

AT&T INC.
Form 10-K
March 01, 2011

FORM 10-K

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

(Mark One)

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

For the fiscal year ended December 31, 2010

OR

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

For the transition period from _____ to _____

Commission File Number: 1-8610

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

Securities registered pursuant to Section 12(b) of the Act: (See attached Schedule A)

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 No

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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 No

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

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 "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

Based on the closing price of \$24.19 per share on June 30, 2010, the aggregate market value of our voting and non-voting common stock held by non-affiliates was \$142.9 billion.

At January 31, 2011, common shares outstanding were 5,911,433,420.

DOCUMENTS INCORPORATED BY REFERENCE

- (1) Portions of AT&T Inc.'s Annual Report to Stockholders for the fiscal year ended December 31, 2010 (Parts I and II).
 - (2) Portions of AT&T Inc.'s Notice of 2011 Annual Meeting and Proxy Statement dated on or about March 11, 2011 to be filed within the period permitted under General Instruction G(3) (Parts III and IV).
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SCHEDULE A

Securities Registered Pursuant To Section 12(b) Of The Act:

Title of each class	Name of each exchange on which registered
Common Shares (Par Value \$1.00 Per Share)	New York Stock Exchange
6.125% AT&T Inc. Global Notes due April 2, 2015	New York Stock Exchange
5.875% AT&T Inc. Global Notes due April 28, 2017	New York Stock Exchange
7.00% AT&T Inc. Global Notes due April 30, 2040	New York Stock Exchange
6.375% AT&T Inc. Senior Notes due February 15, 2056	New York Stock Exchange

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PART I

ITEM 1. BUSINESS

GENERAL

AT&T Inc. (“AT&T,” “we” or the “Company”) is a holding company incorporated under the laws of the State of Delaware in 1983 and has its principal executive offices at 208 S. Akard St., Dallas, Texas, 75202 (telephone number 210-821-4105). We maintain an Internet website at www.att.com. (This website address is for information only and is not intended to be an active link or to incorporate any website information into this document.) We make available, free of charge, on our website our annual report on Form 10-K, our quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). We also make available on that website, and in print, if any stockholder or other person so requests, our code of business conduct and ethics entitled “Code of Ethics” applicable to all employees and Directors, our “Corporate Governance Guidelines,” and the charters for all committees of our Board of Directors, including Audit, Human Resources and Corporate Governance and Nominating. Any changes to our Code of Ethics or waiver of our Code of Ethics for senior financial officers, executive officers or Directors will be posted on that website.

History

AT&T, formerly known as SBC Communications Inc. (SBC), was formed as one of several regional holding companies created to hold AT&T Corp.’s (ATTC) local telephone companies. On January 1, 1984, we were spun-off from ATTC pursuant to an anti-trust consent decree, becoming an independent publicly traded telecommunications services provider. At formation, we primarily operated in five southwestern states. Our subsidiaries merged with Pacific Telesis Group in 1997, Southern New England Telecommunications Corporation in 1998 and Ameritech Corporation in 1999, thereby expanding our wireline operations as the incumbent local exchange carrier (ILEC) into a total of 13 states. In November 2005, one of our subsidiaries merged with ATTC, creating one of the world’s leading telecommunications providers. In connection with the merger, we changed the name of our company from “SBC Communications Inc.” to “AT&T Inc.” In December 2006, one of our subsidiaries merged with BellSouth Corporation (BellSouth) making us the ILEC in an additional nine states. With the BellSouth acquisition, we thereby acquired BellSouth’s 40% economic interest in AT&T Mobility LLC (AT&T Mobility), formerly Cingular Wireless LLC, and BellSouth’s 34% economic interest in YELLOWPAGES.COM (YPC), resulting in 100% ownership of AT&T Mobility and YPC. Our services and products are marketed under the AT&T brand name, including alliances such as AT&T Yahoo! and AT&T | DIRECT TV.

Scope

We are a leading providers of telecommunications services in the United States and the world. We offer our services and products to consumers in the U.S. and services and products to businesses and other providers of telecommunications services worldwide.

The services and products that we offer vary by market, and include: wireless communications, local exchange services, long-distance services, data/broadband and Internet services, video services, telecommunications equipment, managed networking, wholesale services and directory advertising and publishing. We group our operating subsidiaries as follows, corresponding to our operating segments for financial reporting purposes:

- wireless subsidiaries provide both wireless voice and data communications services across the U.S. and, through roaming agreements, in a substantial number of foreign countries.

- wireline subsidiaries provide primarily landline voice and data communication services, AT&T U-VerseSM TV, high-speed broadband and voice services (U-Verse) and managed networking to business customers.
- advertising solutions subsidiaries publish Yellow and White Pages directories and sell directory advertising and Internet-based advertising and local search.
- other subsidiaries provide results from customer information services and all corporate and other operations.

Our local exchange subsidiaries operate as the ILEC in 22 states: Alabama, Arkansas, California, Connecticut, Illinois, Indiana, Florida, Georgia, Kentucky, Louisiana, Kansas, Michigan, Mississippi, Missouri, Nevada, North Carolina, Ohio, Oklahoma, South Carolina, Tennessee, Texas and Wisconsin (22-state area). Our local exchange subsidiaries are subject to regulation by each state in which they operate and by the Federal Communications Commission (FCC). Wireless service providers are regulated by the FCC. Additional information relating to regulation is contained under the heading “Government Regulation” and in the Annual Report under the heading “Operating Environment and Trends of the Business,” and is incorporated herein by reference pursuant to General Instruction G(2).

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With the expansion of our company through acquisitions and the resulting ownership consolidation of AT&T Mobility, and with continuing advances in technology, our services offerings now combine our traditional wireline and wireless services. We make our customers' lives more convenient and productive and foster competition and further innovation in the communications and entertainment industry. In 2011, we plan to focus on the areas discussed below.

Wireless

AT&T Mobility began operations in October 2000 as a joint venture between us and BellSouth and, in 2004, acquired AT&T Wireless Services, Inc. Upon our acquisition of BellSouth in 2006, AT&T Mobility became a wholly-owned subsidiary.

We cover most major metropolitan areas of the U.S. with our Universal Mobile Telecommunications System/High-Speed Downlink Packet Access (HSPA) and HSPA+ network technology, with HSPA+ providing 4G speeds when combined with our upgraded backhaul. Our network provides superior speeds for data and video services, as well as operating efficiencies, using the same spectrum and infrastructure for voice and data on an IP-based platform. Our wireless network also relies on digital transmission technologies known as Global System for Mobile Communication, General Packet Radio Services and Enhanced Data Rates for GSM Evolution for data communications. We have also begun transitioning our network to more advanced Long-Term Evolution (LTE) technology. We continue to expand the number of locations, including airports and cafés, where customers can access broadband Internet connections using wireless fidelity (local radio frequency commonly referred as Wi-Fi) wireless technology.

As of December 31, 2010, we served 95.5 million wireless customers and were a leading provider of mobile wireless voice and data communications services in the U.S. As the wireless industry continues to mature, our future wireless growth will increasingly depend on our ability to offer integrated handsets and other innovative devices (such as tablets and eReaders) and innovative services that will encourage existing customers to upgrade their services and will attract customers from other providers, as well as on our ability to minimize turnover of our existing customer base (customer churn). We intend to accomplish these goals by continuing to expand our network coverage and improve our network quality and expand our mobile device offerings. Our ability to maintain and expand network service enhancements and product launches may not occur as scheduled or at the cost expected due to many factors, including delays in determining equipment and handset operating standards, supplier delays, increases in network equipment and handset component costs, regulatory permitting delays for tower sites or enhancements, or labor-related delays. The effective management of customer churn is critical to our ability to maximize revenue growth and to maintain and improve our operating margins.

Business Customers

We expect to continue to strengthen the reach and sophistication of our network facilities and our ability to offer a variety of communications services, both wireless and wireline, to large businesses and wholesale customers worldwide. We expect to offer similar services to small- and medium-businesses and to increase the attractiveness of our services to governmental customers. We also expect to extend our wholesale business offerings to other service products and systems integration services.

Data/Broadband

As the communications industry continues to move toward Internet-based technologies that are capable of blending traditional wireline and wireless services, we plan to offer services that take advantage of these new and more sophisticated technologies. In particular, we intend to continue to focus on deploying our AT&T U-verse sm high-speed broadband and video services and on developing Internet protocol-based services that allow customers to

unite their home or business wireline services with their wireless service.

U-verse Services We are continuing to expand our deployment of U-verse High Speed Internet and TV services. As of December 31, 2010, we have passed more than 27.3 million living units (constructed housing units as well as platted housing lots) and are marketing the services to almost 77 percent of those units. Our rate of expansion will be slowed if we cannot obtain all required local building permits in a timely fashion. We also continue to work with our vendors on improving, in a timely manner, the requisite hardware and software technology. Our deployment plans could be delayed if we do not receive required equipment and software on schedule.

We believe that our U-verse TV service is subject to federal oversight as a “video service” under the Federal Communications Act. However, some cable providers and municipalities have claimed that certain IP services should be treated as a traditional cable service and therefore subject to the applicable state and local cable regulation. Certain municipalities have delayed our request or have refused us permission to use our existing right-of-ways to deploy or activate our U-verse-related services and products, resulting in litigation. Pending negotiations and current or threatened litigation involving municipalities could delay our deployment plans in those areas. Petitions have been filed at the FCC alleging that the manner in which AT&T provisions “public, educational and governmental” (PEG) programming over its U-verse TV service conflicts with federal law, and a lawsuit has been filed in a California state superior court raising similar allegations under California law. If courts having jurisdiction where we have significant deployments of our U-verse services were to decide that federal, state and/or local cable regulation were applicable to our U-verse services, or if the FCC, state agencies or the courts were to rule that AT&T must deliver PEG programming in a manner substantially different from the way it does today or in ways that are inconsistent with AT&T’s current network architecture, it could have a material adverse effect on the cost, timing and extent of our deployment plans.

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Voice over Internet Protocol (VoIP) is generally used to describe the transmission of voice using Internet-Protocol-based technology rather than a traditional wire and switch-based telephone network. A company using this technology often can provide voice services at a lower cost because this technology uses bandwidth more efficiently than a traditional network and because this technology has not been subject to traditional telephone industry regulation. While the development of VoIP has resulted in increased competition for our wireless and wireline voice services, it also presents growth opportunities for us to develop new products for our customers.

BUSINESS OPERATIONS

OPERATING SEGMENTS

Our segments are strategic business units that offer different products and services over various technology platforms and are managed accordingly. We analyze our various operating segments based on segment income before income taxes. We make our capital allocations decisions primarily based on the network (wireless or wireline) providing services. Actuarial gains and losses from pension and other postretirement benefits, interest expense and other income (expense) – net, are managed only on a total company basis and are, accordingly, reflected only in consolidated results. Therefore, these items are not included in the calculation of each segment's percentage of our total segment income. We have four reportable segments: (1) Wireless; (2) Wireline; (3) Advertising Solutions; and (4) Other.

Additional information about our segments, including financial information, is included under the heading "Segment Results" on pages 33 through 40 and in Note 4 of the Annual Report and is incorporated herein by reference pursuant to General Instruction G(2).

WIRELESS

Wireless consists of our subsidiary, AT&T Mobility, which operates as a wireless provider to both business and consumer customers. Our Wireless segment provided approximately 47% of 2010 total segment operating revenues and 67% of our 2010 total segment income. At December 31, 2010, we had more than 95 million wireless subscribers. We classify our customers as either postpaid, prepaid, connected device or reseller.

Services and Products

We offer a comprehensive range of high-quality nationwide wireless voice and data communications services in a variety of pricing plans, including postpaid and prepaid service plans. Our offerings are tailored to meet the communications needs of targeted customer segments, including youth, family, active professionals, small businesses, government and major national corporate accounts.

Service – Our voice service is generally offered on a contract basis for one- or two-year periods, referred to as postpaid. Under the terms of these contracts, service is billed and provided on a monthly basis according to the applicable rate plan chosen. Our wireless services include basic local wireless communications service, long-distance service and roaming services. Roaming services enable our subscribers to utilize other carriers' networks when they are "roaming" outside our network footprint. We also charge fees to other carriers for providing roaming services to their customers when their customers utilize our network. We offer prepaid voice service to meet the demands of distinct consumer segments, such as the youth market, families and small business customers, who prefer to control usage or pay in advance.

Wireless data revenues continue to be a growing area of our business, representing an increasing share of our overall subscriber revenue. We are experiencing solid growth from both consumer and enterprise wireless data services, as an increasing number of our subscribers have upgraded their handsets to more advanced integrated devices. We are also seeing rapid growth in demand for new data-centric devices such as notebooks, tablets, eReaders, direction and

navigation aids and monitoring devices. Customers in our “connected device” category (e.g., users of eReaders and navigation aids) purchase those devices from third-party suppliers which buy data access supported by our network. Other data-centric device users are classified as either postpaid customers (primarily netbook and notebook users) or prepaid customers (primarily tablet users) since they purchase service directly from us. We continue to upgrade our network and coordinate with equipment manufacturers and applications developers in order to further capitalize on the continued growth in the demand for wireless data services. As of December 31, 2010, we were a leading provider of wireless data in the U.S. wireless industry based on subscribers.

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Equipment – We sell a wide variety of handsets, wirelessly enabled computers (i.e., notebooks and tablets) and personal computer wireless data cards manufactured by various suppliers for use with our voice and data services. We sell through our own company-owned stores or through agents or third-party retail stores. We also sell accessories, such as carrying cases, hands-free devices, batteries, battery chargers and other items, to consumers, as well as to agents and other third-party distributors for resale. Like other wireless service providers, we often provide postpaid contract subscribers substantial equipment subsidies to initiate or upgrade service.

Additional information on our Wireless segment is contained in the Annual Report in the “Operating Environment Overview” section under the heading “Expected Growth Areas,” “Wireless” beginning on page 42 and is incorporated herein by reference pursuant to General Instruction G(2).

WIRELINER

Our Wireline subsidiaries provide both retail and wholesale communication services domestically and internationally. Our Wireline segment provided approximately 49% of 2010 segment operating revenues and 34% of our 2010 total segment income. We divide our wireline services into three product-based categories: voice, data and other. Revenues from our traditional voice services have been declining as customers have been switching to wireless, cable and other Internet-based providers. In addition, the continuing weak economy has caused wireline customers to terminate their residential or business phone service as individuals have lost jobs or otherwise combined households and businesses have closed or reduced operations. We have responded by offering packages of combined voice and data services, including broadband and video, and intend to continue this strategy during 2011.

Services and Products

Voice – Voice includes traditional local and long-distance service provided to retail customers and wholesale access to our network and individual network elements provided to competitors. At December 31, 2010, our wireline subsidiaries served approximately 23 million retail consumer access lines, 19 million retail business access lines and 2 million wholesale access lines. We also have a number of integrated voice and data services, such as integrated network connections, that provide customers the ability to integrate access for their voice and data services, the data component of which is included in the data category. Additionally, voice revenues do not include any of our VoIP revenues, which are included in data revenues.

Long distance consists of traditional long distance and international long distance for customers that select us as their primary long-distance carrier. Long distance also includes services provided by calling card, 1-800 services and conference calling. These services are used in a wide variety of business applications, including sales, reservation centers or customer service centers. We also provide wholesale switched access service to other service providers.

Voice also includes calling features, fees to maintain wire located inside customer premises and other miscellaneous voice products. Calling features are enhanced telephone services available to retail customers such as Caller ID, Call Waiting and voice mail. These calling features services are generally more profitable than basic local phone service.

Data – We provide data services that rely on IP-based technology and data services that rely on older, circuit-based technology. Approximately 70 percent of our data customers have transitioned from using our circuit-based services to using our IP-based services and we expect that trend to continue. We provide businesses voice applications over IP-based networks (i.e., Enhanced Virtual Private Networks or “EVPN”). Over the past several years, we have built out our new multi-protocol label switching/asynchronous transfer mode, or MPLS/ATM network, to supplement, and eventually replace, our other extensive global networks. These products allow us to provide highly complex global data networks. Additional IP-based services include Internet access and network integration, dedicated Internet and

enterprise networking services, U-verse services and related data equipment sales.

Our circuit-based, traditional data products include switched and dedicated transport that allow business customers to transport data at high speeds, as well as DSL and dial-up Internet access. Our private line offering uses high-capacity digital circuits to transmit from point-to-point in multiple configurations and allows customers to create internal data networks and to access external data networks. Switched Transport services transmit data using switching equipment to transfer the data between multiple lines before reaching its destination. Dedicated Transport services use a single direct line to transmit data between destinations. DSL is a digital modem technology that converts existing twisted-pair telephone lines into access paths for multimedia and high-speed data communications to the Internet or private networks. DSL allows customers to simultaneously make a phone call and access information via the Internet or an office local area network. Digital Services use dedicated digital circuits to transmit digital data at various high rates of speed.

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Network integration services include installation of business data systems, local area networking and other data networking offerings. Internet access services include a wide range of products for residences and businesses including basic dial-up access service, dedicated access, web hosting, managed services, e-mail and high-speed access services. Our managed web-hosting services for businesses provide network, server and security infrastructure as well as built-in data storage and include application performance management, database management, hardware and operating system management. Our hosting services also provide customers with secure access to detailed reporting information about their infrastructure and applications.

Packet services consist of data networks using packet switching and transmission technologies, including traditional circuit-based, and IP connectivity services. Packet services enable customers to transmit large volumes of data economically and securely and are used for local area network interconnection, remote site, point of sale and branch office communications. High-speed packet services are used extensively by enterprise (large business) customers.

Enterprise networking services provide comprehensive support from network design, implementation and installation to ongoing network operations and management for networks of varying scales, including local area networks, wide area networks, and virtual private networks. These services include applications such as e-mail, order entry systems, employee directories, human resource transactions and other database applications.

We also offer Wi-Fi services (local radio frequency commonly known as wireless fidelity).

We provide local, interstate and international wholesale networking capacity to other service providers. We offer a combination of high-volume transmission capacity and conventional dedicated line services on a regional, national and international basis to wireless carriers, interexchange carriers, Internet service providers (ISPs) and facility-based and switchless resellers. Our wholesale customers are primarily large ISPs, wireless carriers, competitive local exchange carriers (CLECs), regional phone companies, interexchange carriers, cable companies and systems integrators. We also have sold dedicated network capacity through indefeasible rights-of-use agreements under which capacity is furnished for contract terms as long as 25 years.

Other – Other includes application management, security service, integration services, customer premises equipment, outsourcing, government-related services, and satellite video services. Security services include business continuity and disaster recovery services as well as premise and network based security products.

Customer premises equipment and other equipment sales range from single-line and cordless telephones to sophisticated digital PBX systems. PBX is a private telephone switching system, typically used by businesses and usually located on a customer's premises, which provides intra-premise telephone services as well as access to our network.

ADVERTISING SOLUTIONS

Advertising Solutions includes our directory operations, which publish Yellow and White Pages directories and sell directory advertising and Internet-based advertising and local search. The Advertising Solutions segment provided approximately 3% of total segment operating revenues and 4% of our 2010 total segment income. This segment sells advertising services throughout the United States, with our print directory operations primarily covering our 22-state area.

OTHER

Our Other segment includes customer information services (i.e., operator services) and corporate and other operations, as well as impacts from corporate-wide decisions for which the individual operating segments are not being evaluated,

including interest cost and expected return on pension and postretirement benefits. The Other segment provided approximately 1% of total segment operating revenues. In 2010, segment operating expense exceeded revenues. We also include in this segment the equity income (loss) from our investments in Telmex and America Movil. In August 2010, we sold Sterling Commerce Inc. (Sterling). The Other segment results for all periods shown have been adjusted to exclude the results of Sterling, which are now reflected in discontinued operations.

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MAJOR CLASSES OF SERVICE

The following table sets forth the percentage of total consolidated reported operating revenues by any class of service that accounted for 10% or more of our consolidated total operating revenues in any of the last three fiscal years:

	Percentage of Total Consolidated Operating Revenues					
	2010		2009		2008	
Wireless Segment						
Wireless service	43	%	40	%	36	%
Wireline Segment						
Voice	23	%	26	%	30	%
Data	22	%	21	%	20	%

GOVERNMENT REGULATION

Wireless communications providers must be licensed by the FCC to provide communications services at specified spectrum frequencies within specified geographic areas and must comply with the rules and policies governing the use of the spectrum as adopted by the FCC. Wireless licenses are issued for a fixed time period, typically ten years, and we must seek renewal of these licenses. While the FCC has generally renewed licenses given to operating companies such as us, the FCC has authority to both revoke a license for cause and to deny a license renewal if a renewal is not in the public interest. Additionally, while wireless communications providers' prices and service offerings are generally not subject to regulation, the federal government and an increasing number of states are considering new regulations and legislation relating to various aspects of wireless services.

Our wireline subsidiaries are subject to regulation by state commissions which have the power to regulate intrastate rates and services, including local, long-distance and network access services. These subsidiaries are also subject to the jurisdiction of the FCC with respect to interstate and international rates and services, including interstate access charges. Access charges are designed to compensate our wireline subsidiaries for the use of their networks by other carriers.

Our subsidiaries operating outside the U.S. are subject to the jurisdiction of national and supranational regulatory authorities in the market where service is provided. Regulation is generally limited to operational licensing authority for the provision of enterprise services.

Additional information relating to regulation of our subsidiaries is contained in the Annual Report under the heading "Operating Environment Overview" beginning on page 41 and is incorporated herein by reference pursuant to General Instruction G(2).

IMPORTANCE, DURATION AND EFFECT OF LICENSES

Certain of our subsidiaries own or have licenses to various patents, copyrights, trademarks and other intellectual property necessary to conduct business. Many of our subsidiaries also hold government-issued licenses or franchises to provide wireline or wireless services and regulation affecting those rights is contained in the Annual Report under the heading "Operating Environment Overview" beginning on page 41 and is incorporated herein b