AT&T CORP
Form 10-K/A
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K/A

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-1105

AT&T CORP.

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

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

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE
NONE.

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

OVERVIEW

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

RESTRUCTURING OF AT&T

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

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

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

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

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

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

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

TRACKING STOCKS

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

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

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

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

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

MERGER WITH MEDIAONE GROUP, INC.

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

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

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

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

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

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

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

$0.3 billion (pretax).

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

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

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

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

CONSOLIDATED RESULTS OF OPERATIONS

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

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

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

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

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

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

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

REVENUE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FOR THE YEARS ENDED DECEMBER 31,		
2001	2000	1999

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FOR THE YEARS ENDED

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

DISCONTINUED OPERATIONS

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

SEGMENT RESULTS

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

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

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

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

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

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

AT&T BUSINESS SERVICES

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

FOR THE YEARS ENDED DECEMBER 31,

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

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

REVENUE

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

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

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

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

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

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

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

EBIT/EBITDA

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

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

OTHER ITEMS

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

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

AT&T CONSUMER SERVICES

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

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

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

REVENUE

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

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

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

EBIT/EBITDA

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

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

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

OTHER ITEMS

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

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

AT&T BROADBAND

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

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

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

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

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

REVENUE

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

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

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

EBIT/EBITDA

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

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

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

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

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

OTHER ITEMS

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

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

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

CORPORATE AND OTHER

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

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

Capital additions	327	1,683	271

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

REVENUE

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

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

EBIT/EBITDA

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

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

OTHER ITEMS

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

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

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LIBERTY MEDIA GROUP

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

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

LIQUIDITY

FOR THE YEARS ENDED DECEMBER 31,

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

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

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

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

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

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

CREDIT RATING AGENCY	SHORT-TERM CREDIT RATING	LONG-TERM CREDIT RATING	CHARACTERIZATION OF LONG-TERM CREDIT RATING
Standard & Poor's........	A-2	BBB+	On credit watch with negative implicatio