and discussed below for each segment follow our internal management reporting. We analyze our segments based on Segment Contribution, which consists of operating income, excluding acquisition-related costs and other significant items, and equity in net income (loss) of affiliates for investments managed within each segment. We have four reportable segments: (1) Business Solutions, (2) Entertainment Group, (3) Consumer Mobility and (4) International.

We also evaluate segment performance based on EBITDA and/or EBITDA margin, which is defined as Segment Contribution, excluding equity in net income (loss) of affiliates and depreciation and amortization. We believe EBITDA to be a relevant and useful measurement to our investors as it is part of our internal management reporting and planning processes and it is an important metric that management uses to evaluate operating performance. EBITDA does not give effect to cash used for debt service requirements and thus does not reflect available funds for distributions, reinvestment or other discretionary uses. EBITDA margin is EBITDA divided by total revenues.

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The Business Solutions segment provides services to business customers, including multinational companies; governmental and wholesale customers; and individual subscribers who purchase wireless services through employer-sponsored plans. We provide advanced IP-based services including Virtual Private Networks (VPN); Ethernet-related products and broadband, collectively referred to as fixed strategic services; as well as traditional data and voice products. We utilize our wireless and wired networks to provide a complete integrated communications solution to our business customers.

The Entertainment Group segment provides video, internet, voice communication, and interactive and targeted advertising services to customers located in the United States or in U.S. territories. We utilize our copper and IP-based wired network and our satellite technology.

The Consumer Mobility segment provides nationwide wireless service to consumers, wholesale and resale wireless subscribers located in the United States or in U.S. territories. We utilize our networks to provide voice and data services, including high-speed internet, video and home monitoring services over wireless devices.

The International segment provides entertainment services in Latin America and wireless services in Mexico. Video entertainment services are provided to primarily residential customers using satellite technology. We utilize our regional and national networks in Mexico to provide consumer and business customers with wireless data and voice communication services. Our international subsidiaries conduct business in their local currency, and operating results are converted to U.S. dollars using official exchange rates. Our International segment is subject to foreign currency fluctuations.

Our operating assets are utilized by multiple segments and consist of our wireless and wired networks as well as an international satellite fleet. We manage our assets to provide for the most efficient, effective and integrated service to our customers, not by segment, and therefore asset information and capital expenditures by segment are not presented. Depreciation is allocated based on asset utilization by segment.

Business Solutions
Segment Results

	Second Quarter			Six-Month Period		
	2017	2016	Percent Change	2017	2016	Percent Change
Segment operating revenues						
Wireless service	$8,006	$7,963	0.5 %	$15,935	$15,818	0.7 %
Fixed strategic services	3,028	2,805	8.0	6,002	5,556	8.0
Legacy voice and data services	3,508	4,162	(15.7)	7,138	8,535	(16.4)
Other service and equipment	844	874	(3.4)	1,661	1,733	(4.2)
Wireless equipment	1,721	1,775	(3.0)	3,219	3,546	(9.2)
Total Segment Operating Revenues	17,107	17,579	(2.7)	33,955	35,188	(3.5)
Segment operating expenses						
Operations and support	10,313	10,857	(5.0)	20,489	21,659	(5.4)
Depreciation and amortization	2,335	2,521	(7.4)	4,647	5,029	(7.6)
Total Segment Operating Expenses	12,648	13,378	(5.5)	25,136	26,688	(5.8)
Segment Operating Income	4,459	4,201	6.1	8,819	8,500	3.8

Equity in Net Income of Affiliates	-	-	-		-	-	-	
Segment Contribution	$4,459	$4,201	6.1	%	$8,819	$8,500	3.8	%

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The following tables highlight other key measures of performance for the Business Solutions segment:

June 30,	Percent