BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Arbitration of Interconnection Agreement Between BellSouth Telecommunications, Inc. d/b/a AT&T Florida and Sprint Spectrum Limited Partnership, Nextel South Corp., and NPCR, Inc. d/b/a Nextel Partners	))))))))	Docket No. 100177-TP
In re: Petition for Arbitration of Interconnection Agreement Between BellSouth Telecommunications, Inc. d/b/a AT&T Florida and. Sprint Communications Company Limited Partnership	)))))))	Docket No. 100176-TP

Sprint Spectrum Limited Partnership, Nextel West Corp.,
NPCR, Inc. d/b/a Nextel Partners
and
Sprint Communications Company Limited Partnership

Rebuttal Testimony

Of

Mark G. Felton
Filed October 6, 2010

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REBUTTAL TESTIMONY

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Mark G. Felton. My business address is 6360 Sprint Parkway, Overland Park, Kansas 66251.

Q. Are you the same Mark G. Felton that submitted Direct Testimony in these proceedings on August 25, 2010?

A. Yes.

II. PURPOSE AND SCOPE OF TESTIMONY

Q. On whose behalf are you testifying?

A. I am testifying in this proceeding on behalf of Sprint Spectrum Limited Partnership ("Sprint PCS"), Nextel South Corp. and NPCR, Inc., d/b/a Nextel Partners ("Nextel") and Sprint Communications Company Limited Partnership ("Sprint CLEC"). Sprint PCS and Nextel may be collectively referred to as "Sprint wireless" or "Sprint CMRS". The Sprint wireless and Sprint CLEC entities may also be collectively referred to as "Sprint".

Q. What is the purpose of your Rebuttal Testimony?

A. The purpose of my Rebuttal Testimony is to provide input to the Florida Public Service Commission ("Commission") and respond to the Direct Testimony of AT&T witnesses Ferguson (Issues 57 [III.C], 73 [IV.A.(1)], 74 [IV.A.(2)], 75 [IV.B.(1)], 76 [IV.B.(2)], 77 [IV.B.(3)], 78 [IV.B.(4)], 79 [IV.B.(5)], 80 [IV.C.(1)], 81 [IV.C.(2)], 82 [IV.D.(1)], 83 [IV.D.(2)], 84 [IV.D.(3)], 85 [IV.E.(1)], 86 [IV.E.(2)], and 90 [IV.H]), McNiel (Issues 87 [IV.F.1], 88 [IV.F.2], and 89 [IV.G.2]), McPhee (Issues 42 [III.A.1.(3)], 42 [III.A.1.(4)], 44 [III.A.1.(5)], 45 [III.A.(2)], and 62 [III.F]), Hamiter (Issues 24 [II.C.(1)], 25 [II.C.(2)], 26 [II.C.(3)], 27 [II.D.(1)], 28 [II.D.(2)], 29 [II.F.(1)], 30 [II.F.(2)], 31 [II.F.(3)], 32 [II.F.(4)], 33 [II.G], 34 [II.H.(1)], 35 [II.H.(2)], 36 [II.H.(3)]), and Pellerin (Issues 21 [II.A], 37 [III.A.1.(1)], 38 [III.A.1.(2)], 55 [III.A.7.(1)], 56 [III.A.7.(2)], 67 [III.I.(1)(a)], 68 [III.I.(1)(b)], 69 [III.I.(2)], 70 [III.I.(3)], 71 [III.I.(4)], and 72 [III.I.(5)]) concerning Sprint's positions regarding various unresolved issues associated with the establishment of a new Interconnection agreement between Sprint wireless and AT&T, and a new Interconnection agreement between Sprint CLEC and AT&T.

III. ISSUES

Section II. – How the Parties Interconnect

Issue 21 [DPL II.A] Should the ICA distinguish between Entrance Facilities and Interconnection Facilities? If so, what is the distinction?

Q. Having read the Direct Testimony of AT&T Witness Pellerin, do you have any general comments regarding her assertions with respect to this issue?

A. Yes. First, I would like to provide the Commission with a clear understanding of what constitutes an "Interconnection Facility" and how that differs from an "Entrance Facility." A great deal of Ms. Pellerin's testimony focuses on Unbundled Network Elements ("UNEs") and how the Triennial Review Remand Order ("TRRO") altered an incumbent local exchange carrier's ("ILEC") obligation to provide UNEs, including unbundled entrance facilities at cost-based rates. Indeed, much of what she asserts about UNEs in general and entrance facilities *as UNEs* is accurate, but it has little to do with the issue at hand. Ms. Pellerin's lengthy discussion of UNEs, though educational, is irrelevant as to whether AT&T is obligated to provide Interconnection Facilities at cost-based rates[1] pursuant to Section 251(c)(2) of the Act. Whether intentional or not, Ms. Pellerin blurs the lines between UNEs and Interconnection Facilities and, thus, creates unnecessary confusion by improperly attempting to apply the Federal Communication Commission's ("FCC") rules with respect to UNEs that are provided under

[1] I use the term "cost-based" to refer to Total Element Long Run Incremental Cost ("TELRIC") throughout my Rebuttal Testimony.

Section 251(c)(3) of the Act to Interconnection Facilities that are provided under Section 251(c)(2) of the Act.

Q. Can you give a specific example of how Ms. Pellerin blurs the lines between UNEs and Interconnection Facilities?

A. Yes. In describing the facilities that are at issue,[2] Ms. Pellerin goes into a lengthy explanation of an entrance facility. Nothing in her description is particularly wrong. In fact, the "facility" she describes could be either an Unbundled Entrance Facility or an "Interconnection Facility." Although there is no physical or technological difference between an Unbundled Entrance Facility and an Interconnection Facility, there is very different regulatory treatment from the FCC's perspective, which I will go into later. Ms. Pellerin's testimony ignores this disparate treatment and, thus, obfuscates this issue.

Q. How does AT&T define an "interconnection facility?"

A. As I discuss in my Direct Testimony,[3] AT&T contends that a cross connect, the beginning and end of which will exist somewhere between an AT&T central office building's front door and the Interconnected AT&T switch inside that building to which the cross-connect is "connected", constitutes the Interconnection Facility. Ms. Pellerin supports this view by stringing

[2] Pellerin Direct, Page 19, Line 6 through Page 21, Line 20
[3] Felton Direct, Page 5, Lines 19-23.

together some relatively unrelated references in proceedings and the Federal regulations.

Q. Do you agree with Ms. Pellerin's characterization that ¶ 140 of the TRRO is a "side comment"?[4]

A. No. Apparently, the FCC doesn't agree with her assessment either. In its amicus Brief filed in the Sixth Circuit court case, the FCC specifically states:

> The FCC's statement in paragraph 140 was not a mere "explanatory comment" without legal force, as the district court apparently believed. Instead, it constituted an authoritative interpretation of the meaning of the FCC's unbundling rules and a description of the incumbent LECs' interconnection obligations with respect to these facilities.[5]

Q. Based on that, do you believe Ms. Pellerin's "interpretation" of the FCC's true intention in the TRRO is credible?

A. No. After Ms. Pellerin dismisses what the FCC calls its "authoritative interpretation" of its own rule as a "side comment", she then goes on to offer her own interpretation of what the FCC really meant, by saying that the FCC couldn't take away TELRIC pricing with one hand and reinstate it with the other. Using that logic, she then concludes that the FCC must have meant that an interconnection facility consists of merely the low-cost, inconsequential facility within the AT&T central office – the "cross-

[4] Pellerin Direct, Page 23, Lines 16-18.

[5] "Brief for Amici Curiae Federal Communications Commission in Support of Defendants-Appellants and Reversal of the District Court" at p. 11, footnote 32, filed April 3, 2009 in *Michigan Bell Telephone v. Covad Communications Company, et al.*, Case No. 07-2469 & 07-2473 (6th Cir.), a copy of which is attached to this Rebuttal Testimony as **Exhibit MGF-1.**

connect." AT&T's motivation is clear – to shift as much cost as possible to requesting carriers.

Q. Do you agree with Ms. Pellerin's analysis that interconnection does not include "transport and termination" and, therefore, could not include an entrance facility component?[6]

A. No.

Q. Why not?

A. Ms. Pellerin confuses two separate and distinct provisions of the 1996 Telecom Act and the FCC's rules. Ms. Pellerin concludes that, since the definition of "Interconnection" excludes "the transport and termination of traffic," AT&T is relieved of its obligation to provide any "transport" associated with the Interconnection Facility. In other words, she implies that the transport element of "transport and termination" as used in 47 C.F.R. § 51.5 refers to the transport between the interconnecting offices. Amazingly, she even uses the First Report and Order to support her misguided theory.[7] This is incorrect. Transport as it is used in the phrase "transport and termination" actually refers to an element of the reciprocal compensation obligation attached to the termination of an originating party's traffic. Indeed, ¶ 1039 of the First Report and Order defines the "transport" component of "transport and termination" as:

[6] Pellerin Direct, Page 30, Lines 4-9.
[7] *Id.*

"the transmission of terminating traffic that is subject to section 251(b)(5) ***from the interconnection point between the two carriers to the terminating carrier's end office switch*** that directly serves the called party" [Emphasis added].

I have included Diagram 1 to illustrate the distinction between transport and termination and the Interconnection Facility.

Diagram 1

Q. Ms. Pellerin goes on to discuss the four Circuit Court cases that address this issue. Do you agree with her assessment of those cases?

A. No. I am not an attorney and will not attempt to offer a legal opinion here.

Q. On what do you base your disagreement with Ms. Pellerin's assessment of the four Circuit Court cases?

A. I place great weight on the FCC's amicus brief filed in the Sixth Circuit Court case. I discussed the Sixth Circuit Court determination on this issue further in my Direct Testimony.

Q. Ms. Pellerin says that the Sixth Circuit Court decision is "by far the most thorough of the four, and displays by far the best understanding of the issue."[8] Upon what does she base that analysis?

A. Apparently she bases her assessment upon the fact that the Sixth Circuit agrees with AT&T's position espoused in this arbitration proceeding. It is not surprising to me that AT&T would be enamored with the only court case that supports its position. The fact remains that three other Circuit Courts ***and the FCC*** disagree with AT&T's position. In fact, the Ninth Circuit recently issued a revised Order specifically rejecting the reasoning advanced by AT&T ***and*** the Sixth Circuit.[9]

Q. Ms. Pellerin appears to be implying that the Ninth Circuit decision merely followed the "mistaken" Seventh and Eighth Circuit decisions because the Ninth Circuit "issued its decision just about a week after the Sixth Circuit, and did not make any mention of the Sixth Circuit's decision."[10] Based on the Ninth Circuit's recent action, do you believe that to be the case?

A. No. On September 1, 2010 (about a week after Ms. Pellerin's Direct Testimony was filed), The Ninth Circuit removed any doubt in this regard when it issued its "Order and Amended Opinion" that generally referred to

[8] Pellerin Direct, Page 27, Lines 4-5.
[9] *Pac. Bell Tel. Co. v. Cal. PUC*, Case Nos. 08-15568 and 08-15716, 2010 U.S. App. LEXIS 18412, "Order and Amended Opinion", September 1, 2010 (9th Cir. Sept. 1, 2010), a copy of which is attached to this Rebuttal Testimony as **Exhibit MGF-2 (*"Pac. Bell Tel. Co."*)**.
[10] Pellerin Direct, Page 27, Lines 10-11.

the Seventh and the Eighth Circuits' recent rejection of AT&T's position to expressly state:

> "Both the Seventh and the Eighth circuits recently rejected AT&T's position, and have concluded that FCC regulations authorize state public utilities commissions to order incumbent LECs to lease entrance facilities to competitive LECs at regulated rates for the purpose of interconnection. *See Sw. Bell Tel., LP v. Mo. Pub. Serv. Comm'n,* 530 F.3d 676 ((8tch Cir. 2008) ("*SWBT*"); *Ill. Bell Tel. Co. v. Box,* 526 F.3d 1069 (7th Cir. 2008) ("*Box I*"); *contra Michigan Bell Tel. Co. v. Lark,* 597 F.3d 370 (6th Cir. 2010). For the reasons that follow, we agree with the Seventh and Eighth Circuits and reject the reasoning advanced by AT&T and the Sixth Circuit in its recent 2-1 decision."[11]

Q. Please summarize your Rebuttal Testimony on this issue.

A. Sprint encourages the Commission to not be sidetracked with AT&T's lengthy, yet irrelevant, discussion of unbundled entrance facilities and the FCC's finding of non-impairment in the TRRO. As the FCC itself has stated, its finding of non-impairment with respect to a 251(c)(3) obligation has no effect upon an incumbent LEC's obligation with respect to Section 251(c)(2) of the Act. The FCC has provided its own authoritative interpretation of an incumbent LEC's obligation to provide interconnection facilities that extend between the parties' respective networks at cost-based rates, therefore, there is no decision for the Commission to make here other than to acknowledge and affirm the FCC's prior pronouncement on this issue.

Q. What language does Sprint recommend the Commission adopt?

[11] *Pac. Bell Tel. Co., supra* note 9, at *14 (Exhibit MGF-2).

A. Sprint recommends the Commission adopt the following definition of "Interconnection Facilities" and include such term within the ICA language that describes the "Methods of Interconnection":

> "**Interconnection Facilities**" means those Facilities that are used to deliver Authorized Services traffic between a given Sprint Central Office Switch, or such Sprint Central Office Switch's point of presence in an MTA or LATA, as applicable, and either a) a POI on the AT&T-9STATE network to which such Sprint Central Office Switch is Interconnected or, b) in the case of Sprint-originated Transit Services Traffic, the POI at which AT&T-9STATE hands off Sprint originated traffic to a Third Party that is indirectly interconnected with the Sprint Central Office Switch via AT&T-9STATE.

> Methods of Interconnection. Sprint may request, and AT&T will accept and provide, Interconnection using any one or more of the following Network Interconnection Methods (NIMs): (1) purchase of ***Interconnection Facilities by one Party from the other Party, or by one Party*** from a Third Party; (2) Physical Collocation Interconnection; (3) Virtual Collocation Interconnection; (4) Fiber Meet Interconnection; (5) other methods resulting from a Sprint request made pursuant to the Bona Fide Request process set forth in the General Terms and Conditions – Part A of this Agreement; and (6) any other methods as mutually agreed to by the Parties. [FOR CMRS ONLY] In addition to the foregoing, when Interconnecting in its capacity as an FCC licensed wireless provider, Sprint may also purchase as a NIM under this Agreement Type 1, Type 2A and Type 2B Interconnection arrangements described in AT&T-9STATE's General Subscriber Services Tariff, Section A35, which shall be provided by AT&T-9STATE's at the rates, terms and conditions set forth in this Agreement.

Issue II.C – 911 Trunking

Issue 24 [DPL II.C.(1)] – Should Sprint be required to maintain 911 trunks on AT&T's network when Sprint is no longer using them?

Q. Do you have any Rebuttal Testimony for this Issue?

A. No. My Direct Testimony sufficiently addresses this issue. In addition, I did not identify any direct testimony from any of the AT&T witnesses regarding this issue.

Issue 25 [DPL II.C.(2)] – Should the ICA include Sprint's proposed language permitting Sprint to send wireline and wireless 911 traffic over the same 911 Trunk Group when a PSAP is capable of receiving commingled traffic?

Q. What is the status of this issue?

A. The parties have continued to discuss this issue and I believe are near resolution. I will nevertheless offer my rebuttal of AT&T witness Hamiter's Direct Testimony for consideration by the Commission in the event the parties are unable to reach voluntary resolution.

Q. In reading AT&T witness Hamiter's Direct Testimony, how would you describe the arguments against Sprint's position on this issue that he puts forth?

A. Mr. Hamiter's Direct Testimony would lead one to believe that AT&T is responsible for the integrity of Sprint's network.

Q. Why do you say that?

A. Mr. Hamiter's Direct Testimony indicates that AT&T's primary concern is that combining wireless and wireline emergency services traffic on the same 911 trunk may inhibit the PSAP's ability to obtain the information necessary to respond to the emergency call.[12]

Q. Is AT&T's concern vaild?

A. No, but, even if it was a valid concern, it is not AT&T's concern. Rather, it is a matter between Sprint, this Commission, and Sprint's customers. However, if AT&T's concern is genuine, Sprint would welcome AT&T's participation in joint testing to ensure all emergency services calls are routed properly and contain all of the information necessary for a prompt and accurate response from emergency responders.

Q. Do you believe AT&T's concern is genuine?

A. It is hard for me to tell. It seems that AT&T, rather than assisting Sprint with a solution that could benefit Sprint and the public good (by reducing the number of trunks to the PSAP), has only been able to manufacture reasons why Sprint ***cannot*** pursue a solution that may reduce costs.

Q. If there were a network problem on the Sprint 911 network or there was a need to trace a call made by a Sprint customer (whether that call

[12] Hamiter Direct, Pages 10-11.

be a wireline or wireless call) on a 911 trunk ordered by Sprint, who would be responsible to perform that function?

A. Sprint is responsible for its 911 network. Sprint has network engineers that monitor its networks 24 hours a day, 7 days a week. Sprint would isolate the network problem and perform any call traces for law enforcement. To the extent AT&T needed to be involved in this effort, Sprint would work collaboratively with AT&T to ensure that end user customer's emergency needs are met.

Q. Who is responsible for monitoring capacity and ensuring that 911 calls route correctly and are successfully completed on Sprint's 911 network?

A. Sprint is responsible for monitoring capacity, ensuring that calls route correctly, and ensuring that 911 calls are successfully completed.

Q. Would the commingling of wireline and wireless traffic on 911 trunks ordered and monitored by Sprint prevent Sprint from isolating a network problem performing call traces for law enforcement?

A. No. From Sprint's perspective, managing fewer 911 trunks makes trunk monitoring and isolation of network troubles more straightforward.

Q. Mr. Hamiter seems concerned that Sprint's language when the appropriate Public Safety Answering Point is capable of

accommodating this commingled traffic leaves wiggle room for Sprint to unilaterally implement commingling without the appropriate PSAP's concurrence.[13] What is Sprint's intention by including this language?

A. Clearly, Sprint intended that the appropriate PSAPs "capability" would be demonstrable through testing between Sprint and the PSAP. As I stated earlier, Sprint welcomes AT&T's cooperation is such testing if AT&T is genuinely concerned with ensuring Sprint's solution meets all public safety requirements.

Q. Do you have any other information that supports the use of common trunks for multiple types of emergency services traffic?

A. Yes. The National Emergency Number Administration ("NENA") has considered the impacts of the proposal Sprint espouses here and published its findings in a Technical Information Document ("TID"). I have attached the NENA TID to my Rebuttal Testimony as **Exhibit MGF-4.**

Q. Is there anything in the NENA TID that would suggest Sprint should not be able to combine multiple types of emergency services traffic from various carriers onto a single 911 trunk?

A. No.

[13] Hamiter Direct, Page 11, Lines 6-11.

Q. What language does Sprint propose that the Commission adopt for the ICA?

A. Sprint requests that the Commission order the parties to incorporate the following language into the ICA, which includes the concept of conditional use of commingled wireless/wireline traffic when a PSAP is capable of handling commingled traffic:

> This Attachment sets forth terms and conditions by which AT&T-9STATE will provide Sprint with access to AT&T-9STATE's 911 and E911 Databases and provide Interconnection and Call Routing for the purpose of 911 call completion to a Public Safety Answering Point (PSAP) as required by Section 251 of the Act. Sprint is permitted to commingle wireless and wireline 911 traffic on the same trunks (DSOs) when the appropriate Public Safety Answering Point is capable of accommodating this commingled traffic.

Issue 26 [DPL II.C.(3)] – Should the ICA include AT&T's proposed language providing that the trunking requirements in the 911 Attachment apply only to 911 traffic originating from the Parties' End Users?

Q. Do you believe the parties have a legitimate dispute on this issue?

A. Yes. After reading AT&T's testimony in other jurisdictions, I believed this may just be simple misunderstanding. Now it is clear that AT&T's proposed insertion to Section 1.2 of the CLEC ICA and Section 1.1 of the CMRS ICA is intended to prevent any commingling of E911 traffic by Sprint.

Q. So, in its very essence, is this issue the same as Issue 25 [DPL II.C.(2)] above?

A. Yes. The effect of AT&T's proposed language is to prevent Sprint from commingling emergency services traffic on a single 911 trunk.

Q. Does Sprint intend to commingle emergency services traffic from unaffiliated entities?

A. Sprint does not have current plans to commingle emergency services from other, unaffiliated carriers but there is no reason why Sprint should not be able to do so in the future if the appropriate PSAP is capable of effectively routing the traffic. From that perspective, this issue is no different from Issue 25 [DPL II.C.(2)] above.

Q. Specifically, what is Sprint's issue with AT&T's proposed language?

A. Sprint objects to the insertion of the words "solely" and "Sprint" into AT&T's original language from its template ICA. The language is as follows (I have shown the AT&T proposed additions in **bold underline** for clarity):

> 1.2 This Attachment sets forth terms and conditions by which AT&T-9STATE will provide Sprint with access to AT&T-9STATE's 911 and E911 Databases and provide Interconnection and Call Routing **solely** for the purpose of **Sprint** 911 call completion to a Public Safety Answering Point (PSAP) as required by Section 251 of the Act.

Q. How could the addition of two words be such a major problem for Sprint?

A. Based upon AT&T's objection to Sprint's ability to commingle wireless and wireline 911 traffic on the same 911 trunk and the definition of "Sprint" within each of the ICAs, AT&T will the language in Section 1.2 above (as it proposes to modify) to deny Sprint the right to commingle wireless and wireline 911 traffic on a single 911 trunk, regardless of the Commission's determination on Issue 25 [DPL II.C.(2)].

Q. Is there other relevant information the Commission should consider with respect to this issue?

A. Yes. The NENA TID that I discussed in Issue 25 [DPL II.C.(2)] is relevant to this issue as well. It is attached to my Rebuttal Testimony as **Exhibit MGF-4.**

Q. What is Sprint's proposed language?

A. Sprint's proposed language for this issue is the same language as included in Issue 25 [DPL II.C.(2)] above.

Issue II.D. – Points of Interconnection

Issue 27 [DPL II.D.(1)] – Should Sprint be obligated to establish additional Points of Interconnection (POI) when its traffic to an AT&T tandem serving area exceeds 24 DS1s for three consecutive months?

Q. Mr. Hamiter stated in his testimony that AT&T has proposed that in order to maintain network reliability, Sprint should be required to establish one or more additional POIs.[14] Who is responsible for ensuring Sprint's network reliability?

A. Sprint is responsible for ensuring its network reliability. Sprint is a large, stable carrier, with extensive experience in managing wireless and wireline networks and will do what is necessary to manage its network to the highest standards. Besides that, the FCC clearly supports the "single POI per LATA" rule as I clearly demonstrated in my Direct Testimony. Therefore, it is not AT&T's prerogative to pre-determine a threshold for Sprint to establish additional POIs in a particular LATA.

Q. Have the parties agreed upon language that addresses network management that prevents network congestion and call blocking?

A. Yes. Sprint has agreed to language in Attachment 3, of both the CLEC and Wireless agreements that states: "The Parties will work cooperatively to apply sound network management principles by invoking appropriate network management controls to alleviate or prevent network congestion." This includes preventing call blocking.

Q. Does preventing call blocking sometimes require that a CLEC establish more than one POI per LATA?

[14] Hamiter Direct, page 12, lines 20-21.

A. Possibly. However, it is Sprint's prerogative to determine the design of its network and when it is most economical to increase the number, or change the locations, of existing POIs. Sprint is capable of designing its own network – it has done so successfully for years. The FCC instituted the "single POI per LATA" rule presumably to prevent an ILEC, such as AT&T, from intervening in the network design decisions of a requesting carrier, such as Sprint, and, by preventing such intervention, from increasing a competitor's costs by requiring the deployment of costly, unneeded facilities by the requesting carrier.

Q. Mr. Hamiter agrees with you that there is no federal law that prescribes a threshold at which additional POIs should be established. Has the FCC altered its position that the CLEC is entitled to establish a single POI per LATA?

A. No. Mr. Hamiter states that the FCC has signaled on several occasions its view that a requesting carrier is entitled to a single POI. In my Direct Testimony, I referred to the Single POI per LATA.[15] I know of no change in the FCC's position on this issue.

[15] *In the Matter of Developing a Unified Intercarrier Compensation Regime*, CC Docket No. 01-92, FCC *01-132, 16 FCC Rcd 9610, 9634-9635, 9650-9651 (April 19, 2001).*

Q. Mr. Hamiter suggests that the FCC has questioned whether the single POI rationale applies where we are no longer dealing with a truly "new entrant."[16] Can you comment on this?

A. Mr. Hamiter refers to the Intercarrier Compensation NPRM. The FCC considered multiple issues and sought comments in the Intercarrier Compensation NPRM, but it has not reached any conclusion and has made no changes to the law. In fact, when the FCC issued its Order and Further NPRM on USF,[17] the FCC contemplated a regime in which the point of interconnection would be at the edge of the carriers' network and there would be no requirement for an interconnecting carrier to establish additional physical points of interconnection. The FCC did not make a distinction for new entrants. The FCC has also explicitly stated: "Under the Commission's rules, competitive LECs may request interconnection at any technically feasible point. This includes the right to request a single point of

[16] Hamiter Direct, Page 14, Line 9 through Page 15, Line 5.

[17] *In the Matter of High-Cost Universal Service Support; Federal-State Joint Board on Universal Service; Lifeline and Link Up; Universal Service Contribution Methodology; Numbering Resource Optimization; Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; Developing a Unified Intercarrier Compensation Regime; Intercarrier Compensation for ISP-Bound Traffic; IP-Enabled Service,* WC Docket No. 05-337; CC Docket No. 96-45; WC Docket No. 03-109; WC Docket No.06-122; CC Docket No. 99-200; CC Docket No. 96-98; CC Docket No. 01-92; CC Docket No. 99-68; WC Docket No. 04-36, Order on Remand and Report and Order and Further Notice of Proposed Rulemaking, 24 FCC Rcd 6475, 6619-6620, Appendix A ¶275, Released Nov. 5, 2008. ("Following the transition, once carriers are charging the final uniform reciprocal compensation rate, we establish the following default rules regarding the network "edge." These default rules would not require changes to physical points of interconnection, but would simply define functions governed by a uniform terminating rate.") (citations omitted).

interconnection in a LATA."[18] The United States Courts of Appeals for the Third and Ninth Circuits have also explicitly ruled that a CLEC has the right to establish a single POI per LATA for the mutual exchange of telecommunications traffic.[19] AT&T cannot force Sprint to establish more than one POI.

Q. Mr. Hamiter's argument is based upon the risk associated with a single point of failure in the network. Even if Sprint establishes more than one POI with AT&T, are there other single points of failure within the network?

A. Certainly. Very few end-users have more than one loop from the central office switch to its premises. For obvious reasons, a single loop represents a single point of failure for a particular end-user.

Q. If Sprint establishes a single POI with AT&T, are there other ways for Sprint to deliver its traffic to AT&T?

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[18] Memorandum Opinion and Order, In the Matter of the Petition of WorldCom, Inc. Pursuant to Section 252(e)(5) of the Communications Act for Preemption of the Jurisdiction of the Virginia State Corporation Commission Regarding Interconnection Disputes with Verizon Virginia Inc., and for Expedited Arbitration, CC Docket No. 00-218; In the Matter of Cox Virginia Telecom, Inc. Pursuant to Section 252(e)(5) of the Communications Act for Preemption of the Jurisdiction of the Virginia State Corporation Commission Regarding Interconnection Disputes with Verizon Virginia Inc. and for Arbitration, CC Docket No. 00-249; In the Matter of the Petition of AT&T Communications of Virginia Inc. Pursuant to Section 252(e)(5) of the Communications Act for Preemption of the Jurisdiction of the Virginia State Corporation Commission Regarding Interconnection Disputes with Verizon Virginia Inc., CC Docket No. 002-51 (DA 02-1731) (Rel. July 17, 2002).

[19] *MCI Telecommunications Corp. v Bell Atlantic-Pennsylvania,* 271 F.3d 491 (3rd Cir. Nov. 2 2001).

A. Yes. Sprint may use any of a number of other alternate access vendors to deliver its traffic to AT&T. AT&T would certainly also have this alternative available to it.

Q. Why is AT&T proposing that Sprint establish more than one POI?

A. This seems to be is an overt attempt by AT&T to advantage itself (with increased interconnection facility revenue) at the expense of the requesting carrier.

Q. Does Sprint increase the risk of network outages and isolation if it retains a single POI because the single POI becomes a single point of failure if Sprint has large volumes of traffic passing through the POI?

A. Whether a carrier has a single POI is traffic insensitive. The risk of network outages exists for any carrier, and traffic volumes are not necessarily a determining factor. Whether a carrier originates one minute or one million minutes has no bearing on whether a single POI represents a single point of failure in the network.

Q. Then shouldn't a carrier establish more than one POI in each LATA from the very inauguration of its service offering?

A. According to AT&T's logic, yes. However, as I have discussed, this is not the requirement of the FCC and should be roundly rejected by this Commission.

Q. If a catastrophic event that Mr. Hamiter suggests were to occur, would Sprint lose all ability to exchange calls with AT&T?

A. Not necessarily. If a catastrophic event such as Mr. Hamiter suggests were to occur, Sprint would invoke disaster contingency plans and use any necessary means to ensure that its network was up and running as quickly as possible, just as AT&T would. It is Sprint's responsibility and right to decide how its network is designed, where its POI is located on the AT&T network, and whether it establishes one POI or multiple POIs. Like AT&T, Sprint has a network organization that is responsible for designing, maintaining, and protecting Sprint's network. AT&T has no right or obligation to engineer Sprint's network for Sprint.

Q. Mr. Hamiter acknowledges that this Commission has issued prior rulings on the POI issue.[20] Do you agree with his characterization of those prior orders?

A. No. Mr. Hamiter wishfully leaves the door open that the Commission's prior determinations that the CLEC is only required to establish one POI per LATA did not include a volume threshold and, therefore, the door was open that the Commission may rule in AT&T's favor in this instance. The Commission has been clear in the past that CLECs are only required to

[20] Hamiter Direct, Page 22, Lines 4-10.

establish one POI per LATA[21] and such determination has solid footing on the FCC's pronouncements on this issue.

Q. Mr. Hamiter also mentions that the Kentucky Public Service Commission ("KPSC") has ruled on a similar issue. How do you respond?

A. I assume Mr. Hamiter mentions the two KPSC orders because he believes they come closest to supporting AT&T's position, however, he does not present an accurate picture of what the KPSC actually did.

Q. How so?

A. Mr. Hamiter implies that the KPSC ordered the parties to the arbitrations he cites to adopt a DS3 threshold for the establishment of additional POIs. However, the two KPSC orders Mr. Hamiter cites rely, in turn, on two earlier 2001 KPSC orders from the same Level 3 arbitration with AT&T for the proposition that a requesting carrier is "required to establish another POI" when the amount of traffic that it delivers to an interconnected ILEC tandem reaches a DS3 level of traffic. It is Sprint's position that a careful reading of the Level 3 orders indicates that, in the absence of agreement between the parties, the KPSC ordered the establishment of an additional POI if the

[21] *See*, e.g., FPSC Docket No. 000828-TP, *In re Petition of Sprint Communications Company Limted Partnership for arbitration of certain unresolved terms and conditions of a proposed renewal of current interconnection agreement with BellSouth Telecommunications, Inc.*, Order NO. PSC-01-1095-FOF-TP (issued May 8, 2001), at page 35: "We are persuaded that Sprint has the sole right to determine POIs. Therefore, we find that Sprint shall be allowed to designate the network point (or points) of interconnection for both the delivery and receipt of BellSouth's local traffic subject to technical feasibility."

"amount of traffic passing through a BellSouth access tandem switch reaches an OC-3 level"[22]; and, following this order, the parties subsequently submitted a "*negotiated agreement*" in which "the parties agree[d] that a DS-3 level would be more appropriate."[23]

Q. **Have Sprint and AT&T agreed to establish additional POIs within a LATA at a threshold lower than an OC3?**

A. No. There is no agreement between Sprint and AT&T to establish additional POIs at any threshold. The overriding fact remains that the FCC's pronouncements on this issue do not impose any threshold on Sprint's right to maintain a single POI per LATA.

Q. Please summarize your Rebuttal Testimony for this issue.

A. AT&T's witness Hamiter presents many good ideas on telecommunication network management – many that may well be employed by Sprint and any other interconnecting carrier in the management of their respective networks. While much of Mr. Hamiter's Direct Testimony represents sound network engineering principles, the FCC does not permit an incumbent LEC such as AT&T to impose its network engineering principles as a contractual requirement upon a requesting carrier such as Sprint. Therefore, the

[22] *See In the Matter of: The Petition of Level 3 Communications, LLC for Arbitration with BellSouth Telecommunications, Inc. Pursuant to Section 252(b) of the Telecommunications Act of 1934, as amended by the Telecommunications Act of 1996,* Case No. 2000-404 (Order dated March 14, 2001) at pp. 2-3.

[23] *Id.*, (Order dated April 23, 2001) at pp. 1-2.

Commission should reject AT&T's proposed thresholds for the establishment of POIs.

Q. What language does Sprint request the Commission order for this issue?

A. Sprint proposes the following language:

> Point(s) of Interconnection. The Parties will establish reciprocal connectivity to at least one AT&T-9STATE Tandem within each LATA that Sprint provides service. Notwithstanding the foregoing, Sprint may elect to Interconnect at any additional Technically Feasible Point(s) of Interconnection on the AT&T network.

Issue 28 [DPL II.D.(2)] – Should the CLEC ICA include AT&T's proposed additional language governing POIs?

Q. Do you have any general response to Mr. Hamiter's Direct Testimony on this issue?

A. Yes. Mr. Hamiter's Direct Testimony is much more detailed than my own, just as AT&T's proposed language is much more detailed that Sprint's. In my Direct Testimony, I addressed the major points of contention between the parties but did not do a section-by-section analysis of AT&T's proposed language. Here I will respond to Mr. Hamiter's section-by-section analysis.

Q. **Mr. Hamiter states that Sprint disagrees with AT&T's proposed language requiring each party to "be responsible for engineering and**

maintaining the network on its side of the Point of Interconnection."[24] Is that true? If so, why?

A. Yes. On its face, the language appears to be rather benign, but, in reading Mr. Hamiter's Direct Testimony, one can see that AT&T's intention goes beyond what the language actually says. Hence, Sprint primarily objects to AT&T's intention behind this language. Mr. Hamiter goes on to say that the engineering and maintenance responsibility also includes "financial" responsibility. However, as addressed by Sprint witness Farrar, the interconnection facility between the parties should be shared based upon each party's proportionate use of that facility. AT&T's proposed language here would have Sprint bear the entire cost of that facility.

Q. Aside from the financial aspect of AT&T's language, does Sprint have any other objections?

A. Yes. Sprint believes that both parties have joint responsibility to engineer and maintain the interconnection facility. If the interconnection facility were a one-way facility used exclusively to deliver Sprint's originated traffic to AT&T, then Sprint would have engineering, maintenance, ***and*** financial responsibility for that facility. AT&T would likewise have engineering, maintenance, ***and*** financial responsibility for any one-way facility used to deliver AT&T's originated traffic to Sprint. In effect, AT&T will have established a POI on Sprint's network for the delivery of its

[24] Hamiter Direct, Page 26, Lines 4-6.

originated traffic. It follows, then, that in a two-way interconnection trunking environment, there exist two POIs connected by an interconnection facility, whose cost is shared between the parties based upon proportionate use of the facility.

Q. Have the parties articulated this so-called two-POI concept in the proposed agreement?

A. No.

Q. If the parties were to incorporate the two-POI concept in the agreement, would AT&T's proposed language then be acceptable to Sprint?

A. No. The language would need to be adjusted to recognize the joint responsibility for the interconnection facility.

Q. And Section 2.6.2.4?[25]

A. Section 2.6.2.4 would also need to be modified to account for the joint engineering and maintenance responsibilities of the parties for two-way interconnection facilities.

[25] Hamiter Direct, Page 28, Lines 3-11.

Q. Why does Sprint object to AT&T's excessively detailed language requiring certain forms be completed when the parties interconnect as required by Section 2.6.2.1?[26]

A. Operational documents – not interconnection agreements – are the appropriate place to include detailed operational language. AT&T and Sprint have worked cooperatively for many years in establishing interconnection arrangements, including the completion of necessary forms and participation in joint planning meetings. The excessive detail proposed by AT&T is unnecessary for an ICA. Having said that, Sprint will continue to cooperate with AT&T to establish interconnection arrangements as necessary, and does not necessarily oppose an ICA provision that states as much.

Q. How about Sections 2.6.2.2, 2.6.2.3, and 2.6.4?[27]

A. Although unnecessary for an ICA, Sprint does not object to these provisions.

Q. Next, Mr. Hamiter addresses Section 2.6.5, which deals with OS/DA, E911, mass calling, and third party trunks.[28] **Does Sprint object to that?**

[26] Hamiter Direct, Page 28, Line 12 through Page 29, Line 4.
[27] Hamiter Direct, Page 29, Line 5 through Page 30, Line 13.
[28] Hamiter Direct, Page 30, Line 14 through Page 31, Line 21.

A. Yes, but only as it relates to mass calling and third party trunks. Sprint and AT&T have profound philosophical differences on the responsibility to be borne for mass calling and third party trunks.

Q. What is Sprint's perspective with respect to third party trunks?

A. Separate third party trunks are unnecessary. Sprint and AT&T have used "supergroup" trunks for years for the exchange of third party traffic. There is absolutely no reason why the parties cannot continue to use two-way interconnection trunks for the exchange third party traffic. AT&T's requirement for a separate trunk seems to be an attempt to maximize AT&T's revenue at Sprint's expense. Moreover, AT&T receives compensation in the form of transit fees from third parties that originate traffic destined for termination on the Sprint network. It would be inappropriate for Sprint to bear the cost of the facility AT&T uses to get that traffic to Sprint.

Q. What about mass calling trunks?

A. As I discuss in Issue 34 [DPL II.H.(1)], to the extent AT&T's end-user conducts a mass calling event, it is AT&T, not Sprint, that is the cost causer and, therefore, AT&T should bear the cost of the mass calling trunks. Through its proposed language, AT&T seeks to inappropriately shift that cost to Sprint. AT&T posits that, since Sprint's customers originate calls to mass calling numbers, Sprint is the cost-causer. I disagree with that theory.

It is the customer with the mass calling number that creates the incentive for callers to call in (e.g., to win a prize, etc.). But for the existence of the mass calling event, incremental mass calling trunks would be unnecessary. Therefore, it follows that the service provider of the customer with the mass calling number/event should bear the costs of the incremental trunks necessary to ensure the integrity of the remainder of the PSTN.

Q. What resolution does Sprint propose for this issue?

A. Sprint believes that its language proposed in Issue 27 [DPL II.D.(1)] above is the appropriate language under the Act and the FCC's rules to govern the establishment of POIs between the parties and requests the Commission to reject the balance of AT&T's language.

Issue II.F – Facility/Trunking Provisions

Issue 29 [DPL II.F.(1)] – Should Sprint CLEC be required to establish one-way trunks except where the parties agree to establish two-way trunking?

Q. Mr. Hamiter reports in his Direct Testimony that he believes the parties may be able to resolve this issue this issue.[29] Do you agree with his assessment?

A. Yes. In fact, the parties have continued to discuss this issue and Sprint is pleased to report that the parties have resolved Issue 29 [DPL II.F.(1)].

Issue 30 [DPL II.F.(2)] – What Facilities/Trunking provisions should be included in the CLEC ICA, e.g., Access Tandem Trunking, Local Tandem Trunking, Third Party Trunking?

Q. Do you have any Rebuttal Testimony to AT&T witness Hamiter's Direct Testimony on this issue?[30]

A. Yes. Mr. Hamiter perpetuates AT&T's confusing concept of the difference between trunks and facilities in an effort to summarily dismiss Sprint's objections to AT&T's proposed trunking language. Sprint understands that trunks are simply channelized facilities and that, in reality, anytime AT&T requires a trunking arrangement be established, facilities must be procured as the basis for the required trunk group. Apparently, AT&T would like for the Commission to believe that a facility/trunking requirement has nothing to do with the establishment of additional POIs, but it does. Requiring Sprint to establish additional trunking at an AT&T tandem or end office is synonymous with establishing an additional POI.

[29] Hamiter Direct, Page 32, Lines 6-11.
[30] Hamiter Direct, Pages 34-36.

Q. So, when Mr. Hamiter says AT&T's proposal does not create cost shifts, do you agree?[31]

A. No. AT&T's proposal requiring Sprint to establish additional trunking (i.e., establish additional POIs) militates against the FCC's "single POI per LATA" concept and, in effect, shifts AT&T's network cost of terminating Sprint-originated traffic to Sprint.

Issue 31 [DPL II.F.(3)] – Should the parties use the Trunk Group Service Request for to request changes in trunking?

Q. Mr. Hamiter states that he believes this issue is resolved.[32] **Do you agree?**

A. Yes. As I reported in my Direct Testimony, the parties have resolved this issue.

Issue 32 [DPL II.F.(4)] – Should the CLEC ICA contain terms for AT&T's Toll Free Database in the event Sprint uses it and what those terms?

[31] Hamiter Direct, Page 35, Lines 16-17.
[32] Hamiter Direct, Page 37, Lines 5-8.

Q. Does the language that Sprint has proposed lack the specificity that is needed to define how the network architecture between AT&T and Sprint should look in order to properly originate and terminate traffic?

A. No. Sprint's proposed language represents the right balance between generality and specificity. Clearly, AT&T prefers a very restrictive approach containing extreme amounts of detail better left for joint operational discussions between the parties' engineers. Though the existing ICA does not contain AT&T's preferred level of detail, the parties have successfully interconnected their networks for over a decade, therefore, it is not clear here why AT&T objects to Sprint's language.

Q. Should language be included in the ICA for 800/8YY Toll Free Service?

A. No. There is no need to include language for 800/8YY Toll Free Service, as Sprint does not use this service today. That being said, as I stated in my Direct Testimony, the parties may be able to resolve this particular issue of including 800/8YY Toll Free Service language in the agreement if Sprint's concerns with that language are resolved satisfactorily.

Issue 33 [DPL II.G] – Which Party's proposed language governing Direct End Office Trunking ("DEOT"), should be included in the ICAs?

Q. AT&T witness Hamiter calls the establishment of DEOTs the "efficient use of network resources."[33] Do you agree?

A. In certain circumstances, yes.

Q. Then why is Sprint opposed to establishing DEOTs as Mr. Hamiter alleges?[34]

A. Mr. Hamiter misrepresents Sprint's position. Sprint is not opposed to establishing DEOTs when necessary to ensure sound network engineering principles are properly applied. Sprint is amenable to placing orders for such DEOTs, but, as I state in my Direct Testimony,[35] the cost of such DEOTs should be borne by AT&T.

Q. Why should AT&T bear the cost of DEOTs ordered by Sprint to AT&T's end office?

A. In addition to the explanation I provided in my Direct Testimony,[36] ordering a DEOT is tantamount to establishing an additional POI in a LATA and, as I

[33] Hamiter Direct, Page 38, Lines 16-21.
[34] Hamiter Direct, Page 39, Lines 7-9.
[35] Felton Direct, Page 30, Lines 7-11.
[36] Felton Direct, Page 30, Lines 15-20.

explain in my Testimony (Direct and Rebuttal) for Issues 27 and 28 [DPL II.D], Sprint cannot be required to establish more than one POI in a LATA.

Q. What is Sprint's proposed language to resolve this issue?

A. Sprint's proposed language is as follows:

> 2.5.3 (f) DEOT Interconnection Facilities. Subject to Sprint's sole discretion, Sprint may (1) order DEOT Interconnection Facilities as it deems necessary, and (2) to the extent mutually agreed by the Parties on a case by case basis, order DEOT Interconnection Facilities to accommodate reasonable requests by AT&T-9STATE. A DEOT Interconnection Facility creates a Dedicated Transport communication path between a Sprint Switch Location and an AT&T-9STATE End Office switch. If a DEOT is requested by Sprint, the POI for the DEOT Interconnection Facility is at the AT&T-9STATE End Office, with the costs of the entire Facility shared in the same manner as any other Interconnection Facility. If a DEOT is being established to accommodate a request by AT&T-9STATE, absent the affirmative consent of Sprint to a different treatment, the Parties will only share the portion of the costs of such Facilities as if the POI were established at the AT&T-9STATE Access Tandem that serves the AT&T End Office to which the DEOT is installed, and AT&T-9STATE will be responsible for all further costs associated with the Facilities between the Access Tandem POI and the AT&T End Office.

Issue II.H – Ongoing network management

Issue 34 [DPL II.H.(1)] – What is the appropriate language to describe the parties' obligations regarding high volume mass calling trunk groups?

Q. How do you respond to AT&T witness Hamiter's Direct Testimony on the issue of high volume mass calling trunks?

A. I agree that high volume calling trunks should be established to prevent the network degrading effects of a mass calling event.

Q. Then what diasagreement do you have with AT&T's position?

A. As I stated in my Direct Testimony,[37] the cost-causer should be required to bear the costs associated with establishing high volume mass calling trunks to ensure the integrity of the network. The cost-causer in this case is the carrier that provides to service the customer initiating the mass calling event – for example, the call-in radio show. AT&T's proposed language seeks to shift those costs to the other party.

Q. Is that the only disagreement between the parties on this issue?

A. Apparently not, but, from Sprint's perspecetive, it is the primary disagreement between the parties. AT&T claims Sprint's proposed language is deficient in every respect. In fact, in response to the question, what is wrong with Sprint's language, Mr. Hamiter replies, "Just about everything."[38]

Q. Do you agree with Mr. Hamiter's critique of Sprint's language?

A. Obviously not. However, given additional time to negotiate mass calling provisions, Sprint believes the parties could move closer to agreement. The fact remains, though, that the parties have a fundamental disagreement on

[37] Felton Direct, Page 32, Lines 5-11.
[38] Hamiter Direct, Page 45, Lines 9-10.

who is financially responsible for mass calling trunks and would not be able to reach complete agreement without the Commission's intervention.

Q. What language does Sprint propose to resolve this issue?

A. Sprint proposes the following language:

> 3.3.1 High Volume Call In / Mass Calling Trunk Group. Separate high-volume calling (HVCI) trunk groups will be required for high-volume customer calls (e.g., radio contest lines). If the need for HVCI trunk groups are identified by either Party, that Party may initiate a meeting at which the Parties will negotiate where HVCI Trunk Groups may need to be provisioned to ensure network protection from HVCI traffic.

Issue 35 [DPL II.H.(2)] – What is appropriate language to describe the signaling parameters?

Q. How do you respond to AT&T witness Hamiter's Direct Testimony on this issue?

A. Mr. Hamiter in no way explains why AT&T has proposed nearly identical language within two separate provisions of the same agreement. In fact, AT&T's proposed Sections 2.3.2b and 2.5.1 reside ***in the same attachment*** of the same agreement. Nothing in Mr. Hamiter's Direct Testimony with respect to this issue should persuade this Commission to find in AT&T's favor on this issue.

Q. Have there been any developments between the parties on this issue?

A. Yes. In addition to pointing out AT&T's duplicative language through my Direct Testimony, the parties have corresponded via e-mail regarding this issue and Sprint is hopeful the parties can resolve this issue without any further attention by this Commission.

Issue 36 [DPL II.H.(3)] – Should language for various aspects of trunk servicing be included in the agreement e.g., forecasting, overutilization, underutilization, projects?

Q. How do you respond to AT&T witness Hamiter's Direct Testimony on this issue?

A. It is obvious from Mr. Hamiter's Direct Testimony that this issue boils down to a question of whether more detail in an ICA is better. AT&T clearly thinks that it is and Sprint thinks it is not. As I pointed out in my Direct Testimony, the parties operated for the better part of a decade without the overly detailed language AT&T has proposed in these negotiations, yet, for some reason, AT&T believes the parties cannot move forward without it in this ICA.

Q. Is it just the amount of detail Sprint objects to?

A. No. In my Direct Testimony, I discussed in detail the problematic areas of AT&T's proposed language. Before Sprint could even consider including

AT&T's level of detail, these problematic areas must be satisfactorily addressed.

Section III. – How the Parties Compensate Each Other

Issue III.A.1 – Traffic Subject to Reciprocal Compensation

Issue 40 [DPL III.A.1.(1)] – Is IntraMTA traffic that originates on AT&T's network and that AT&T hands off to an IXC for delivery to Sprint subject to reciprocal compensation?

Q. AT&T witness Pellerin suggests that when a customer initiates a call by dialing 1+, the customer is not acting as a customer of AT&T.[39] Do you agree?

A. No. While the customer may be utilizing the services of an IXC, they are nonetheless still a customer of AT&T. Moreover, frequently when an AT&T customer makes a 1+ call, the customer is actually using ***AT&T's*** IXC network. AT&T Inc. (the parent company of AT&T Florida) has stated publicly its intention to ward off competitive pressures by utilizing a bundling strategy that combines local and long-distance services (in addition

[39] Pellerin Direct, Page 64, Lines 7-11.

to other AT&T services).[40] In those situations, the call never leaves the AT&T network before being delivered to Sprint wireless.

Q. Are you saying that AT&T only owes Sprint reciprocal compensation when the AT&T customer is also an AT&T IXC customer?

A. No. I am simply pointing out that, even if one accepted AT&T's view, AT&T would be in a position to skirt its reciprocal compensation obligation by simply handing its originating traffic off to its own IXC affiliate. Having said that, regardless of who the IXC is, Sprint believes AT&T legitimately owes reciprocal compensation anytime one of its customers originates an intraMTA call.

Q. Ms. Pellerin implies that Sprint's motivation for seeking reciprocal compensation on AT&T-originated 1+ intraMTA traffic is the prohibition by the FCC for wireless carriers to tariff access charges.[41] Is that true?

A. No. While Sprint disagrees with the FCC's prohibition against wireless carriers filing tariffs for access charges, that has no bearing on whether AT&T, as the originator of an intraMTA call (1+ or otherwise), is liable for reciprocal compensation to the terminating carrier.

[40] See, e.g., AT&T Inc. Financial Review 2009, page 45 (a copy of which is attached to this Rebuttal Testimony as **Exhibit MGF-3**).
[41] Pellerin Direct, Page 67, Line 4-8.

Q. What is AT&T's motivation for its opposition to Sprint's suggestion?

A. It is clear to me that AT&T would like to collect as much revenue as possible while avoiding expenses whenever possible.

Q. How have the parties avoided addressing this issue in the past?

A. The parties enjoy a bill and keep reciprocal compensation arrangement today and, therefore, have avoided the need to address this issue head-on. If Sprint's proposed resolutions in Issues 43 and 44 [DPL III.A.1.(4) and (5)] are adopted (the continued use of bill and keep), this 1+ intraMTA compensation Issue 40 [DPL III.A.1.(1)] remains moot.

Q. Ms. Pellerin also discusses the application of FCC Rule 51.701 to this issue.[42] Please comment.

A. Ms. Pellerin focuses on FCC Rule 51.701(b)(2) and fabricates an argument that 1+ intraMTA traffic is not actually ***exchanged*** between AT&T and Sprint wireless when an IXC is involved because the traffic never actually ***belonged*** to AT&T in the first place. In a telling excerpt from Ms. Pellerin's Testimony, she has to differentiate 1+ intraMTA calls from other calls in which an intermediate carrier is involved (i.e., transit calls), presumably because AT&T frequently acts as a transit provider and does not want to be on the hook for intercarrier compensation in those situations.

[42] Pellerin Direct, Page 68, Line 20 through Page 70, Line 10.

Regardless of AT&T's motivation, AT&T's smoke and mirrors approach to this issue should be rejected.

Q. What resolution does Sprint recommend for this issue?

A. Sprint requests that the Commission follow the established law on this Issue and reject AT&T's language that would permit AT&T to shirk its obligation to pay intercarrier compensation to Sprint for the termination of intraMTA traffic simply because AT&T delivered the traffic to Sprint via the use of an intermediate IXC network. As an alternative, instead of one-way bill-and-keep, which is essentially what AT&T wishes to adopt here for IntraMTA calls AT&T's customers originate, AT&T should be willing to accept bill and keep for calls that Sprint's customers originate as well, and in fact for all calls the parties exchange. If the parties exchange all traffic on a bill and keep basis, this 1+ issue becomes moot – which is exactly what the end result has been under the parties' existing ICA for almost ten years now.

Issue 41 [DPL III.A.1.(2)] – What are the appropriate compensation rates, terms and conditions (including factoring and audits) that should be included in the CMRS ICA for traffic subject to reciprocal compensation?

Q. In her discussion of this issue, AT&T witness Pellerin states that "Sprint may not have the ability to measure and bill based on actual

usage."[43] Does Sprint have the ability to measure and bill based on actual usage?

A. Yes. As I stated in my Direct Testimony, Sprint has had that capability for years.[44]

Q. Even if Sprint did not have that capability, would Sprint object to AT&T's language?

A. Yes. Aside from the reasons set forth in my Direct Testimony,[45] Sprint further objects to AT&T's proposed "surrogate factor billing" process.

Q. Why?

A. AT&T's surrogate billing factor process relies upon AT&T's faulty view of the proper methodology of Interconnection Facility sharing.[46] Additionally, as I discuss in my Direct Testimony,[47] Sprint disagrees with the universe of traffic to which AT&T intends to apply the surrogate billing factor (i.e., AT&T's exclusion of 1+ land-to-mobile originated IntraMTA traffic).

Q. How does Sprint propose for the Commission to resolve this issue?

A. Sprint proposes the following language to resolve this issue:

> 6.3.6.1 Actual traffic Conversation MOU measurement in each of the applicable Authorized Service categories is the preferred method of classifying and billing traffic. If, however, either Party cannot measure

[43] Pellerin Direct, Page 73, Lines 22-23.
[44] Felton Direct, Page 42, Line 3.
[45] Felton Direct, Page 42, Lines 6-14.
[46] Addressed by Sprint witness Farrar in Issue 58 [DPL III.E.(1)].
[47] Felton Direct, Page 42, Lines 7-11.

traffic in each category, then the Parties shall agree on a surrogate method of classifying and billing those categories of traffic where measurement is not possible, taking into consideration as may be pertinent to the Telecommunications traffic categories of traffic, the territory served (e.g., MTA boundaries) and traffic routing of the Parties.

Issue 42 [DPL III.A.1.(3)] – What are the appropriate compensation rates, terms and conditions (including factoring and audits) that should be included in the CLEC ICA for traffic subject to reciprocal compensation?

Q. AT&T witness McPhee discusses at length the necessity of including Calling Party Number ("CPN") provisions in the ICA.[48] Does Sprint object to the concept of Calling Party Number being included in the CLEC ICA?

A. No. In fact, as Mr. McPhee acknowledges, the parties have agreed to language that provides for the parties to transmit CPN to each other. What Sprint does object to is the punitive nature of AT&T's language if one party is unable, for whatever reason, to provide CPN to the other. Under Sprint's proposal, the parties would work cooperatively to resolve any technical issues with passing CPN and either party would have the dispute resolution process available if a dispute arose regarding CPN. AT&T's language once again resorts to the most extreme position it could take – billing intrastate

[48] McPhee Direct, Pages 38-40.

access rates on any traffic passed without CPN if AT&T's arbitrary threshold of traffic with CPN is not met.

Q. Does the parties' existing ICA contain the 90% CPN threshold proposed by AT&T?

A. No.

Q. Does the parties' existing ICA contain any CPN threshold?

A. No.

Q. Have the parties had any dispute about the transmission of CPN during the life of the existing ICA?

A. Not to my knowledge.

Q. So, is Sprint's intention to "game the system"[49] under the CPN language the parties have already agreed to?

A. Absolutely not. As I've stated, the parties have not had an issue under the existing ICA, which does not include the type of CPN threshold language AT&T proposes here.

Q. What is Sprint's proposed resolution for this issue?

A. Sprint proposes the following language to resolve this issue:

[49] McPhee Direct, Page 41, Line 19.

6.3.6.1 Actual traffic Conversation MOU measurement in each of the applicable Authorized Service categories is the preferred method of classifying and billing traffic. If, however, either Party cannot measure traffic in each category, then the Parties shall agree on a surrogate method of classifying and billing those categories of traffic where measurement is not possible, taking into consideration as may be pertinent to the Telecommunications traffic categories of traffic, the territory served (e.g. Exchange boundaries, LATA boundaries and state boundaries) and traffic routing of the Parties.

Issue 43 [DPL III.A.1.(4)] – Should the ICAs provide for conversion to a bill and keep arrangement for traffic that is otherwise subject to reciprocal compensation but is roughly balanced?

Issue 44 [DPL III.A.1.(5)] – If so, what terms and conditions should govern the conversion of such traffic to bill and keep?

Q. Having read the testimony of Mr. McPhee, do you have any general observations?

A. Yes. Sprint's proposed language, which Mr. McPhee calls "defective,"[50] a means to "game the system,"[51] and "unreasonable,"[52] was put in place because, during negotiations, AT&T would not consider including any mention of bill and keep in the ICA. Therefore, Sprint's proposed approach to reciprocal compensation between the parties is absent any substantive discussion with AT&T, so, obviously it contemplates the arrangements Sprint would prefer. Only now does Sprint see in Mr. McPhee's Direct Testimony a proposal from AT&T regarding how to handle Bill and Keep.

[50] McPhee Direct, Page 48, Line 16.
[51] McPhee Direct, Page 57, Line 15.
[52] McPhee Direct, Page 59, Line 14.

Q. So, if there have not been any substantive discussions on the topic during the negotiations, *do you believe the parties could engage in* further negotiations and reach agreement on this issue?

A. No. AT&T has clearly indicated its intransigence on this issue to Sprint and it should also be evident to the Commission after reading Mr. McPhee's Direct Testimony. Sprint is certainly willing to engage in further negotiations with AT&T, but, the Commission should be realistic in its expectation that the parties will never be able to reach agreement on this issue as long as AT&T remains inflexible in its position.

Q. Mr. McPhee discusses § 51.713 in his Direct Testimony.[53] Do you have any comment?

A. Yes. FCC Rule 51.713 is controlling with respect to this issue. Mr. McPhee correctly points out that the FCC has delegated authority to the Commission to impose bill and keep arrangements if the Commission ***presumes*** traffic between AT&T and Sprint is roughly balanced, is expected to remain so, and neither party has sought to charge asymetrical reciprocal compensation rates. Interestingly, while the FCC grants the latitude to the Commission to presume traffic is roughly balanced, AT&T seeks to impose its will upon the

[53] McPhee Direct, Pages 51-52.

Commission as well and remove the Commission's prerogative granted under § 51.713.[54]

Q. Mr. McPhee goes on to point out that, in ¶ 1112 of the Local Competition Order, the FCC said that bill and keep arrangments are economically inefficient because they distort carriers' incentives by encouraging them to originate more traffic than they terminate.[55] Is there more to that paragraph?

A. Yes. The FCC goes on to say that "bill-and-keep arrangements may minimize administrative burdens and transactions costs" and that, "in certain circumstances, the advantages of bill-and-keep arrangements outweigh the disadvantages, but no party has convincingly explained why, in such circumstances, parties themselves would not agree to bill-and-keep arrangements."

Q. Is that the case here?

A. I believe it is.

Q. What administrative savings have the parties realized using a bill and keep arrangement for the past 10 years?

A. Mr. McPhee focuses on the recording and processing of call usage data as the areas where the parties should realize cost savings to justify bill and

[54] McPhee Direct, Page 66, Lines 5-7.
[55] McPhee Direct, Page 52, Lines 8-9.

keep and he says that there are "almost none."[56] He is probably right, however, he overlooks one obvious (and very significant) administrative benefit the parties have realized – there has not been one single reciprocal compensation billing dispute between the parties during the period the parties have operated under the existing ICA. In my experience, I have seen billing disputes that consume countless person-hours to resolve and drag on for months, and even years. That is to say nothing of the costs associated with bill verification and auditing.

Q. What other administrative savings have been realized as a result of the bill and keep arrangement currently in place between the parties?

A. The parties have disagreed on the proper treatment of 1+ intraMTA traffic for years. However, heretofore there has been no compelling reason to resolve that dispute since resolution of the issue would have no practical effect on billing between the parties as long as they were exchanging traffic on a bill and keep basis. Similarly in this proceeding, and as previously indicated, if the Commission embraces Sprint's position on bill and keep, the resolution of Issue 40 [DPL III.A.1.(1)] becomes moot.

Q. Mr. McPhee discusses the incentive carriers have under bill and keep to game the system.[57] Please comment.

[56] McPhee Direct, Page 53, Lines 8-19.
[57] McPhee Direct, Page 54, Lines 1-10.

A. It is true that ILECs that *insisted* on reciprocal compensation after the Act was passed later claimed some CLECs "gamed" the reciprocal compensation system by seeking out customers with significant inbound traffic. Mr. McPhee even points to one of the best-known examples – dial-up ISP traffic.[58] But that issue is a red herring here—inbound traffic is not the issue AT&T seems concerned about. Rather, AT&T claims that bill and keep creates an incentive for Sprint to "maximize" the amount of traffic it sends to AT&T. Perhaps, but Sprint can only do that by *winning more customers and encouraging them to use Sprint's services*. Those are desirable outcomes for any carrier, and AT&T has the exact business opportunity to "maximize" its own traffic sent to Sprint.

Q. How might a carrier arbitrage a bill and keep arrangement?

A. Mr. McPhee describes a hypothetical in which a carrier with a bill and keep arrangement might attempt to aggregate local traffic that originates on third party networks for delivery to the other party of the bill and keep arrangement.[59] In the 10 years Sprint and AT&T have enjoyed a bill and keep arrangement, Sprint has not attempted any such strategy, nor does it make much sense – Sprint opens itself up to the exact same risk of AT&T engaging in such arbitrage for which Sprint would not get paid either. Moreover, Mr. McPhee himself acknowledges that the traffic balance gap

[58] McPhee Direct, Page 54, Line 16 through Page 55, Line 8.
[59] McPhee Direct, Page 55, Lines 10-19.

has been narrowing between Sprint and AT&T,[60] so it follows that Sprint has not engaged in any efforts to artificially boost its originating traffic to take advantage of the bill and keep arrangement the parties currently enjoy.

Q. But shouldn't the Commission protect AT&T against the prospect of an unscrupulous carrier adopting Sprint's agreement and engaging in the arbitrage tactics described above?

A. Not necessarily, but, if the Commission feels compelled to do so, it can certainly do so without adopting AT&T's language. The Commission could, for example, direct the parties to insert further language into the ICA stating that the Commission has recognized that bill and keep is a continuation of the parties' existing compensation mechanism, and, to obtain the immediate benefit of such provisions, any party adopting the ICA must independently establish that, either it had a pre-existing bill and keep arrangement with AT&T, or, a rough balance of traffic exists at the time the ICA is adopted.

Q. Is Sprint's "strong push for bill and keep" an indication that Sprint "is looking for an unfair economic edge?"[61]

A. Absolutely not. Rather, it is an indication of Sprint's desire to maintain the status quo between the parties based upon the belief that the costs of

[60] McPhee Direct, Page 66, Line 14.
[61] McPhee Direct, Page 56, Lines 23-24.

commencing a system of reciprocal compensation payments would exceed the benefits realized by either party.

Q. Mr. McPhee puts forth a three-pronged criticism of Sprint's proposal.[62] Please address his critique of Sprint's approach.

A. First, Mr. McPhee claims 60%/40% is too great a disparity to be considered in balance. However, he acknowledges that neither the FCC nor this Commission have established the appropriate threshold at which traffic would be considered roughly balanced.

Q. Mr. McPhee next claims Sprint's proposal is defective because it "does not provide for a return to billing and paying reciprocal compensation if the parties convert to bill and keep and traffic then goes out of balance."[63] Is that true?

A. Yes and it is not an oversight. It is simply recognition of what the parties currently enjoy in the existing ICA. Sprint's language is no more "defective" than AT&T's in that once traffic falls out of rough balance and the parties move away from bill and keep to a system of payments, AT&T's language does not provide for a return to bill and keep should the traffic return to rough balance. It is not surprising to me that AT&T would attempt to justify its approach as somehow superior to Sprint's, but, the fact is, AT&T's approach is the simply the polar opposite of Sprint's. The

[62] McPhee Direct, Pages 60-65.
[63] McPhee Direct, Page 64, Lines 3-10.

difference is that Sprint's approach represents a continuation of the current arrangment utilized by the parties, whereas AT&T's proposal represents a 180 degree change.

Q. Finally, Mr. McPhee states that AT&T has made "no such acknowledgement" that the traffic the parties are exchanging is in balance. Is that true?

A. Fair enough. To put Mr. McPhee's Direct Testimony in the proper context, though, the statement that the parties acknowledge that the traffic is in balance was Sprint's proposed language – Sprint has not represented that AT&T agrees.

Q. Mr. McPhee then suggests that it is Sprint's burden to prove the traffic is in balance.[64] Do you agree?

A. No, not in this instance. The parties have been operating under a bill and keep arrangement for 10 years, and it is AT&T that seeks to deviate from the status quo. Moreover, Sprint would have been willing – and still is willing – to cooperate with AT&T to evaluate traffic volumes to determine what the balance truly is. Based on AT&T's unyielding position that bill and keep has no place in any ICA, the parties were unable to have a productive discussion on the issue.

[64] McPhee Direct, Page 65, Lines 13-17.

Q. How should the Commission arrive at the presumption that traffic between AT&T and Sprint is roughly in balance?

A. The FCC did not prescribe a definitive range for determining rough balance, so, I believe it is clearly (and intentionally) left to the Commission's discretion. As is obvious from its proposed language, Sprint believes rough balance is achieved when the parties are no more than +/- 10% from equilibrium. Mr. McPhee makes some vague references to what he believes the balance to be[65] (based, I am sure, upon AT&T's incorrect view of the treatment of 1+ intraMTA traffic as I discuss in Issue 40 [DPL III.A.1.(1)]) but he provides no frame of reference in regards to time period or geography. Assuming for the sake of discussion that Mr. McPhee's 70%/30% was historically close to accurate, when that ratio is adjusted for the natural narrowing of that ratio as conceded by Mr. McPhee, and a proper view of the treatment of 1+ intraMTA traffic, common sense dictates that any gap that may still exist in the traffic exchange ratio between the parties would be considerably closer than it was been 10 years ago – when the parties adopted bill and keep without any balance of traffic requirement at all.

Q. Please summarize your Rebuttal Testimony on this issue.

A. Sprint and AT&T have operated under a bill and keep arrangement for nearly 10 years. During negotiations, AT&T made it clear that it would not

[65] McPhee Direct, Page 66, Lines 13-14.

agree to a bill and keep arrangement going forward under any circumstances. It is only now, in Direct Testimony, that Sprint learns the details of how AT&T might handle bill and keep if forced to do so in the future, but, the parties have been unable to have any fruitful discussions in an effort to amicably resolve this issue. AT&T would not voluntarily participate in data analysis to determine the true traffic balance (although doing so would have likely been futile given the philosophical differences on important issues such as 1+ intraMTA traffic). If the Commission is inclined to adopt AT&T's position on this issue, Sprint urges the Commission to ensure AT&T utlizes proper methodology in measuring traffic and, in doing so, Sprint believes traffic will be well within rough balance.

Q. What does Sprint propose to resolve this issue?

A. Unless and until AT&T can rebut the presumption that all of the IntraMTA traffic exchanged between the parties is roughly balanced to warrant any edit to Sprint's proposed language, Sprint proposes the Commission order the following language:

6.3.7 Conversion to Bill and Keep for wireless IntraMTA traffic or wireline Telephone Exchange Service traffic.

[CMRS] a) If the IntraMTA Traffic exchanged between the Parties becomes balanced, such that it falls within the stated agreed balance below ("Traffic Balance Threshold"), either Party may request a bill and keep arrangement to satisfy the Parties' respective usage compensation

payment obligations regarding IntraMTA Traffic. For purposes of this Agreement, the Traffic Balance Threshold is reached when the IntraMTA Traffic exchanged both directly and indirectly, reaches or falls between 60%/40%, in either the wireless-to-landline or landline-to-wireless direction for at least three (3) consecutive months. When the actual usage data for such period indicates that the IntraMTA Traffic exchanged, both directly and indirectly, falls within the Traffic Balance Threshold, then either Party may provide the other Party a written request, along with verifiable information supporting such request, to eliminate billing for IntraMTA Traffic usage. Upon written consent by the Party receiving the request, which shall not be withheld unreasonably, there will be no billing for IntraMTA Traffic usage on a going forward basis unless otherwise agreed to by both Parties in writing. The elimination of billing for IntraMTA Traffic carries with it the precondition regarding the Traffic Balance Threshold discussed above. As such, the two points are interrelated terms containing specific rates and conditions, which are non-separable for purposes of this Subsection 6.3.7.

b) As of the Effective Date, the Parties acknowledge that the IntraMTA Traffic exchanged between the Parties both directly and indirectly has already been established as falling within the Traffic Balance Threshold. Accordingly, each Party hereby consents that, notwithstanding the existence of a stated IntraMTA Rate in the Pricing Sheet to this Agreement, there will be no billing between the Parties for IntraMTA Traffic usage on a going forward basis unless otherwise agreed to by both Parties in writing

[CLEC] a) If the Telephone Exchange Service Traffic exchanged between the Parties becomes balanced, such that it falls within the stated agreed balance below ("Traffic Balance Threshold"), either Party may request a bill and keep arrangement to satisfy the Parties' respective usage compensation payment obligations regarding Telephone Exchange Service Traffic. For purposes of this Agreement, the Traffic Balance Threshold is reached when the Telephone Exchange Service Traffic exchanged both directly and indirectly, reaches or falls between 60% / 40%, in either the wireless-to-landline or landline-to-wireless direction for at least three (3) consecutive months. When the actual usage data for such period indicates that the Telephone Exchange Service Traffic exchanged, both directly and indirectly, falls within the Traffic Balance Threshold, then either Party may provide the other Party a written request, along with verifiable information supporting such request, to eliminate billing for Telephone Exchange Service Traffic usage. Upon written consent by the Party receiving the request, which shall not be withheld unreasonably, there will be no billing for Telephone Exchange

Service Traffic usage on a going forward basis unless otherwise agreed to by both Parties in writing. The elimination of billing for Telephone Exchange Service Traffic carries with it the precondition regarding the Traffic Balance Threshold discussed above. As such, the two points are interrelated terms containing specific rates and conditions, which are non-separable for purposes of this Subsection 6.3.7.

b) As of the Effective Date, the Parties acknowledge that the Telephone Exchange Service Traffic exchanged between the Parties both directly and indirectly has already been established as falling within the Traffic Balance Threshold. Accordingly, each Party hereby consents that, notwithstanding the existence of a stated Telephone Exchange Service Rate in the Pricing Sheet to this Agreement, there will be no billing between the Parties for Telephone Exchange Service usage on a going forward basis unless otherwise agreed to by both Parties in writing.

Issue III.A.2 – ISP-Bound Traffic

Issue 45 [DPL III.A.2] – What compensation rates, terms and conditions should be included in the ICAs related to compensation for ISP-Bound traffic exchanged between the parties?

Q. Does AT&T witness McPhee adequately address the CMRS ICA dispute between the parties with respect to ISP-bound traffic?

A. No. In his initial testimony on this issue,[66] Mr. McPhee makes no mention of AT&T's proposed limitation in the CMRS ICA that there can be no land-to-mobile ISP-bound traffic. As I stated in my Direct Testimony,[67] the FCC

[66] McPhee Direct, Pages 43-47.
[67] Felton Direct, Page 50, Lines 13-14.

placed no such limitation on wireless carriers in the ISP Remand Order.[68] Mr. McPhee also neglects to address AT&T's proposed language stating that ISP-bound traffic would be jurisdictionalized based upon the end-points of the call. Again, as I stated in my Direct Testimony, one of the very reasons the FCC took jurisdiction of ISP-bound traffic is because of the impossibility of jurisdictionalizing the traffic and the strong likelihood that a great proportion of the traffic is interstate in nature.

Q. How about the CLEC ICA? Does Mr. McPhee completely address the issue there?

A. No. Mr. McPhee makes no attempt to justify AT&T's proposal to bill for Multiple Tandem Access ("MTA") associated with ISP-bound traffic. When an ILEC opts into the FCC's ISP rate plan, the $0.0007 rate is intended to cover all intercarrier compensation. The FCC did not leave room for an ILEC such as AT&T to layer on additional charges.

Q. How does Sprint propose to resolve this issue?

A. Sprint urges the Commission to reject AT&T's superfluous language and adopt Sprint's language as follows:

Attachment 3 Pricing Sheet – CMRS and CLEC

- Information Services Rate: .0007

[68] *Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; Intercarrier Compensation for ISP-Bound Traffic*, CC Docket No. 96-98, CC Docket No. 99-68, Decalratory Ruling, 14 FCC Rcd 3689, 3699-3700 (February 26, 1999) ("Declaratory Ruling" or "Intercarrier Compensation NPRM").

- Interconnected VoIP Rate: Bill & Keep until otherwise determined by the FCC.

Issue III.A.7 – CMRS ICA Meet Point Billing Provisions

Issue 55 [DPL III.A.7.(1)] – Should the wireless meet point billing provisions in the ICA apply only to jointly provided, switched access calls where both Parties are providing such service to an IXC, or also to Transit Service calls, as proposed by Sprint?

Q. Do you have any response to AT&T witness Pellerin's Direct Testimony on this issue?

A. Yes. Ms. Pellerin discusses meet point billing in a traditional sense as used between LECs. She even refers to Sprint wireless as a LEC,[69] which is obviously incorrect. Nevertheless, as I stated in my Direct Testimony, I described the expanded sense in which AT&T and Sprint PCS have utilized the term "meet point billing" since the inauguaration of the existing ICA. That expanded use of the term included the provision of transit service pursuant to the ICA. As I discussed in my Direct Testimony, AT&T disagrees with the inclusion of a transit obligation within the ICA, and that issue will be resolved in Issue 15 [DPL I.C.2]. The other disagreements with respect to this issue were adequately discussed within my Direct Testimony.

[69] Pellerin Direct, Page 77, Line 21.

Q. What language does Sprint propose to resolve this issue?

A. Sprint's proposed language for this issue is included in my testimony for Issue 56 [DPL III.A.7.(2)] below.

Issue 56 [DPL III.A.7.(2)] – What information is required for wireless Meet Point Billing, and what are the appropriate Billing Interconnection Percentages?

Q. AT&T witness Pellerin describes in her Direct Testimony why Sprint wireless must provide PIU, PLU, and 800 PIU from meet point billing.[70] Please respond.

A. PIU and PLU are unnecessary because Sprint wireless will never route its originated traffic to an IXC other than its own affiliate for carriage to a terminating party. Additionally, since Sprint wireless is currently unable to bill IXCs access charges for either the origination or termination of traffic, those factors are meaningless to Sprint wireless for traditional meet point billing purposes.

Q. In her Direct Testimony, Ms. Pellerin also addresses the default BIP between the parties.[71] Do you agree with her testimony?

[70] Pellerin Direct, Page 81, Lines 13-17.
[71] Pellerin Direct, Page 81, Line 18 – page 82, Line 12.

A. No. My Direct Testimony clearly reflects the reasons that a 95% AT&T – 5% Sprint BIP is not appropriate. It is inconsistent and inequitable for the BIP to default to anything other than the percentage that each pays for the facility. AT&T is suggesting that it should be permitted to pay for less than half of the cost of the facility used by the parties to exchange traffic, yet bill third-party IXCs that terminate traffic to Sprint using that facility as if they provided 95% of the facility. I am at a loss to adequately describe the inconsistency of such a proposal. When considered in its totality, AT&T's proposal would be analogous to a landlord renting an apartment to one party and then attempting to collect rent from another party that visits the renter.

Q. How does Sprint request the Commission resolve the Wireless Meet Point Billing Issues 55, 56, and 57 [DPL III. A. 7. (1), (2) and (3)]?

A. Sprint proposes the Commission adopt the following language to resolve these issues:

Wireless Meet Point Billing

7.2.1 For purposes of this Agreement, Wireless Meet Point Billing, as supported by Multiple Exchange Carrier Access Billing (MECAB) guidelines, shall mean the exchange of billing data relating to jointly provided Switched Access Service calls, where both Parties are providing such service to an IXC, and Transit Service calls that transit AT&T-9STATE's network from an originating Telecommunications carrier other than AT&T-9STATE and terminating to a Telecommunications carrier other than AT&T-9STATE or the originating Telecommunications carrier. Subject to Sprint providing all necessary information, AT&T-9STATE agrees to participate in Meet Point Billing for Transit Service traffic which transits its network when both the originating and terminating parties participate in Meet Point Billing with AT&T-9STATE. Traffic from a network which does not participate in Meet Point Billing will be delivered by AT&T-9STATE,

however, call records for traffic originated and/or terminated by a non-Meet Point Billing network will not be delivered to the originating and/or terminating network.

7.2.2 Parties participating in Meet Point Billing with AT&T-9STATE are required to provide information necessary for AT&T-9STATE to identify the parties to be billed. Information required for Meet Point Billing includes Regional Accounting Office code (RAO) and Operating Company Number (OCN) per state. The following information is required for billing in a Meet Point Billing environment and includes, but is not limited to; (1) a unique Access Carrier Name Abbreviation (ACNA), and (2) a Billing Interconnection Percentage. A default Billing Interconnection Percentage of 50% AT&T-9STATE and 50% Sprint will be used if Sprint does not file with NECA to establish a Billing Interconnection Percentage other than default. Sprint must support Meet Point Billing for all Jointly Provided Switched Access calls in accordance with Mechanized Exchange Carrier Access Billing (MECAB) guidelines. AT&T-9STATE and Sprint acknowledge that the exchange of 1150 records will not be required.

7.2.3 Meet Point Billing will be provided for Transit Service traffic which transits AT&T-9STATE's network at the Tandem level only. Parties desiring Meet Point Billing will subscribe to Tandem level Interconnections with AT&T-9STATE and will deliver all Transit Service traffic to AT&T-9STATE over such Tandem level Interconnections. Additionally, exchange of records will necessitate both the originating and terminating networks to subscribe to dedicated NXX codes, which can be identified as belonging to the originating and terminating network. When the Tandem, in which Interconnection occurs, does not have the capability to record messages and either surrogate or self-reporting of messages and minutes of use occur, Meet Point Billing will not be possible and will not occur. AT&T-9STATE and Sprint will work cooperatively to develop and enhance processes to deal with messages handled on a surrogate or self-reporting basis.

7.2.4 In a Meet Point Billing environment, when a party actually uses a service provided by AT&T-9STATE, and said party desires to participate in Meet Point Billing with AT&T-9STATE, said party will be billed for miscellaneous usage charges, as defined in AT&T-9STATE's FCC No.1 and appropriate state access tariffs, (i.e. Local Number Portability queries) necessary to deliver certain types of calls.

Should Sprint desire to avoid such charges Sprint may perform the appropriate LNP data base query prior to delivery of such traffic to AT&T-9STATE.

7.2.5 Meet Point Billing, as defined in section 7.2.1 above, under this Section will result in Sprint compensating AT&T-9STATE at the Transit Service Rate for Sprint-originated Transit Service traffic delivered to AT&T-9STATE network, which terminates to a Third Party network. Meet Point Billing to IXCs for Jointly Provided Switched Access traffic will occur consistent with the most current MECAB billing guidelines.

Issue 67 [DPL III.C] – Should Sprint be required to pay AT&T for any reconfiguration or disconnection of interconnection arrangements that are necessary to conform with the requirements of this ICA?

Q. Is Sprint's proposal on this issue "a self-serving attempt to avoid paying AT&T for significant amounts of work"[72] as AT&T witness Ferguson alleges?

A. No. As I stated in my Direct Testimony, the parties have been interconnected for years and no major network reconfigurations should be necessary. To the extent any are, they will likely be driven by an AT&T request and, therefore, AT&T should bear the cost of the work.

Q. Mr. Ferguson says that Sprint "maintains that it should not have to compensate AT&T for processing Sprint's orders."[73] Is that true?

[72] Ferguson Direct, Page 6, Lines 7-8.
[73] Ferguson Direct, Page 6, Lines 17-18.

A. No, and I am surprised at Mr. Ferguson for taking Sprint's proposed language out of context to make such an insinuation. Sprint's proposed language is as follows:

> 3.4 Neither Party intends to charge rearrangement, reconfiguration, disconnection, termination or other non-recurring fees that may be associated with the ***initial reconfiguration of either Party's network Interconnection arrangement to conform to the terms and conditions contained in this Agreement***. Parties who initiate SS7 STP changes may be charged authorized non-recurring fees from the appropriate tariffs, but only to the extent such tariffs and fees are not inconsistent with the terms and conditions of this Agreement. [Emphasis added]

Clearly, Sprint's proposal only applies to any "initial reconfiguration" of the network, not the ongoing placement of orders.

Q. Is there any other justification for Sprint's proposed language?

A. Yes. It is substantially similar to what the parties included in the existing agreement at Attachment 3, Section 4.4. That language is as follows:

> 4.4 Neither party intends to charge rearrangement, reconfiguration, disconnection, termination or other non-recurring fees that may be associated with the initial reconfiguration of either party's network interconnection arrangement contained in this Agreement. However, the interconnection reconfigurations will have to be considered individually as to the application of a charge. Notwithstanding the foregoing, BellSouth and Sprint PCS do intend to charge non-recurring fees for any additions to, or added capacity to, any facility or trunk purchased. Parties who initiate SS7 STP changes may be charged authorized non-recurring fees from the appropriate tariffs.

Q. How does Sprint propose to resolve this issue?

A. Sprint requests the Commission adopt its proposed language for this issue as follows:

> Neither Party intends to charge rearrangement, reconfiguration, disconnection, termination or other non-recurring fees that may be associated with the initial reconfiguration of either Party's network Interconnection arrangement to conform to the terms and conditions contained in this Agreement. Parties who initiate SS7 STP changes may be charged authorized non-recurring fees from the appropriate tariffs, but only to the extent such tariffs and fees are not inconsistent with the terms and conditions of this Agreement.

Issue III.F – CLEC Meet Point Billing Provisions

Issue 62 [DPL III.F] – What provisions governing Meet Point Billing are appropriate for the CLEC ICA?

Q. Do you have any response to AT&T witness McPhee's testimony on this issue?[74]

A. Yes. The substance of this issue falls into the category of the parties not having adequate time to thoroughly discuss the proposed language and attempt to work out any differences.

Q. Why do you say that?

A. I say that because some of what AT&T proposes as described in Mr. McPhee's Direct Testimony is not objectionable to Sprint.

[74] McPhee Direct, Pages 98-100.

Q. Can you provide an example?

A. Yes. Mr. McPhee discusses AT&T's proposal to change from a multi-bill, multi-tariff billing arrangement to a multi-bill, single-tariff arrangement.[75] Sprint does not object to this change.

Q. Is there any other AT&T proposal Sprint agrees to with respect to this issue?

A. Yes. Sprint also agrees to AT&T's proposal to eliminate the use of Summary Usage Records ("SURs") and begin using the Exchange Message Interface ("EMI") format for the exchange of call detail records.

Q. Does Sprint's agreement on the two aspects of this issue addressed above completely resolve this issue?

A. No. AT&T has proposed language relative to records retention and the recreation of lost data. Mr. McPhee represents in his Direct Testimony that the parties disagree on these provisions.[76] That is not necessarily the case. However, similar language is already incorporated in Section 6.3 of Attachment 7 and Sprint sees no need to include language covering the same subject, yet with different timeframes, in Attachment 3, creating potential contractual ambiguity.

[75] McPhee Direct, Page 98, Line 22 through Page 99, Line 13.
[76] McPhee Direct, Page 100, Lines 6-7.

Issue III.I – Pricing Schedule

Issue 67 [DPL III.I.(1)(a)] – If Sprint orders (and AT&T inadvertently provides) a service that is not in the ICA, (a) should AT&T be permitted to reject future orders until the ICA is amended to include the service?

Issue 68 [DPL III.I.(1)(b)] Should the ICAs state that AT&T's provisioning does not constitute a waiver of its right to bill and collect payment for the service?

Q. Having read AT&T witness Pellerin's Direct Testimony on this issue do you believe it is possible that AT&T may provide a service that is not in the ICA?

A. Yes, I believe it is possible (as I believed before reading her Testimony), but I still do not believe it is likely. As I stated in my Direct Testimony, in 11 years of negotiating and implementing ICAs, I have never seen this happen.

Q. Assuming this does happen, is rejecting future orders the appropriate remedy?

A. No. This seems to be an overarching theme with AT&T – reject orders from or disconnect the services of requesting carriers as the first alternative to remedy issues that arise under the ICA. This is intercarrier extremism and should be rejected by the Commission.

Q. Then what is the appropriate remedy?

A. As I stated in my Direct Testimony,[77] a more cooperative way to deal with this issue would be to provide the service under an interim rate, negotiate an amendment to the ICA, and true the rate up or down, as appropriate.

Q. Does Sprint hold the view that the omission of a product or service that AT&T provides from the ICA constitutes a waiver of AT&T's right to bill for such service?

A. No.

Q. What is Sprint's proposed resolution to this issue?

A. Sprint requests that the Commission reject AT&T's proposed language or, at a minimum, require AT&T to eliminate that language which would authorize the rejection of future orders.

Issue 69 [DPL III.I.(2)] – Should AT&T's language regarding changes to tariff rates be included in the agreement?

Q. After reading Ms. Pellerin's Direct Testimony, do you believe the parties have a legitimate dispute?

A. I don't know. As I stated in my Direct Testimony,[78] if the parties have simply incorporated a rate from an AT&T tariff by reference, Sprint agrees that any changes in the tariff would apply to Sprint. Moreover, if Sprint

[77] Felton Direct, Page 61, Lines 3-6.
[78] Felton Direct, Page 63, Lines 7-9.

purchases a product or service directly out of the tariff, certainly any change to the tariff price would apply to Sprint. AT&T cannot, however, avoid its obligation to provide interconnection-related services that are subject to Section 252(d)(2) pricing (e.g., Interconnection Facilities) by only offering such services via a tariff that does not include the appropriate pricing.

Q. Is there more than one perspective from which to view this issue?

A. Yes, and I covered these in my Direct Testimony. The first scenario is where a rate (e.g., $0.002173) is actually "lifted out of" the underlying tariff and populated in the ICA price sheet so that the actual rate appears in the ICA. The second scenario is where a reference to the tariff (e.g., FCC Tariff No. 1, Section 6.1(b)) is populated in the ICA price sheet such that no rate for that particular product or service appears in the ICA.

Q. What about a situation where a rate is "lifted out of" an AT&T tariff and populated directly in the ICA price sheet?

A. In those situations, the price becomes part of the ICA and is disassociated with the tariff from which it originated. Any future changes to the actual tariff rate would no longer have any effect on the ICA rate, although the tariff was the original source of the rate.

Q. If a tariff reference is populated in the ICA price sheet, do future tariff rate changes apply to Sprint?

A. Yes, to the extent the "tariff" service is not otherwise subject to Section 252(d) pricing. If the tariff service is subject to Section 252(d) pricing (e.g., facilities used for interconnection), the appropriate cost-based rate itself should be incorporated into the price sheet rather than a mere reference to a tariff.

Q. Are you able to make a clear distinction based on Ms. Pellerin's Direct Testimony or AT&T's proposed language which of those two scenarios actually apply here?

A. No. Neither AT&T's proposed language nor Ms. Pellerin's Direct Testimony describing it clearly distinguish between these two alternatives.

Q. Under what circumstances would Sprint agree to utilize a tariff rate for an interconnection service?

A. Sprint would agree to utilize a rate from a tariff for an interconnection service if Sprint was comfortable that the rate was based upon TELRIC pricing principles, or when ordered to do so by the Commission.

Q. So, is Sprint trying to gain some kind of "competitive advantage"[79] or "receive preferential treatment"[80] as Ms. Pellerin alleges in her Direct Testimony?

[79] Pellerin Direct, Page 114, Line 20.
[80] Pellerin Direct, Page 115, Line 5.

A. No. This is a matter of Sprint seeking clear and unambiguous language in the ICA with respect to this issue.

Issue 70 [DPL III.I.(3)] – What are the appropriate terms and conditions to reflect the replacement of current rates?

Q. In her Direct Testimony, AT&T witness Pellerin claims that Sprint's proposed language obligates the parties to incorporate changes to current rates affected by an FCC or Commission order.[81] Is that true?

A. No. The parties are always free to negotiate rates that differ from Commission orders and nothing in Sprint's language eliminates that right.

Q. Does Sprint really expect AT&T to notify Sprint of Commission-ordered rate changes as Ms. Pellerin claims?[82]

A. Yes.

Q. Why?

A. It is AT&T's obligation to provide interconnection services at cost-based rates pursuant to Section 252(d)(2) of the Act. To the extent the FCC or the Commission modifies a cost-based rate, AT&T must notify all carriers with ICAs that include that particular rate element of the change.

[81] Pellerin Direct, Page 115, Lines 22-23.
[82] Pellerin Direct, Page 117, Lines 16-19.

Q. And, Sprint's proposal would apply that rate change retroactively to the date of the FCC's or Commission's order?

A. Yes, otherwise AT&T would have the incentive to delay notification for rate decreases and expedite notification for rate increases. If all rate changes apply back to the date of the relevant order, AT&T and every affected carrier is treated equally. And this proposal doesn't necessarily advantage one party or the other as rate changes could be up or down.

Q. What about Ms. Pellerin's concern that huge balances due or refunds due could accrue if too much time passes before notification is made and the billed or billing party has not set aside adequate funds to meet that obligation?

A. Under Sprint's proposal, that would not happen as AT&T would have the affirmative obligation to notify Sprint of a change when Sprint was not a party to the relevant proceeding instituting the change. When both parties were participants in the relevant proceeding, the party receiving the benefit of the rate change will undoubtedly notify the other party promptly of its desire to amend the ICA with the new rate.

Q. Finally, Sprint's proposal requires an amendment to the ICA to effectuate the rate change. Why?

A. Congress established interconnection agreements as the means to accomplish the goals of the Act. Amendments to implement rate changes

are just the natural extension of that process. If AT&T disagrees with that process, its disagreement is with Congress, not Sprint.

Q. What language does Sprint propose to resolve this issue?

A. Sprint proposes the following language:

1.2 Replacement of Current Section 252(d) Rates

1.2.1 Certain of the current rates, prices and charges set forth in this Agreement have been established by the Commission to be rates, prices and charges for Interconnection Services subject to Section 252(d) of the Act ("Current Section 252(d) Rate(s)").

1.2.2 If, during the Term of this Agreement the Commission or the FCC modifies a Current Section 252(d) Rate, or otherwise orders the creation of new Current Section 252(d) Rate(s), in any order or docket that is established by the Commission or FCC to be applicable to Interconnection Services subject to this Agreement, either Party may provide written notice of the ordered new Current Section 252(d) Rates ("Rate Change Notice"). Notwithstanding the foregoing, if Sprint is not a party to the proceeding in which the Commission or FCC ordered such modification or creation of new Section 252(d) Rate(s), AT&T-9STATE shall provide a Rate Change Notice to Sprint within sixty (60) days after the effective date of such order.

1.2.3 Upon either Party's receipt of a Rate Change Notice, the Parties shall negotiate a conforming amendment which shall reflect replacement of the affected Current Section 252(d) Rate(s) with the new Section 252(d) Rate(s) as of the effective date of the order that determined a change in rates was appropriate, and shall submit such amendment to the Commission for approval. In addition, as soon as is reasonably practicable after such Rate Change Notice, each Party shall issue to the other Party any adjustments that are necessary to reflect the new Rate(s).

Issue 71 [DPL III.1.(4)] – What are the appropriate terms and conditions to reflect the replacement of interim rates?

Q. Does Sprint's process for the replacement of interim rates require the parties to modify such interim rates?[83]

A. Yes.

Q. Why?

A. Sprint's process requires the parties to replace interim rates when permanent rates are ordered by the Commission because interim rates are by definition ***interim***. Calling a rate "interim" assumes the parties are including the rate in the ICA with the expectation that a replacement rate will be developed at some point in the future and will be incorporated in the ICA with an amendment.[84] Sprint's proposed language is simply recognition of this fact.

Q. Are the parties free to agree to rates that differ from a Commission order or continue use of the interim rates?

A. Yes. The parties are always free to mutually agree to rates, terms, or conditions that differ from a Commission order, regardless of what the ICA provisions require, as long as such rate, term, or condition conforms with applicable law and is non-discriminatory.

Q. What language does Sprint propose to resolve this issue?

[83] Pellerin Direct, Page 120, Lines 10-12.
[84] See discussion on necessity of ICA amendments above (Issue 70 [DPL III.I.(3)]).

A. Sprint proposes the following language to resolve this issue:

> 1.3.1 Certain of the rates, prices and charges set forth in this Agreement may be denoted as interim rates ("Interim Rates"). Upon the effective date of a Commission Order establishing rates for any rates, prices or charges applicable to Interconnection Services specifically identified in this Agreement as Interim Rates, the Parties shall negotiate a conforming amendment which shall reflect replacement of the affected Interim Rate(s) with the new rate(s) ("Final Rate(s)") as of the effective date of the order that established such Final Rates or such other date as may be mutually agreed upon), and shall submit such amendment to the Commission for approval. In addition, as soon as is reasonably practicable after approval of such amendment, each Party shall issue to the other Party any adjustments that are necessary to implement such Final Rate(s).

Issue 72 [DPL III.I.(5)] – Which Party's language regarding prices noted as TBD (to be determined) should be included in the agreement?

Q. Do you have any issues with AT&T witness Pellerin's Direct Testimony with respect to this issue?

A. Yes. Ms. Pellerin's Direct Testimony implies that AT&T has the right to unilaterally establish rates without Commission oversight and approval, and such rates would automically apply to Sprint.[85] Sprint believes this is contrary to the spirit of the Act and FCC rules. As I've stated repeatedly, interconnection services should be priced at cost-based rates, and Commission oversight is necessary to ensure Congress' intentions are faithfully carried out.

[85] Pellerin Direct, Page 122, Lines 15-17.

Q. What is Sprint's proposed resolution for this issue?

A. Sprint asks the Commission to adopt its proposed language as follows:

> 1.5.1 When a rate, price or charge in this Agreement is noted as "To Be Determined" or "TBD" for an Interconnection Service, the Parties understand and agree that when a rate, price or charge is established for that Interconnection Service as approved by the Commission, that such rate(s), price(s) or charge(s) ("Established Rate") shall, to the extent a Party provided such Interconnection Services under this Agreement, automatically apply back to the Effective Date of this Agreement without the need for any additional modification(s) to this Agreement or further Commission action. AT&T-9STATE shall provide Written Notice to Sprint of the Established Rate when it is approved by the Commission, Established Rate, and the Parties' billing tables will be updated to reflect and charge the Established Rate, and the Established Rate will be deemed effective between the Parties as of the Effective Date of the Agreement. The Parties shall negotiate a conforming amendment, which shall reflect the Established Rate that applies to such Interconnection Service pursuant to this Section 1.5 above, and shall submit such Amendment to the State Commission for approval. In addition, as soon as is reasonably practicable after such Established Rate begins to apply, the Parties, as applicable, for such Interconnection Services to reflect the application of the Established Rate retroactively to the Effective Date of the Agreement between the Parties.
>
> 1.5.2 A party's provisioning of such Interconnection Services is expressly subject to this Section 1.5 above and in no way constitutes a waiver of a party's right to charge and collect payment for such Interconnection Services, or the Billed Party's right to dispute such charges as provided in this Agreement.

Section IV. – Billing Related Issues

Issue IV.A – General

Issue 73 [DPL IV.A.(1)] – What general billing provisions should be included in Attachment 7?

Q. In your Direct Testimony, you address Sprint's concern that AT&T's proposed general billing provisions did not recognize that Sprint may be a billing party. Has that aspect of this issue been resolved?

A. Yes. As I understand it, the parties have resolved the reciprocity aspect to this issue by agreeing to Sprint's language for Sections 1.4 – 1.6 as follows:

> 1.4 Each Party shall bill the other on a current basis all applicable charges and credits.
>
> 1.5 Payment Responsibility. Payment of all charges will be the responsibility of the Billed Party. The Billed Party shall make payment to the Billing Party for all services billed and due as provided in this Agreement. AT&T-9STATE is not responsible for payments not received by Sprint from Sprint's customer, and Sprint is not responsible for payments not received by AT&T-9STATE from AT&T-9STATE's customer. In general, one Party will not become involved in disputes between the other Party and its own customers.
>
> 1.6 The Billing Party will render bills each month on established bill days for each of the Billed Party's accounts.

Q. Is Sprint's concern with AT&T's proposed methodology for effectuating the facility cost sharing provisions of the ICA still an issue?

A. Yes.

Q. AT&T witness Ferguson claims that AT&T "has been manually applying the Shared Facility Factor for Sprint."[86] Is that accurate?

A. Generally, yes. However, contrary to Mr. Ferguson's assertion, this process has not been unilaterally undertaken by AT&T at its sole cost.[87] It is more accurate to say that it is a cooperative process between both parties and that

[86] Ferguson Direct, Page 8, Lines 20-21.
[87] Ferguson Direct, Page 8, Line 23 through Page 9, Line 2.

both parties share in the cost to ensure the Shared Facility Factor is appropriately applied.

Q. Mr. Ferguson also states that the easiest way to accomplish the sharing of facility costs would be for AT&T to render a bill for only Sprint's proportionate use of the facility. Do you agree?

A. Absolutely. In fact, the FCC agrees with this premise as well. In 47 C.F.R. § 51.709(b) the FCC clearly provides that:

> The rate of a carrier providing transmission facilities dedicated to the transmission of traffic between two carriers' networks shall recover only the costs of the proportion of that trunk capacity used by an interconnecting carrier to send traffic that will terminate on the providing carrier's network. Such proportions may be measured during peak periods.

Q. Can you paraphrase this FCC rule in layman's terms?

A. Yes. Applying this rule to the instant issue, AT&T should only bill Sprint for that portion of the Interconnection Facility used by Sprint to terminate Authorized Services traffic that Sprint sends to AT&T.

Q. It seems that, based on a clear reading of 51.709(b), the parties are not following the proper process for billing for the shared Interconnection Facility today. Please comment.

A. I would agree. Mr. Ferguson characterizes the currently utilized practice as a "special accommodation that AT&T first made to Sprint – and Sprint

alone – in 2001".[88] This couldn't be further from the truth. In actuality, this was an accommodation ***Sprint made to AT&T***. It was AT&T, not Sprint, whose billing system lacked the functionality to properly implement Rule 51.709(b). Just as Sprint was cooperative in accommodating AT&T's billing system limitations in the current agreement, Sprint is willing to continue that accommodation, although technically, under Rule 51.709(b), Sprint has no obligation to do so.

Q. Why is Sprint opposed to AT&T's proposed new process?

A. AT&T's proposed language shifts the entire burden for operationalizing this contract provision to Sprint. In fact, the burden placed on Sprint by the AT&T proposed language is greater than the burden currently shared by the parties with the long-standing existing practice.

Q. **Why does Sprint believe that the burden imposed by AT&T in its proposed language is greater than the burden that the parties currently share?**

A. In order for Sprint to comply with AT&T's proposed language, Sprint would be required not only to audit circuit activity against the invoice rendered by AT&T but also track all AT&T rate elements, AT&T rates, and commission orders that impact the amounts Sprint would use to render such

[88] Ferguson Direct Page 8, Lines 18-19.

an invoice to AT&T. This burden is much greater than rendering a bill using one's own pricing and circuit activity systems.

Q. Mr. Ferguson states in his Direct Testimony[89] that he does not know Sprint's reasoning for objecting to AT&T's proposed language in 2.10.1.1. Can you explain Sprint's reasoning?

A. Yes. Sprint does not object to language regarding time periods for billing disputes ("credit claims"), however, language regarding disputes[90] is already included in Section 3 of Attachment 7 (as appropriate) and should not be duplicated here.

Q. What further objections does Sprint have to AT&T's proposed language for 2.10.1.1?

A. Sprint also objects to AT&T's proposed language regarding the ability of a party to back-bill for existing products and/or services for which prices are altered by a Commission order. Sprint recognizes that this Commission has the authority to address back-billing time periods when altering ICA provisions. Sprint also recognizes that the parties will comply with any Commission order. However, this agreement should not presuppose the timelines within which the Commission may rule or add additional framework beyond what is provided for in such Commission order.

[89] Ferguson Direct, Page 10, Line 4.
[90] Addressed as Issue 80 [DPL IV.C.(1)] in this arbitration.

Moreover, any Commission action that does not specify a back-billing period should apply on a prospective basis only.

Issue 74 [DPL IV.A.(2)] – Should six months or twelve months be the permitted back-billing period?

Q. Mr. Ferguson repeatedly refers to the "consistency" of AT&T's proposed back billing and back disputing time limits in his Direct Testimony.[91] Is there any compelling reason for making back billing and back disputing time limits equal?

A. No. The billing party is auditing its own internal data to ensure accuracy of its billing. Since the data used to perform such audits is internal and available, it is not unreasonable for a billed party to expect timely and accurate bills within six (6) months of receiving service. On the other hand, the billed party must audit the invoice received from the billing party using not only internal data but external data found in the billing party's tariffs, price lists, commission orders, etc. The billed party's audit process is impacted by the availability of these external documents as well as the amount of detail (or lack thereof) provided on the invoice by the billing party.

[91] Ferguson Direct, Page 12, Lines 4-6; Page 12, Lines 11-15; Page 34, Lines 1-2.

Q. Mr. Ferguson argues that charges for services rendered between 6 months and 12 months ago are not more difficult to validate.[92] Why does Sprint believe that billing over 6 months old is more difficult to validate?

A. Even computer records are archived after certain periods of time, making the validation of delayed (or stale) billing more difficult. For example, traffic records (which include millions of call records each day) become more difficult to analyze for a specific vendor and period of time when a billing party back-bills more than 6 months. Sprint stores archived data in summary format making it more costly and time consuming to perform audits.

Q. Does Sprint's proposed language benefit Sprint more than AT&T?

A. No. Mr. Ferguson's assertion[93] does not make sense to me. Unless and until AT&T demonstrates otherwise, using an appropriate measurement of exchanged IntraMTA traffic, the parties traffic exchange is presumed to be roughly balanced so the billing would also be balanced - resulting in no added benefit to either party. Moreover, the size or quantity of the billed amounts bears no relationship to whether the billing party should be provided more leniency in producing an accurate and timely bill.

Q. What language does Sprint propose to resolve this issue?

[92] Ferguson Direct, Page 12, Line 9 through Page 13, Line 19.
[93] Ferguson Direct, Page 14, Lines 11-17.

A. Sprint proposes the following language:

2.10 Limitation on Back-billing

2.10.1 Notwithstanding anything to the contrary in this Agreement, a Party shall be entitled to:

2.10.1.1 Back-bill for any charges for services provided pursuant to this Agreement that are found to be unbilled or under-billed but only when such charges appeared or should have appeared on a bill dated within the six (6) months immediately preceding the date on which the Billing Party provided written notice to the Billed Party of the amount of the back-billing. The Parties agree that the six (6) month limitation on back-billing set forth in the preceding sentence shall be applied prospectively only after the Effective Date of this Agreement, meaning that the six (6) month period for any back-billing may only include billing periods that fall entirely after the Effective Date of this Agreement and will not include any portion of any billing period that began prior to the Effective Date of this Agreement.

2.10.1.2 Back-billing, as limited above, will apply to all services purchased under this Agreement.

Issue IV.B – Definitions

Issue 75 [DPL IV.B.(1)] – What should be the definition of "Past Due"?

Q. Mr. Ferguson states in his Direct Testimony that the parties agree charges are "Past Due" when payment is not received by the Bill Due Date, received after the Bill Due Date, or not received in funds that are readily available.[94] Does Sprint concur with his statement?

[94] Ferguson Direct, Page 15, Lines 4-8.

A. Yes. Sprint does not dispute the fact that payments of valid charges should be made by the due date or will be considered "Past Due." However, as I state in my Direct Testimony,[95] once a charge is disputed it becomes a Disputed Amount rather than a Past Due amount and is not "rightly" due until the dispute is resolved.

Q. What is the benefit to AT&T if its proposed definition of "Past Due" is approved?

A. AT&T's apparent reason for including disputed charges as part of the definition of "Past Due" hinges on its ability to assess late payment charges ("LPC") for amounts that are part of a good faith dispute.

Q. Should the billing party assess LPC associated with disputed amounts?

A. No. Charges in dispute are not subject to billing and collection treatment by the billing party until the dispute is resolved. As a matter of fact, Mr. Ferguson states in his own testimony[96] that if a disputed amount is resolved in favor of the billed party a credit for the LPC would be required.

Q. When is a disputed amount subject to LPC?

A. LPC are never applicable while a dispute is pending resolution. LPC are only applicable if the dispute is resolved in favor of the billing party at

[95] Felton Direct, Page 74, Lines 3-4.
[96] Ferguson Direct, Page 16, Lines 17-20.

which time it is no longer a disputed amount but an unpaid ("Past Due") amount.

Q. What is Sprint's proposed language to resolve this issue?

A. Sprint's proposed language is as follows:

> "Past Due" means when a Billed Party fails to remit payment for any undisputed charges by the Bill Due Date, or if payment for any portion of the undisputed charges is received from the Billed Party after the Bill Due Date, or if payment for any portion of the undisputed charges is received in funds which are not immediately available to the Billing Party as of the Bill Due Date (individually and collectively means Past Due).

Issue 76 [DPL IV.B.(2)] – What deposit language should be included in each ICA?

Q. What is AT&T's logic for exempting itself from being subject to the deposit provision?

A. Mr. Ferguson states that AT&T has lost tens of millions of dollars over the years due to non-payment.[97] He also erroneously states that Sprint has not incurred any losses due to non-payment by billed parties. Further, Mr. Ferguson provides a comparison that is somewhat confusing. He compares the payment histories of AT&T's billing to any and all customers (not just Sprint) to AT&T's payment history with Sprint. This comparison is immaterial since it assumes that Sprint doesn't bill any other party. While AT&T has a good payment history with Sprint, Sprint also has a good

[97] Ferguson Direct, Page 20, Lines 7-8.

payment history with AT&T (as well as every other vendor with which it does business). By extension, AT&T's logic in exempting itself from a deposit requirement (in a reciprocal fashion) would imply that Sprint should also be exempted and the entire section removed. Finally, Mr. Ferguson suggests that it is fair to exempt itself from the symmetrical language proposed by Sprint out of concern that a carrier might opt-in to this ICA and somehow disadvantage AT&T. AT&T's imagined threats are no reason for it to disadvantage Sprint.

Q. Is Sprint's desire then to remove the section altogether?

A. No. As I have stated, Sprint is amenable to including deposit provisions in the ICA but believes that such provisions should be fair and balanced.

Q. Does the reciprocal deposit language in any way harm AT&T?

A. No. In fact the same provisions that exempt credit worthy companies would protect AT&T from paying a deposit just as it does Sprint. That is, AT&T by virtue of a good payment history would also not represent a significant risk and could be exempt from the deposit provision under the same rules as Sprint.

Q. Is AT&T's proposed language and associated testimony consistent with the reciprocity of the other sections in Attachment 7?

A. No. AT&T and Sprint have agreed on reciprocal language concerning billing, payment, disputes, etc. The deposit language discussed here is just one more aspect of billing and should be addressed in a reciprocal fashion as well.

Q. Why does Sprint object to AT&T's language regarding new and certain existing CLECs in paragraph 1.8.1?

A. Sprint objects to AT&T's proposed language regarding new and certain existing CLECs in 1.8.1 because those references make the provision non-reciprocal. Mr. Ferguson states that Sprint fails to address circumstances involving new CLECs and certain existing CLECs who have filed for bankruptcy. To the contrary, Sprint's language would allow the billing party (whether AT&T or Sprint) to secure the accounts of the Billed Party based on appropriate financial and billing history criteria. Sprint's provision would include new CLECs or existing CLECs that have filed bankruptcy.

Q. Sprint's proposed language in Section 1.8.3 requiring that subsequent determinations of creditworthiness be governed by certain rules is characterized by Mr. Ferguson as "too limiting."[98] Please comment.

A. Both parties agreed that parameters would be included to describe when a subsequent audit would be conducted. Sprint has offered that an increase in the Billed Party's gross billing of 25% over the most recent six-month

[98] Ferguson Direct, Page 25, Line 13.

period and the current financial position of the Billed Party would provide adequate guidelines for determining when/if a subsequent review of creditworthiness should occur. AT&T on the other hand, proposes language that is completely ambiguous.

Q. What makes AT&T's proposed language ambiguous?

A. AT&T's proposed language provides that the increase in gross monthly billing is "beyond the level most recently used to determine the level of security deposit." AT&T's language would basically give it the unilateral authority to, at any point, request whatever deposit amount it chooses and then threaten the billed party with discontinuance of service if the billed party does not provide the deposit.

Q. What recourse is available to the billed party if it does not agree with the AT&T deposit request under the AT&T proposed language?

A. Even if Sprint disagreed with AT&T's deposit request and sought redress through the dispute resolution process in the ICA, nothing in AT&T's proposed language would prevent it from discontinuing service to Sprint pending the outcome of the dispute resolution process.

Q. Is the timeframe proposed by AT&T for deposit payments adequate time to review and pay/dispute the requested deposit?

A. No. If AT&T's proposed language is approved, Sprint would have only 15-30 days to request the associated back-up, wait for its arrival, conduct audits, dispute or enter the payment cycle and escalate as needed. This is not a sufficient amount of time, especially since AT&T's language further would provide that after the 15 or 30 days, it may begin to disconnect service.

Q. Mr. Ferguson states that the insertion of "agreed to or Commission-ordered" is not necessary for Section 1.8.5.[99] Why is the descriptive "agreed to or Commission-ordered" appropriately inserted by Sprint?

A. The insertion by Sprint provides clarity concerning the security that is the subject of this section. The security described in 1.8.5 is one that has been either agreed to or Commission-ordered. Besides that, Mr. Ferguson concedes that "[i]f a security deposit is in place, it is in place because the Parties agreed or a [C]ommission ordered it." Therefore, it is unclear why AT&T would object to explicitly saying as much when the parties are in conceptual agreement.

Q. Mr. Ferguson states that Sprint did not provide alternative language for Sections 1.8.7 and 1.8.8.[100] Is that a correct statement?

[99] Ferguson Direct, Page 28, Lines 2-8.
[100] Ferguson Direct, Page 29, Line 19.

A. Not completely. Sprint has provided proposed language for Section 1.8.7 as below. Sprint's proposed language would simply seek to make the section reciprocal.

> 'The Billing Party shall release or return any security deposit, within thirty (30) days of its determination that such security is no longer required by the terms of this Attachment, or within thirty (30) days of the Parties establishing that the Billed Party satisfies the standards set forth in this Attachment or at any such time as the provision of service to the Billed Party is terminated pursuant to this Agreement as applicable. The amount of the deposit will first be credited against any of the Billed Party's outstanding account(s), and any remaining credit balance will be refunded within thirty (30) days.'

Sprint did not propose language for Section 1.8.8 because the provision for a subsequent determination of creditworthiness is already covered by Section 1.8.3. AT&T's proposed language in 1.8.8 is repetitive.

Q. Did Sprint provide any alternative language for Section 1.8.9?

A. No. Sprint's proposed language regarding deposits does not include references to Letters of Credit or Surety Bonds so there was no need for this section.

Q. What language does Sprint propose to resolve this issue?

A. Sprint proposes the following language:

> 1.8.1 General Terms. If the Party that is billed for services under this Agreement (the "Billed Party") fails to meet the qualifications described in this Section for continuing creditworthiness, the other Party (the "Billing Party") reserves the right to reasonably secure the accounts of the Billed Party for the purchase of services under this Agreement with a suitable form of security pursuant to this Section.

1.8.2 Initial Determination of Creditworthiness. Upon request, the Billing Party may require the Billed Party to provide credit profile financial information in order to determine whether or not security should reasonably be required, and in an amount that does not exceed more than an amount equal to one (1) month's total net billing between the Parties under this Agreement in a given state. The Parties have discussed one another's creditworthiness in accordance with the requirements of this Section and determined that no additional security of any kind is required from one Party to the other upon the execution of this Agreement.

1.8.3 Subsequent Determination of Creditworthiness. On an annual basis, beginning not earlier than one (1) year after execution of this Agreement, the Billing Party may review the need for a security deposit if (i) subject to a standard of commercial reasonableness, a material change in the circumstances of the Billed Party so warrants and gross monthly billing by the Billing Party to the Billed Party has increased for services under this Agreement by more than twenty-five (25%) over the most recent six-month period, and (ii) the Billed Party (or its parent holding company) does not have total assets of at least five billion dollars ($5,000,000,000.00).

1.8.4 If the conditions required in 1.8.3 are met and the Billed Party does not otherwise have a good payment history, the Billing Party may provide the Billed Party fifteen (15) days written notice of the Billing Party's intent to review the Billed Party's credit worthiness. Upon the Billed Party's receipt of the Billing's Party's intent to review notice, the Parties agree to work together to determine the need for or amount of a reasonable initial or increase in deposit. If there is any dispute regarding whether the conditions required in 1.8.3 have been met, or the Parties are otherwise unable to agree upon a reasonable initial or increase in deposit, then the Billing Party must file a petition for resolution of the dispute. Such petition shall be filed with the Commission in the state in which the Billed Party has the highest amount of charges billed under this Agreement. The Parties agree that the decision ordered by such Commission will be binding within all of the AT&T-9STATES.

1.8.5 Any such agreed to or Commission-ordered security shall in no way release the Billed Party from its obligation to make complete and timely payments of its bills, subject to the bill dispute procedures set forth in this Attachment.

1.8.7 The Billing Party shall release or return any security deposit, within thirty (30) days of its determination that such security is no longer required by the terms of this Attachment, or within thirty (30) days of the Parties establishing that the Billed Party satisfies the standards set forth in this Attachment or at any such time as the provision of service to the Billed Party is terminated pursuant to this Agreement as applicable. The amount of the deposit will first be credited against any of the Billed Party's outstanding account(s), and any remaining credit balance will be refunded within thirty (30) days.

Issue 77 [DPL IV.B.(3)] – What should be the definition of "Cash Deposit"?

Q. Do you have any Rebuttal Testimony for this issue?

A. No. My Direct Testimony sufficiently addresses this issue.

Issue 78 [DPL IV.B.(4)] – What should be the definition of "Letter of Credit"?

Q. Do you have any Rebuttal Testimony for this issue?

A. No. My Direct Testimony sufficiently addresses this issue.

Issue 79 [DPL IV.B.(5)] – What should be the definition of "Surety Bond"?

Q. Do you have any Rebuttal Testimony for this issue?

A. No. My Direct Testimony sufficiently addresses this issue.

Issue IV.C – Billing Disputes

Issue 80 [DPL IV.C.(1)] – Should the ICA require that billing disputes be asserted within one year of the date of the disputed bill?

Q. Since Mr. Ferguson repeatedly discusses the inconsistency of Sprint's proposed time frames for back-billing versus disputes,[101] what evidence would Sprint provide to support a differing time frame for filing a dispute than for discovering one's own billing errors?

A. Sprint would offer the same support as provided in this rebuttal for issue IV.A.2. The party who is auditing an invoice (whether it be AT&T or Sprint) must audit using external resources (invoices received with differing amounts of detail, tariffs, commission orders, etc.) that are not controlled by the auditing party to validate against the auditing party's internal resources. This process is time-consuming and the billed party should be afforded every opportunity to ensure that it is being billed properly for services. When the billing party conducts audits of its own data to ensure billing accuracy, there is a reasonable expectation that the billing party should be able to conduct those audits within 6 months of providing the service.

Q. Mr. Ferguson refers to Sprint's proposed 24 month-limit as "overly liberal."[102] Do you agree that 24 months is "overly liberal"?

A. No, I don't believe twenty-four months is liberal at all. Rather, it is a commercially reasonable time frame, particularly when measured against

[101] Ferguson Direct, Page 12, Lines 4-6; Page 12, Lines 11-15; Page 34, Lines 1-2.
[102] Ferguson Direct, Page 33, Line 21.

statutes of limitation. As stated in my testimony,[103] the FCC's statute of limitations for interstate access billing disputes is 24 months. The general statute of limitations in Florida for contract is 5 years (Section 95.11, Florida Statutes).

Q. Would the adoption of Sprint's proposed language benefit one party more than the other?

A. No. As stated previously in rebuttal of IV.A.(2), unless and until AT&T can demonstrate otherwise, the current traffic balance is presumed to be roughly balanced, resulting in any associated billing also being presumed to be roughly balanced, making this assertion[104] by AT&T generally incorrect.

Q. Mr. Ferguson notes that this Commission has approved at least eleven ICAs that included AT&T's proposed 12-month back-billing limitation.[105] What is the relevance of that fact?

A. There is really no relevance to the fact that AT&T voluntarily agreed to a 12-month back-billing limitation with 11 carriers in the State of Florida and the Commission approved all of those ICAs. If Sprint and AT&T agreed to a 12-month back-billing limitation, I'm sure the Commission would approve that aspect of the ICA as well. Since the parties do not agree, however, it is up to this Commission to consider the importance of a billed party having

[103] Felton Direct, Page 81, Lines 1-2.
[104] Ferguson Direct, Page 35, Line 20 through Page 36, Line 2.
[105] Ferguson Direct, Page 36, Lines 6-7.

the latitude to look back 24 months to ensure the billing party is issuing accurate bills.

Q. What language does Sprint propose to resolve this issue?

A. Sprint proposes the following language:

> 3.1.1 Notwithstanding anything contained in this Agreement to the contrary, a Party shall be entitled to dispute only those charges which appeared on a bill dated within the twenty-four (24) months immediately preceding the date on which the Billing Party received notice of such Disputed Amounts.

Issue 81 [DPL IV.C.(2)] – Which Party's proposed language concerning the form to be used for billing disputes should be included in the ICA?

Q. Mr. Ferguson describes unfair costs to AT&T to "correct Sprint's billing information, populate the missing and incomplete data, look up accounts, and reformat the dispute forms."[106] Please address these concerns.

A. The parties have successfully agreed on the specific data that is required when filing a dispute with the other party in this same section 3.3.1. The only disagreement is the form used to transmit the data and whether one party should bear the burden of cost related to the other party's internal systems. If AT&T is truly altering the information provided by Sprint on its dispute notice (in substance rather than format), there is a larger concern that AT&T may be altering the nature of the dispute or critical details. However,

[106] Ferguson Direct, Page 38, Lines 1-4.

if AT&T is simply reformatting data provided by Sprint so it will fit neatly within AT&T's automated bill dispute platform, I would reiterate that Sprint has been using its existing bill dispute format for at least 6 years with AT&T.[107]

Q. Can Sprint elaborate on the cost associated with using AT&T's form for filing billing disputes?

A. Yes. Sprint audits invoices from 2000 different billing parties each month. Each of those billing parties renders multiple bills to Sprint. Sprint has implemented mechanized controls to assist with bill processing and payment in order to facilitate its timely payment to vendors such as AT&T (much like AT&T has done). These controls include a system generated billing dispute form that provides all the necessary information required by AT&T and agreed upon by the parties for a dispute. If Sprint were to alter its system to accommodate the individual dispute forms for AT&T or each of the other billing parties who render invoices to Sprint, the cost to Sprint and the overall bill processing cycle would increase exponentially and have ripple effects to the other vendors for which Sprint pays bills.

Q. Does use of a form other than the Billing Party's form hinder resolution of the dispute?

[107] Felton Direct, Page 82, Line 17.

A. No, not as long as the dispute form contains all of the relevant information. It is the content of the dispute notice that drives resolution of a dispute issue, not the form used to deliver that information. AT&T is simply forcing its own internal system limitations on the rest of the industry. Sprint currently accepts AT&T's dispute notices in the format that AT&T chooses to provide and AT&T should ***continue*** to reciprocate by accepting Sprint's bill dispute format.

Q. **Does Sprint's dispute form contain all of the necessary information to effectively resolve disputes?**

A. Yes. As I stated in my Direct Testimony, the parties have successfully used Sprint's dispute form for the past 6 years.

Q. What language does Sprint propose to resolve this issue?

A. Sprint proposes the following language:

> 3.3.1 A "Billing Dispute" means a dispute of a specific amount of money actually billed by the Billing Party. The Billed Party may, at its sole option and in its sole discretion, submit disputes through the use of either (a) the Billed Party's internal processes to prepare and submit disputes, or (b) a Billing Party proposed "Billing Claims Dispute Form", subject to the Billing Party paying all non-recurring and recurring costs the Billed Party may incur to modify the Billed Party's internal processes to use such proposed form. The dispute must be made by the Disputing Party in writing and supported by documentation, which clearly shows the basis for dispute of the charges. The dispute must be itemized to show the date and account number or other identification (i.e., CABS/ESBA/ASBS or BAN number) of the bill in question; telephone number, circuit ID number or trunk number in question if applicable; any USOC (or other descriptive information) relating to the item in question; and the amount billed. By way of example and not by limitation, a Billing Dispute will not include the refusal to pay all or part

of a bill or bills when no written documentation is provided to support the dispute, nor shall a Billing Dispute include the refusal to pay other amounts owed by the Disputing Party until the dispute is resolved. Claims by the Parties for damages of any kind will not be considered a Billing Dispute for purposes of this Section. Once the Billing Dispute is resolved the Disputing Party will make payment on any of the resolved disputed amount owed to the Billing Party as part of the next immediately available bill-payment cycle for the specific account, or the Billing Party shall have the right to pursue normal treatment procedures. Any credits due to the Disputing Party, pursuant to the Billing Dispute, will be applied to the Disputing Party's account by the Billing Party upon resolution of the dispute as part of the next available invoice cycle for the specific account.

Issue IV.D – Payment of Disputed Bills

Issue 82 [DPL IV.D.(1)] – What should be the definition of "Non-Paying Party"?

Q. Mr. Ferguson states that the use of Sprint's definition would *"effectively eliminate [Section 1.12] from the ICA."*[108] Is it Sprint's intention to eliminate Section 1.12 by its proposed definition of Non-Paying Party?

A. No. Section 1.12 requires the Billed Party to give notice to the Billing Party of the amount that is unpaid and in dispute by the bill due date. Sprint is in agreement with the concept of this section. Perhaps the term "Billed Party" is best used in this reference to ensure the contract term is clear.

[108] Ferguson Direct, Page 40, Line 4.

Q. Is the term Non-Paying Party appropriately used under Sprint's proposed definition in Section 2.4?

A. Yes. This section addresses a situation where the billing party has not received notice of dispute or payment of charges and a notice has been sent to the Non-Paying Party. At this point, there is no dispute so the amounts due are "undisputed and unpaid." If the Non-Paying Party receives the notice and determines that a portion or the entire amount due is under dispute, a dispute is filed. Once the dispute is filed, the billed party would appropriately be referred to as the Disputing Party as referenced in section 3 of this attachment.

Q. Are there other uses of this definition that should be addressed?

A. Yes. Mr. Ferguson only addresses one other instance.

Q. Which other instance is addressed by Mr. Ferguson?

A. Mr. Ferguson addresses the use of "Non-Paying Party" in AT&T's proposed escrow provision addressed in this hearing under Issue 84 [DPL IV.D.3]. Sprint opposes the use of escrow for disputed billed amounts, however, if escrow language is approved, Sprint proposes that the billed party filing a dispute be referred to as the Disputing Party rather than the Non-Paying Party.

Q. What other section uses the term "Non-Paying Party"?

A. Section 2.2. The term as defined by Sprint is appropriately used in this section. This section refers to undisputed and unpaid charges so the billed party would appropriately be referred to as the Non-Paying Party. Further this section states that the Billing Party will send a disconnect notice to the Non-Paying Party.

Q. What is the harm if the Commission approves the AT&T definition of "Non-Paying Party" as it relates to Section 2.2?

A. AT&T's definition of Non-Paying Party would imply that Sprint's services could be subject to disconnect even if a billed amount is part of a good faith dispute. Treatment action such as disconnection of service should only apply to balances that are undisputed and meet the other qualifications described in the agreement.

Q. What language does Sprint propose to resolve this issue?

A. Sprint proposes the following language:

> "Non-Paying Party" means the Party that has not made payment of undisputed amounts by the Bill Due Date of all amounts within the bill rendered by the Billing Party.

Issue 83 [DPL IV.D.(2)] – What should be the definition of "Unpaid Charges"?

Q. Mr. Ferguson states that use of the term "Unpaid Charges" in Section 2.4 requires the definition proposed by AT&T in order for the provision to work.[109] Is that a correct statement?

A. No. Section 2.4 addresses the actions required by the billed party if it desires to dispute any of the "Unpaid Charges." Since all charges are undisputed before a dispute has been filed, either AT&T's or Sprint's definition of "Unpaid Charges" would render the same result in Section 2.4. At the point a dispute is filed, the appropriate term for the amount not paid would then be Disputed Amount as used in Section 3 (where dispute provisions are stated).

Q. Are there other sections that also require the use of Sprint's proposed definition of "Unpaid Charges"?

A. Yes. As mentioned in Issue 85 [DPL IV.E.(1)] below, Section 2.2 provides for the Billing Party to send disconnect notice associated with Unpaid Charges. If the Commission approves the definition as proposed by AT&T, Section 2.2 would imply that Sprint's services could be disconnected if there are amounts in dispute beyond the bill due date.

Q. What language does Sprint propose to resolve this issue?

A. Sprint proposes the following language:

[109] Ferguson Direct, Page 42, Lines 5-8.

"Unpaid Charges" means any undisputed charges billed to the Non-Paying Party that the Non-Paying Party did not render full payment to the Billing Party by the Bill Due Date.

Issue 84 [DPL IV.D.(3)] – Should the ICA include AT&T's proposed language requiring escrow of disputed amounts?

Q. Mr. Ferguson asserts that AT&T has lost tens of millions of dollars to carriers that disputed bills without a proper basis and then had no funds to pay the amounts owed.[110] Has Sprint disputed AT&T bills without a proper basis and then not had the funds to pay amounts owed?

A. No. Sprint only files disputes that are good-faith disputes. Sprint recognizes the fact that there are situations where a dispute may be filed, rejected by the billing party with additional facts provided to billed party, and then paid to billing party as a result of the additional auditable information. At the point that a dispute is resolved, Sprint certainly pays any amounts owed.

Q. In that same regard, describe other provisions within the agreement that provide adequate protection to both parties for resolution of disputes and associated payments/credits.

A. Section 3.3.1 of Attachment 7 describes specific requirements associated with filing a dispute, resolution timelines, and cure based on the final

[110] Ferguson Direct, Page 43, Lines 10-14.

resolution. This section provides that either party may take additional measures beyond informal dispute resolution in the event that a dispute issue is not being resolved. In addition, Section 2[111] describes rights to review a billed party's creditworthiness and collect or increase a security deposit based on certain criteria. Both of these sections as proposed by Sprint would provide adequate protection to both AT&T and Sprint as a Billing Party.

Q. What does Sprint recommend to the Commission to resolve this issue?

A. Sprint requests the Commission reject AT&T's proposed escrow language.

Issue IV.E – Service Disconnection

Issue 85 [DPL IV.E.(1)] – Should the period of time in which the Billed Party must remit payment in response to a Discontinuance Notice be 15 or 45 days?

Q. Why is Mr. Ferguson's assertion that a 15-day period is sufficient time *to render payment or file a dispute after receiving a Disconnection* Notice[112] unreasonable?

A. The Disconnect Notice is the first notice to the Billed Party that an issue exists. Sprint's practice is to either pay the balance due by the due date or

[111] As further discussed in Issue 76 [DPL IV.B.(2)].
[112] Ferguson Direct, Page 46, Lines 12-13.

file a good-faith dispute. If there is ever an instance where a Disconnection Notice is sent to Sprint as a result of an unpaid/past-due balance, the first action on Sprint's part is to ensure receipt of the original invoice for which payment is not made. If the invoice was not received, the invoice must first be sent to Sprint for processing and subsequent payment and/or dispute. This process takes longer than AT&T's overly aggressive 15 days. It is not reasonable for AT&T to disconnect service within 15 days in this situation. Further, if the invoice was received timely but the payment and/or dispute transmission was lost or misrouted, resolution of this circumstance also requires more than 15 days and should not place Sprint's customers at risk of losing their service. It is not unheard of that a Billing Party may misapply a payment or that a payment/dispute transmission may be lost. Sprint's proposal simply protects the Billed Party in the event that there is some loss of data that has caused the unpaid/undisputed past due situation.

Q. What language does Sprint propose to resolve this issue?

A. Sprint proposes the following language:

> "Discontinuance Notice" means the written notice sent by the Billing Party to the other Party that notifies the Non-Paying Party that in order to avoid disruption or disconnection of the Interconnection products and/or services, furnished under this Agreement, the Non-Paying Party must remit all undisputed Unpaid Charges to the Billing Party within forty-five (45) calendar days following receipt of the Billing Party's notice of undisputed Unpaid Charges.

Issue 86 [DPL IV.E.(2)] – Under what circumstances may a Party disconnect the other Party for nonpayment, and what terms should govern such disconnection?

Q. Based on Mr. Ferguson's testimony regarding the involvement of this Commission prior to termination of Sprint's service to Florida consumers,[113] what risk is presented if AT&T's proposed language is approved?

A. Based on AT&T's proposed language, a Florida consumer who receives service from Sprint could be disconnected if there were some issue with invoicing, payment, or dispute transmission that is not resolved within 15 days of an invoice due date. This action is extreme, not only for Sprint, but for consumers within Florida.

Q. Mr. Ferguson states that adding time for Commission approval of a discontinuance of service is a tactic of delaying payment.[114] Please comment.

A. Nothing could be further from the truth. This is an overreaction to unfortunate circumstances - bills unpaid by other carriers, not Sprint - in the past. Moreover, the viability of any carrier's business relies on its customers and their satisfaction with the service they enjoy. It would be detrimental to Sprint or any other carrier to have service terminated, not to

[113] Ferguson Direct, Page 48, Lines 1-5.
[114] Ferguson Direct, Page 48, Lines 5-9.

mention the negative effect on end users. Sprint seeks to have provisions within the agreement that would protect the consumer as well as Sprint from premature treatment activities of this severity.

Q. Mr. Ferguson states that the party receiving the notice of discontinuance certainly has the opportunity to take the issue to the Commission.[115] How likely is it that every notice of discontinuance would become an issue before this Commission anyway?

A. Very likely. As described above, disconnection of service is the most extreme measure AT&T could take against the Billed Party and its end users. Any "threat" of disconnection (as AT&T describes it) would immediately be brought before this Commission.

Q. What other protection does the Billing Party have in this ICA?

A. The deposit language,[116] as well as the dispute language, provides adequate protection to the Billing Party against a carrier "continuing to run up bills it does not pay."[117]

Q. What language does Sprint propose to resolve this issue?

A. Sprint proposes the following language:

2.0 Nonpayment and Procedures for Disconnection

[115] Ferguson Direct, Page 48, Lines 15-18.
[116] See Issue 76 [DPL IV.B.(2)].
[117] Ferguson Direct, Page 51, Lines 7-8.

2.1 If a party is furnished Interconnection Services, under the terms of this agreement in more than one (1) state, this section 2.0, shall be applied separately for each state.

2.2 Failure to make payment as required by Section 1.12 will be grounds for disconnection of the Interconnection Services furnished under this Agreement, for which payment was required. If a Party fails to make such payment, the Billing Party will send a Discontinuance Notice to such Non-Paying Party. The Non-Paying Party must remit all Unpaid Charges to the Billing Party within forty-five (45) calendar days of the Discontinuance Notice.

2.3 Disconnection will only occur as provided by Applicable Law, upon such notice as ordered by the Commission.

2.4 If the Non-Paying Party desires to dispute any portion of the Unpaid Charges, the Non-Paying Party must complete all of the following actions not later than forty-five (45) calendar days following receipt of the Billing Party's notice of Unpaid Charges:

2.4.1 notify the Billing Party in writing which portion(s) of the Unpaid Charges it disputes, including the total Disputed Amounts and the specific details listed in the Dispute Resolution Section of this Attachment 7, together with the reasons for its dispute; and

2.4.2 pay all undisputed Unpaid Charges to the Billing Party

2.5 Issues related to Disputed Amounts shall be resolved in accordance with the procedures identified in the Dispute Resolution provision set forth Section 3.0 below.

Issue 87 [DPL IV.F.1] – Should the Parties' invoices for traffic usage include the Billed Party's state-specific Operating Company Number (OCN)?

Q. Mr. McNiel states in his Direct Testimony that Sprint provided a state-specific indicator on the Sprint invoices at one time.[118] What is this state-specific indicator?

A. I am not certain what state specific indicator Mr. McNiel references. Sprint has never provided the billed ("originating") party state specific OCN on an invoice from either its wireless or CLEC entity. The wireless invoice submitted by Sprint CMRS to AT&T has been a national level invoice since January 2000. The CLEC invoice submitted by Sprint to AT&T was produced by Local Access and Transport Area ("LATA") prior to November 2009 and delivered as a national invoice after that date.

Q. What change was made by Sprint in November, 2009?

A. In November, 2009, Sprint implemented a Billing Account Number ("BAN") consolidation for our CLEC entity. Prior to the consolidation, Sprint rendered 81 invoices to AT&T for CLEC reciprocal compensation each month in states other than Florida.[119]

Q. Prior to November, 2009 when the CLEC invoices were rendered by LATA, was an originating state-specific indicator provided by Sprint on the invoice?

A. No. For LATAs that cross over state boundaries multiple states would be billed on the same invoice even prior to the BAN consolidation.

[118] McNiel Direct, Page 13, Lines 13-18.
[119] The parties enjoy a bill & keep compensation mechanism today in Florida.

Q. So, is Mr. McNiel's representation that Sprint formerly provided a state-specific OCN accurate?[120]

A. No. Sprint's November, 2009 BAN consolidation effort did not alter whether Sprint provided state-specific OCNs on the bill as Mr. McNiel claims.

Q. In Mr. McNiel's description of the steps AT&T must perform, he states that the AT&T system allows for mechanized receipt of billing data. What cure is available to AT&T in mechanized format from Sprint that would provide the needed detail?

A. Sprint offers a mechanized transmission of bill data. Currently AT&T has chosen not to subscribe to this mechanized invoice media.

Q. Does AT&T have the option to receive totally mechanized invoices from Sprint that would provide the reporting functionality described by Mr. McNiel in his Direct Testimony?[121]

A. Absolutely. Sprint offers a mechanized invoice through electronic data transfer that would allow AT&T to mechanically download invoice data for validation and reporting. This invoice would include state level summaries.

[120] McNiel Direct, Page 13, Lines 16-18.
[121] McNiel Direct, Page 15, Lines 1-2.

Q. Is there additional cost for AT&T to receive the mechanized invoices described above?

A. No. If AT&T changes the primary media to a mechanized invoice, there is no monthly recurring cost to AT&T for the primary media.

Q. If this Commission were to approve AT&T's proposed language to include the state-specific OCN for the billed ("originating") party, are there factors that impact Sprint's ability to comply with AT&T's proposed language?

A. Yes. The method in which AT&T publishes its Florida numbers in the Local Exchange Routing Guide ("LERG") impacts Sprint's ability to comply with the AT&T proposed language. As I mentioned in my Direct Testimony,[122] Sprint complies with the requirements of Small Exchange Carrier Access Billing ("SECAB") as provided by the industry. AT&T has requested that Sprint provide the Originating Party ***state-specific*** OCN on the invoice. However, because AT&T does not populate state-specific OCNs in the LERG, it would be impossible for Sprint to obtain the requested information with the resources Sprint has its disposal. More specifically, when the Billing Party analyzes the call detail record ("CDR") for invoicing, the Billing Party may perform a LERG lookup using the CPN or Local Routing Number to determine the OCN of the originating party Since AT&T only populates the LERG with an overall regional OCN,

[122] Felton Direct, Page 92, Lines 2-5.

Sprint's query (using the CPN that is recorded as part of the CDR), yields only the regional OCN, not the state-specific OCN AT&T desires.

Q. What is Sprint's recommendation to the Commission?

A. Rather than approve the AT&T proposed language that would be impossible to operationalize since the state specific codes are not even utilized by AT&T for its own numbering resources in Florida, Sprint recommends that the Commission approve Sprint's proposed language. Further, as I state above, Sprint is happy to offer AT&T its mechanized bill format in order to receive the state level summaries in mechanized form rather than through the email transmission elected by AT&T.

Q. What language does Sprint propose to resolve this issue?

A. Sprint proposes the following language:

> 1.6.3 Each Party will invoice the other by state, for traffic exchanged pursuant to this Agreement, by the Central Office Switch, based on the terminating location of the call and will display and summarize the number of calls and Conversation MOUs for each terminating office and usage period. [FOR WIRELESS ONLY] Sprint will display the CLLI code(s) associated with the Trunk through which the exchange of traffic between AT&T-9STATE and Sprint takes place as well as the number of calls and Conversation MOUs.

Issue 88 [DPL IV.F.2.(1)] – How much notice should one Party provide to the other Party in advance of a billing format change?

Q. Mr. McNiel states that Sprint's proposed language is imprecise and would lead to unnecessary disputes that this Commission might have to decide.[123] Please comment.

A. Sprint actually seeks to provide clarity to this contract provision with two insertions to the section. I will address each insertion separately.

Q. What is Sprint's first insertion to Section 1.19?

A. The first insertion involves limiting the amount of time that the billed party may withhold payment when notification of a bill format change is not received at least 90 days prior to the change. The language that AT&T proposes allows the Billed Party to withhold payment indefinitely, which is surprising since AT&T claims to have losses in the tens of millions of dollars due to non-payment of invoices. It is more likely that this Commission would be called upon to resolve a non-payment issue under AT&T's proposal.

Q. What is Sprint's second insertion to Section 1.19?

A. The second insertion involves the added phrase "*that may impact the Billed Party's ability to validate and pay the Billing Party's invoices.*" Sprint recognizes that not every bill format change will require programming changes on the part of the Billed Party in order to process the invoice for payment. In those situations, there is no reason for the Billed Party to

[123] McNiel Direct, Page 17, Lines 15-16.

withhold payment beyond the due date of the invoice regardless of the notification timeline. This language would certainly not seek to create uncertainty for the Billing Party. The Billing Party would most certainly have the option to send notification for every billing format change if it so chooses. Instead, Sprint's proposal seeks to protect the Billing Party from non-payment when notification is either not sent or delayed for a bill format change which does not impact the Billed Party's processing/validation of the invoice.

Q. How do you address AT&T's assertion that 90 calendar days may not provide enough time for necessary preparations by the Billed Party?[124]

A. I do not understand AT&T's assertion. It certainly is not consistent with the other agreed upon language in this section. AT&T and Sprint have agreed that 90 calendar days is an appropriate timeframe for sending "timely" notification of a billing format change. If the notice is provided timely, the Billed Party has 90 days to prepare for the billing format change. In this scenario, the Billed Party is not afforded any additional time to make necessary preparations. If the notice is not provided timely, Sprint's proposed language would suggest that the Billed Party should have the same amount of time deemed as "timely" from the date that notice is provided, even if that notice is receipt of the invoice containing the bill format change.

[124] McNiel Direct, Page 18, Lines 19-20.

AT&T's proposed language would give the Billed Party an unlimited amount of time to withhold payment.

Q. What language does Sprint propose to resolve this issue?

A. Sprint proposes the following language:

> 1.19 Each Party will notify the other Party at least ninety (90) calendar days or three (3) monthly billing cycles prior to any billing format changes that may impact the Billed Party's ability to validate and pay the Billing Party's invoices. At that time a sample of the new invoice will be provided so that the Billed Party has time to program for any changes that may impact validation and payment of the invoices. If the specified length of notice is not provided regarding a billing format change and such change impacts the Billed Party's ability to validate and timely pay the Billing Party's invoices, then the affected invoices will be held and not subject to any Late Payment Charges, until at least ninety (90) calendar days has passed from the time of receipt of the changed bill.

Issue 89 [DPL IV.G.2] – What language should govern recording?

Q. Do you have any Rebuttal Testimony for this issue?

A. No. My Direct Testimony sufficiently addresses this issue.

Issue 90 [IV.H] – Should the ICA include AT&T's proposed language governing settlement of alternately billed calls via Non-Intercompany Settlement System (NICS)?

Q. Mr. Ferguson asserts that Sprint proposes that the ICA include no language for NICS.[125] Is that correct?

A. No. As a matter of fact, AT&T and Sprint have agreed on all sections relating NICS with the exception of 5.1.2.

Q. What is the purpose of section 5.1.2?

A. This section provides for AT&T to "collect revenue earned by Sprint within the AT&T-9STATE territory from another LEC also within the AT&T-9STATE territory where the messages are billed, less a message billing and collection fee indicated in the Pricing Schedule." This is a service that is provided to Sprint by its Revenue Accounting Office ("RAO") host company. At this time, Sprint's RAO host company is AT&T. However, Sprint has the option of choosing another RAO host company who will then perform these functions on our behalf. AT&T's proposed language would not allow Sprint to choose a different company as its RAO host.

Q. Mr. Ferguson mentions that AT&T had proposed a revision to address Sprint's concern.[126] Did the proposal address the concern adequately?

A. No. AT&T offered to add the statement, "This section 5.1.2 applies only if AT&T and Sprint do not have an RAO Hosting Agreement." AT&T's proposed resolution does nothing more than move the function from one agreement with AT&T to another. Carriers have the option of choosing any

[125] Ferguson Direct, Page 52, Lines 1-2.
[126] Ferguson Direct, Page 52, Lines 7-8.

RAO host company to perform the functions required by NICS. Sprint should not be stripped of its option to choose another company as its host company.

Q. Did Sprint offer a counter proposal to resolve this issue?

A. Yes. Sprint counter-offered to accept the paragraph with the following revision of the additional statement offered by AT&T (as mentioned above): "This section 5.1.2 applies only if Sprint does not have an RAO Hosting Agreement." AT&T declined Sprint's proposed change.

Q. What is Sprint's proposed resolution to this issue?

A. Sprint asks the Commission to reject AT&T's proposed language for this Issue.

IV. CONCLUSION

Q. *Does this conclude your* Rebuttal Testimony?

A. Yes.

EXHIBIT MGF - 1

BRIEF FOR AMICI CURIAE FEDERAL COMMUNICATIONS COMMISSION IN SUPPORT OF DEFENDANTS-APPELLANTS AND REVERSAL OF THE DISTRICT COURT

IN THE UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

NO. 07-2469 & 07-2473

MICHIGAN BELL TELEPHONE COMPANY D/B/A/ AT&T MICHIGAN,
PLAINTIFF-APPELLEE,

V.

COVAD COMMUNICATIONS COMPANY; TALK AMERICA INC.;
XO COMMUNICATIONS SERVICES, INC.,
INTERVENORS-DEFENDANTS – APPELLANTS,

MCLEOD USA TELECOMMUNICATIONS SERVICES, INC.; TDS METROCOM, LLC,
INTERVENORS,

J. PETER LARK, IN HIS OFFICIAL CAPACITY AS CHAIRMAN OF THE MICHIGAN PUBLIC SERVICE COMMISSION AND NOT AS AN INDIVIDUAL; LAURA CHAPPELLE, IN HER OFFICIAL CAPACITY AS COMMISSIONER AND NOT AS AN INDIVIDUAL; MONICA MARTINEZ, IN HER OFFICIAL CAPACITY AS COMMISSIONER AND NOT AS AN INDIVIDUAL,

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TABLE OF CONTENTS

Page

TABLE OF AUTHORITIES

Cases **Page**

Page

Administrative Decisions

Page

Statutes and Regulations

BRIEF FOR AMICI CURIAE FEDERAL COMMUNICATIONS COMMISSION IN SUPPORT OF DEFENDANTS-APPELLANTS AND REVERSAL OF THE DISTRICT COURT

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TABLE OF CONTENTS

Page

TABLE OF AUTHORITIES

Page

Cases

Page

Administrative Decisions

Page

Statutes and Regulations

Page

Others

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NO. 07-2469 & 07-2473

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BRIEF FOR AMICI CURIAE FEDERAL COMMUNICATIONS COMMISSION IN SUPPORT OF DEFENDANTS-APPELLANTS AND REVERSAL OF THE DISTRICT COURT

STATEMENT OF INTEREST

Pursuant to this Court's invitation,[1] the Federal Communications Commission ("FCC") respectfully files this brief as amicus curiae. The FCC has primary responsibility for implementing and enforcing the Communications Act of 1934, 47 U.S.C. § 151, et seq. This case involves this Court's review of a district court's interpretation of section 251(c) of that Act and the FCC orders and rules construing that statutory provision. The FCC has an interest in ensuring that the Act, its rules, and its precedents are correctly interpreted.

In addition, the FCC believes that the district court (in contrast to two circuit courts previously confronting the same issue) improperly disregarded the FCC's authoritative construction of its own rules and authorizing statute. The FCC has an interest in defending its regulatory judgments and in ensuring that they are challenged only in courts with jurisdiction to do so.

QUESTION PRESENTED

Whether an FCC rule relieving incumbent local exchange carriers ("LECs") of their duty under section 251(c)(3) of the Communications Act to make entrance facilities available to competitive carriers as unbundled network elements bars the Michigan Public Service Commission ("MPSC") from construing a different provision of the Act, section 251(c)(2), to require AT&T Michigan, an incumbent LEC, to provide its competitors with similar facilities at cost-based rates when they are used solely for interconnection.

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[1] Letter from Leonard Green, Clerk, U.S. Court of Appeals for the Sixth Circuit to Matthew Berry, General Counsel, FCC (Dec. 10, 2008) ("Green Letter").

STATEMENT OF THE CASE

I. Statutory and Regulatory Background

1. The Telecommunications Act of 1996,[2] which is part of the Communications Act, is designed to "'end[] the longstanding regime of state-sanctioned monopolies' in the local telephone markets"[3] and "to open all telecommunications markets to competition."[4] Congress recognized that no prospective entrant could hope to compete with the incumbent LECs in providing consumers with telephone exchange service and exchange access service by replicating the existing local network infrastructure. Section 251(c), added by the 1996 Act, therefore entitles competitive carriers to enter local telephone markets by utilizing the incumbent LECs' own networks in three distinct but overlapping ways. See 47 U.S.C. § 251(c)(2)-(4).

First, section 251(c)(2) requires incumbent LECs "to provide * * * interconnection" between their networks and those of other carriers, and to do so at "just, reasonable, and nondiscriminatory" rates and terms. 47 U.S.C. § 251(c)(2). See also 47 C.F.R. § 51.305(a). In simple terms, interconnection in this context means linking the physical networks of two carriers in order to exchange traffic

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[2] Pub. Law No. 104-104, 110 Stat. 56 ("1996 Act").

[3] BellSouth Telecomms., Inc. v. Southeast Tel., Inc., 462 F.3d 650, 652 (6th Cir. 2006) (quoting AT&T Corp. v. Iowa Utils. Bd., 525 U.S. 366, 371 (1999)).

[4] H.R. Rep. No. 104-458, at 1 (1996) (Conf. Rep.). See AT&T, 525 U.S. at 371; Quick Commc'ns, Inc. v. Mich. Bell Tel. Co., 515 F.3d 581, 583 (6th Cir. 2008).

and complete calls between end user customers of the two carriers.[5] Section 251(c)(2) "obligates the incumbent [LEC] to 'interconnect' the competitor's facilities to its own network to whatever extent is necessary to allow the competitor's facilities to operate."[6]

Second, section 251(c)(3) requires all incumbent LECs to provide their competitors with non-discriminatory access to certain elements of the incumbents' networks on an unbundled basis. 47 U.S.C. § 251(c)(3).[7] In determining which non-proprietary network elements ("UNEs") the incumbent LECs must make available to competitive carriers on an unbundled basis, the FCC must consider whether the failure to provide a requesting competitor access to such elements would "impair" the competitor's ability to provision service. 47 U.S.C. § 251(d)(2)(B).[8] The unbundling obligation enables a competitor to enter the local telephone market by assembling components of a network from various sources – some leased from the incumbent LEC, some perhaps self-provisioned, and some possibly obtained from a third party. This facilitates competition by obviating the

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[5] 47 C.F.R. § 51.5 (defining the term "interconnection" to refer to the "physical linking of two networks for the mutual exchange of traffic."). See Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, First Report and Order, 11 FCC Rcd 15499, 15590 (¶ 176) (1996) ("Local Competition Order") (subsequent history omitted).

[6] Verizon Commc'ns, Inc. v. FCC, 535 U.S. 467, 491 (2002).

[7] See 47 U.S.C. § 153(29) (defining a "network element" as "a facility or equipment used in the provision of a telecommunications service").

[8] The statute prescribes a different unbundling standard for so-called "proprietary" network elements, which are not at issue in this case. See 47 U.S.C. § 251(d)(2)(A).

need for a new market entrant to build a duplicative and costly stand-alone network.

Finally, section 251(c)(4) gives potential competitors a right to buy an incumbent LEC's retail services "at wholesale rates" and then to resell them to end users. 47 U.S.C. § 251(c)(4).[9]

Section 252 establishes the procedures that incumbent LECs and their competitors must follow when implementing the substantive rights and obligations of section 251(c). 47 U.S.C. § 252. Section 252 provides that the parties enter into negotiated contracts — known as interconnection agreements — for interconnection, resale of services, or network elements, followed by expeditious arbitration by state public utility commissions of any unresolved issues. Id.[10] Section 252(c)(1) requires state arbitrators to conform their disposition of "open issues" in interconnection agreements to "the requirements of section 251, including the regulations prescribed by the [FCC] pursuant to section 251." 47 U.S.C. § 252(c)(1). All interconnection agreements approved or arbitrated by state commissions are subject to review in federal district court to determine whether they "meet[] the requirements" of sections 251 and 252. 47 U.S.C. § 252(e)(4), (6).[11]

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[9] See Mich. Bell Tel. Co. v. MCIMetro Access Transmission Servs., 323 F.3d 348 (6th Cir. 2003); Mich. Bell Tel. Co. v. Strand, 305 F.3d 580 (6th Cir. 2002). Section 251(c)(4) is not at issue in this case.

[10] Congress directed the FCC to resolve such disputes whenever a state commission opts out of its statutory role. See 47 U.S.C. § 252(e)(5).

[11] See Mich. Bell Tel. Co. v. MFS Intelenet of Mich., Inc., 339 F.3d 428, 431 (6th Cir. 2003).

Section 252(d)(1) requires the rates both for interconnection under section 251(c)(2) and for UNEs under section 251(c)(3) to be cost-based. 47 U.S.C. § 252(d)(1). The FCC's rules require those cost-based rates to be calculated under a Total Element Long-Run Incremental Cost ("TELRIC") methodology. See 47 C.F.R. § 51.505(b). The Supreme Court has upheld the TELRIC methodology as lawful and consistent with the statute.[12]

2. Under authority delegated by Congress, see 47 U.S.C. § 251(d)(2), the FCC has adopted rules establishing which network elements should be unbundled and made available to competitive carriers pursuant to section 251(c)(3). See 47 C.F.R. § 51.319. In its 2005 Triennial Review Remand Order ("TRRO")[13] revisiting the list of mandatory UNEs, the FCC considered whether so-called "entrance facilities" – the facilities at issue in this case – must be offered on an unbundled basis under section 251(c)(3). Entrance facilities are "the transmission facilities that connect competitive LEC networks with incumbent LEC networks."[14] Entrance facilities can be used for multiple purposes. For example, entrance facilities may be used simply to link two carriers' networks for the purpose of exchanging traffic (i.e., interconnection). A competitive carrier may

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[12] Verizon, 535 U.S. 467.

[13] Unbundled Access to Network Elements and Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers, Order on Remand, 20 FCC Rcd 2533, 26109-10 (¶ 136) (2005) ("TRRO") (subsequent history omitted).

[14] TRRO, 20 FCC Rcd at 2609 (¶ 136). See Ill. Bell Tel. Co. v. Box, 526 F.3d 1069, 1071 (7th Cir. 2008) (describing "entrance facilities" as "connection[s] between a switch maintained by an ILEC and a switch maintained by a CLEC.").

also use entrance facilities, however, to carry its own customers' traffic from an incumbent LEC's central office to the competitive carrier's switch or other equipment, a practice known as "backhauling."[15]

The FCC in the TRRO determined that competitive carriers are not impaired in their ability to provide service without access to entrance facilities as unbundled network elements.[16] Accordingly, the FCC adopted an implementing rule specifying that an incumbent LEC is not obligated to provide a competitive carrier with access to entrance facilities on an unbundled basis at cost-based (i.e., TELRIC) rates under section 251(c)(3). 47 C.F.R. § 51.319(e)(2)(i). As it made this change, however, the FCC emphasized that its non-impairment finding "with respect to entrance facilities does not alter the right of competitive LECs to obtain interconnection facilities pursuant to section 251(c)(2)."[17] The FCC explained that "competitive LECs will have access to these facilities at cost-based rates to the extent that they require them to interconnect with the incumbent LEC's network."[18]

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[15] Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers, Report and Order and Order on Remand and Further Notice of Proposed Rulemaking, 18 FCC Rcd 16978, 17203, 17206-07 (¶¶ 365, 370) (2003) ("TRO") (subsequent history omitted). See Southwestern Bell Tel. L.P. v. Mo. Pub. Serv. Com'n, 530 F.3d 676, 681-83 (8th Cir. 2008), cert. denied, 129 S.Ct. 971 (2009).

[16] TRRO, 20 FCC Rcd at 2611 (¶¶ 137-39).

[17] Id. at 2611 (¶ 140).

[18] Id.

II. Background of This Proceeding

1. Shortly after the FCC issued the TRRO, AT&T Michigan[19] notified competitive LECs that it would modify its interconnection agreements so as to eliminate entirely its obligation to provide entrance facilities at cost-based, TELRIC rates. A number of competitive LECs asked the MPSC to prohibit this modification on the ground that it improperly abrogated their right to cost-based interconnection under section 251(c)(2).[20] On September 20, 2005, the MPSC arbitrated the dispute in favor of the competitive LECs.[21] Based upon the FCC's finding in paragraph 140 in the TRRO, the MPSC determined that "[competitive] LECs still have a right to entrance facilities to the extent required for interconnection pursuant to [s]ection 251(c)(2)."[22] The MPSC determined that AT&T Michigan's proposal "would eliminate any responsibility to provide those facilities at TELRIC rates, contrary to the FCC's specific findings."[23]

2. On April 28, 2006, AT&T Michigan filed a complaint in federal district court challenging the MPSC's ruling,[24] and on September 26, 2007, the district

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[19] At the time the dispute arose, AT&T Michigan was doing business as SBC Michigan Bell. To avoid confusion, the FCC throughout this brief refers to this company as AT&T Michigan.

[20] Record Entry No. 1, MPSC Order, Case No. U-14447 at 11-13 (Sept. 20, 2005) (J.A. 40-42).

[21] Id. at 13 (J.A. 42).

[22] Id. (citing TRRO, 20 FCC Rcd at 2611 (¶ 140)) (J.A. 42).

[23] Id.

[24] Record Entry No. 1, Complaint for Declaratory, Injunctive, and Other Relief of Plaintiff at 19, filed by AT&T Michigan (Apr. 28, 2006) (J.A. 26).

court set it aside.[25] The district court believed that the TRRO broadly "provides that entrance facilities need not be provided by incumbent carriers to competing carriers on an unbundled basis."[26] The district court determined that the MPSC decision was inconsistent with that rule. The court acknowledged that the FCC in paragraph 140 of the TRRO had said that its unbundling determination did not alter incumbent LECs' ongoing interconnection obligation to provide entrance facilities at cost-based rates but asserted that "[i]t is not reasonable to interpret an explanatory comment, such as the one found in ¶ 140 of the TRRO, in a manner that undermines the plain meaning of the rule."[27]

3. The MPSC and several competitive LECs appealed the district court's decision to this Court. This Court held argument on December 10, 2008. On the day of oral argument, the Court by letter invited the FCC to file a brief setting forth its views on the cases and how they should be resolved.[28]

ARGUMENT:

THE DISTRICT COURT ERRED IN HOLDING THAT THE RULE REMOVING AN INCUMBENT LEC'S DUTY TO PROVIDE ENTRANCE FACILITIES AS UNES ALSO RELIEVES AN INCUMBENT LEC OF ITS SEPARATE DUTY TO PROVIDE INTERCONNECTION.

At the outset, it is important to emphasize that incumbent LECs have two independent duties under section 251(c) that are relevant to this case. First, under

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[25] Record Entry No. 32, District Court Order (Sept. 26, 2007) (J.A. 292-314).

[26] Id. at 14 (J.A. 305).

[27] Id.

[28] Green Letter, supra, note 1.

the "unbundling" duty of section 251(c)(3), if the FCC makes an "impairment" finding, an incumbent LEC must offer a particular element of its network to a competitor at cost-based rates. Separately, under the "interconnection" duty of section 251(c)(2), an incumbent LEC must agree to interconnect its network with a competitor's network at cost-based rates at any technically feasible point of the competitor's choosing. See AT&T, 525 U.S. at 371 (specifying the separate ways in which section 251(c) obligates incumbent LECs to provide access to their networks).

The question presented by this case is whether the FCC's decision to remove the unbundling duty automatically relieves an incumbent LEC of its separate duty to provide interconnection to competitive carriers with regard to a type of facility that has multiple uses, one of which was addressed in the unbundling decision. As shown below, the FCC answered that question in the negative in the TRRO, and that determination is not subject to collateral attack in this proceeding. Even if the FCC's statement on-point in the TRRO were reviewable here, it should still control the outcome because (1) the FCC's considered construction of the scope of its own unbundling rule is clearly correct; and (2) even if there were some reason for doubt, its reasonable interpretation of section 251(c)(2) should be accorded deference by the Court.

I. THE TRRO IS NOT SUBJECT TO COLLATERAL ATTACK IN THIS CASE.

The FCC in paragraph 140 of the TRRO declared explicitly that its rule relieving incumbent LECs of the duty to unbundle entrance facilities and its non-

impairment finding "do[] not alter the right of competitive LECs to obtain interconnection facilities pursuant to section 251(c)(2)."[29] The FCC went on to state categorically that "competitive LECs will have access to these facilities at cost-based rates to the extent that they require them to interconnect with the incumbent LEC's network."[30] The MPSC was correct in accepting the agency's authoritative interpretation of the scope of the unbundling rule and its specification of the incumbent LECs' section 251(c)(2) obligations.[31] The district court purported to reject the FCC's ruling,[32] but it had no authority to do so.

Challenges to orders of the FCC are governed by section 402 of the Communications Act of 1934, which states that "any proceeding to enjoin, set aside, annul, or suspend any order of the [FCC] under this chapter . . . shall be brought as provided by and in the manner prescribed in Chapter 158 of title 28, United States Code." 47 U.S.C. § 402(a) (emphasis added). Chapter 158, which is known as the Hobbs Act and is codified at 28 U.S.C. §§ 2341 et seq., provides in relevant part that "[t]he court of appeals ... has exclusive jurisdiction to enjoin, set

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[29] TRRO, 20 FCC Rcd at 2611 (¶ 140).

[30] Id.

[31] Record Entry No. 1, MPSC Order at 13 (J.A. 42).

[32] Record Entry No. 32, District Court Order at 14 (Sept. 26, 2007) (J.A. 305). The FCC's statement in paragraph 140 was not a mere "explanatory comment" without legal force, as the district court apparently believed. Instead, it constituted an authoritative interpretation of the meaning of the FCC's unbundling rules and a description of the incumbent LECs' interconnection obligations with respect to these facilities.

aside, suspend (in whole or in part), or to determine the validity of all final orders of the Federal Communications Commission made reviewable by [47 U.S.C. § 402(a)]." 28 U.S.C. § 2342(1). The statute specifies that "any party aggrieved by the [FCC's] final order may, within 60 days after its entry, file a petition to review the order in the court of appeals wherein venue lies." 28 U.S.C. § 2344 (emphasis added).

The Communications Act and the Hobbs Act thus specify the precise procedure for obtaining judicial review of FCC orders and vest exclusive jurisdiction in the courts of appeals considering petitions for review. "'[A] statute which vests jurisdiction in a particular court cuts off original jurisdiction in other courts in all cases covered by that statute.'"[33] The "appropriate procedure for obtaining judicial review of the agency's disposition of [regulatory] issues [is] to appeal to the Court of Appeals as provided by statute."[34] This general rule applies when, as here, a district court is reviewing a state public utility commission

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[33] Browning v. Levy, 283 F.3d 761, 778 (6th Cir. 2002) (quoting Telecomms. Research and Action Ctr. v. FCC, 750 F.2d 70, 77 (D.C. Cir. 1984)). See Thiokol Corp. v. Dep't of Treasury, State of Mich., Revenue Div., 987 F.2d 376, 379 (6th Cir. 1993); Greater Detroit Res. Recovery Authority v. EPA, 916 F.2d 317, 321 (6th Cir. 1990).

[34] FCC v. ITT World Commc'ns, Inc., 466 U.S. 463, 468 (1984) (emphasis added).

decision under section 252(e)(6). In such cases, the district court is obligated to accept the FCC's previous resolution of any contested question.[35]

If AT&T Michigan wanted to challenge the FCC's authoritative interpretation of its own unbundling regulations in the TRRO, its recourse was to raise this claim in a petition for review of that order within 60 days after its entry.[36] In fact, AT&T's predecessor SBC (and many others) did challenge the TRRO in this manner, but it failed to assert this claim.[37] The FCC's ruling in paragraph 140 of the TRRO thus has become final and is not subject to judicial review in this proceeding.

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[35] See Qwest Corp. v. Pub. Utils. Comm'n of Colorado, 479 F.3d 1184, 1192 n.6 (10th Cir. 2007) ("The parties have not contested the validity of this FCC interpretation, nor could they. See 28 U.S.C. § 2342."); see also Vonage Holdings Corp. v. Minn. PUC, 394 F.3d 568, 569 (8th Cir. 2004) ("[n]o collateral attacks on the FCC order are permitted" in private party litigation); Wilson v. A.H. Belo Corp., 87 F.3d 393, 396-397 (9th Cir. 1996); Telecomms. Research & Action Ctr., 750 F.2d at 75; George Kabeller, Inc. v. Busey, 999 F.2d 1417, 1421-22 (11th Cir. 1993); Bywater Neighborhood Ass'n v. Tricarico, 879 F.2d 165, 167 (5th Cir. 1989), cert. denied, 494 U.S. 1004 (1990); City of Peoria v. Gen. Elec. Cablevision Corp., 690 F.2d 116, 119 (7th Cir. 1982) (describing challenge to FCC rule in private party district court litigation as having been "brought in the wrong court at the wrong time against the wrong party").

[36] To the extent AT&T believed the FCC's statement in paragraph 140 was not clear, it could have filed a petition for reconsideration asking the agency to clarify it.

[37] See Covad Commc'ns, Inc. v. FCC, 450 F.3d 528 (D.C. Cir. 2006).

II. THE COURT IN ANY EVENT SHOULD DEFER TO THE FCC'S REASONABLE INTERPRETATION OF THE UNBUNDLING RULE AND SECTION 251(c)(2).

A. The FCC's Construction of the Scope of Its Own Unbundling Rule Is Controlling.

Under well-established law, an "agency's reading of its own rule is entitled to substantial deference."[38] Indeed, an agency's construction of its own rule is "'controlling'" when, as in this case, "the interpretation reflect[s] a 'fair and considered judgment' and [is] not 'plainly erroneous or inconsistent with the regulation.'"[39] Thus, even assuming, arguendo, that the district court were not precluded from reviewing the FCC's definitive determination in its TRRO as to the scope of its unbundling rule, the district court should have deferred to it.[40]

Section 251(c)(2) and 251(c)(3) are independent statutory obligations that serve different purposes. The cost-based UNEs that incumbent LECs must provide under section 251(c)(3) are designed to enable competitive carriers to assemble their own telecommunications networks by combining elements from various sources (including the incumbent LECs), whereas the interconnection that the incumbent LEC must provide under section 251(c)(2) simply enables a competitive carrier to connect its network with the network of the incumbent LEC to exchange

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[38] Riegel v. Medtronic, Inc., 128 S.Ct. 999, 1010 (2008).

[39] Huffman v. C.I.R., 518 F.3d 357, 367-68 (6th Cir. 2008) (quoting Auer v. Robbins, 519 U.S. 452, 461-62 (1997)).

[40] See MCI Telecommns. Corp. v. Ohio Bell Tel. Co., 376 F.3d 539, 550 (6th Cir. 2004) (according deference to the agency's own construction of an FCC rule).

traffic and complete calls.[41] The FCC thus reasonably determined in the TRRO both that competitive LECs are not impaired without access to entrance facilities (thus relieving them of the obligation to provide those facilities to competitive carriers as UNEs under section 251(c)(3)) and that this determination had no effect on the incumbent LECs' independent obligation to provide interconnection under section 251(c)(2).[42] Because that regulatory interpretation "reflect[s] a 'fair and considered judgment' and [is] not 'plainly erroneous or inconsistent'" with the unbundling rule, that construction is "'controlling.'"[43]

The district court erroneously found that the agency's interpretation of the scope of its unbundling regulation "undermines the plain meaning of the rule."[44] The rule referenced by the court (which states that incumbent LECs need not provide entrance facilities as unbundled network elements) is codified in a section addressing an incumbent LEC's duties "in accordance with section 251(c)(3) of the Act." 47 C.F.R. § 51.319(e). Nothing in that rule suggests that it applies also to an incumbent LEC's separate obligation (embodied in a different rule, 47 C.F.R.

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[41] See Local Competition Order, 11 FCC Rcd at 15636-37 (¶ 270) ("Subsection (c)(3), therefore, allows unbundled elements to be used for a broader range of services than subsection (c)(2) allows for interconnection.").

[42] See Southwestern Bell, 530 F.3d at 683-84 (holding that FCC rule eliminating the requirement that incumbent LECs provide entrance facilities as UNEs under section 251(c)(3) does not affect the incumbent LECs' continuing duty to offer such facilities at cost-based rates when used for interconnection facilities under section 251(c)(2)); Ill. Bell, 526 F.3d at 1071-72 (same).

[43] Huffman, 518 F.3d at 367-68 (quoting Auer, 519 U.S. at 461-62).

[44] Record Entry No. 32, District Court Order at 14 (J.A. 305).

§ 51.305) to provide interconnection under section 251(c)(2). The FCC's statement in paragraph 140 recognized something that the district court appears to have overlooked: these are two separate statutory obligations that are not necessarily co-extensive.

Nor is the FCC's interpretation inconsistent with the non-impairment determination set forth in the TRRO. Section 251(d)(2) affirmatively required the FCC to make an impairment determination in analyzing whether entrance facilities (or other network elements) should be classified as UNEs that an incumbent LEC must provide at cost-based rates under section 251(c)(3). See 47 U.S.C. § 251(d)(2). In contrast, the statute does not direct the FCC to analyze impairment in determining an incumbent LEC's interconnection duty under section 251(c)(2). So a finding of impairment or non-impairment under section 251(c)(3) is not relevant to the separate question of whether there is an ongoing interconnection obligation under section 251(c)(2).

As a factual matter, AT&T Michigan is mistaken in arguing that the MPSC ruling "circumvents [the FCC's] rule by re-imposing the repealed requirement under a different provision of the 1996 Act."[45] The FCC recognized that competitive LECs may use particular transmission facilities both as a means of interconnection, i.e., a link for the mutual exchange of traffic between an incumbent LEC and a competitive LEC, and to backhaul traffic, i.e., to carry its own customers' traffic from an incumbent LEC central office to the competitive

[45] Br. of AT&T Michigan at 17.

carrier's switch or other equipment.[46] In its 1996 Local Competition Order, the FCC interpreted section 251(c)(2) to require an incumbent LEC to provide interconnection facilities at cost-based rates.[47] Both the TRO and TRRO made clear that those section 251(c)(2) interconnection obligations continue despite the elimination of section 251(c)(3) unbundling obligations for entrance facilities.[48]

A competitor thus continues to have cost-based access to incumbent interconnection facilities in order to exchange traffic between its customers and those of the incumbent LEC. The incumbent LEC, however, no longer has to provide such facilities at cost-based rates to a competitive carrier that procures the facility to back-haul traffic between the competitor's own customers.[49] The decision to no longer require unbundled access to entrance facilities under section 251(c)(3) thus has a material impact notwithstanding the remaining, narrower obligation to provide those facilities for purposes of interconnection.

B. The Court Should Defer to the FCC's Determination that an Incumbent LEC's Duty to Provide Interconnection under Section 251(c)(2) May Require the Carrier to Offer Cost-based Interconnection Facilities.

Unless Congress unambiguously has expressed an intent on the precise question at issue, a court must give deference to the expert agency's construction

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[46] TRO, 18 FCC Rcd at 17203 (¶ 365).

[47] See Local Competition Order, 11 FCC Rcd at 15605, 15781 (¶¶ 198, 202, 533).

[48] See TRO, 18 FCC Rcd at 17203-04 (¶ 366); TRRO, 20 FCC Rcd at 2611 (¶ 140).

[49] See Southwestern Bell, 530 F.3d at 681; Ill. Bell, 526 F.3d at 1071.

of a statute that it administers.[50] Congress did not speak directly to whether an incumbent LEC's duty to provide interconnection under section 251(c)(2) could include the provision of entrance facilities used to link its network with those of a competitive carrier. By leaving the term "interconnection" undefined in section 251(c)(2) and not otherwise delineating its meaning, Congress delegated authority to the FCC to interpret the scope of an incumbent LEC's interconnection obligation in a permissible fashion.[51]

As noted above, section 251(c)(2) requires incumbent LECs "to provide * * * interconnection" to a requesting competitive LEC "at any technically feasible point within the carrier's network." 47 U.S.C. § 251(c)(2). AT&T Michigan misreads that language as imposing only a passive duty on the incumbent LEC to "to allow the CLEC to connect 'with' the incumbent LEC's network to 'accommodate interconnection,'"[52] but that is plainly not what it says, or how the FCC has interpreted it. Since the adoption of the 1996 Act, the FCC has consistently found that an incumbent LEC, to fulfill that duty to interconnect, may be required to provide facilities that are used for the physical linking of the two networks. For example, in its Local Competition Order, the FCC stated that the right of a competitive LEC to obtain interconnection at any technically feasible

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[50] Chevron USA Inc. v. Natural Res. Def. Council, 467 U.S. 837, 842-43 (1984).

[51] Chevron, 467 U.S. at 843; Nat'l Cable & Telecomms. Ass'n v. Brand X Internet, 545 U.S. 967, 980 (2005). See 47 U.S.C. § 251(d)(1) (directing the FCC to establish regulations to implement section 251); AT&T, 525 U.S. at 397 (Congress intended the FCC to resolve the ambiguities in the 1996 Act).

[52] AT&T Michigan Br. at 29.

point may require "novel use of," and "modifications to" an incumbent LEC's facilities, pointing out that the competitive LEC would pay the cost, "including a reasonable profit."[53] Indeed, the Local Competition Order and the implementing rule it adopted require the incumbent LEC to provide interconnection not just at any feasible point, but by "any feasible method" of interconnection, such as a "meet point arrangement" by which the incumbent LEC must build out its facilities to a designated "meet point."[54] As the FCC explained: "Congress intended to obligate the incumbent to accommodate the new entrant's network architecture by requiring the incumbent to provide interconnection "for the facilities and equipment" of the new entrant.[55]

In its TRO, the FCC reiterated its view that there are "facilities that incumbent LECs explicitly must make available for section 251(c)(2) interconnection."[56] Thus, the FCC stated, "to the extent that requesting carriers need facilities in order to 'interconnect[] with the [incumbent LEC's] network,' section 251(c)(2) of the Act expressly provides for this."[57] See also 47 C.F.R. § 51.305(f) (FCC rule implementing section 251(c)(2) requires, where feasible, an

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[53] Local Competition Order, 11 FCC Rcd at 15605 (¶¶ 198, 202).

[54] Id. at 15781 (¶ 553); 47 C.F.R. § 51.321(a), (b).

[55] Id. at 15605 (¶ 202).

[56] TRO, 18 FCC Rcd at 17203 (¶ 365).

[57] Id. at 17204 (¶ 366).

incumbent LEC to provide two-way trunking facilities to a requesting competitive LEC).[58]

The FCC in its discussion of entrance facilities in its TRRO made clear that it was not altering the rights and duties under section 251(c)(2) with respect to facilities that are used for interconnection.[59] Section 251(c)(2) entitles competitive LECs "access to these facilities at cost-based rates to the extent that they require them to interconnect with the incumbent LEC's network."[60] Although the FCC did not specifically define what it meant by the term "interconnection facilities," the MPSC's interpretation of that term to include entrance facilities when used for interconnection is fully consistent with the FCC's finding in the TRRO. The district court thus was wrong to overturn the MPSC's decision on this point.

AT&T Michigan and its supporting amici argue that the plain language of section 251(c)(2) prohibits the FCC from interpreting that subsection to require an incumbent LEC to provide facilities used for the physical linking of its network with the network of a competitive carrier. Because an incumbent LEC must provide interconnection with its network "for the facilities and equipment of any requesting telecommunications carrier," 47 U.S.C. § 251(c)(2), these carriers claim

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[58] See also Application by SBC Communications Inc., Southwestern Bell Telephone Co., and Southwestern Bell Communications Service, Inc. d/b/a Southwestern Bell Long Distance, Memorandum Opinion and Order, 15 FCC Rcd 18354, 18391 (¶ 80) (2000) ("Interconnection trunking . . . and meet-point arrangements are among the technically feasible methods of interconnection.").

[59] TRRO, 20 FCC Rcd at 2611 (¶ 140).

[60] Id.

that an incumbent LEC's duty to provide interconnection cannot reasonably be read to encompass a requirement to provide facilities necessary to link its network with the competitive carrier. That argument is unavailing for several reasons.

First, the statutory interpretation advanced by AT&T Michigan and the supporting amici is flatly inconsistent with prior FCC interpretations (described above) regarding the scope of the interconnection obligation and provision of facilities to achieve such interconnection, which were expressly left unaltered in the ruling issued by the FCC in the TRRO. As demonstrated at pages 10-13, the validity of the FCC's statutory interpretation in the TRRO (and the other prior interconnection and unbundling decisions) is not subject to collateral challenge in this case. The Court therefore should not engage in a review of the FCC's determinations nor entertain AT&T Michigan's contrary interpretation.

If the Court nonetheless does inquire into the scope of interconnection under section 251(c)(2), it should defer to the FCC's reasonable and consistent construction and reject AT&T Michigan's flawed interpretation. The language relied on by AT&T Michigan and the supporting amici states only that the interconnection that an incumbent LEC must provide under section 251(c)(2) — whatever that may be — is "for the facilities and equipment of" the competitive carrier. That language does not delineate what an incumbent LEC must do in order to provide interconnection "for the facilities and equipment of" the competitive carrier, let alone establish unambiguously that an incumbent LEC's duty to provide interconnection does not include the provision of facilities that are necessary to achieve that interconnection.

Moreover, the "plain language" construction advanced by AT&T Michigan and its supporting amici is inconsistent with established administrative and judicial precedent. As noted above, the FCC consistently has stated that an incumbent LEC, in fulfilling its duty to provide interconnection under section 251(c)(2), may be required to provide facilities to effectuate interconnection, and that those obligations continue notwithstanding the FCC's elimination of entrance facilities as an unbundled network element under section 251(c)(3).[61] And both the Seventh and Eighth Circuits have ruled expressly that section 251(c)(2) entitles competitive carriers access to entrance facilities at cost-based rates for purposes of interconnecting with the incumbent LEC's network.[62]

Indeed, the agency charged with administering the Communications Act and every single federal appellate judge addressing the issue has construed section 251(c)(2) directly contrary to AT&T Michigan's alleged "plain meaning" construction. Given this, and especially in light of the deference courts with jurisdiction afford the FCC in construing the Communications Act[63] and its regulations,[64] the Court should reject AT&T Michigan's flawed interpretation.

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[61] TRRO, 20 FCC Rcd at 2611 (¶ 140).

[62] Southwestern Bell, 530 F.3d 676; Ill. Bell, 526 F.3d 1069.

[63] Chevron, 467 U.S. at 844.

[64] Riegel, 128 S.Ct. at 1010.

CONCLUSION

The Court should reverse.

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IN THE UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

MICHIGAN BELL TELEPHONE COMPANY D/B/A AT&T MICHIGAN, PLAINTIFF-APPELLEE,	)	
V.	)	NOS. 07-2469 & 07-2473
J. PETER LARK, IN HIS OFFICIAL CAPACITY AS CHAIRMAN OF THE MICHIGAN PUBLIC SERVICE COMMISSION AND NOT AS AN INDIVIDUAL; ET AL. DEFENDANTS-APPELLANTS.	)	

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April 3, 2009

07-2469

IN THE UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

Michigan Bell Telephone Company, Petitioner,
v.
Covad, et al.

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I, Laurel R. Bergold, hereby certify that on this 3rd day of April, 2009, I electronically filed the foregoing "Amicus Curiae Brief of the Federal Communications Commission" with the Clerk of the Court for the United States Court of Appeals for the Sixth Circuit by using the CM/ECF system. Participants in the case who are registered CM/ECF users will be served by the CM/ECF system.

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EXHIBIT MGF - 2

FOR PUBLICATION

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

PACIFIC BELL TELEPHONE COMPANY, DBA AT&T California,
Plaintiff-Appellant,

v.

CALIFORNIA PUBLIC UTILITIES COMMISSION; MICHAEL R. PEEVEY; DIAN M. GRUENEICH; JOHN BOHN; RACHELLE CHONG; TIMOTHY ALAN SIMON,
Defendants-Appellees.

No. 08-15568
D.C. No.
3:07-CV-01797-SI

PACIFIC BELL TELEPHONE COMPANY, DBA AT&T California,
Plaintiff-Appellee,

v.

CALIFORNIA PUBLIC UTILITIES COMMISSION; MICHAEL R. PEEVEY; DIAN M. GRUENEICH; JOHN BOHN; RACHELLE CHONG; TIMOTHY ALAN SIMON,
Defendants,

and

CBEYOND COMMUNICATIONS, LLC,
Defendant-intervenor-Appellant.

No. 08-15716
D.C. No.
07-CV-01797-SI

ORDER AND
AMENDED
OPINION

Appeal from the United States District Court
for the Northern District of California
Susan Illston, District Judge, Presiding

Argued and Submitted
October 6, 2009—San Francisco, California

Filed March 4, 2010
Amended September 1, 2010

Before: Mary M. Schroeder, A. Wallace Tashima and Carlos T. Bea, Circuit Judges.

Opinion by Judge Bea

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ORDER

The opinion filed on March 4, 2010 is amended as follows:

Replace the following text on Slip Op. page 3398:

> Both the Seventh and the Eighth circuits recently rejected AT&T's position, and have concluded that FCC regulations authorize state public utilities commissions to order incumbent LECs to lease entrance facilities to competitive LECs at regulated rates for the purpose of interconnection. *See Sw. Bell Tel., LP v. Mo. Pub. Serv. Comm'n*, 530 F.3d 676 (8th Cir. 2008) ("*SWBT*"); *Ill. Bell Tel. Co. v. Box*, 526 F.3d

1069 (7th Cir. 2008) ("*Box I*"). We agree with our sister circuits.

With:

Both the Seventh and the Eighth circuits recently rejected AT&T's position, and have concluded that FCC regulations authorize state public utilities commissions to order incumbent LECs to lease entrance facilities to competitive LECs at regulated rates for the purpose of interconnection. *See Sw. Bell Tel., LP v. Mo. Pub. Serv. Comm'n*, 530 F.3d 676 (8th Cir. 2008) ("*SWBT*"); *Ill. Bell Tel. Co. v. Box*, 526 F.3d 1069 (7th Cir. 2008) ("*Box I*");[11] *contra Michigan Bell Tel. Co. v. Lark*, 597 F.3d 370 (6th. Cir. 2010). For the reasons that follow, we agree with the Seventh and Eighth Circuits and reject the reasoning advanced by AT&T and the Sixth Circuit in its recent 2-1 decision.

Judges Schroeder and Bea vote to deny the suggestion for rehearing en banc, and Judge Tashima so recommends. All judges vote to deny the petition for panel rehearing.

The suggestion for rehearing en banc has been circulated to the full court, and no judge has requested a vote on whether to rehear the matter en banc. Fed. R. App. P. 35(b).

Petitioner's petition for panel rehearing and suggestion for rehearing en banc are denied.

No further filings will be accepted in this closed case.

OPINION

BEA, Circuit Judge:

This case involves the balance the Telecommunications Act of 1996 ("the Act") strikes between providing newer competi-

tors access to previously monopolistic telecommunications markets, on the one hand, and encouraging and protecting infrastructure investments of older, incumbent telecommunications providers on the other. We must interpret two provisions of the Act that impose requirements on older, incumbent local exchange carriers ("incumbent LECs")—like appellant AT&T—to lease certain components of their existing infrastructure to rival newer, competitive carriers ("competitive LECs")—like intervenor Cbeyond.

First, we must determine whether 47 U.S.C. § 251(c)(2) requires an incumbent LEC to lease its "entrance facilities" (wires that connect rival telephone systems) to a competitive LEC at regulated rates when the competitor wishes to use the "entrance facility" to permit its own customers to reach customers of the incumbent LEC.

Second, we must determine whether 47 C.F.R. § 51.319(e)(2)(ii)(B) (the "DS1 Cap Rule"), which limits to ten the number of low-capacity DS1 telephone lines an incumbent LEC must lease to a competitive LEC at regulated (low) rates along certain routes, is a limitation which also applies to any route, regardless whether the competitive LEC is "impaired" as to the alternative to such low-capacity lines: the competitive LEC's own higher-capacity DS3 lines.

Properly to understand the terms used and the regulatory area into which we are about, some background would help.

BACKGROUND

A. The Telecommunications Act of 1996

Prior to 1996, local telephone service generally was provided by a local monopolist who offered services at prices regulated and imposed by a variety of governmental agencies. Such monopolist providers are commonly referred to as "incumbent local exchange carriers" or "incumbent LECs." Con-

gress enacted the Act to deregulate the telecommunications market. *See generally Verizon Comms. Inc. v. FCC*, 535 U.S. 467, 475-76 (2002). But, to facilitate the entry of new participants into these local markets, the Act imposes on incumbent LECs two duties relevant in this case.

Interconnection Duty at Regulated Rates.

First, the Act imposes a duty on incumbent LECs to permit "interconnection." Pursuant to 47 U.S.C. § 251(c)(2),[1] incumbent LECs must allow the competitive LEC to link its network to that of the incumbent LEC, so that customers of the competitive LEC may place calls to customers of the incumbent LEC. Without the ability to link its network to that of the incumbent LEC, the competitive LEC would have little prospect of selling its telephone services, to say nothing of competing for the customers of the incumbent LEC. A local telephone service is of little use if it cannot connect to other local telephone users.

Lease of Network Parts at Regulated Rates.

Second, the Act imposes a duty that incumbent LECs "unbundle"[2] parts of their network. Each such part of the incumbent LEC's network is a "network element". Pursuant to 47 U.S.C. § 251(c)(3),[3] incumbent LECs must permit competi-

[1]47 U.S.C. § 251(c)(2) provides that each incumbent LEC has "the duty to provide, for the facilities and equipment of any requesting telecommunications carrier, interconnection with the local exchange carrier's network."

[2]"Unbundling" is the process of breaking apart something into smaller parts. An example is taking a bundled computer system and unbundling it into its individual pieces such as the PC unit, monitor, keyboard, and mouse, and then selling each of these items individually. In the context of this case, "unbundling" is the term used to describe the access provided by incumbent LECs so that other service providers (i.e., competitive LECs) can buy or lease portions of the incumbent LECs' network elements, such as interconnection loops, to serve subscribers.

[3]47 U.S.C. § 251(c)(3) provides that incumbent LEC's have: "The duty to provide, to any requesting telecommunications carrier for the provision

tive LECs to lease, at regulated cost-based rates, parts of the incumbent's network, such as telephone wires, call exchanges, and routing systems. This provision promotes competition by allowing a competitive LEC to enter the telephone service market without having first to overcome capital barriers to entry, i.e., without having to construct, at high cost, every component necessary to operate a network. *See Ill. Bell Tel. Co. v. Box*, 548 F.3d 607, 609-10 (7th Cir. 2008) ("*Box II*"). For example, a competitive LEC might enter a market by providing residential telephone service in two far-flung neighborhoods. Rather than having to lay its own wire to connect the two neighborhoods, the competitive LEC can, under § 251(c)(3), piggyback on the incumbent LEC's pre-existing network at regulated, cost-based rates. In this way, a competitive LEC may more easily and less expensively begin to establish its market presence.

However, before an incumbent LEC is obligated to lease network elements on an unbundled basis, the Federal Communications Commission ("FCC") must find that a refusal to deal would "impair" competition. Section 251(d)(2) requires the FCC to determine which network elements incumbent LECs must offer to a competitive LEC on an unbundled basis. 47 U.S.C. § 251(d)(2).

Once the FCC determines that a particular network element must be offered on an unbundled basis, a competitive LEC that wishes to lease the network element must negotiate with

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of a telecommunications service, nondiscriminatory access to network elements on an unbundled basis at any technically feasible point on rates, terms, and conditions that are just, reasonable, and nondiscriminatory in accordance with the terms and conditions of the agreement [negotiated in good faith by the incumbent LEC and competitive LEC pursuant to § 251(c)(1)] and the requirements of this section and section 252 of this title. An incumbent local exchange carrier shall provide such unbundled network elements in a manner that allows requesting carriers to combine such elements in order to provide such telecommunications service."

the incumbent LEC to determine price and other terms. 47 U.S.C. § 251(c)(1). If the negotiations come to an impasse or otherwise fail to produce and agreement, the parties must submit the dispute to binding arbitration.[4] The arbitrator's decision is subject to approval by the relevant state regulatory commission, usually the state public utilities commission. *Id.* If the parties have failed to agree on the lease price, the state regulatory commission may set a price that is "just and reasonable." *Id.* § 252(d)(1).

These "just and reasonable" rates must be based upon the Total Element Long Run Incremental Cost ("TELRIC") methodology. 47 C.F.R. § 51.505. The TELRIC methodology is based on what it cost the incumbent LEC to acquire the network elements; this historical cost method often results in prices that, under certain circumstances, can be highly favorable to the competitive LECs. *See Verizon Communications*, 535 U.S. at 489, 496-97 (upholding 47 C.F.R. § 51.505); *Box II*, 548 F.3d at 609.

The FCC's attempts to implement the incumbent LEC's unbundling obligations have a long history. The first three published rules were invalidated by the courts, in part,[5] and it was not until the FCC issued the Triennial Review Remand Order in 2005 (the "TRRO"), Order on Remand, *In the Matter of Unbundled Access to Network Elements: Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers*, 20 F.C.C.R. 2533 (Feb. 4, 2005), that the FCC's rules survived judicial review, *see Covad Comms. Co. v. FCC*, 450 F.3d 528 (D.C. Cir. 2006). Two predecessor orders, the relevant parts of which were not invalidated by

[4]As the Seventh Circuit has noted, the "arbitration" is really the first stage in a regulatory proceeding, for it bears none of the traditional hallmarks of normal arbitration such as voluntary consent and finality. *See Ill. Bell Tel. Co. v. Box*, 526 F.3d 1069, 1070 (7th Cir. 2008) ("*Box I*").

[5]*See Covad Comms. Co. v. FCC*, 450 F.3d 528, 533-534 (D.C. Cir. 2006) (describing history of invalidated FCC unbundling orders).

courts, are relevant to our analysis and are discussed in greater detail below: the 2003 Triennial Review Order (the "TRO"),[6] and the 1996 Local Competition Order (the "LCO").[7]

B. Procedural History

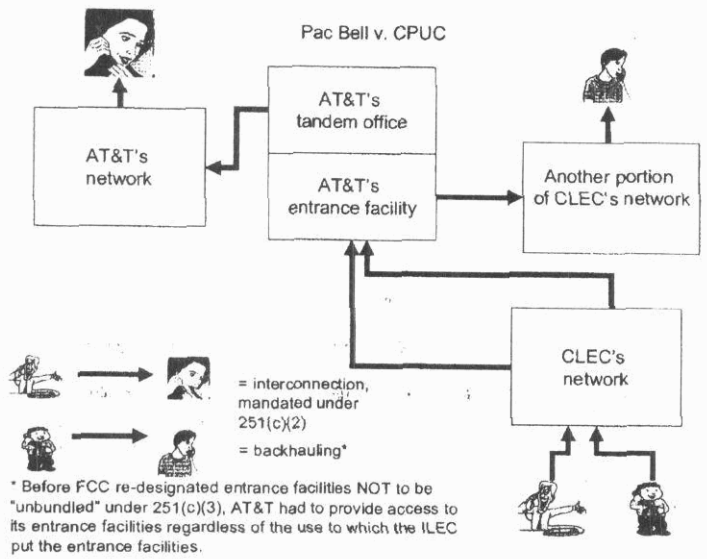
After the FCC issued the TRRO, AT&T—the incumbent LEC in California—sought to negotiate changes to its agreements with competitive LECs to bring their contracts into conformity with AT&T's now-changed obligations. After negotiations broke down, AT&T brought a consolidated arbitration proceeding before the California Public Utilities Commission ("CPUC"). CPUC issued a decision favoring the competitive LECs on several disputed issues, and AT&T filed an action in federal district court seeking to set aside four of CPUC's orders related to unbundling. Two of these orders are at issue on appeal:

1. *Entrance Facilities*—CPUC ordered AT&T to lease entrance facilities to competitor LECs at TELRIC rates for the purpose of interconnection. An entrance facility is a "dedicated transport" (a wire) that connects one LEC's "switch" (a computer that routes calls) to another LEC's switch. In other words, an entrance facility is the high capacity wire that links telephone networks. Entrance facilities may be used for two distinct purposes. First, a competitive LEC can use an entrance facility for interconnection—that is, to link the competitive LEC's network with that of the incumbent LEC so that the competitive LEC's customers may reach the incumbent LEC's customers. *See* TRRO ¶ 138-40; TRO ¶ 366-67.

[6]Report and Order and Order on Remand and Further Notice of Proposed Rulemaking, *Review of the Section 251 Obligations of Incumbent Local Exchange Carriers*, 18 F.C.C.R. 16978 (2003), *vacated in part by United States Telecom Ass'n v. FCC*, 359 F.3d 554 (D.C. Cir. 2004).

[7]First Report and Order, *Implementation of the Local Competition Provisions in the Telecommunications Act of 1996*, 11 F.C.C.R. 15499 (1996) (subsequent history omitted).

Second, a competitive LEC can use an entrance facility for what the industry calls "backhauling." In the case of backhauling, the competitive LEC uses the entrance facility to permit its *own* customers to reach *one another* over the incumbent LECs network. *See id.*[8] The following diagram illustrates the difference between interconnection and backhauling:



Under the TRRO, incumbent LECs are not obligated to offer entrance facilities on an unbundled basis under 47 U.S.C. § 251(c)*(3)*. AT&T and the competitive LECs disputed, however, whether § 251(c)*(2)* obligates incumbent LECs to lease their entrance facilities to competitive LECs at TELRIC rates for the purposes of "interconnection" (*i.e.*, for the purpose of allowing competitive LEC customers to place

[8]Incumbent LECs are capable of screening out calls that would be used for backhauling. A computer identifies the destination of the call, and, if the call is bound for a customer of the competitive LEC, the computer can screen out the call.

calls to incumbent LEC customers). CPUC concluded that § 251(c)(2) requires incumbent LECs to lease entrance facilities to competitive LECs at TELRIC rates for interconnection. On cross motions for summary judgment, the district court confirmed CPUC's arbitral order on this point, and AT&T timely appealed.

2. *DS1 Transport*—CPUC also ruled that the DS1 Cap Rule applies only on routes where competitive LECs are not "impaired"[9] as to DS3 transport circuits. A "transport circuit" is a wire that carries telecommunications signals along "routes" between switching centers (computers that direct calls to other locations). TRRO ¶ 67. Transport circuits come in two grades relevant here: DS1 (low capacity) and DS3 (high capacity). A DS3 line can carry twenty-four times as many calls as a DS1 line but is more expensive to buy and install than DS1 lines. TRRO ¶ 129 n. 361. All parties agree that the FCC's rules cap the number of DS1 circuits competitive LECs may lease from incumbent LECs on an unbundled basis along routes where competitive LECs are not "impaired" as to higher capacity DS3 lines. Once a competitive LEC has sufficient traffic to justify leasing ten or more DS1 lines, it is economical for the competitive LEC to build, deploy, and install its own DS3 line. TRRO ¶¶ 71-73.

However, AT&T and the competitive LECs disputed whether this cap also applies to routes where the FCC had concluded that competitive LECs were "impaired" as to higher capacity DS3 lines. CPUC ruled in favor of the competitive LECs, and held that the cap did not apply along such

[9]According to FCC regulations, a competitive LEC's ability to provide service is " 'impaired' if, taking into consideration the availability of alternative elements outside the incumbent LEC's network, including elements self-provisioned by the requesting carrier or acquired as an alternative from a third-party supplier, lack of access to that element poses a barrier or barriers to entry, including operational and economic barriers, that are likely to make entry into a market by a reasonably efficient competitor uneconomic." 47 C.F.R. § 51.317(b).

"DS3-impaired" routes. The district court disagreed, concluding that, under the plain language of the FCC's rule, the DS1 Cap applies along all routes, and vacated the arbitral order on this point. Cbeyond filed a motion in the district court to join the action as an intervenor for the purpose of appeal.

ANALYSIS

This court reviews *de novo* claims of error in a district court's order determining whether an arbitrator's decision complies with FCC regulations. *Verizon Cal., Inc. v. Peevey*, 462 F.3d 1142, 1150 (9th Cir. 2006). This court owes no deference to the arbitrator's decision. *Id.* The parties may not challenge the validity of any final order of the FCC, including FCC regulations, in this action. 28 U.S.C. § 2342.[10]

A. Access to Entrance Facilities Under 47 U.S.C. § 251(c)(2).

[1] AT&T contends the district court erred by affirming the CPUC's arbitral order permitting competitive LECs to lease entrance facilities from incumbent LECs under 47 U.S.C. § 251(c)(2), the interconnection provision. Both the Seventh and the Eighth circuits recently rejected AT&T's position, and have concluded that FCC regulations authorize state public utilities commissions to order incumbent LECs to

[10]Under the Hobbs Act, this court lacks jurisdiction to rule on a collateral attack of an FCC order. 28 U.S.C. § 2342; *see also US West Comms, Inc. v. Jennings*, 304 F.3d 950, 958 n.2 (9th Cir. 2002) ("Properly promulgated FCC regulations currently in effect must be presumed valid for the purposes of this appeal. The Hobbs Act, 28 U.S.C. § 2342, requires that all challenges to the validity of final orders of the FCC be brought by original petition in a court of appeals. The district court thus lacked jurisdiction to pass on the validity of the FCC regulations, and no question as to their validity can be before us in this appeal."); *see also GTE S., Inc. v. Morrison*, 199 F.3d 733, 742-43 (4th Cir. 1999) (holding the court lacked jurisdiction to rule on the validity of FCC rules "including those relating to rulemaking" on review of district court order affirming state public utility's arbitral decision relating to provisions of the Act).

lease entrance facilities to competitive LECs at regulated rates for the purpose of interconnection. *See Sw. Bell Tel., LP v. Mo. Pub. Serv. Comm'n*, 530 F.3d 676 (8th Cir. 2008) ("*SWBT*"); *Ill. Bell Tel. Co. v. Box*, 526 F.3d 1069 (7th Cir. 2008) ("*Box I*");[11] *contra Michigan Bell Tel. Co. v. Lark*, 597 F.3d 370 (6th. Cir. 2010). For the reasons that follow, we agree with the Seventh and Eighth Circuits and reject the reasoning advanced by AT&T and the Sixth Circuit in its recent 2-1 decision.

[2] Section 251(c)(2) provides that "each incumbent local exchange carrier has the . . . duty to provide, for the facilities and equipment of any requesting telecommunications carrier, interconnection with the local exchange carrier's network." 47 U.S.C. § 251(c)(2). The FCC defines interconnection as "the linking of two networks for the mutual exchange of traffic." 47 C.F.R. § 51.5. In other words, interconnection provides a way for a competitive LEC's customers to reach AT&T's customers and vice versa. Section 251(c)(2)(B) specifies that incumbent LECs must offer competitive LECs such interconnection "at any technically feasible point within the [incumbent] carrier's network." 47 U.S.C. § 251(c)(2)(B). The FCC regulation also states that incumbent LECs must provide competitive LECs with "any technically feasible method of obtaining interconnection." 47 C.F.R. § 51.321(a).

[3] The FCC calls entrance facilities "the transmission facilities that connect competitive LEC networks with incumbent LEC networks." TRRO ¶ 136. As the term "entrance"

[11]In *Box I*, the Seventh Circuit held that because entrance facilities were a "technologically feasible" means of handing off traffic between a competitive LEC and an incumbent LEC, an obligation to lease such facilities at TELRIC rates was within the scope of § 251(c)(2) and the implementing regulations. 526 F.3d at 1071-72. The Eighth Circuit reached the same conclusion in *SWBT*, 530 F.3d at 683-84. In *SWBT*, the Eighth Circuit stated: "If a [competitive] LEC needs entrance facilities to interconnect with an [incumbent] LEC's network, it has the right to obtain such facilities from the [incumbent] LEC." *Id.* at 684.

implies, entrance facilities provide a way for a competitive LEC's calls to enter AT&T's network and reach AT&T customers, a fact that AT&T concedes. For the competitive LECs to use the entrance facilities this way is interconnection.[12]

[4] That AT&T's entrance facilities can be used for a purpose besides interconnection (i.e., backhauling) does not change the result that 47 U.S.C. § 251(c)(2) mandates AT&T to provide competitive LECs access at regulated rates to its entrance facilities for *interconnection*. The parties disagree about the effect on this result of the FCC's finding in its TRRO that under a different subsection of the Act, § 251(c)*(3)*,[13] competitive LECs are not impaired[14] in building entrance

[12]AT&T seeks to distinguish the historical use of entrance facilities for interconnection by long distance service providers, which did not compete with AT&T, and the current use by competitive LECs, which do compete with AT&T. AT&T states that "entrance facilities in this case provides the same function" as entrance facilities did historically (*i.e.*, connecting networks), but competitive LECs can feasibly interconnect with AT&T at a different point in AT&T's network, whereas the long distance providers could not. This contention does not survive the plain language of § 251(c)(2)(B), which requires an incumbent LEC to provide interconnection "at *any* technically feasible point within [its] network." (Emphasis added.)

[13]Section 251(c)(3) provides that incumbent LECs have "[t]he duty to provide, to any requesting telecommunications carrier for the provision of a telecommunications service, nondiscriminatory access to network elements on an unbundled basis at any technically feasible point on rates, terms, and conditions that are just, reasonable, and nondiscriminatory in accordance with the terms and conditions of the agreement and the requirements of this section and section 252 of this title. An incumbent local exchange carrier shall provide such unbundled network elements in a manner that allows requesting carriers to combine such elements in order to provide such telecommunications service."

[14]The Act tasks the FCC with deciding whether a particular network element, i.e., "a facility or equipment used in the provision of a telecommunications service," 47 U.S.C. § 153(29), is one that incumbent LECs must lease to competitive LECs at regulated rates, i.e., the element is "unbundled" under 47 U.S.C. § 251(c)(3). 47 U.S.C. § 251(d). To make that determination, the FCC must consider, at a minimum, two factors:

facilities and therefore that entrance facilities are not "unbundled network elements" that incumbent LECs like AT&T have a duty to provide competitive LECs *for any purpose*, including backhauling. TRRO ¶¶ 136-141.

As an initial matter, under general principles of statutory interpretation, the specific duty found in 47 U.S.C. § 251(c)(2) of providing interconnection facilities prevails over the general duty of providing network elements at unbundled rates, found in § 251(c)(3) (regardless whether that general unbundling duty exists as to entrance facilities). *See NLRB v. A-Plus Roofing, Inc.*, 39 F.3d 1410, 1415 (9th Cir. 1994) ("It is a well-settled canon of statutory interpretation that specific provisions prevail over general provisions.").

Moreover, as the district court found, the TRRO reinforces that the duties of incumbent LECs under 47 U.S.C. § 251(c)(2) and § 251(c)(3) are independent. The TRRO states that the FCC's finding that incumbent LECs need not lease entrance facilities as unbundled network elements under (c)(3) "does not alter the right of competitive LECs to obtain interconnection facilities pursuant to section 251(c)(2)." TRRO ¶ 140.

[5] AT&T contends TRRO Paragraph 140 does not require incumbent LECs to offer entrance facilities at TELRIC rates because the TRRO uses the term "interconnection facilities" instead of "entrance facilities" when it refers to the right under 47 U.S.C. § 251(c)(2) that is not altered by the TRRO's determination that "entrance facilities" need not be unbundled under § 251(c)(3). First, although the FCC did not use the

"whether — (A) access to such network elements as are proprietary in nature is necessary; and (B) the failure to provide access to such network elements would impair the ability of the telecommunications carrier seeking access to provide the services that it seeks to offer." *Id.* The FCC thus makes an "impairment finding" as to that network element. *See Covad Comms.*, 450 F.3d at 534-45.

term "entrance facilities" in Paragraph 140, the paragraph appears in a section of the TRRO entitled "Entrance Facilities," which solely discusses the effect of the FCC's finding as to entrance facilities. Moreover, prior FCC rulings make clear that the interconnection obligation contained in § 251(c)(2) includes a duty to lease entrance facilities at TELRIC rates when such facilities will be used for the purposes of interconnection. The 1996 Local Competition Order ("LCO") broadly defined the interconnection obligation to include a duty to offer unbundled network elements at TELRIC rates:

> We conclude that, under sections 251(c)(2) *and* 251(c)(3), any requesting carrier may choose *any method of technically feasible interconnection* or access to unbundled elements at a particular point. Section 251(c)(2) imposes an interconnection duty at any technically feasible point; *it does not limit that duty* to a specific method of interconnection or *access to unbundled elements*.

LCO ¶ 549 (emphasis added); *see also* 47 C.F.R. § 51.321(a) (stating that incumbent LECs are required to offer "any technically feasible method of obtaining interconnection").

[6] Though the LCO did not expressly state that entrance facilities were one of the "network elements" incumbent LECs were required to make available under 47 U.S.C. § 251(c)(2), the later Triennial Review Order ("TRO") expressly interpreted the LCO to impose this obligation. The TRO stated:

> In reaching [the determination that entrance facilities are not "network elements" subject to the unbundling obligation in § 251(c)(3)] we note that, to the extent that requesting carriers need facilities in order to 'interconnect with the incumbent LEC's network,' section 251(c)(2) of the Act *expressly provides for*

> *this* and we do not alter the Commission's interpretation of this obligation.

TRO ¶ 365. The TRO elaborated:

> [C]ompetitive LECs often use transmission links including unbundled transport connecting incumbent LEC switches or wire centers in order to carry traffic to and from its end users. These links constitute the incumbent LEC's own transport network. However, in order to access UNEs [unbundled network elements], including transmission between incumbent LEC switches or wire centers, while providing their own switching and other equipment, competitive LECs require a transmission link from the UNEs on the incumbent LEC network to their own equipment located elsewhere. Competitive LECs use these transmission connections between incumbent LEC networks and their own networks both for interconnection and to backhaul traffic. Unlike the facilities that incumbent LECs explicitly must make available for section 251(c)(2) interconnection, we find that the Act does not require incumbent LECs to unbundle transmission facilities connecting incumbent LEC networks to competitive LEC networks for the purpose of backhauling traffic.

TRO ¶ 366. The TRO thus expressly interpreted the LCO to allow competitive LECs to lease entrance facilities or "transmission links" at TELRIC rates for the purpose of achieving interconnection. This interpretation of the LCO is reasonable and entitled to deference.[15] *Auer v. Robbins*, 519 U.S. 452,

[15]Contrary to AT&T's assertion, this portion of the TRO was not vacated in *USTA II*, 359 F.3d 554. *USTA II* vacated only the TRO's conclusion that entrance facilities are categorically excluded from the definition of "network elements" under § 251(c)(3). *Id.* at 585. The court did not rule on the validity of the FCC's conclusion that, under § 251(c)(2), incumbent LECs are obligated to offer entrance facilities at TELRIC rates.

461 (1997) (An agency's interpretation of its own regulation is "controlling unless plainly erroneous or inconsistent with the regulation.").[16] Moreover, AT&T's contention that the TRO's interpretation of the LCO conflicts with the terms of 47 U.S.C. § 251(c)(2) is foreclosed because AT&T cannot challenge the validity of FCC orders in this proceeding. *See Jennings*, 304 F.3d at 958 n.2.

AT&T also contends CPUC's interpretation conflicts with the FCC's express findings that competitive LECs are not "impaired" as to entrance facilities. *See* TRRO ¶¶ 138, 139. But those FCC findings also expressly distinguished entrance facilities used for the purpose of interconnection and for backhauling. TRRO ¶¶ 138-140. In light of the different economic considerations associated with the use of entrance facilities for interconnection, on the one hand, and for backhaul, on the other, the FCC could reasonably conclude that different regulations were appropriate. Where a competitive LEC uses an interconnection facility for backhaul, only the competitive LEC benefits—both the originator and the recipient of the call are competitive LEC customers. But when the competitive LEC uses the entrance facility for interconnection, both competitor and incumbent benefit: the incumbent's customers can reach customers of the competitor, and vice versa. *See generally* LCO ¶ 162 ("In this situation . . . each gains value from

[16]The specific statements in the TRO and the LCO that the obligation to provide facilities and equipment under § 251(c)(2) includes a duty to provide entrance facilities foreclose AT&T's interpretation of the term "interconnection facilities." AT&T relies on 47 C.F.R. § 51.5, which defines "interconnection" to exclude the "transport and termination of traffic." AT&T construes this language to exclude *any* duty under § 251(c)(2) to carry a competitive LEC's traffic. This conflicts with TRRO ¶ 140 itself, which explains that "interconnection facilities" are "for transmission and routing" of telephone calls. If the duty to provide "interconnection" did not include any duty to provide *any* transport of calls, then § 251(c)(2) would be meaningless because incumbents could physically link networks with the competitive LEC, but refuse to carry calls to the incumbent LEC's terminal customers, thus effectively locking the competitive LEC out of the market.

the interconnection arrangement."); TRO ¶ 367 ("Our conclusion in this respect is buttressed by the fact that the economics of dedicated facilities used for backhaul between networks are sufficiently different from transport within an incumbent LEC's network that our analysis must adequately reflect this distinction."); *see also Box I*, 526 F.3d at 1071 ("What's the point of specifying that [competitive] LECs cannot demand access to entrance facilities as unbundled network elements, AT&T inquires, if state commissions can turn around and require the same access at the same price anyway? The answer . . . is that [competitive] LECs do not enjoy the "same" access to entrance facilities under the state commission's decision as they did before the FCC's order. Until then, [competitive] LECs could use entrance facilities for both interconnection and backhauling.").

[7] Accordingly, we agree with the district court and hold that, under 47 U.S.C. § 251(c)(2), incumbent LECs must lease entrance facilities at TELRIC rates to competitive LECs for the purpose of interconnection.

B. Unbundled Access to DS1 Circuits Under 47 U.S.C. § 251(c)(3).

[8] In its cross-appeal, Cbeyond contends the district court erred in vacating the CPUC's order that required incumbent LECs to grant unbundled access to an unlimited number of DS1 transport circuits along routes on which competitive LECs are impaired as to DS3 transport circuits.[17] The district

[17]AT&T incorrectly contends Cbeyond waived this issue by failing to raise it in the district court. This issue is (1) a pure question of law; and (2) was fully briefed in the district court by the CPUC. Accordingly, the issue has not been raised for the first time on appeal and this court can reach the issue. Even if the issue was presented for the first time on appeal, the court could reach the question. *See K&N Eng., Inc. v. Bulat*, 510 F.3d 1079, 1081 n.2 (9th Cir. 2007) (the court may, in its discretion, reach issues raised for the first time on appeal if the record is fully developed, the question is a pure question of law, and no prejudice will result).

court concluded that the plain language of the governing regulation, 47 C.F.R. § 51.319(e)(2)(ii)(B) (the "DS1 Cap Rule"),[18] limits a competitive LEC to a maximum of ten DS1 circuits along any route regardless whether the competitive LEC is impaired as to DS3 lines. We agree. Under the plain language of the regulation, the DS1 Cap Rule applies to *all* routes where DS1 circuits are available on an unbundled basis.

On appeal, Cbeyond contends the district court's interpretation of the DS1 Cap Rule is contrary to the FCC's findings in the earlier TRRO. Cbeyond concedes, however, that the language of the DS1 Cap Rule—47 C.F.R. § 51.319(e)(2)(ii)(B)—unambiguously limits to ten the number of DS1 circuits an incumbent LEC must offer at TELRIC rates on *any* route.

In general, the plain meaning of an administrative regulation controls. *Webb v. Smart Document Solutions, LLC*, 499 F.3d 1078, 1084 (9th Cir. 2007). Plain meaning, however, is "not the end of the inquiry." *Id.* at 1086; *see also Safe Air for Everyone v. EPA*, 488 F.3d 1088, 1097 (9th Cir. 2007). The plain language of a regulation does not control if "clearly expressed administrative intent is to the contrary or if such plain meaning would lead to absurd results." *Id.* (internal quotation marks and alterations omitted). "[T]he regulatory intent that overcomes plain language must be referenced in the published notices that accompanied the rulemaking process." *Id.* A rule leads to absurd results only if it would be "patently inconceivable" that the agency intended the result. *Id.* at 1098.

[9] Here, there is no "clearly expressed administrative intent" in the published notices that accompanied the DS1 Cap Rule rulemaking process. Further, the DS1 Cap Rule as we read its plain text would not lead to absurd results. It is

[18]The DS1 Cap Rule provides: "Cap on unbundled DS1 transport circuits. A requesting telecommunications carrier may obtain a maximum of ten unbundled DS1 dedicated transport circuits on each route where DS1 dedicated transport is available on an unbundled basis."

perfectly conceivable the FCC meant what it said when it limited the number of DS1 circuits that a competitive LEC can lease on routes where the competitive LEC is impaired as to a higher capacity DS3 circuit. Where a competitive LEC is so impaired, it will have access to an incumbent's DS3 circuits on an unbundled basis. Hence, it would be more economical for the competitive LEC to lease a single DS3 line from the incumbent LEC, rather than eleven or more DS1 lines at greater cost. TRRO ¶ 128 ("This is consistent with the pricing efficiencies of aggregating traffic. While a DS3 circuit is capable of carrying 28 uncompressed DS1 channels, the record reveals that it is efficient for a carrier to aggregate traffic at approximately 10 DS1s."). The FCC expressly found that once a competitive LEC could aggregate sufficient traffic, the DS3 rules should apply: "When a carrier aggregates sufficient traffic on DS1 facilities such that it effectively could use a DS3 facility, we find that our DS3 impairment conclusions should apply." *Id.*

[10] It is hardly "patently inconceivable" that the FCC intended the DS1 cap to apply on all routes, even those where competitive LECs are impaired as to DS3 circuits. In such circumstance, the competitive LEC can obtain more economical DS3 circuits, and there is no reason why the FCC would have intended to permit competitive LECs to impose greater costs on incumbent LECs by allowing unlimited leases of DS1 circuits.

Cbeyond's contention that the DS1 Cap Rule conflicts with the terms of 47 U.S.C. § 251(c)(3) is foreclosed because Cbeyond cannot challenge the validity of the FCC orders in this proceeding. *See Jennings*, 304 F.3d at 958 n.2.

[11] Accordingly, we agree with the district court and hold that, under the plain language of the regulation, the DS1 Cap Rule limits to ten the number of DS1 lines an incumbent LEC must lease to a competitive LEC at TELRIC rates on all routes.

CONCLUSION

For the all of the foregoing reasons, we affirm the district court's order confirming in part and vacating in part the CPUC's arbitral order.

AFFIRMED.

EXHIBIT MGF - 3

AT&T Inc. Financial Review 2009

Selected Financial and Operating Data

Dollars in millions except per share amounts

At December 31 or for the year ended:	2009	2008	2007	2006[2]	2005[3]
Financial Data[1]					
Operating revenues	**$123,018**	$124,028	$118,928	$ 63,055	$ 43,764
Operating expenses	**$101,526**	$100,965	$ 98,524	$ 52,767	$ 37,596
Operating income	**$ 21,492**	$ 23,063	$ 20,404	$ 10,288	$ 6,168
Interest expense	**$ 3,379**	$ 3,390	$ 3,507	$ 1,843	$ 1,456
Equity in net income of affiliates	**$ 734**	$ 819	$ 692	$ 2,043	$ 609
Other income (expense) – net	**$ 152**	$ (328)	$ 810	$ 398	$ 398
Income taxes	**$ 6,156**	$ 7,036	$ 6,252	$ 3,525	$ 932
Net Income	**$ 12,843**	$ 13,128	$ 12,147	$ 7,361	$ 4,787
Less: Net Income Attributable to Noncontrolling Interest	**$ (308)**	$ (261)	$ (196)	$ (5)	$ (1)
Net Income Attributable to AT&T	**$ 12,535**	$ 12,867	$ 11,951	$ 7,356	$ 4,786
Earnings Per Common Share:					
Net Income Attributable to AT&T	**$ 2.12**	$ 2.17	$ 1.95	$ 1.89	$ 1.42
Earnings Per Common Share – Assuming Dilution:					
Net Income Attributable to AT&T	**$ 2.12**	$ 2.16	$ 1.94	$ 1.89	$ 1.42
Total assets	**$268,752**	$265,245	$275,644	$270,634	$145,632
Long-term debt	**$ 64,720**	$ 60,872	$ 57,255	$ 50,063	$ 26,115
Total debt	**$ 72,081**	$ 74,991	$ 64,115	$ 59,796	$ 30,570
Construction and capital expenditures	**$ 17,335**	$ 20,335	$ 17,888	$ 8,393	$ 5,612
Dividends declared per common share	**$ 1.65**	$ 1.61	$ 1.47	$ 1.35	$ 1.30
Book value per common share	**$ 17.34**	$ 16.42	$ 19.15	$ 18.58	$ 14.09
Ratio of earnings to fixed charges	**4.50**	4.80	4.95	5.01	4.11
Debt ratio[7]	**41.3%**	43.7%	35.6%	34.1%	35.9%
Weighted-average common shares outstanding (000,000)	**5,900**	5,927	6,127	3,882	3,368
Weighted-average common shares outstanding with dilution (000,000)	**5,924**	5,958	6,170	3,902	3,379
End of period common shares outstanding (000,000)	**5,902**	5,893	6,044	6,239	3,877
Operating Data					
Wireless customers (000)[4]	**85,120**	77,009	70,052	60,962	54,144
In-region network access lines in service (000)[5]	**49,392**	55,610	61,582	66,469	49,413
In-region broadband connections (000)[6,7]	**17,254**	16,265	14,802	12,170	6,921
Number of employees	**282,720**	302,660	309,050	304,180	189,950

[1]Amounts in the above table have been prepared in accordance with U.S. generally accepted accounting principles.
[2]Our 2006 income statement amounts reflect results from BellSouth Corporation (BellSouth) and AT&T Mobility LLC (AT&T Mobility), formerly Cingular Wireless LLC, for the two days following the December 29, 2006 acquisition. Our 2006 balance sheet and end-of-year metrics include 100% of BellSouth and AT&T Mobility. Prior to the December 29, 2006, BellSouth acquisition, AT&T Mobility was a joint venture in which we owned 60% and was accounted for under the equity method.
[3]Our 2005 income statement amounts reflect results from AT&T Corp. for the 43 days following the November 18, 2005, acquisition. Our 2005 balance sheet and end-of-year metrics include 100% of AT&T Corp.
[4]The number presented represents 100% of AT&T Mobility cellular/PCS customers.
[5]In-region represents access lines serviced by our incumbent local exchange companies (in 22 states since the BellSouth acquisition and in 13 states prior to that acquisition). Beginning in 2006, the number includes BellSouth lines in service.
[6]Broadband connections include in-region DSL lines, in-region U-verse High Speed Internet access, satellite broadband and 3G LaptopConnect cards.
[7]Prior period amounts restated to conform to current period reporting methodology.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Dollars in millions except per share amounts

For ease of reading, AT&T Inc. is referred to as "we," "us," "AT&T" or the "Company" throughout this document, and the names of the particular subsidiaries and affiliates providing the services generally have been omitted. AT&T is a holding company whose subsidiaries and affiliates operate in the communications services industry both in the United States and internationally, providing wireless and wireline telecommunications services and equipment as well as directory advertising and publishing services. You should read this discussion in conjunction with the consolidated financial statements and accompanying notes. A reference to a "Note" in this section refers to the accompanying Notes to Consolidated Financial Statements. In the tables throughout this section, percentage increases and decreases that equal or exceed 100% are not considered meaningful and are denoted with a dash.

RESULTS OF OPERATIONS

Consolidated Results Our financial results are summarized in the table below. We then discuss factors affecting our overall results for the past three years. These factors are discussed in more detail in our "Segment Results" section. We also discuss our expected revenue and expense trends for 2010 in the "Operating Environment and Trends of the Business" section.

				Percent Change	
	2009	2008	2007	**2009 vs. 2008**	2008 vs. 2007
Operating Revenues	**$123,018**	$124,028	$118,928	**(0.8)%**	4.3%
Operating expenses					
Cost of services and sales	**50,405**	49,556	46,801	**1.7**	5.9
Selling, general and administrative	**31,407**	31,526	30,146	**(0.4)**	4.6
Depreciation and amortization	**19,714**	19,883	21,577	**(0.8)**	(7.9)
Total Operating Expenses	**101,526**	100,965	98,524	**0.6**	2.5
Operating Income	**21,492**	23,063	20,404	**(6.8)**	13.0
Income Before Income Taxes	**18,999**	20,164	18,399	**(5.8)**	9.6
Net Income Attributable to AT&T	**12,535**	12,867	11,951	**(2.6)**	7.7
Diluted Earnings Per Share	**2.12**	2.16	1.94	**(1.9)%**	11.3%

OVERVIEW

Operating income decreased $1,571, or 6.8%, in 2009 and increased $2,659, or 13.0%, in 2008. Our operating income margin increased from 17.2% in 2007 to 18.6% in 2008 and decreased to 17.5% in 2009. Operating income in 2009 decreased primarily due to the decline in voice revenues and directory print advertising, an increase in pension and other postemployment benefits (OPEB) expense, and the higher cost of equipment sales in our Wireless segment attributed to the continued success of Apple iPhone. These changes were partially offset by lower employee-related costs due to workforce reductions, along with the continued growth in wireless service and wireline data revenue. In 2008, operating income increased primarily due to continued growth in wireless service and data revenues, along with a decrease in the amortization of merger-related intangibles.

Operating revenues decreased $1,010, or 0.8%, in 2009 and increased $5,100, or 4.3%, in 2008. Revenues in 2009 reflect the continuing decline in voice revenues and a decline in directory revenue driven by lower print revenue. These declines were partially offset by continued growth in wireless service revenue due to an increase in average number of customers of 9.4%, driven in part by the continued success of Apple iPhone and an increase in wireline data revenue largely due to Internet Protocol (IP) data growth, including AT&T U-verse℠ and broadband growth. Increases in 2008 reflect an increase in wireless subscribers and data revenues, primarily related to IP data, partially offset by the continued decline in voice revenues.

The declines in our wireline voice and advertising revenues reflect continuing economic pressures on our customers as well as competition. Total retail consumer voice connections decreased 11.4% in 2009. Business customers also disconnected switched access lines, reduced usage-based services and reduced print advertising. Customers disconnecting access lines switched to wireless, Voice over Internet Protocol (VoIP) and cable offerings for voice and data or terminated service permanently as businesses closed or consumers left residences. While we lose the voice revenues, we have the opportunity to increase wireless service or wireline data revenues should the customer choose us as their wireless or VoIP provider. We also continue to expand our VoIP service for customers who have access to our U-verse video service.

Cost of services and sales expenses increased $849, or 1.7%, in 2009 and $2,755, or 5.9%, in 2008. The increase in 2009 was primarily due to higher upgrade costs and higher equipment costs related to advanced integrated devices, along with an increase in pension/OPEB expenses. Pension/OPEB expense increased due to lower-than-expected return on assets and an increase in amortization of actuarial losses, both primarily from investment losses in 2008. Partially offsetting these increases were decreases in employee-related costs primarily driven by workforce reductions. The increase in 2008 was primarily due to higher equipment costs related to increased sales of advanced integrated devices. Also increasing 2008 expenses was severance associated with announced workforce reductions and hurricane-related expenses affecting both the Wireless and Wireline segments.

Selling, general and administrative expenses decreased $119, or 0.4%, in 2009 and increased $1,380, or 4.6%, in 2008. The decrease in 2009 was primarily due to declines in employee-related costs (excluding pension/OPEB) due to workforce reductions, decreases in materials and supplies expense along with decreases in wireless advertising and promotions expense. These decreases were partially offset by an increase in pension/OPEB expense, and higher commissions, customer service costs and IT/Interconnect costs resulting from wireless subscriber growth along with increased support for data services and integrated devices. The increase in 2008 was primarily due to higher commissions and residuals due to the growth in wireless subscribers, and higher severance associated with announced workforce reductions. Partially offsetting these increases in 2008 were merger-integration costs recognized in 2007 and not in 2008.

Depreciation and amortization expenses decreased $169, or 0.8%, in 2009 and $1,694, or 7.9%, in 2008. The decrease in 2009 was primarily due to the declining amortization of identifiable intangible assets, primarily customer relationships, partially offset by increased depreciation resulting from capital additions. The decrease in 2008 was primarily due to lower amortization expense on intangible assets.

Interest expense decreased $11, or 0.3%, in 2009 and $117, or 3.3%, in 2008. Interest expense decreased slightly during 2009 due to an increase in interest charged during construction, which is capitalized instead of expensed. In 2008, interest expense declined primarily due to a decrease in our weighted-average interest rate and an increase in interest charged during construction, partially offset by an increase in our average debt balances.

Equity in net income of affiliates decreased $85, or 10.4%, in 2009, primarily due to foreign currency translation losses at América Móvil S.A. de C.V. (América Móvil), Télefonos de México, S.A. de C.V. (Telmex) and Telmex Internacional, S.A.B. de C.V. (Telmex Internacional), partially offset by improved results at América Móvil. Equity in net income of affiliates increased $127, or 18.4%, in 2008, primarily due to improved results from our investments in América Móvil, Telmex and Telmex Internacional, partially offset by foreign currency translation losses.

Other income (expense) – net We had other income of $152 in 2009, other expense of $328 in 2008 and other income of $810 in 2007. Results for 2009 included a $112 gain on the sale of investments, $100 of interest and leveraged lease income, and $42 of gains on the sale of a professional services business, partially offset by $102 of asset impairments.

Other expense for 2008 included losses of $467 related to asset impairments, partially offset by $156 of interest and leveraged lease income. Other income for 2007 included $810 related to a $409 gain on a spectrum license exchange, $215 of interest and leveraged lease income and a $161 gain on the sale of non-strategic assets and investments.

Income taxes decreased $880, or 12.5%, in 2009 and increased $784, or 12.5%, in 2008. The decrease in 2009 was due to lower income before taxes and the recognition of benefits related to audit issues and judicial developments, while the increase in 2008 was primarily due to higher income before taxes. Our effective tax rate in 2009 was 32.4%, compared to 34.9% in 2008 and 34.0% in 2007. The decrease in our effective tax rate in 2009 was primarily due to the recognition of benefits related to audit issues and judicial developments. The increase in our effective tax rate in 2008 was primarily due to higher income before taxes, which resulted in a greater percentage of our income being taxed at marginal rates.

Segment Results

Our segments are strategic business units that offer different products and services over various technology platforms and are managed accordingly. Our operating segment results presented in Note 4 and discussed below for each segment follow our internal management reporting. We analyze our various operating segments based on segment income before income taxes, reviewing operating revenues, expenses (depreciation and non-depreciation) and equity income for each segment. We make our capital allocations decisions primarily based on the network (wireless or wireline) providing services. Interest expense and other income (expense) – net are managed only on a total company basis and are, accordingly, reflected only in consolidated results. Each segment's percentage of total segment operating revenue and income calculations is derived from our segment results table in Note 4 and reflects amounts before eliminations. We have four reportable segments: (1) Wireless, (2) Wireline, (3) Advertising Solutions and (4) Other.

The ***Wireless segment*** accounted for approximately 43% of our 2009 total segment operating revenues as compared to 39% in 2008 and 60% of our 2009 total segment income as compared to 46% in 2008. This segment provides wireless voice and advanced data communications services across the United States.

The ***Wireline segment*** accounted for approximately 52% of our 2009 total segment operating revenues as compared to 55% in 2008 and 36% of our 2009 total segment income as compared to 47% in 2008. This segment uses our regional, national and global network to provide consumer and business customers with landline voice and data communications services, AT&T U-verse℠ TV, high-speed broadband and voice services (U-verse) and managed networking to business customers. Additionally, we offer satellite television services through our agency arrangements.

The ***Advertising Solutions segment*** accounted for approximately 4% of our 2009 and 2008 total segment operating revenues and 6% of our 2009 total segment income as compared to 7% in 2008. This segment includes our directory operations, which publish Yellow and White Pages directories and sell directory advertising, Internet-based advertising and local search.

The ***Other segment*** accounted for approximately 1% of our 2009 total segment operating revenues as compared to 2% in 2008 and less than 1% of our 2009 and 2008 total segment income. This segment includes results from Sterling Commerce, Inc. (Sterling), customer information services, payphone, and all corporate and other operations. Also, included in the Other segment are impacts of corporate-wide decisions for which the individual operating segments are not being evaluated. During 2008, we announced our intention to discontinue our retail payphone operations previously included in this segment. Additionally, this segment includes our portion of the results from our international equity investments and charges of $550 and $978 associated with our workforce reductions in 2009 and 2008.

The following tables show components of results of operations by segment. We discuss significant segment results following each table. We discuss capital expenditures for each segment in "Liquidity and Capital Resources."

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Dollars in millions except per share amounts

Wireless

Segment Results

				Percent Change	
	2009	2008	2007	**2009 vs. 2008**	2008 vs. 2007
Segment operating revenues					
Service	**$48,657**	$44,410	$38,678	**9.6%**	14.8%
Equipment	**4,940**	4,925	4,006	**0.3**	22.9
Total Segment Operating Revenues	**53,597**	49,335	42,684	**8.6**	15.6
Segment operating expenses					
Operations and support	**34,561**	32,481	28,585	**6.4**	13.6
Depreciation and amortization	**5,765**	5,770	7,079	**(0.1)**	(18.5)
Total Segment Operating Expenses	**40,326**	38,251	35,664	**5.4**	7.3
Segment Operating Income	**13,271**	11,084	7,020	**19.7**	57.9
Equity in Net Income of Affiliates	**9**	6	16	**50.0**	(62.5)
Segment Income	**$13,280**	$11,090	$ 7,036	**19.7%**	57.6%

Centennial Acquisition

In November 2009, we acquired Centennial Communications, Corp. (Centennial), a regional provider of wireless and wired communications services with approximately 865,000 customers as of December 31, 2009, and its operations have been included in our consolidated results since the acquisition date.

Wireless Properties Transactions

In May 2009, we announced a definitive agreement to acquire certain wireless assets from Verizon Wireless (VZ) for approximately $2,350 in cash. The assets primarily represent former Alltel Wireless assets. We will acquire wireless properties, including licenses and network assets, serving approximately 1.5 million subscribers in 79 service areas across 18 states. In October 2009, the Department of Justice (DOJ) cleared our acquisition of Centennial, subject to the DOJ's condition that we divest Centennial's operations in eight service areas in Louisiana and Mississippi. We are in the process of finalizing definitive agreements and seeking regulatory approvals to sell all eight Centennial service areas ultimately identified in that ruling. We anticipate we will close the sales during the first half of 2010. As of December 31, 2009, the fair value of the assets subject to the sale, net of related liabilities, was $282. Since the properties we will acquire use a different network technology than our Global System for Mobile Communication (GSM) technology, we expect to incur additional costs to convert that network and subscriber handsets to our GSM technology.

Dobson Acquisition

In November 2007, we acquired Dobson Communications Corporation (Dobson). Dobson marketed wireless services under the Cellular One brand and had provided roaming services to AT&T subsidiaries since 1990. Dobson had 1.7 million subscribers across 17 states, mostly in rural and suburban areas. Dobson was incorporated into our wireless operations subsequent to its acquisition.

Wireless Customer and Operating Trends

As of December 31, 2009, we served 85.1 million wireless customers, compared to 77.0 million at December 31, 2008, and 70.1 million at December 31, 2007. Approximately 59% of our wireless customer net additions in 2009 were postpaid customer additions which were lower than the impact in the prior year, as we saw a significant increase in gross and net additions in our reseller customer business in 2009. Sales of emerging devices, such as netbooks and eReaders, are largely included in our reseller customer base. We expect continued growth in sales of emerging devices. Improvement in our postpaid churn levels since 2007 contributed to our net additions and retail customer growth in 2009 and 2008. This improvement was attributable to network enhancements, attractive products and services offerings, including Apple iPhone, customer service improvements, and continued high levels of advertising.

Gross customer additions were 21.4 million in 2009 and 2008. Postpaid customer gross additions have continued to increase due to attractive plan offerings and exclusive product offerings such as Apple iPhone, and unique quick messaging devices.

As the wireless industry continues to mature, we believe that future wireless growth will become increasingly dependent on our ability to offer innovative services, which will encourage existing customers to upgrade their current services and devices and will attract customers from other providers, as well as on our ability to minimize customer churn. Average service revenue per user (ARPU) in 2009 was flat compared to 2008 after increasing 1% in 2008 compared to 2007 primarily due to increased data services ARPU growth offsetting declining voice and other service ARPU. ARPU from postpaid customers increased 2.7% in 2009 and 3.7% in 2008, reflecting usage of more advanced handsets, such as Apple iPhone 3GS, by these customers, evidenced by a 23.5% increase in postpaid data services ARPU in 2009 and a 36.4% increase in postpaid data services ARPU in 2008. The continued increase in postpaid data services revenue was related to increased use of text messaging, Internet access, e-mail and other data services. We expect continued growth from data services, as more customers purchase advanced integrated devices and other emerging devices, such as netbooks, eReaders, and mobile navigation devices, and broadband laptop cards, and as we continue to expand our network. The growth in data services ARPU in 2009 was offset by a 6.7% decline in voice ARPU and the growth in data services ARPU in 2008 was partially offset by a 6.5% decline in voice and other service ARPU. Voice and other service ARPU in 2009 and 2008 declined due to lower access charges, roaming revenues, and long-distance usage. Increases in our FamilyTalk* and reseller customer base, which have lower ARPU than traditional postpaid customers, have also contributed to these declines. For 2009, roaming revenues were lower due to a decline in domestic roaming activity. For 2008, roaming revenues were lower due to acquisitions and rate negotiations as part of roaming cost savings initiatives, which slowed international growth, and lower regulatory cost recovery charges. We expect continued pressure on voice and other service ARPU.

The effective management of customer churn is also critical to our ability to maximize revenue growth and to maintain and improve margins. Customer churn is calculated by dividing the aggregate number of wireless customers who cancel service during each month in a period by the total number of wireless customers at the beginning of each month in that period. Our customer churn rate was 1.48% for 2009, down from 1.68% for 2008 and 1.67% for 2007. The churn rate for postpaid customers was 1.16% for 2009 and 1.19% for 2008, down from 1.27% for 2007. The decline in postpaid churn reflects network enhancements and broader coverage, more affordable rate plans and exclusive devices, and free mobile-to-mobile calling among our wireless customers.

Wireless Operating Results

Our Wireless segment operating income margin was 24.8% in 2009, 22.5% in 2008 and 16.4% in 2007. The higher margin in 2009 was primarily due to revenue growth of $4,262, while the higher margin in 2008 was primarily due to revenue growth of $6,651. Each revenue increase exceeded the corresponding operating expense increase of $2,075 in 2009 and $2,587 in 2008. The expense increase for 2008 is net of a decrease in depreciation and amortization of $1,309.

Service revenues are comprised of local voice and data services, roaming, long-distance and other revenue. Service revenues increased $4,247, or 9.6%, in 2009 and $5,732, or 14.8%, in 2008. The increases consisted of the following:

- Data service revenue increases of $3,539, or 33.4%, in 2009 and $3,647, or 52.5%, in 2008. The increases were primarily due to the increased number of subscribers and heavier usage by subscribers of advanced handsets and other data-centric emerging devices, such as netbooks, eReaders, and mobile navigation devices. The increases in data service ARPU of 22.0% in 2009 and 33.8% in 2008 reflect this trend. Our significant data growth also reflects an increased number of subscribers using our 3G network. Data service revenues represented approximately 29.0% and 23.9% of our Wireless segment service revenues in 2009 and 2008.
- Voice and other service revenue increases of $708, or 2.1%, in 2009 and $2,085, or 6.6%, in 2008. The increase in 2009 was due to a 9.4% increase in the average number of wireless customers, down from 14.0% in 2008. Voice and other service ARPU declined 6.7% in 2009 and 6.5% in 2008.

Equipment revenues increased $15, or 0.3%, in 2009 and increased $919, or 22.9%, in 2008. The lower incremental increase in 2009 was due to lower traditional handset sales, offset by sales of more advanced integrated devices. The increase in 2008 was due to higher handset revenues, reflecting higher gross customer additions, and customer upgrades to more advanced devices.

Operations and support expenses increased $2,080, or 6.4%, in 2009, compared to an increase of $3,896, or 13.6%, in 2008. The increase in 2009 was primarily due to the following:

- equipment cost increases of $1,246, reflecting the higher cost of acquiring more advanced integrated devices compared to prior periods;
- Interconnect, universal service fee (USF) and reseller expense increases of $426 due to higher network traffic and revenue growth;
- upgrade commissions and residual expense increases of $313 due to sales and upgrades to more advanced devices;
- customer service cost increases of $214 due to customer growth; and
- Finance, IT, and other administrative cost increases of $306.

These increases were partially offset by selling expense decreases of $337, attributable to lower traditional handset sales exceeding the impact of the sale of more advanced integrated devices and roaming expense decreases of $165 due to usage and rate declines. Total equipment costs continue to be higher than equipment revenues due to the sale of discounted devices in connection with promotions.

The increase in 2008 was primarily due to the following:

- equipment sales expense increase of $2,005;
- upgrade commissions and residual expense increases of $745;
- selling expense increase of $362 and customer service cost increase of $159;
- USF increase of $204 and reseller expense increase of $145; and
- Finance, IT, and other administrative cost increases of $538.

The increase in equipment sales expense, commission expense, and selling expense resulted from an increase in sales of higher-cost 3G devices, the introduction of Apple iPhone 3G handsets in 2008, an increase in the number of handset accessory sales, lower per-unit accessory costs compared to 2007, and higher handset upgrade volume. The increase in commission expense is also attributable to higher commission rates. Interconnect and other costs also increased by $141 due to increased usage and integration costs related to the 2007 acquisition of Dobson. The increase in reseller costs in 2008 was attributable to higher license, maintenance and other reseller costs, partially offset by cost reductions from the migration of network usage from the T-Mobile USA (T-Mobile) network in California and Nevada to our networks in these states.

These increases were partially offset by incollect roaming cost decreases of $249 and network system cost decreases of $132. The decrease in network system costs was the result of benefits from network and systems integration and cost-reduction initiatives of $218, decreases in data processing and payroll costs of $109, partially offset by incremental rents related to Dobson and general building expense increases of $124, and hurricane and other incremental network cost increases of $99.

Depreciation and amortization decreased $5, or 0.1%, in 2009 and decreased $1,309, or 18.5%, in 2008. Amortization expense decreased $450, or 21.8%, in 2009 due to lower amortization of intangibles attributable to the BellSouth acquisition, partially offset by amortization of intangible assets attributable to subscribers added in the November 2009 acquisition of Centennial and the 2007 acquisition of Dobson. Depreciation expense increased $445, or 12.0%, in 2009 due to ongoing capital spending for network upgrades and expansion, partially offset by certain network assets becoming fully depreciated.

Depreciation expense decreased $539, or 12.7%, in 2008. Depreciation expense decreased $695 in 2008 due to certain network assets becoming fully depreciated and decreased $612 due to Time Division Multiple Access (TDMA) assets being depreciated on an accelerated basis through 2007. These decreases were partly offset by incremental depreciation on capital assets placed in service during 2008. Amortization expense decreased $770, or 27.2%, in 2008 due to declining amortization of identified intangible assets, most of which are amortized using the sum-of-the-months-digits method of amortization, partially offset by Dobson intangible assets acquired by AT&T Mobility.

Wireless Supplementary Operating and Financial Data

				Percent Change	
	2009	2008	2007	**2009 vs. 2008**	2008 vs. 2007
Wireless Customers (000)	**85,120**	77,009	70,052	**10.5%**	9.9%
Net Customer Additions (000)	**7,278**	6,699	7,315	**8.6**	(8.4)
Total Churn	**1.48%**	1.68%	1.67%	**(20) bps**	1 bps
Postpaid Customers (000)	**65,146**	60,098	55,310	**8.4%**	8.7%
Net Postpaid Customer Additions (000)	**4,323**	4,634	3,982	**(6.7)**	16.4
Postpaid Churn	**1.16%**	1.19%	1.27%	**(3) bps**	(8) bps

Wireline
Segment Results

				Percent Change	
	2009	2008	2007	**2009 vs. 2008**	2008 vs. 2007
Segment operating revenues					
Voice	**$33,082**	$38,198	$41,630	**(13.4)%**	(8.2)%
Data	**26,723**	25,353	24,075	**5.4**	5.3
Other	**5,865**	6,304	5,878	**(7.0)**	7.2
Total Segment Operating Revenues	**65,670**	69,855	71,583	**(6.0)**	(2.4)
Segment operating expenses					
Operations and support	**44,646**	45,440	46,177	**(1.7)**	(1.6)
Depreciation and amortization	**13,093**	13,206	13,416	**(0.9)**	(1.6)
Total Segment Operating Expenses	**57,739**	58,646	59,593	**(1.5)**	(1.6)
Segment Operating Income	**7,931**	11,209	11,990	**(29.2)**	(6.5)
Equity in Net Income of Affiliates	**18**	19	31	**(5.3)**	(38.7)
Segment Income	**$ 7,949**	$11,228	$12,021	**(29.2)%**	(6.6)%

Operating Margin Trends
Our Wireline segment operating income margin was 12.1% in 2009, compared to 16.0% in 2008 and 16.7% in 2007. Results for 2009 and 2008 reflect revenue declines that exceeded expense declines. Our Wireline segment operating income decreased $3,278, or 29.2%, in 2009 and decreased $781, or 6.5%, in 2008. Our operating income continued to be pressured by access line declines due to economic pressures on our consumer and business wireline customers and competition, as customers either reduced usage or disconnected traditional landline services and switched to alternative technologies, such as wireless and VoIP. Our strategy is to offset these line losses by increasing non-access-line-related revenues from customer connections for data, video and voice. Additionally, we have the opportunity to increase Wireless segment revenues if customers choose AT&T Mobility as an alternative provider. Wireline operating margins are declining primarily due to reduced voice revenue, partially offset by continued growth in data revenue. Also contributing to pressure on our operating margins was increased pension/OPEB expense in 2009.

Voice revenues decreased $5,116, or 13.4%, in 2009, and decreased $3,432, or 8.2%, in 2008 primarily due to continuing economic pressures and declining demand for traditional voice and other legacy services by our consumer and business customers. Included in voice revenues are revenues from local voice, long-distance and local wholesale services. Voice revenues do not include VoIP revenues, which are included in data revenues.

- Local voice revenues decreased $2,763, or 12.2%, in 2009 and decreased $1,887, or 7.7%, in 2008. The decrease in 2009 was driven primarily by an 11.2% decline in switched access lines and a decrease in average local voice revenue per user. The decrease in 2008 was driven primarily by a loss of revenue of $1,230 from a decline in access lines and by $422 from a decline in our national mass-market customer base acquired from AT&T Corp. (ATTC). We expect our local voice revenue to continue to be negatively affected by increased competition from alternative technologies, the disconnection of additional lines and economic pressures.
- Long-distance revenues decreased $2,133, or 15.3%, in 2009 and decreased $1,195, or 7.9%, in 2008 primarily due to decreased demand from business and consumer customers, which decreased revenues $1,583 in 2009 and $532 in 2008, and a net decrease in demand for long-distance service, due to expected declines in the number of national mass-market customers, which decreased revenues $546 in 2009 and $677 in 2008.

Data revenues increased $1,370, or 5.4%, in 2009 and increased $1,278, or 5.3%, in 2008. Data revenues accounted for approximately 41% of wireline operating revenues in 2009, 36% in 2008 and 34% in 2007. Data revenues include transport, IP and packet-switched data services.

IP data revenues increased $1,969, or 17.8%, in 2009 and increased $1,537, or 16.1%, in 2008 primarily driven by AT&T U-verse expansion and growth in IP-based strategic business services, which include Ethernet, virtual private networks (VPN), application and managed services. Strategic business service revenues increased $603 in 2009 and $741 in 2008, driven mostly by VPN, and U-verse video service increased $980 in 2009 and $402 in 2008. Broadband high-speed Internet access increased IP data revenues $300 in 2009 and $497 in 2008. The increase in IP data revenues in 2009 and 2008 reflects continued growth in the customer base and migration from other traditional circuit-based services.

Traditional packet-switched data services, which include frame relay and asynchronous transfer mode services, decreased $536, or 20.8%, in 2009 and $423, or 14.1%, in 2008. This decrease is primarily due to lower demand as customers continue to shift to IP-based technology such as VPN, DSL and managed Internet services, and the continuing economic recession. We expect these traditional, circuit-based services to continue to decline as a percentage of our overall data revenues.

Other operating revenues decreased $439, or 7.0%, in 2009 and increased $426, or 7.2%, in 2008. Major items included are integration services and customer premises equipment, government-related services and outsourcing, which account for more than 60% of total revenue for all periods. Equipment sales and related network integration revenues decreased $405 in 2009 primarily due to economic pressures, and increased $260 in 2008, driven by an increase in management services partially offset by reduced equipment sales and related network integration. Governmental professional services revenue decreased $116 in 2009 driven by the divestiture of a professional services business in 2009 and increased $100 in 2008 driven by growth across various contracts.

Operations and support expenses decreased $794, or 1.7%, in 2009 and $737, or 1.6 %, in 2008. Operations and support expenses consist of costs incurred to provide our products and services, including costs of operating and maintaining our networks and personnel costs, such as salary, wage and bonus accruals. Costs in this category include our repair technicians and repair services, certain network planning and engineering expenses, operator services, information technology and property taxes. Operations and support expenses also include bad debt expense; advertising costs; sales and marketing functions, including customer service centers; real estate costs, including maintenance and utilities on all buildings; credit and collection functions; and corporate support costs, such as finance, legal, human resources and external affairs. Pension and postretirement costs, net of amounts capitalized are also included to the extent that they are associated with these employees.

The 2009 decrease was primarily due to lower employee-related costs of $918, primarily related to workforce reductions. Other cost reductions included decreases in traffic compensation (related to lower international long-distance revenues and lower volume of calls from our declining national mass-market customer base), including portal fees, of $655, nonemployee-related expenses, such as bad debt expense, materials and supplies costs, of $441 and $134 related to contract services.

Partially offsetting these decreases was an increase in pension/OPEB expense of $1,370 due to a lower-than-expected return on assets and an increase in amortization of actuarial losses, both primarily from investment losses in 2008. See Note 11 for more information related to pension/OPEB expense.

The major decreases in 2008 were $633 in traffic compensation (related to lower international long-distance revenue, and lower volume of calls from our declining national mass-market customer base), including portal fees, and $618 of pension/OPEB expense. Other cost reductions included decreases in other support cost of $616 primarily due to higher advertising costs incurred in 2007 for brand advertising and rebranding related to the BellSouth acquisition and lower compensation expense of $420 reflecting shifts of workforce levels to sales organizations.

Partially offsetting these decreases, operation and support expenses increased by $1,135, related to higher nonemployee-related expenses, such as contract services, agent commissions and materials and supplies. Other increases were salary and wages of $423; and higher cost of equipment sales and related U-verse network integration of $60.

Depreciation and amortization expenses decreased $113, or 0.9%, in 2009 and $210, or 1.6%, in 2008. The 2009 decrease was primarily related to lower amortization of intangibles for the customer lists associated with ATTC, BellSouth and Yahoo! partially offset by the inclusion of Centennial related depreciation starting in the fourth quarter of 2009. The 2008 decline was a result of decreasing intangible amortization partially offsetting increased depreciation resulting from capital additions.

Supplemental Information

Telephone, Wired Broadband and Video Connections Summary Our switched access lines and other services provided by our local exchange telephone subsidiaries at December 31, 2009, 2008 and 2007, are shown below and trends are addressed throughout this segment discussion.

				Percent Change	
(in 000s)	**2009**	2008	2007	**2009 vs. 2008**	2008 vs. 2007
Switched Access Lines[1]					
Retail consumer	**26,378**	30,614	35,009	**(13.8)%**	(12.6)%
Retail business[2]	**20,106**	21,810	22,795	**(7.8)**	(4.3)
Retail Subtotal[2]	**46,484**	52,424	57,804	**(11.3)**	(9.3)
Percent of total switched access lines	**94.1%**	94.3%	93.9%		
Wholesale Subtotal[2]	**2,826**	3,068	3,527	**(7.9)**	(13.0)
Percent of total switched access lines	**5.7%**	5.5%	5.7%		
Payphone (Retail and Wholesale)[3]	**82**	118	251	**(30.5)**	(53.0)
Percent of total switched access lines	**0.2%**	0.2%	0.4%		
Total Switched Access Lines	**49,392**	55,610	61,582	**(11.2)**	(9.7)
Total Retail Consumer Voice Connections[6]	**27,332**	30,838	35,009	**(11.4)**	(11.9)
Total Wired Broadband Connections[4]	**15,789**	15,077	14,156	**4.7**	6.5
Satellite service[5]	**2,174**	2,190	2,116	**(0.7)**	3.5
U-verse video	**2,065**	1,045	231	**97.6**	—
Video Connections	**4,239**	3,235	2,347	**31.0%**	37.8%

[1]Represents access lines served by AT&T's Incumbent Local Exchange Carriers (ILECs) and affiliates.
[2]Prior period amounts restated to conform to current period reporting methodology.
[3]Revenue from retail payphone lines is reported in the Other segment. We are in the process of ending our retail payphone operations.
[4]Total wired broadband connections include DSL, U-verse High Speed Internet access and satellite broadband.
[5]Satellite service includes connections under our agency and resale agreements.
[6]Includes consumer U-verse Voice over IP connections.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Dollars in millions except per share amounts

Advertising Solutions
Segment Results

				Percent Change	
	2009	2008	2007	**2009 vs. 2008**	2008 vs. 2007
Total Segment Operating Revenues	**$4,809**	$5,502	$5,851	**(12.6)%**	(6.0)%
Segment operating expenses					
Operations and support	**2,922**	2,998	3,066	**(2.5)**	(2.2)
Depreciation and amortization	**649**	789	924	**(17.7)**	(14.6)
Total Segment Operating Expenses	**3,571**	3,787	3,990	**(5.7)**	(5.1)
Segment Income	**$1,238**	$1,715	$1,861	**(27.8)%**	(7.8)%

Operating Results

Our Advertising Solutions segment operating income margin was 25.7% in 2009, 31.2% in 2008 and 31.8% in 2007. The decrease in the segment operating income margin in both 2009 and 2008 was primarily the result of decreased operating revenues.

Operating revenues decreased $693, or 12.6%, in 2009 largely driven by continuing declines in print revenue of $774 and lower sales agency revenue of $34 due to the sale of the independent line of business segment of the L.M. Berry Company. This decrease was partially offset by Internet advertising revenue growth of $132. The ongoing economic recession has reduced demand for advertising and customers have continued to shift to Internet-based search services, although the recession has also curbed search usage by consumers. Operating revenues decreased $349, or 6%, in 2008 largely driven by continuing declines in print revenue of $453 and lower sales agency revenue of approximately $113 due to the sale of the independent line of business segment of the L.M. Berry Company. This decrease was partially offset by increased Internet advertising revenue of $196.

Operating expenses decreased $216, or 5.7%, in 2009 largely driven by decreases in depreciation and amortization expense of $140, product related costs of $74, advertising costs of $44, and professional and contracted expense of $17. These expense decreases were partially offset by an increase in pension/OPEB and other benefit costs of $66. Operating expenses decreased $203, or 5.1%, in 2008 largely driven by decreased depreciation and amortization of $135 resulting from use of an accelerated method of amortization for the customer list acquired as part of the BellSouth acquisition, and lower employee, professional and contract related expenses. These expense decreases were partially offset by increased YELLOWPAGES.COM, LLC (YPC) expansion costs.

Other
Segment Results

				Percent Change	
	2009	2008	2007	**2009 vs. 2008**	2008 vs. 2007
Total Segment Operating Revenues	**$1,731**	$2,042	$2,229	**(15.2)%**	(8.4)%
Total Segment Operating Expenses	**2,678**	2,986	2,040	**(10.3)**	46.4
Segment Operating Income (Loss)	**(947)**	(944)	189	**(0.3)**	—
Equity in Net Income of Affiliates	**706**	794	645	**(11.1)**	23.1
Segment Income (Loss)	**$ (241)**	$ (150)	$ 834	**(60.7)%**	—

Our Other segment operating results consist primarily of Sterling, customer information services (primarily operator services and payphone), corporate and other operations. Sterling provides business-integration software and services.

Operating revenues decreased $311, or 15.2%, in 2009 and $187, or 8.4%, in 2008. The decrease in 2009 is primarily due to reduced revenues from our operator services, retail payphone operations and Sterling. The 2008 decline is primarily related to lower revenues from operator services and retail payphone operations.

Operating expenses decreased $308, or 10.3%, in 2009 and increased $946, or 46.4%, in 2008. The changes were primarily due to charges of $550 and $978 associated with our workforce reductions in 2009 and 2008 as a result of the restructure of our operations from a collection of regional companies to a single national approach.

Our Other segment also includes our equity investments in international companies, the income from which we report as equity in net income of affiliates. Our earnings from foreign affiliates are sensitive to exchange-rate changes in the value of the respective local currencies. Our foreign investments are recorded under generally accepted accounting principles (GAAP), which include adjustments for the equity method of accounting and exclude certain adjustments required for local reporting in specific countries. Our equity in net income of affiliates by major investment is listed below:

	2009	2008	2007
América Móvil	**$505**	$469	$381
Telmex	**133**	252	265
Telmex Internacional	**72**	72	—
Other	**(4)**	1	(1)
Other Segment Equity in Net Income of Affiliates	**$706**	$794	$645

Equity in net income of affiliates decreased $88 in 2009. Our investment in Telmex and Telmex Internacional decreased $119, reflecting lower operating results and currency translation losses, partially offset by $36 of improved operating results at América Móvil. The $149 increase in 2008 reflects improved operating results at América Móvil, as well as lower depreciation and tax expenses, and improved results at Telmex and Telmex Internacional. On January 13, 2010, América Móvil announced that its Board of Directors had authorized it to submit an offer for 100% of the equity of Carso Global Telecom, S.A. de C.V. (CGT), a holding company that owns 59.4% of Telmex and 60.7% of Telmex Internacional, in exchange for América Móvil shares; and an offer for Telmex Internacional shares not owned by CGT, to be purchased for cash or to be exchanged for América Móvil shares, at the election of the shareholders.

OPERATING ENVIRONMENT AND TRENDS OF THE BUSINESS

2010 Revenue Trends We expect our operating environment in 2010 to remain challenging as the economic recession continues, competition remains strong and the federal regulatory framework may or may not remain receptive to investment. Despite this environment, we expect our operating revenues in 2010 to remain stable, reflecting continuing growth in our wireless and broadband/data services. We expect our primary driver of growth to be wireless, especially in sales and increased use of advanced handsets and emerging devices (such as netbooks, eReaders and mobile navigation devices) and that all our major customer categories will continue to increase their use of Internet-based broadband/data services. We expect continuing declines in traditional access lines and in advertising from our print directories. Where available, our U-verse services are proving effective in stemming access line losses, and we expect to continue to expand our U-verse service offerings in 2010.

2010 Expense Trends We expect a challenging operating environment for 2010. We will continue to focus sharply on cost-control measures, including areas such as organizational and systems integration. We will continue our ongoing initiatives to improve customer service and billing so we can realize our strategy of bundling services and providing a simple customer experience. We expect our 2010 operating income margin to be stable with the opportunity to improve margins, in the event the U.S. economy improves. We do not expect significant pension funding requirements in 2010. Expenses related to growth areas of our business, especially in the wireless area, will apply some pressure to our operating income margin.

Market Conditions During 2009, the securities and mortgage markets and the banking system in general experienced some stabilization compared with 2008 as the year progressed, although bank lending and the housing industry remained weak. The ongoing weakness in the general economy has also affected our customer and supplier bases. We saw lower demand from our residential customers as well as our business customers at all organizational sizes. Some of our suppliers continue to experience increased financial and operating costs. To a large extent, these negative trends were offset by continued growth in our wireless and IP-related services. While the economy appears to have stabilized at a weakened level at year-end, we do not expect a quick return to growth during 2010. Should the economy instead deteriorate further, we likely will experience further pressure on pricing and margins as we compete for both wireline and wireless customers who have less discretionary income. We also may experience difficulty purchasing equipment in a timely manner or maintaining and replacing warranteed equipment from our suppliers.

Included on our consolidated balance sheets are assets held by benefit plans for the payment of future benefits. The losses associated with the securities markets declines during 2008 are not expected to have an impact on the ability of our benefit plans to pay benefits. We do not expect to make significant funding contributions to our pension plans in 2010. However, because our pension plans are subject to funding requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA), a continued weakness in the markets could require us to make contributions to the pension plans in order to maintain minimum funding requirements as established by ERISA. In addition, our policy on recognizing losses on investments in the pension and other postretirement plans accelerated the recognition of losses in 2009 earnings (see "Significant Accounting Policies and Estimates").

OPERATING ENVIRONMENT OVERVIEW

AT&T subsidiaries operating within the U.S. are subject to federal and state regulatory authorities. AT&T subsidiaries operating outside the U.S. are subject to the jurisdiction of national and supranational regulatory authorities in the markets where service is provided, and regulation is generally limited to operational licensing authority for the provision of services to enterprise customers.

In the Telecommunications Act of 1996 (Telecom Act), Congress established a national policy framework intended to bring the benefits of competition and investment in advanced telecommunications facilities and services to all Americans by opening all telecommunications markets to competition and reducing or eliminating regulatory burdens that harm consumer welfare. However, since the Telecom Act was passed, the Federal Communications Commission (FCC) and some state regulatory commissions have maintained certain regulatory requirements that were imposed decades ago on our traditional wireline subsidiaries when they operated as legal monopolies. Where appropriate, we are pursuing additional legislative and regulatory measures to reduce regulatory burdens that inhibit our ability to compete more effectively and offer services wanted and needed by our customers. For example, we are supporting regulatory and legislative efforts that would offer new video entrants a streamlined process for bringing new video services to market and for offering more timely competition to traditional cable television providers. With the advent of the Obama Administration, the composition of the FCC has changed, and the new Commission appears to be more open than the prior Commission to maintaining or expanding regulatory requirements on entities subject to its jurisdiction. In addition, Congress, the President and the FCC all have declared a national policy objective of ensuring that all Americans have access to broadband technologies and services. To that end, Congress has charged the FCC with developing a National Broadband Plan and delivering that plan to Congress in early 2010. The Commission has issued dozens of notices seeking comment on whether and how it should modify its rules and policies on a host of issues, which would affect all segments of the communications industry, to achieve universal access to broadband. These issues include rules and policies relating to universal service support, intercarrier compensation and regulation of special access services, as well as a variety of others that could have an impact on AT&T's operations and revenues. However, at this stage, it is too early to assess what, if any, impact such changes could have on us.

In addition, states representing a majority of our local service access lines have adopted legislation that enables new video entrants to acquire a single statewide or state-approved franchise (as opposed to the need to acquire hundreds or even thousands of municipal-approved franchises) to offer competitive video services. We also are supporting efforts to update and improve regulatory treatment for retail services. Passage of legislation is uncertain and depends on many factors.

Our wireless operations operate in robust competitive markets but are likewise subject to substantial governmental regulation. Wireless communications providers must be licensed by the FCC to provide communications services at specified spectrum frequencies within specified geographic areas and must comply with the rules and policies governing the use of the spectrum as adopted by the FCC. The FCC has recognized the importance of providing carriers with access to adequate spectrum to permit continued wireless growth and has begun investigating how to develop policies to promote that goal. While wireless communications providers' prices and service offerings are generally not subject to state regulation, an increasing number of states are attempting to regulate or legislate various aspects of wireless services, such as in the area of consumer protection.

AT&T has previously noted that the broadband marketplace is robustly competitive and that we do not block consumers from accessing the lawful Internet sites of their choice. We therefore believe that prescriptive "net neutrality" rules are not only unnecessary but also counterproductive to the extent they would restrict broadband Internet access providers from developing innovative new services for consumers and/or content and application providers. Nor do we believe that wireless providers should be prohibited from entering into exclusive arrangements with handset manufacturers or that government should regulate wireless early termination fees as is currently being proposed. It is widely recognized that the wireless industry in the United States is characterized by innovation, differentiation, declining prices and extensive competition among handset manufacturers, service providers and applications. For this reason, additional broadband regulation and new wireless requirements are unwarranted.

Expected Growth Areas

We expect our wireless services and data wireline products to remain the most significant portion of our business and have also discussed trends affecting the segments in which we report results for these products (see "Wireless Segment Results" and "Wireline Segment Results"). Over the next few years, we expect an increasing percentage of our growth to come from: (1) our wireless service and (2) data/broadband, through existing and new services. We expect that our previous acquisitions will enable us to strengthen the reach and sophistication of our network facilities, increase our large-business customer base and enhance the opportunity to market wireless services to that customer base. Whether, or the extent to which, growth in these areas will offset declines in other areas of our business is not known.

Wireless Wireless is our fastest-growing revenue stream and we expect to deliver continued revenue growth in the coming years. We believe that we are in a growth period of wireless data usage and that there are substantial opportunities available for next-generation converged services that combine wireless, broadband, voice and video.

Our Universal Mobile Telecommunications System/High-Speed Downlink Packet Access 3G network technology covers most major metropolitan areas of the U.S. This technology provides superior speeds for data and video services, and it offers operating efficiencies by using the same spectrum and infrastructure for voice and data on an IP-based platform. Our wireless networks also rely on digital transmission technologies known as GSM, General Packet Radio Services and Enhanced Data Rates for GSM Evolution for data communications. As of December 31, 2009, we served 85.1 million customers. We have also announced plans to transition from 3G network technology to a higher

transmission speed technology called Long-Term Evolution. We expect to test this technology this year and then deploy it beginning in 2011, as we expect network equipment and handsets to become more widely available.

As the wireless industry continues to mature, we believe that future wireless growth will become increasingly dependent on our ability to offer innovative services that will encourage existing customers to upgrade their services, either by adding new types of services, such as data enhancements, or through increased use of existing services, such as through equipment upgrades. These innovative services should attract customers from other providers, as well as minimize customer churn. We intend to accomplish these goals by continuing to expand our network coverage, improve our network quality and offer a broad array of products and services, including exclusive devices such as Apple iPhone 3G and free mobile-to-mobile calling among our wireless customers. Minimizing customer churn is critical to our ability to maximize revenue growth and to maintain and improve our operating margins.

U-verse Services We are continuing to expand our deployment of U-verse high-speed broadband and TV services. As of December 31, 2009, we have passed 22.8 million living units (constructed housing units as well as platted housing lots) and are marketing the services to almost 72 percent of those units. Our deployment strategy is to enter each new area on a limited basis in order to ensure that all operating and back-office systems are functioning successfully and then expand within each as we continue to monitor these systems. Our rate of expansion will be slowed if we cannot obtain all required local building permits in a timely fashion. We also continue to work with our vendors on improving, in a timely manner, the requisite hardware and software technology. Our deployment plans could be delayed if we do not receive required equipment and software on schedule.

We believe that our U-verse TV service is subject to federal oversight as a "video service" under the Federal Communications Act. However, some cable providers and municipalities have claimed that certain IP services should be treated as a traditional cable service and therefore subject to the applicable state and local cable regulation. Certain municipalities have delayed our request or have refused us permission to use our existing right-of-ways to deploy or activate our U-verse-related services and products, resulting in litigation. Pending negotiations and current or threatened litigation involving municipalities could delay our deployment plans in those areas. In July 2008, the U.S. District Court for Connecticut affirmed its October 2007 ruling that AT&T's U-verse TV service is a cable service in Connecticut. We have appealed that decision on the basis that state legislation rendered the case moot. Petitions have been filed at the FCC alleging that the manner in which AT&T provisions "public, educational, and governmental" (PEG) programming over its U-verse TV service conflicts with federal law, and a lawsuit has been filed in a California state superior court raising similar allegations under California law. If courts having jurisdiction where we have significant deployments of our U-verse services were to decide that federal, state and/or local cable regulation were applicable to our U-verse services, or if the FCC, state agencies or the courts were to rule that AT&T must deliver PEG programming in a manner substantially different from the way it does today or in ways that are inconsistent with AT&T's current network architecture, it could have a material adverse effect on the cost, timing and extent of our deployment plans.

REGULATORY DEVELOPMENTS

Set forth below is a summary of the most significant developments in our regulatory environment during 2009. While these issues, for the most part, apply only to certain subsidiaries in our Wireline segment, the words "we," "AT&T" and "our" are used to simplify the discussion. The following discussions are intended as a condensed summary of the issues rather than as a precise legal description of all of these specific issues.

International Regulation Our subsidiaries operating outside the U.S. are subject to the jurisdiction of regulatory authorities in the market where service is provided. Our licensing, compliance and advocacy initiatives in foreign countries primarily enable the provision of enterprise (i.e., large business) services. AT&T is engaged in multiple efforts with foreign regulators to open markets to competition, reduce network costs and increase our scope of fully authorized network services and products.

Federal Regulation A summary of significant 2009 federal regulatory developments follows.

Net Neutrality On October 22, 2009, the FCC adopted a Notice of Proposed Rulemaking (NPRM) seeking comment on six proposed "net neutrality" rules that are intended to preserve the "free and open Internet." The proposed rules apply to providers of "broadband Internet access service" and state that, subject to "reasonable network management," such a provider:

- May not prevent any of its users from sending or receiving the lawful content of the user's choice over the Internet.
- May not prevent any of its users from running the lawful applications or using the lawful services of the user's choice.
- May not prevent any of its users from connecting to and using on its network the user's choice of lawful devices that do not harm the network.
- May not deprive any of its users of the user's entitlement to competition among network providers, application providers, service providers and content providers.
- Must treat lawful content, applications and services in a nondiscriminatory manner.
- Must disclose such information concerning network management and other practices as is reasonably required for users and content, application and service providers to enjoy the protections specified in these rules.

The NPRM states that the proposed rules would apply to all platforms over which broadband Internet access services are provided, including mobile wireless broadband, while recognizing that different platforms involve significantly different technologies, market structures, patterns of consumer usage and regulatory history. The comment cycle on the NPRM concludes in the first quarter of 2010. We are unable to determine the impact of this proceeding on our operating results and financial condition at this time.

COMPETITION

Competition continues to increase for telecommunications and information services. Technological advances have expanded the types and uses of services and products available. In addition, lack of or a reduced level of regulation of comparable alternatives (e.g., cable, wireless and VoIP providers) has lowered costs for these alternative communications service providers. As a result, we face heightened competition as well as some new opportunities in significant portions of our business.

Wireless

We face substantial and increasing competition in all aspects of our wireless business. Under current FCC rules, six or more PCS licensees, two cellular licensees and one or more enhanced specialized mobile radio licensees may operate in each of our service areas, which results in the potential presence of multiple competitors. Our competitors are principally three national (Verizon Wireless, Sprint Nextel Corp. and T-Mobile) and a larger number of regional providers of cellular, PCS and other wireless communications services. More than 95% of the U.S. population lives in areas with three mobile telephone operators and more than half the population lives in areas with at least five competing carriers.

We may experience significant competition from companies that provide similar services using other communications technologies and services. While some of these technologies and services are now operational, others are being developed or may be developed in the future. We compete for customers based principally on price, service offerings, call quality, coverage area and customer service.

Wireline

Our wireline subsidiaries expect continued competitive pressure in 2010 from multiple providers, including wireless, cable and other VoIP providers, interexchange carriers and resellers. In addition, economic pressures are forcing customers to terminate their traditional local wireline service and substitute wireless and Internet-based services, intensifying a pre-existing trend toward wireless and Internet use. At this time, we are unable to quantify the effect of competition on the industry as a whole or financially on this segment. However, we expect both losses of revenue share in local service and gains resulting from business initiatives, especially in the area of bundling of products and services, including wireless and video, large-business data services and broadband. In most markets, we compete with large cable companies, such as Comcast Corporation, Cox Communications, Inc. and Time Warner Cable Inc., for local, high-speed Internet and video services customers and other smaller telecommunications companies for both long-distance and local services customers.

Our wireline subsidiaries generally remain subject to regulation by state regulatory commissions for intrastate services and by the FCC for interstate services. In contrast, our competitors are often subject to less or no regulation in providing comparable voice and data services or the extent of regulation is in dispute. Under the Telecom Act, companies seeking to interconnect to our wireline subsidiaries' networks and exchange local calls enter into interconnection agreements with us. Any unresolved issues in negotiating those agreements are subject to arbitration before the appropriate state commission. These agreements (whether fully agreed-upon or arbitrated) are then subject to review and approval by the appropriate state commission.

In a number of the states in which we operate as an ILEC, state legislatures or the state public utility commissions have concluded that the voice telecommunications market is competitive and have allowed for greater pricing flexibility for nonbasic residential retail services, including bundles, promotions and new products and services. While it has been a number of years since we have been allowed to raise local service rates in certain states, some of these state actions have been challenged by certain parties and are pending court review.

In addition to these rates and service regulations noted above, our wireline subsidiaries (excluding rural carrier affiliates) operate under state-specific elective "price-cap regulation" for retail services (also referred to as "alternative regulation") that was either legislatively enacted or authorized by the appropriate state regulatory commission. Under price-cap regulation, price caps are set for regulated services and are not tied to the cost of providing the services or to rate-of-return requirements. Price-cap rates may be subject to or eligible for annual decreases or increases and also may be eligible for deregulation or greater pricing flexibility if the associated service is deemed competitive under some state regulatory commission rules. Minimum customer service standards may also be imposed and payments required if we fail to meet the standards.

We continue to lose access lines due to competitors (e.g., wireless, cable and VoIP providers) who can provide comparable services at lower prices because they are not subject to traditional telephone industry regulation (or the

extent of regulation is in dispute), utilize different technologies, or promote a different business model (such as advertising based) and consequently have lower cost structures. In response to these competitive pressures, for several years we have utilized a bundling strategy that rewards customers who consolidate their services (e.g., local and long-distance telephone, high-speed Internet, wireless and video) with us. We continue to focus on bundling wireline and wireless services, including combined packages of minutes and video service through our U-verse service and our relationships with satellite television providers. We will continue to develop innovative products that capitalize on our expanding fiber network.

Additionally, we provide local, domestic intrastate and interstate, international wholesale networking capacity and switched services to other service providers, primarily large Internet Service Providers using the largest class of nationwide Internet networks (Internet backbone), wireless carriers, Competitive Local Exchange Carriers, regional phone ILECs, cable companies and systems integrators. These services are subject to additional competitive pressures from the development of new technologies and the increased availability of domestic and international transmission capacity. The introduction of new products and service offerings and increasing satellite, wireless, fiber-optic and cable transmission capacity for services similar to those provided by us continues to provide competitive pressures. We face a number of international competitors, including Equant, British Telecom and SingTel as well as competition from a number of large systems integrators, such as Electronic Data Systems.

Advertising Solutions
Our Advertising Solutions subsidiaries face competition from approximately 100 publishers of printed directories in their operating areas. Competition also exists from other advertising media, including newspapers, radio, television and direct-mail providers, as well as from directories offered over the Internet. Through our wholly-owned subsidiary, YPC, we compete with other providers of Internet-based advertising and local search.

ACCOUNTING POLICIES AND STANDARDS

Critical Accounting Policies and Estimates Because of the size of the financial statement line items they relate to, some of our accounting policies and estimates have a more significant impact on our financial statements than others. The following policies are presented in the order in which the topics appear in our consolidated statements of income.

Allowance for Doubtful Accounts We maintain an allowance for doubtful accounts for estimated losses that result from the failure of our customers to make required payments. When determining the allowance, we consider the probability of recoverability based on past experience, taking into account current collection trends as well as general economic factors, including bankruptcy rates. Credit risks are assessed based on historical write-offs, net of recoveries, and an analysis of the aged accounts receivable balances with reserves generally increasing as the receivable ages. Accounts receivable may be fully reserved for when specific collection issues are known to exist, such as pending bankruptcy or catastrophes. The analysis of receivables is performed monthly, and the bad-debt allowances are adjusted accordingly. A 10% change in the amounts estimated to be uncollectible would result in a change in uncollectible expense of approximately $120.

Pension and Postretirement Benefits Our actuarial estimates of retiree benefit expense and the associated significant weighted-average assumptions are discussed in Note 11. One of the most significant of these assumptions is the return on assets assumption, which was 8.50% for the year ended December 31, 2009. In setting the long-term assumed rate of return, management considers capital markets' future expectations and the asset mix of the plans' investments. The actual long-term return can, in relatively stable markets, also serve as a factor in determining future expectations. However, the dramatic adverse market conditions in 2008 have skewed the calculation of the long-term actual return; the actual 10-year return was 3.67% through 2009 and 4.21% through 2008, compared with 9.18% through 2007. The severity of the 2008 losses will make the 10-year actual return less of a relevant factor in management's evaluation of future expectations. In 2009, we experienced actual returns on investments much greater than what was expected, creating a reduction in pension and postretirement expense for 2010. Based on future expectations and the plans' asset mix, management has left unchanged the long-term assumed rate of return for 2010. If all other factors were to remain unchanged, we expect that a 1.0% decrease in the assumed long-term rate of return would cause 2010 combined pension and postretirement cost to increase $639. Under GAAP, the expected long-term rate of return is calculated on the market-related value of assets (MRVA). GAAP requires that actual gains and losses on pension and postretirement plan assets be recognized in the MRVA equally over a period of up to five years. We use a methodology, allowed under GAAP, under which we hold the MRVA to within 20% of the actual fair value of plan assets, which can have the effect of accelerating the recognition of excess actual gains and losses into the MRVA in less than five years. This methodology did not have a material impact on our 2008 or 2007 combined net pension and postretirement costs.

Our assumed discount rate of 6.50% at December 31, 2009, reflects the hypothetical rate at which the projected benefit obligations could be effectively settled or paid out to participants. We determined our discount rate based on a range of factors, including a yield curve comprised of the rates of return on several hundred high-quality, fixed-income corporate bonds available at the measurement date and the related expected duration for the obligations. These bonds

were all rated at least Aa3 or AA- by one of the nationally recognized statistical rating organizations, denominated in U.S. dollars, and neither callable, convertible nor index linked. For the year ended December 31, 2009, we decreased our discount rate by 0.50%, resulting in an increase in our pension plan benefit obligation of $2,065 and an increase in our postretirement benefit obligation of $1,847. For the year ended December 31, 2008, we increased our discount rate by 0.50%, resulting in a decrease in our pension plan benefit obligation of $2,176 and a decrease in our postretirement benefit obligation of $2,154. Should actual experience differ from actuarial assumptions, the projected pension benefit obligation and net pension cost and accumulated post-retirement benefit obligation and postretirement benefit cost would be affected in future years. Note 11 also discusses the effects of certain changes in assumptions related to medical trend rates on retiree health care costs.

Depreciation Our depreciation of assets, including use of composite group depreciation and estimates of useful lives, is described in Notes 1 and 5. We assign useful lives based on periodic studies of actual asset lives. Changes in those lives with significant impact on the financial statements must be disclosed, but no such changes have occurred in the three years ended December 31, 2009. However, if all other factors were to remain unchanged, we expect that a one-year increase in the useful lives of the largest categories of our plant in service (which accounts for more than three-fourths of our total plant in service) would result in a decrease of approximately $2,420 in our 2010 depreciation expense and that a one-year decrease would result in an increase of approximately $3,480 in our 2010 depreciation expense.

Asset Valuations and Impairments We account for acquisitions using the acquisition method as required by GAAP. Under GAAP, we allocate the purchase price to the assets acquired and liabilities assumed based on their estimated fair values. The estimated fair values of intangible assets acquired are based on the expected discounted cash flows of the identified customer relationships, patents, tradenames and FCC licenses. In determining the future cash flows, we consider demand, competition and other economic factors.

Customer relationships, which are finite-lived intangible assets, are primarily amortized using the sum-of-the-months-digits method of amortization over the period in which those relationships are expected to contribute to our future cash flows. The sum-of-the-months-digits method is a process of allocation, and reflects our belief that we expect greater revenue generation from these customer relationships during the earlier years of their lives. Alternatively, we could have chosen to amortize customer relationships using the straight-line method, which would allocate the cost equally over the amortization period. Amortization of other intangibles, including patents and amortizable tradenames, is determined using the straight-line method of amortization over the expected remaining useful lives. We do not amortize indefinite-lived intangibles, such as wireless FCC licenses or certain tradenames (see Note 6).

Goodwill and wireless FCC licenses are not amortized but tested annually for impairment, as required by GAAP. We conduct our impairment tests as of October 1. Goodwill is tested on a reporting unit basis, and our reporting units generally coincide with our segments, except for certain operations in the Other segment. The carrying amounts of goodwill, by segment (which is the same as reporting unit for Wireless, Wireline and Advertising Solutions), at December 31, 2009 were: Wireless $35,037; Wireline $31,608; Advertising Solutions $5,731; and Other $883. At December 31, 2008, the carrying amounts of goodwill by segment were: Wireless $33,851; Wireline $31,381; Advertising Solutions $5,694; and Other $903. Within the Other segment, goodwill associated with our Sterling operations was $477 for 2009 and 2008. Additionally, FCC licenses are tested for impairment on an aggregate basis, consistent with the management of the business on a national scope. These annual impairment tests resulted in no material impairment of indefinite-lived goodwill or FCC licenses. If there are indications of significant decreases in fair value of these assets, testing may also be done more frequently than the annual test. There were no indications of a significant decrease in fair value in 2009. We review other long-lived assets for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable over the remaining life of the asset or asset group.

Goodwill impairment testing is a two step process. The first step involves determining the fair value of the reporting unit and comparing that to the book value. If the fair value exceeds the book value, then no further testing is required. If the fair value is less than the book value, then a second step is performed.

In the second step, the fair values of all of the assets and liabilities of the reporting unit, including those that may not be currently recorded, are determined. The difference between the sum of all of those fair values and the overall reporting unit's fair value is a new implied goodwill amount that is compared to the recorded goodwill. If implied goodwill is less than the recorded goodwill, then an impairment to the recorded goodwill is recorded. The amount of this impairment may be more or less than the difference between the overall fair value and book value of the reporting unit. It may even be zero if the fair values of other assets are less than their book values. Goodwill is the only asset that may be impaired when testing goodwill.

As shown in Note 6, more than 98% of our goodwill resides in the Wireline, Wireless and Advertising Solutions segments. For each of those segments, publicly traded companies whose services are consistent with those primarily offered by the segment exist, giving a market indication of enterprise value. Enterprise value is the sum of a company's equity and debt values. One standard valuation technique is to determine enterprise value as a multiple of a company's operating income before depreciation and amortization. We determined

the multiples of the public companies and then calculated a weighted-average of those multiples. Using those weighted-averages, we then calculated fair values for each of those segments to determine if additional testing was required and, in all circumstances, no additional testing was required. In the event of a 10% drop in the fair values of the reporting units, the fair values would have still exceeded the book values of the reporting units and additional testing would still have not been required.

Consistent with prior years, we performed our test of the fair values of FCC licenses using a discounted cash flow model (the Greenfield Approach). The Greenfield Approach assumes a company is started, owning only the wireless FCC licenses, and then makes investments required to build an operation comparable to the one in which the licenses are presently utilized. We utilized a 17-year discrete period to isolate cash flows attributable to the licenses including modeling the hypothetical build out. The projected cash flows are based on certain financial factors including revenue growth rates, Operating Income Before Depreciation and Amortization (OIBDA) margins, and churn rates. Wireless revenue growth is expected to trend down from our 2008 growth rate of 15.6% to a long-term growth rate that reflects expected long-term inflation trends. Our churn rates are expected to continue declining from 1.68% in 2008, in line with expected trends in the industry but at a rate comparable with industry-leading churn. OIBDA margins should continue to increase from the 2008 level of 38.0% to more than 40.0%.

This model then incorporates cash flow assumptions regarding investment in the network, development of distribution channels and the subscriber base, and other inputs for making the business operational. The assumptions which underlie the development of the network, subscriber base and other critical inputs of the discounted cash flow model were based on a combination of average marketplace participant data and our historical results, trends and business plans. Operating metrics such as capital investment per subscriber, acquisition costs per subscriber, minutes of use per subscriber, etc. were also used to develop the projected cash flows. Since the cash flows associated with these other inputs were included in the annual cash flow projections, the present value of the unlevered free cash flows of the segment, after investment in the network, subscribers, etc., is attributable to the wireless FCC licenses. The terminal value of the segment, which incorporates an assumed sustainable growth rate, is also discounted and is likewise attributed to the licenses. The discount rate of 9.0% used to calculate the present value of the projected cash flows is based on the optimal long-term capital structure of a market participant and its associated cost of debt and equity. The discount rate utilized in the analysis is also consistent with rates we use to calculate the present value of the projected cash flows of licenses acquired from third parties.

If either the projected rate of growth of cash flows or revenues were to decline by 1%, or if the discount rate were to increase by 1%, the fair values of the wireless FCC licenses, while less than currently projected, would still be higher than the book value of the licenses. The fair value of the licenses exceeded the book value by more than one-fourth.

We review other long-lived assets for impairment under GAAP whenever events or circumstances indicate that the carrying amount may not be recoverable over the remaining life of the asset or asset group. In order to determine that the asset is recoverable, we verify that the expected future cash flows directly related to that asset exceed its fair value, which is based on the undiscounted cash flows. The discounted cash flow calculation uses various assumptions and estimates regarding future revenue, expense and cash flows projections over the estimated remaining useful life of the asset.

Cost investments are evaluated to determine whether mark-to-market declines are temporary and reflected in other comprehensive income, or other than temporary and recorded as an expense in the income statement. This evaluation is based on the length of time and the severity of decline in the investment's value. At the end of the first quarter of 2009 and at the end of 2008, we concluded the severity of decline had led to an other-than-temporary decline in the value of assets contained in an independently managed trust for certain BellSouth employee benefits.

Income Taxes Our estimates of income taxes and the significant items giving rise to the deferred assets and liabilities are shown in Note 10 and reflect our assessment of actual future taxes to be paid on items reflected in the financial statements, giving consideration to both timing and probability of these estimates. Actual income taxes could vary from these estimates due to future changes in income tax law or the final review of our tax returns by federal, state or foreign tax authorities.

In 2007, we adopted new GAAP rules and began accounting for uncertain tax positions under those provisions. As required, we use our judgment to determine whether it is more likely than not that we will sustain positions that we have taken on tax returns and, if so, the amount of benefit to initially recognize within our financial statements. We regularly review our uncertain tax positions and adjust our unrecognized tax benefits in light of changes in facts and circumstances, such as changes in tax law, interactions with taxing authorities and developments in case law. These adjustments to our unrecognized tax benefits may affect our income tax expense. Settlement of uncertain tax positions may require use of our cash.

New Accounting Standards

Revenue Arrangements with Multiple Deliverables In October 2009, the Financial Accounting Standards Board (FASB) issued "Multiple-Deliverable Revenue Arrangements" (Accounting Standards Update (ASU) 2009-13), which addresses how revenues should be allocated among all products and services included in our sales arrangements. It establishes a selling price hierarchy for determining the selling price of each product or service, with vendor-specific objective evidence (VSOE) at the highest level, third-party evidence of VSOE at the intermediate level, and a best estimate at the lowest level. It replaces "fair value" with "selling price" in revenue allocation guidance, eliminates the residual method as an acceptable allocation method, and requires the use of the relative selling price method as the basis for allocation. It also significantly expands the disclosure requirements for such arrangements, including, potentially, certain qualitative disclosures. ASU 2009-13 will be effective prospectively for sales entered into or materially modified in fiscal years beginning on or after June 15, 2010 (i.e., the year beginning January 1, 2011, for us). The FASB permits early adoption of ASU 2009-13, applied retrospectively, to the beginning of the year of adoption. We are currently evaluating the impact on our financial position and results of operations.

Software In October 2009, the FASB issued "Certain Revenue Arrangements That Include Software Elements" (ASU 2009-14), which clarifies the guidance for allocating and measuring revenue, including how to identify software that is out of the scope. ASU 2009-14 amends accounting and reporting guidance for revenue arrangements involving both tangible products and software that is "more than incidental to the tangible product as a whole." That type of software and hardware will be outside of the scope of software revenue guidance, and the hardware components will also be outside of the scope of software revenue guidance and may result in more revenue recognized at the time of the hardware sale. Additional disclosures will discuss allocation of revenue to products and services in our sales arrangements and the significant judgments applied in the revenue allocation method, including impacts on the timing and amount of revenue recognition. ASU 2009-14 will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010 (i.e., the year beginning January 1, 2011, for us). ASU 2009-14 has the same effective date, including early adoption provisions, as ASU 2009-13. Companies must adopt ASU 2009-14 and ASU 2009-13 at the same time. We are currently evaluating the impact on our financial position and results of operations.

See Note 1 for a discussion of recently issued or adopted accounting standards.

OTHER BUSINESS MATTERS

Retiree Phone Concession Litigation In May 2005, we were served with a purported class action in U.S. District Court, Western District of Texas (Stoffels v. SBC Communications Inc.), in which the plaintiffs, who are retirees of Pacific Bell Telephone Company, Southwestern Bell and Ameritech, contend that the telephone concession provided by the company is, in essence, a "defined benefit plan" within the meaning of ERISA, as amended. In October 2006, the Court certified two classes. The issue of whether the concession is an ERISA pension plan was tried before the judge in November 2007. In May 2008, the court ruled that the concession was an ERISA pension plan. We asked the court to certify this ruling for interlocutory appeal, and in August 2008, the court denied our request. In May 2009, we filed a motion for reconsideration with the trial court. That motion is pending. A trial on the appropriate remedy has been set for June 1, 2010. We believe that an adverse outcome having a material effect on our financial statements in this case is unlikely, but we will continue to evaluate the potential impact of this suit on our financial results as it progresses.

NSA Litigation Twenty-four lawsuits were filed alleging that we and other telecommunications carriers unlawfully provided assistance to the National Security Agency (NSA) in connection with intelligence activities that were initiated following the events of September 11, 2001. In the first filed case, Hepting et al v. AT&T Corp., AT&T Inc. and Does 1-20, a purported class action filed in U.S. District Court in the Northern District of California, plaintiffs alleged that the defendants disclosed and are currently disclosing to the U.S. Government content and call records concerning communications to which Plaintiffs were a party. Plaintiffs sought damages, a declaratory judgment, and injunctive relief for violations of the First and Fourth Amendments to the United States Constitution, the Foreign Intelligence Surveillance Act (FISA), the Electronic Communications Privacy Act, and other federal and California statutes. We filed a motion to dismiss the complaint. The United States asserted the "state secrets privilege" and related statutory privileges and also filed a motion asking the court to dismiss the complaint. The Court denied the motions, and we and the United States appealed. In August 2008, the U.S. Court of Appeals for the Ninth Circuit remanded the case to the district court without deciding the issue in light of the passage of the FISA Amendments Act, a provision of which addresses the allegations in these pending lawsuits (immunity provision). The immunity provision requires the pending lawsuits to be dismissed if the Attorney General certifies to the court either that the alleged assistance was undertaken by court order, certification, directive, or written request or that the telecom

entity did not provide the alleged assistance. In September 2008, the Attorney General filed his certification and asked the district court to dismiss all of the lawsuits pending against the AT&T Inc. telecommunications companies. The court granted the Government's motion to dismiss and entered final judgments in July 2009. In addition, a lawsuit seeking to enjoin the immunity provision's application on grounds that it is unconstitutional was filed. In March 2009, we and the Government filed motions to dismiss this lawsuit. The court granted the motion to dismiss and entered final judgment in July 2009. All cases brought against the AT&T entities have been dismissed. In August 2009, plaintiffs in all cases filed an appeal with the Ninth Circuit Court of Appeals.

Management believes these actions are without merit and intends to continue to defend these matters vigorously.

Labor Contracts As of January 31, 2010, we employed approximately 281,000 persons. Approximately 58 percent of our employees are represented by the Communications Workers of America (CWA), the International Brotherhood of Electrical Workers (IBEW) or other unions. Contracts covering approximately 120,000 collectively bargained wireline employees expired during 2009. As of January 31, 2010, the Company and approximately 86,000 employees, covered by these expired collectively bargained wireline contracts, have ratified new labor agreements. In the absence of an effective contract, the union is entitled to call a work stoppage.

For approximately 60,000 employees covered by ratified agreements, the agreements provide for a three-year term and, for the vast majority of those covered employees, a 3 percent wage increase in years one and two, a wage increase in year three of 2.75 percent, and pension band increases of 2 percent for each year of the agreement. For both wage and pension band increases, there is a potential cost-of-living increase based on the consumer price index for the third year. These agreements also provide for continued health care coverage with reasonable cost sharing.

For the remaining approximately 26,000 employees covered by ratified agreements, the agreement provides for a four-year term. The provisions of the tentative agreement are substantially similar to the provisions of the ratified agreements discussed above, with a wage increase in year four of 2.75 percent and a potential cost-of-living increase in year four instead of in year three.

On February 8, 2010, the Company and the CWA announced a tentative agreement covering approximately 30,000 core wireline employees in the nine-state former BellSouth region, subject to ratification by those covered employees. The tentative agreement provides for a three-year term and, for the vast majority of those covered employees, a 3 percent wage increase in years one and two, a wage increase in year three of 2.75 percent, and pension band increases of 2 percent for each year of the agreement. These agreements also provide for continued health care coverage with reasonable cost sharing.

Health Care Legislation We provide a variety of medical and prescription drug benefits to certain active and retired employees under various plans. In 2009, the U.S. Senate and House of Representatives each passed comprehensive health care reform legislation. It is unclear if differences between these bills can be reconciled and a final bill passed in 2010. Among the major provisions of the bills are the taxation of the Medicare Part D subsidy, Medicare payment reforms, an excise tax on "Cadillac" plans as well as mandates for providing coverage and other requirements for delivery of health care to employees and retirees. The final outcome of the legislation could cause negative impacts to our results and bring uncertainty to our future costs.

Environmental We are subject from time to time to judicial and administrative proceedings brought by various governmental authorities under federal, state or local environmental laws. Although we are required to reference in our Forms 10-Q and 10-K any of these proceedings that could result in monetary sanctions (exclusive of interest and costs) of one hundred thousand dollars or more, we do not believe that any of them currently pending will have a material adverse effect on our results of operations.

LIQUIDITY AND CAPITAL RESOURCES

We had $3,802 in cash and cash equivalents available at December 31, 2009. Cash and cash equivalents included cash of $437 and money market funds and other cash equivalents of $3,365. Cash and cash equivalents increased $2,010 since December 31, 2008. During 2009, cash inflows were primarily provided by cash receipts from operations and the issuance of long-term debt. These inflows were partially offset by cash used to meet the needs of the business including, but not limited to, payment of operating expenses, funding capital expenditures, dividends to stockholders, repayment of debt and payment of interest on debt. We discuss many of these factors in detail below.

Cash Provided by or Used in Operating Activities

During 2009, cash provided by operating activities was $34,445 compared to $33,656 in 2008. Our higher operating cash flow reflects decreased tax payments of $836, partially offset by reduced net income and increased interest payments of $146. During 2009, our payments for current income taxes were lower than 2008 due primarily to changes in law impacting the timing of payments. The timing of cash payments for income taxes is governed by the IRS and other taxing authorities and differs from the timing of recording tax expense, which is reported in accordance with GAAP.

The decrease in current tax payments was partially offset by an increase in audit-related payments in 2009. We anticipate using approximately $2,350 of cash in 2010 to complete the acquisition of various assets from Verizon that it was required to divest as part of its acquisition of Alltel.

During 2008, our primary source of funds was cash from operating activities of $33,656 compared to $34,242 in 2007. Operating cash flows decreased primarily due to increased tax payments of $1,294 partially offset by improvement in operating income excluding depreciation. During 2008, tax payments were higher primarily due to increased income.

Cash Used in or Provided by Investing Activities

During 2009, cash used in investing activities consisted of:

- $16,595 in capital expenditures, excluding interest during construction.
- $740 in interest during construction.
- $787, net of cash acquired, related to the acquisition of Centennial.
- $111 related to spectrum and licenses.
- $85 related to other acquisitions.

During 2009, cash provided by investing activities consisted of:

- $287 from dispositions of non-strategic assets.
- $55 from the sale of securities, net of investments.
- $51 related to other activities.

Our capital expenditures are primarily for our wireless and wireline subsidiaries' networks, our U-verse services, and support systems for our communications services. Total capital spending in 2009 was $16,595, which was a $3,081 decrease from 2008. Capital spending in our Wireless segment, excluding interest during construction, only increased 1% for 2009; the modest increase in capital spending reflected a 6% increase in network expenditures, tempered by reductions in non-network spending. Expenditures were used for network capacity growth, integration and upgrades to our Universal Mobile Telecommunications System/High-Speed Packet Access network, as well as for IT and other support systems for our wireless service. Capital expenditures in our Wireline segment, excluding interest during construction, which represented 64.3% of our capital expenditures, decreased 21% for 2009, reflecting decreased spending on U-verse services as the upgrades to our existing network become more mature. In addition, capital expenditures decreased due to less spending on wireline voice services, and lower DSL and High Capacity volumes. The Other segment capital expenditures were less than 2% of total capital expenditures for 2009. Included in the Other segment are equity investments, which should be self funding as they are not direct AT&T operations; as well as corporate, diversified business and Sterling operations, which we expect to fund using cash from operations. We expect to fund any Advertising Solutions segment capital expenditures using cash from operations. We expect total 2010 capital investment to be in the $18 billion to $19 billion range. This level of investment is framed by the expectation that regulatory and legislative decisions relating to the telecom sector will continue to be sensitive to investment.

Cash Used in or Provided by Financing Activities

We paid dividends of $9,670 in 2009, $9,507 in 2008 and $8,743 in 2007, reflecting dividend rate increases. In December 2009, our Board of Directors approved a 2.4% increase in the quarterly dividend from $0.41 to $0.42 per share. This follows a 2.5% dividend increase approved by AT&T's Board in December 2008. Dividends declared by our Board of Directors totaled $1.65 per share in 2009, $1.61 per share in 2008 and $1.47 per share in 2007. Our dividend policy considers both the expectations and requirements of stockholders, internal requirements of AT&T and long-term growth opportunities. It is our intent to provide the financial flexibility to allow our Board of Directors to consider dividend growth and to recommend an increase in dividends to be paid in future periods. All dividends remain subject to approval by our Board of Directors.

During 2009, we received net proceeds of $8,161 from the issuance of $8,228 in long-term debt. Debt proceeds were used for general corporate purposes, including the repayment of maturing debt. Long-term debt issuances consisted of:

- $1,000 of 4.85% global notes due in 2014.
- $2,250 of 5.80% global notes due in 2019.
- $2,250 of 6.55% global notes due in 2039.
- £750 of 5.875% global notes due in 2017 (equivalent to $1,107 when issued).
- £1,100 of 7.0% global notes due in 2040 (equivalent to $1,621 when issued).

We entered into cross-currency swaps to exchange the above foreign currency proceeds and the future principal and interest payments to U.S. dollars.

During 2009, debt repayments totaled $13,236 and consisted of:

- $8,633 in repayments of long-term debt (includes repayment of $1,957 for Centennial debt).
- $4,583 in repayments of commercial paper and short-term bank borrowings.
- $20 in repayments of other debt.

At December 31, 2009, we had $7,361 of debt maturing within one year, which included $7,328 of long-term debt maturities and $33 of other borrowings. Debt maturing within one year includes the following notes that may be put back to us by the holders:

- $1,000 of annual put reset securities issued by BellSouth Corporation can be put each April until maturity in 2021.
- An accreting zero-coupon note may be redeemed each May, excluding May 2011, until maturity in 2022. If the zero-coupon note (issued for principal of $500 in 2007) is held to maturity, the redemption amount will be $1,030.

We have a five-year credit agreement with a syndicate of

investment and commercial banks. In June 2009, one of the participating banks, Lehman Brothers Bank, Inc., which had declared bankruptcy, terminated its lending commitment of $535 and withdrew from the agreement. As a result of this termination, the outstanding commitments under the agreement were reduced from a total of $10,000 to $9,465. We still have the right to increase commitments up to an additional $2,535 provided no event of default under the credit agreement has occurred. The current agreement will expire in July 2011. We also have the right to terminate, in whole or in part, amounts committed by the lenders under this agreement in excess of any outstanding advances; however, any such terminated commitments may not be reinstated. Advances under this agreement may be used for general corporate purposes, including support of commercial paper borrowings and other short-term borrowings. There is no material adverse change provision governing the drawdown of advances under this credit agreement. This agreement contains a negative pledge covenant, which requires that, if at any time we or a subsidiary pledges assets or otherwise permits a lien on its properties, advances under this agreement will be ratably secured, subject to specified exceptions. We must maintain a debt-to-EBITDA (earnings before interest, income taxes, depreciation and amortization, and other modifications described in the agreement) financial ratio covenant of not more than three-to-one as of the last day of each fiscal quarter for the four quarters then ended. We comply with all covenants under the agreement. At December 31, 2009, we had no borrowings outstanding under this agreement.

During 2009, the following other financing activities occurred:

- We received $483 related to derivative collateral; $261 was a return of collateral we posted to derivative counterparties in 2008 and $222 was collateral we collected from counterparties in 2009.
- We paid $275 to minority interest holders.
- We received proceeds of $28 from the issuance of treasury shares related to the settlement of share-based awards.

We plan to fund our 2010 financing activities through a combination of cash from operations and debt issuances. The timing and mix of debt issuance will be guided by credit market conditions and interest rate trends. The emphasis of our financing activities will be the payment of dividends, subject to approval by our Board of Directors, and the repayment of debt.

Other

Our total capital consists of debt (long-term debt and debt maturing within one year) and stockholders' equity. Our capital structure does not include debt issued by our international equity investees. Our debt ratio was 41.3%, 43.7% and 35.6% at December 31, 2009, 2008 and 2007. The debt ratio is affected by the same factors that affect total capital. Total capital increased $2,665 in 2009 compared to a decrease of $8,121 in 2008. The 2009 total capital increase was due to increased retained earnings and an increase in other comprehensive income, partially offset by a $2,910 decrease in debt, all factors which lowered the debt ratio in 2009.

The primary factor contributing to the increase in our 2008 debt ratio was the $16,677 increase in accumulated other comprehensive loss that reflected a decrease in retirement plans funded status and an increase in debt of $10,876 related to our financing activities. Our stockholders' equity balance was down $19,020 primarily due to the decrease in retirement plan funded status.

CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENCIES

Current accounting standards require us to disclose our material obligations and commitments to making future payments under contracts, such as debt and lease agreements, and under contingent commitments, such as debt guarantees. We occasionally enter into third-party debt guarantees, but they are not, nor are they reasonably likely to become, material. We disclose our contractual long-term debt repayment obligations in Note 8 and our operating lease payments in Note 5. Our contractual obligations do not include expected pension and postretirement payments as we maintain pension funds and Voluntary Employee Beneficiary Association trusts to fully or partially fund these benefits (see Note 11). In the ordinary course of business, we routinely enter into commercial commitments for various aspects of our operations, such as plant additions and office supplies. However, we do not believe that the commitments will have a material effect on our financial condition, results of operations or cash flows.

Our contractual obligations as of December 31, 2009, are in the following table. The purchase obligations that follow are those for which we have guaranteed funds and will be funded with cash provided by operations or through incremental borrowings. The minimum commitment for certain obligations is based on termination penalties that could be paid to exit the contract. Since termination penalties would not be paid every year, such penalties are excluded from the table. Other long-term liabilities were included in the table based on the year of required payment or an estimate of the year of payment. Such estimate of payment is based on a review of past trends for these items, as well as a forecast of future activities. Certain items were excluded from the following table as the year of payment is unknown and could not be reliably estimated since past trends were not deemed to be an indicator of future payment.

Substantially all of our purchase obligations are in our Wireline and Wireless segments. The table does not include the fair value of our interest rate swaps. Our capital lease obligations and bank borrowings have been excluded from the table due to the immaterial value at December 31, 2009. Many of our other noncurrent liabilities have been excluded from the following table due to the uncertainty of the timing of payments, combined with the absence of historical trending to be used as a predictor of such payments. Additionally, certain other long-term liabilities have been excluded since settlement of such liabilities will not require the use of cash. However, we have included in the following table obligations which primarily relate to benefit funding and severance due to the certainty of the timing of these future payments. Our other long-term liabilities are: deferred income taxes (see Note 10) of $23,803; postemployment benefit obligations (see Note 11) of $27,849; and other noncurrent liabilities of $13,350, which included deferred lease revenue from our agreement with American Tower of $509 (see Note 5).

Contractual Obligations

	Payments Due By Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations[1]	$ 70,021	$ 7,328	$12,372	$10,614	$ 39,707
Interest payments on long-term debt	66,233	4,178	7,318	5,990	48,747
Operating lease obligations	20,534	2,429	4,322	3,560	10,223
Unrecognized tax benefits[2]	5,181	299	–	–	4,882
Purchase obligations[3]	10,228	2,890	4,095	2,549	694
Total Contractual Obligations	$172,197	$17,124	$28,107	$22,713	$104,253

[1]Represents principal or payoff amounts of notes and debentures at maturity or, for putable debt, the next put opportunity.
[2]The non-current portion of the unrecognized tax benefits is included in the "More than 5 Years" column, as we cannot reasonably estimate the timing or amounts of additional cash payments, if any, at this time. See Note 10 for additional information.
[3]We calculated the minimum obligation for certain agreements to purchase goods or services based on termination fees that can be paid to exit the contract. If we elect to exit these contracts, termination fees for all such contracts in the year of termination could be approximately $404 in 2010, $469 in the aggregate for 2011 and 2012, $113 in the aggregate for 2013 and 2014 and $3 in the aggregate, thereafter. Certain termination fees are excluded from the above table, as the fees would not be paid every year and the timing of such payments, if any, is uncertain.

MARKET RISK

We are exposed to market risks primarily from changes in interest rates and foreign currency exchange rates. These risks, along with other business risks, impact our cost of capital. It is our policy to manage our debt structure and foreign exchange exposure in order to manage capital costs, control financial risks and maintain financial flexibility over the long term. In managing market risks, we employ derivatives according to documented policies and procedures, including interest rate swaps, interest rate locks, foreign exchange contracts, and combined interest rate foreign exchange contracts (cross-currency swaps). We do not use derivatives for trading or speculative purposes. We do not foresee significant changes in the strategies we use to manage market risk in the near future.

Interest Rate Risk

The majority of our financial instruments are medium- and long-term fixed rate notes and debentures. Changes in interest rates can lead to significant fluctuations in the fair value of these instruments. The principal amounts by expected maturity, average interest rate and fair value of our liabilities that are exposed to interest rate risk are described in Notes 8 and 9. In managing interest expense, we control our mix of fixed and floating rate debt, principally through the use of interest rate swaps. We have established interest rate risk limits that we closely monitor by measuring interest rate sensitivities in our debt and interest rate derivatives portfolios.

All our foreign-denominated debt has been swapped from fixed-rate foreign currencies to fixed-rate U.S. dollars at issuance through cross-currency swaps, removing interest rate risk and foreign currency exchange risk associated with the underlying interest and principal payments. Likewise, periodically we enter into interest rate locks to partially hedge the risk of increases in the benchmark interest rate during the period leading up to the probable issuance of fixed-rate debt. We expect gains or losses in our cross-currency swaps and interest rate locks to offset the losses and gains in the financial instruments they hedge.

Following are our interest rate derivatives subject to material interest rate risk as of December 31, 2009. The interest rates illustrated below refer to the average rates we expect to pay based on current and implied forward rates and the average rates we expect to receive based on derivative contracts. The notional amount is the principal amount of the debt subject to the interest rate swap contracts. The fair value asset (liability) represents the amount we would receive (pay) if we had exited the contracts as of December 31, 2009.

	Maturity							
	2010	2011	2012	2013	2014	Thereafter	Total	Fair Value 12/31/09
Interest Rate Derivatives								
Interest Rate Swaps:								
Receive Fixed/Pay Variable Notional Amount Maturing	—	$3,200	$3,050	$1,750	—	$1,000	$9,000	$399
Weighted-Average Variable Rate Payable[1]	3.1%	4.4%	4.8%	5.6%	6.1%	6.4%		
Weighted-Average Fixed Rate Receivable	5.8%	5.7%	5.3%	5.6%	5.6%	5.6%		

[1]Interest payable based on current and implied forward rates for One, Three or Six Month London Interbank Offered Rate (LIBOR) plus a spread ranging between approximately 36 and 654 basis points.

Foreign Exchange Risk

We are exposed to foreign currency exchange risk through our foreign affiliates and equity investments in foreign companies. We do not hedge foreign currency translation risk in the net assets and income we report from these sources. However, we do hedge a large portion of the exchange risk involved in anticipation of highly probable foreign currency-denominated transactions and cash flow streams, such as those related to issuing foreign-denominated debt, receiving dividends from foreign investments, and other receipts and disbursements.

Through cross-currency swaps, all of our foreign-denominated debt has been swapped from fixed-rate foreign currencies to fixed-rate U.S. dollars at issuance, removing interest rate risk and foreign currency exchange risk associated with the underlying interest and principal payments. We expect gains or losses in our cross-currency swaps to offset the losses and gains in the financial instruments they hedge.

In anticipation of other foreign currency-denominated transactions, we often enter into foreign exchange contracts to provide currency at a fixed rate. Our policy is to measure the risk of adverse currency fluctuations by calculating the potential dollar losses resulting from changes in exchange rates that have a reasonable probability of occurring. We cover the exposure that results from changes that exceed acceptable amounts.

For the purpose of assessing specific risks, we use a sensitivity analysis to determine the effects that market risk exposures may have on the fair value of our financial instruments and results of operations. To perform the sensitivity analysis, we assess the risk of loss in fair values from the effect of a hypothetical 10% depreciation of the U.S. dollar against foreign currencies from the prevailing foreign currency exchange rates, assuming no change in interest rates. For foreign exchange contracts outstanding at December 31, 2009, the change in fair value was immaterial. Furthermore, because our foreign exchange contracts are entered into for hedging purposes, we believe that these losses would be largely offset by gains on the underlying transactions.

Issuer Equity Repurchases

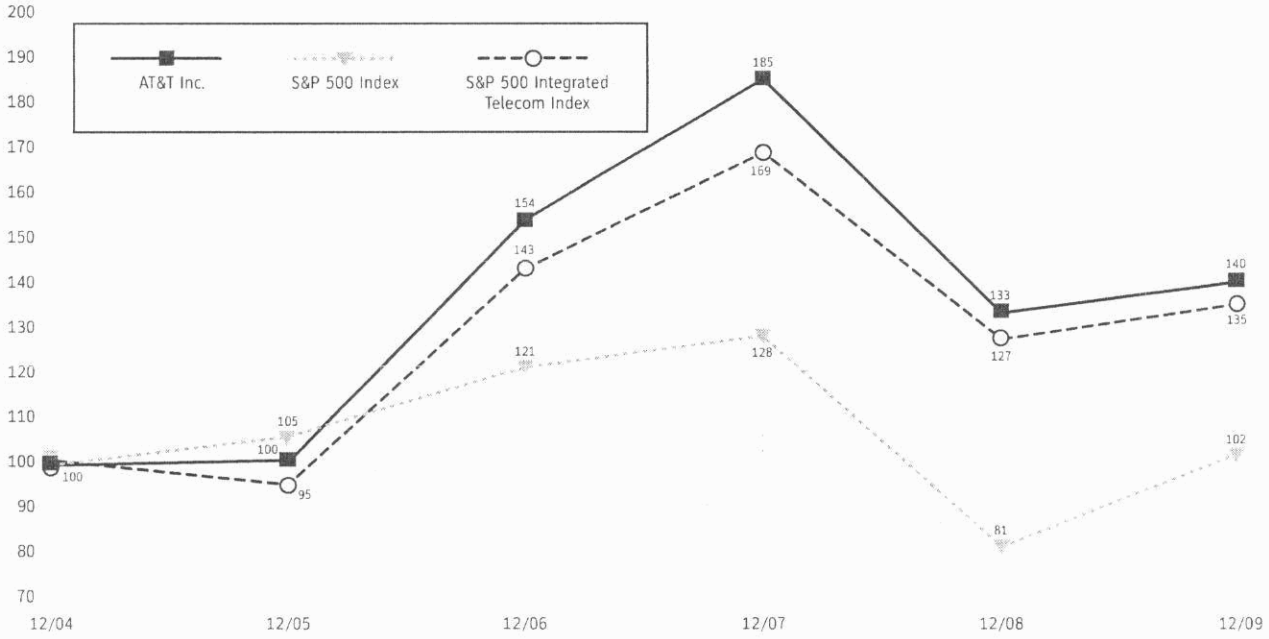
On December 10, 2007, our Board of Directors authorized a share repurchase plan of 400 million shares that expired at December 31, 2009. During 2009, we repurchased 133 thousand shares at a cost of $3. We anticipate concentrating on reducing debt levels in 2010.

Purchase Period	Total Number of Shares Purchased	Average Price Paid per Share[1]	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
February 1, 2009 – February 28, 2009	133,334	$25.16	133,334	0
Total	133,334	$25.16	133,334	0

[1]Average Price Paid per Share excludes transaction costs.

STOCK PERFORMANCE GRAPH

Comparison of Five Year Cumulative Total Return
AT&T Inc., S&P 500 Index, and S&P 500 Integrated Telecom Index



The comparison above assumes $100 invested on December 31, 2004, in AT&T common stock, Standard & Poor's 500 Index (S&P 500), and Standard & Poor's 500 Integrated Telecom Index (Telecom Index). Total return equals stock price appreciation plus reinvestment of dividends.

RISK FACTORS

In addition to the other information set forth in this document, including the matters contained under the caption "Cautionary Language Concerning Forward-Looking Statements," you should carefully read the matters described below. We believe that each of these matters could materially affect our business. We recognize that most of these factors are beyond our ability to control and therefore we cannot predict an outcome. Accordingly, we have organized them by first addressing general factors, then industry factors and, finally, items specifically applicable to us.

A worsening U.S. economy would magnify our customers' and suppliers' current financial difficulties and could materially adversely affect our business.

We provide services and products to consumers and large and small businesses in the United States and to larger businesses throughout the world. The current economic recession in the U.S. has adversely affected our customers' demand for and ability to pay for existing services, especially local landline service, and their interest in purchasing new services. Our suppliers are also facing higher financing and operating costs. Should these current economic conditions worsen, we likely would experience both a further decrease in revenues and an increase in certain expenses, including expenses relating to bad debt and equipment and software maintenance. We also may incur difficulties locating financially stable equipment and other suppliers, thereby affecting our ability to offer attractive new services. We are also likely to experience greater pressure on pricing and margins as we continue to compete for customers who would have even less discretionary income. While our largest business customers have been less affected by these adverse changes in the U.S. economy, if the continued adverse economic conditions in the U.S., Europe and other foreign markets persist or worsen, those customers would likely be affected in a similar manner.

Adverse changes in medical costs and the U.S. securities markets and interest rates could materially increase our benefit plan costs.

Our pension and postretirement costs are subject to increases, primarily due to continuing increases in medical and prescription drug costs, and can be affected by lower returns in prior years on funds held by our pension and other benefit plans, which are reflected in our financial statements over several years. Investment returns on these funds depend largely on trends in the U.S. securities markets and the U.S. economy. In calculating the annual costs included on our financial statements of providing benefits under our plans, we have made certain assumptions regarding future investment returns, medical costs and interest rates. If actual investment returns, medical costs and interest rates are worse than those previously assumed, our annual costs will increase.

The FASB requires companies to recognize the funded status of defined benefit pension and postretirement plans as an asset or liability in our statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. Therefore, an increase in our costs will have a negative effect on our balance sheet.

The ongoing uncertainty in global financial markets could materially adversely affect our ability and our larger customers' ability to access capital needed to fund business operations.

The recent instability in the global financial markets and ongoing uncertainty affecting these markets have resulted in extreme volatility in the credit, equity and fixed income markets. This volatility has limited, in some cases severely, most companies' access to the credit markets, leading to significantly higher borrowing costs for companies or, in many cases, the inability of these companies to fund their ongoing operations. As a result, our larger customers, who tend to be heavy users of our data and wireless services, may be forced to delay or reduce or be unable to finance purchases of our products and services and may delay payment or default on outstanding bills to us. In addition, we contract with large financial institutions to support our own treasury operations, including contracts to hedge our exposure on interest rates and foreign exchange and the funding of credit lines and other short-term debt obligations, including commercial paper. While we have been successful in continuing to access the credit and fixed income markets when needed, a financial crisis could render us unable to access these markets, severely affecting our business operations.

Changes in available technology could increase competition and our capital costs.

The telecommunications industry has experienced rapid changes in the last several years. The development of wireless, cable and IP technologies has significantly increased the commercial viability of alternatives to traditional wireline telephone service and enhanced the capabilities of wireless networks. In order to remain competitive, we have begun to deploy a more sophisticated wireline network and continue to deploy a more sophisticated wireless network, as well as research other new technologies. If the new technologies we have adopted or on which we have focused our research efforts fail to be cost-effective and accepted by customers, our ability to remain competitive could be materially adversely affected.

Changes to federal, state and foreign government regulations and decisions in regulatory proceedings could materially adversely affect us.

Our wireline subsidiaries are subject to significant federal and state regulation while many of our competitors are not. In addition, our subsidiaries and affiliates operating outside the U.S. are also subject to the jurisdiction of national and supranational regulatory authorities in the market where service is provided. Our wireless subsidiaries are regulated to varying degrees by the FCC and some state and local agencies. Adverse rulings by the FCC relating to broadband issues could impede our ability to manage our networks and recover costs and lessen incentives to invest in our networks. The development of new technologies, such as IP-based services, also has created or potentially could create conflicting regulation between the FCC and various state and local authorities, which may involve lengthy litigation to resolve and may result in outcomes unfavorable to us. In addition, increased public focus on alleged changes in the global climate has led to proposals at state, federal and foreign government levels to increase regulation on various types of emissions, including those generated by vehicles and facilities consuming large amounts of electricity.

Increasing competition in our wireline markets could adversely affect wireline operating margins.

We expect competition in the telecommunications industry to continue to intensify. We expect this competition will continue to put pressure on pricing, margins and customer retention. A number of our competitors that rely on alternative technologies (e.g., wireless, cable and VoIP) and business models (e.g., advertising-supported) are typically subject to less (or no) regulation than our wireline and ATTC subsidiaries and therefore are able to operate with lower costs. These competitors also have cost advantages compared to us, due in part to a nonunionized workforce, lower employee benefits and fewer retirees (as most of the competitors are relatively new companies). We believe such advantages can be offset by continuing to increase the efficiency of our operating systems and by improving employee training and productivity; however, there can be no guarantee that our efforts in these areas will be successful.

Increasing competition in the wireless industry could adversely affect our operating results.

On average, we have three to four other wireless competitors in each of our service areas and compete for customers based principally on price, service/device offerings, call quality, coverage area and customer service. In addition, we are likely to experience growing competition from providers offering services using alternative wireless technologies and IP-based networks as well as traditional wireline networks. We expect market saturation may cause the wireless industry's customer growth rate to moderate in comparison with historical growth rates, leading to increased competition for customers. We expect that the availability of additional 700 MHz spectrum could increase competition and the effectiveness of existing competition. This competition will continue to put pressure on pricing and margins as companies compete for potential customers. Our ability to respond will depend, among other things, on continued improvement in network quality and customer service and effective marketing of attractive products and services, and cost management. These efforts will involve significant expenses and require strategic management decisions on, and timely implementation of, equipment choices, marketing plans and financial budgets.

Equipment failures, natural disasters and terrorist attacks may materially adversely affect our operations.

Major equipment failures or natural disasters, including severe weather, terrorist acts or other breaches of network or IT security that affect our wireline and wireless networks, including telephone switching offices, microwave links, third-party owned local and long-distance networks on which we rely, our cell sites or other equipment, could have a material adverse effect on our operations. While we have insurance coverage for some of these events, our inability to operate our wireline or wireless systems, even for a limited time period, may result in significant expenses, a loss of customers or impair our ability to attract new customers, which could have a material adverse effect on our business, results of operations and financial condition.

The success of our U-verse services initiative will depend on the timing, extent and cost of deployment; the development of attractive and profitable service offerings; the extent to which regulatory, franchise fees and build-out requirements apply to this initiative; and the availability and reliability of the various technologies required to provide such offerings.

The trend in telecommunications technology is to shift from the traditional circuit- and wire-based technology to IP-based technology. IP-based technology can transport voice and data, as well as video, from both wired and wireless networks. IP-based networks also potentially cost less to operate than traditional networks. Our competitors, many of which are newer companies, are deploying this IP-based technology. In order to continue to offer attractive and competitively priced services, we are deploying a new broadband network to offer IP-based voice, data and video services. Using a new and sophisticated technology on a very large scale entails risks but also presents opportunities to expand service offerings to customers. Should deployment of our network be delayed or costs exceed expected amounts, our margins would be adversely affected and such effects

could be material. Should regulatory requirements be different than we anticipated, our deployment could be delayed, perhaps significantly, or limited to only those geographical areas where regulation is not burdensome. In addition, should the delivery of services expected to be deployed on our network be delayed due to technological or regulatory constraints, performance of suppliers, or other reasons, or the cost of providing such services becomes higher than expected, customers may decide to purchase services from our competitors, which would adversely affect our revenues and margins, and such effects could be material.

Continuing growth in our wireless services will depend on continuing access to adequate spectrum, deployment of new technology and offering attractive services to customers.

The wireless industry is undergoing rapid and significant technological changes and a dramatic increase in usage, in particular demand for and usage of data and other non-voice services. We must continually invest in our wireless network in order to continually improve our wireless service to meet this increasing demand and remain competitive. Improvements in our service depend on many factors, including continued access to and deployment of adequate spectrum. We must maintain and expand our network capacity and coverage as well as the associated wireline network needed to transport voice and data between cell sites. Network service enhancements may not occur as scheduled or at the cost expected due to many factors, including delays in determining equipment and handset operating standards, supplier delays, regulatory permitting delays or labor-related delays. Deployment of new technology also may adversely affect the performance of the network for existing services. If the FCC does not allocate sufficient spectrum to allow the wireless industry in general, and the company in particular, to increase its capacity or if we cannot deploy the services customers desire on a timely basis or at adequate cost while maintaining network quality levels, then our ability to attract and retain customers, and therefore maintain and improve our operating margins, could be materially adversely affected.

Unfavorable litigation or governmental investigation results could require us to pay significant amounts or lead to onerous operating procedures.

We are subject to a number of lawsuits both in the U.S. and in foreign countries, including, at any particular time, claims relating to antitrust, patent infringement, wage and hour, personal injury, and our advertising, sales and billing and collection practices. We also spend substantial resources complying with various government standards, which may entail related investigations. As we deploy newer technologies, especially in the wireless area, we also face current and potential litigation relating to alleged adverse health effects on customers or employees who use such technologies including, for example, wireless handsets. We may incur significant expenses defending such suits or government charges and may be required to pay amounts or otherwise change our operations in ways that could materially adversely affect our operations or financial results.

A majority of our workforce is represented by labor unions. Absent the successful negotiation of certain agreements that expired during 2009, we could experience lengthy work stoppages.

A majority of our employees are represented by labor unions as of year-end 2009. Labor contracts covering many of the employees expired during 2009. Approximately 75 percent of employees covered by expired contracts have ratified new agreements. We experienced a work stoppage in 2004 when the contracts involving our wireline employees expired, and we may experience additional work stoppages in 2010. A work stoppage could adversely affect our business operations, including a loss of revenue and strained relationships with customers, and we cannot predict the length of any such strike. We cannot predict what will be the provisions for a new contract nor the impact of a new contract on our financial condition.

CAUTIONARY LANGUAGE CONCERNING FORWARD-LOOKING STATEMENTS

Information set forth in this report contains forward-looking statements that are subject to risks and uncertainties, and actual results could differ materially. Many of these factors are discussed in more detail in the "Risk Factors" section. We claim the protection of the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995.

The following factors could cause our future results to differ materially from those expressed in the forward-looking statements:

- Adverse economic and/or capital access changes in the markets served by us or in countries in which we have significant investments, including the impact on customer demand and our ability and our suppliers' ability to access financial markets.
- Changes in available technology and the effects of such changes, including product substitutions and deployment costs.
- Increases in our benefit plans' costs, including increases due to adverse changes in the U.S. and foreign securities markets, resulting in worse-than-assumed investment returns and discount rates, and adverse medical cost trends and unfavorable health care legislation and regulations.
- The final outcome of Federal Communications Commission and other federal agency proceedings and reopenings of such proceedings and judicial review, if any, of such proceedings, including issues relating to access charges, broadband deployment, E911 services, competition, net neutrality, unbundled loop and transport elements, wireless license awards and renewals and wireless services.
- The final outcome of regulatory proceedings in the states in which we operate and reopenings of such proceedings and judicial review, if any, of such proceedings, including proceedings relating to Interconnection terms, access charges, universal service, unbundled network elements and resale and wholesale rates, broadband deployment including our U-verse services, net neutrality, performance measurement plans, service standards and traffic compensation.
- Enactment of additional state, federal and/or foreign regulatory and tax laws and regulations pertaining to our subsidiaries and foreign investments, including laws and regulations that reduce our incentive to invest in our networks, resulting in lower revenue growth and/or higher operating costs.
- Our ability to absorb revenue losses caused by increasing competition, including offerings that use alternative technologies (e.g., cable, wireless and VoIP) and our ability to maintain capital expenditures.
- The extent of competition and the resulting pressure on access line totals and wireline and wireless operating margins.
- Our ability to develop attractive and profitable product/service offerings to offset increasing competition in our wireless and wireline markets.
- The ability of our competitors to offer product/service offerings at lower prices due to lower cost structures and regulatory and legislative actions adverse to us, including state regulatory proceedings relating to unbundled network elements and nonregulation of comparable alternative technologies (e.g., VoIP).
- The timing, extent and cost of deployment of our U-verse services; the development of attractive and profitable service offerings; the extent to which regulatory, franchise fees and build-out requirements apply to this initiative; and the availability, cost and/or reliability of the various technologies and/or content required to provide such offerings.
- Our continued ability to attract and offer a diverse portfolio of devices, some on an exclusive basis.
- The availability and cost of additional wireless spectrum and regulations relating to licensing and technical standards and deployment and usage, including network management rules.
- Our ability to manage growth in wireless data services, including network quality.
- The outcome of pending or threatened litigation, including patent and product safety claims by or against third parties.
- The impact on our networks and business of major equipment failures, our inability to obtain equipment/software or have equipment/software serviced in a timely and cost-effective manner from suppliers, severe weather conditions, natural disasters, pandemics or terrorist attacks.
- Our ability to successfully negotiate new collective bargaining contracts and the terms of those contracts.
- The issuance by the Financial Accounting Standards Board or other accounting oversight bodies of new accounting standards or changes to existing standards.
- The issuance by the Internal Revenue Service and/or state tax authorities of new tax regulations or changes to existing standards and actions by federal, state or local tax agencies and judicial authorities with respect to applying applicable tax laws and regulations and the resolution of disputes with any taxing jurisdictions.
- Our ability to adequately fund our wireless operations, including payment for additional spectrum; network upgrades and technological advancements.
- Changes in our corporate strategies, such as changing network requirements or acquisitions and dispositions, to respond to competition and regulatory, legislative and technological developments.

Readers are cautioned that other factors discussed in this report, although not enumerated here, also could materially affect our future earnings.

Consolidated Statements of Income

Dollars in millions except per share amounts

	2009	2008	2007
Operating Revenues			
Wireless service	**$ 48,563**	$ 44,249	$ 38,568
Voice	**32,314**	37,321	40,798
Data	**25,454**	24,373	23,206
Directory	**4,724**	5,416	4,806
Other	**11,963**	12,669	11,550
Total operating revenues	**123,018**	124,028	118,928
Operating Expenses			
Cost of services and sales (exclusive of depreciation and amortization shown separately below)	**50,405**	49,556	46,801
Selling, general and administrative	**31,407**	31,526	30,146
Depreciation and amortization	**19,714**	19,883	21,577
Total operating expenses	**101,526**	100,965	98,524
Operating Income	**21,492**	23,063	20,404
Other Income (Expense)			
Interest expense	**(3,379)**	(3,390)	(3,507)
Equity in net income of affiliates	**734**	819	692
Other income (expense) – net	**152**	(328)	810
Total other income (expense)	**(2,493)**	(2,899)	(2,005)
Income Before Income Taxes	**18,999**	20,164	18,399
Income taxes	**6,156**	7,036	6,252
Net Income	**12,843**	13,128	12,147
Less: Net Income Attributable to Noncontrolling Interest	**(308)**	(261)	(196)
Net Income Attributable to AT&T	**$ 12,535**	$ 12,867	$ 11,951
Basic Earnings Per Share	**$ 2.12**	$ 2.17	$ 1.95
Diluted Earnings Per Share	**$ 2.12**	$ 2.16	$ 1.94

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

Consolidated Balance Sheets

Dollars in millions except per share amounts

	December 31,	
	2009	2008
Assets		
Current Assets		
Cash and cash equivalents	**$ 3,802**	$ 1,792
Accounts receivable – net of allowances for doubtful accounts of $1,205 and $1,270	**14,978**	16,047
Prepaid expenses	**1,572**	1,538
Deferred income taxes	**1,274**	1,014
Other current assets	**2,708**	2,165
Total current assets	**24,334**	22,556
Property, Plant and Equipment – Net	**100,093**	99,088
Goodwill	**73,259**	71,829
Licenses	**48,759**	47,306
Customer Lists and Relationships – Net	**7,420**	10,582
Other Intangible Assets – Net	**5,644**	5,824
Investments in Equity Affiliates	**2,921**	2,332
Other Assets	**6,322**	5,728
Total Assets	**$268,752**	$265,245
Liabilities and Stockholders' Equity		
Current Liabilities		
Debt maturing within one year	**$ 7,361**	$ 14,119
Accounts payable and accrued liabilities	**20,999**	20,032
Advanced billing and customer deposits	**4,170**	3,849
Accrued taxes	**1,696**	1,874
Dividends payable	**2,479**	2,416
Total current liabilities	**36,705**	42,290
Long-Term Debt	**64,720**	60,872
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**23,803**	19,196
Postemployment benefit obligation	**27,849**	31,930
Other noncurrent liabilities	**13,350**	14,207
Total deferred credits and other noncurrent liabilities	**65,002**	65,333
Stockholders' Equity		
Common stock ($1 par value, 14,000,000,000 authorized at December 31, 2009 and 7,000,000,000 authorized at December 31, 2008: issued 6,495,231,088 at December 31, 2009 and 2008)	**6,495**	6,495
Additional paid-in capital	**91,707**	91,728
Retained earnings	**39,366**	36,591
Treasury shares (593,300,187 at December 31, 2009, and 602,221,825 at December 31, 2008, at cost)	**(21,260)**	(21,410)
Accumulated other comprehensive loss	**(14,408)**	(17,057)
Noncontrolling interest	**425**	403
Total stockholders' equity	**102,325**	96,750
Total Liabilities and Stockholders' Equity	**$268,752**	$265,245

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

Consolidated Statements of Cash Flows

Dollars in millions, increase (decrease) in cash and cash equivalents

	2009	2008	2007
Operating Activities			
Net income	**$ 12,843**	$ 13,128	$ 12,147
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**19,714**	19,883	21,577
Undistributed earnings from investments in equity affiliates	**(419)**	(654)	(297)
Provision for uncollectible accounts	**1,763**	1,796	1,617
Deferred income tax expense (benefit)	**2,104**	5,889	(240)
Net (gain) loss from impairment and sale of investments	**—**	517	(11)
Gain on license exchange	**—**	—	(409)
Changes in operating assets and liabilities:			
Accounts receivable	**(454)**	(1,421)	(1,491)
Other current assets	**(355)**	827	(1,020)
Accounts payable and accrued liabilities	**2,372**	(5,563)	672
Share-based payment excess tax benefit	**—**	(15)	(173)
Net income attributable to noncontrolling interest	**(308)**	(261)	(196)
Other – net	**(2,815)**	(470)	2,066
Total adjustments	**21,602**	20,528	22,095
Net Cash Provided by Operating Activities	**34,445**	33,656	34,242
Investing Activities			
Construction and capital expenditures:			
Capital expenditures	**(16,595)**	(19,676)	(17,717)
Interest during construction	**(740)**	(659)	(171)
Acquisitions, net of cash acquired	**(983)**	(10,972)	(2,873)
Dispositions	**287**	1,615	1,594
Sales of securities, net of investments	**55**	68	455
Sale of other investments	**—**	436	—
Other	**51**	45	36
Net Cash Used in Investing Activities	**(17,925)**	(29,143)	(18,676)
Financing Activities			
Net change in short-term borrowings with original maturities of three months or less	**(3,910)**	2,017	(3,411)
Issuance of long-term debt	**8,161**	12,416	11,367
Repayment of long-term debt	**(8,654)**	(4,010)	(6,772)
Purchase of treasury shares	**—**	(6,077)	(10,390)
Issuance of treasury shares	**28**	319	1,986
Dividends paid	**(9,670)**	(9,507)	(8,743)
Share-based payment excess tax benefit	**—**	15	173
Other	**(465)**	136	(224)
Net Cash Used in Financing Activities	**(14,510)**	(4,691)	(16,014)
Net increase (decrease) in cash and cash equivalents	**2,010**	(178)	(448)
Cash and cash equivalents beginning of year	**1,792**	1,970	2,418
Cash and Cash Equivalents End of Year	**$ 3,802**	$ 1,792	$ 1,970

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

Consolidated Statements of Changes in Stockholders' Equity

Dollars and shares in millions except per share amounts

	2009		2008		2007	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Common Stock						
Balance at beginning of year	**6,495**	**$ 6,495**	6,495	$ 6,495	6,495	$ 6,495
Issuance of shares	**—**	**—**	—	—	—	—
Balance at end of year	**6,495**	**$ 6,495**	6,495	$ 6,495	6,495	$ 6,495
Additional Paid-In Capital						
Balance at beginning of year		**$ 91,728**		$ 91,638		$ 91,352
Issuance of treasury shares		**29**		87		225
Share-based payments		**(50)**		3		61
Balance at end of year		**$ 91,707**		$ 91,728		$ 91,638
Retained Earnings						
Balance at beginning of year		**$ 36,591**		$ 33,297		$ 30,375
Net income attributable to AT&T ($2.12, $2.16, and $1.94 per share)		**12,535**		12,867		11,951
Dividends to stockholders ($1.65, $1.61, and $1.47 per share)		**(9,733)**		(9,506)		(8,945)
Adoption of FASB guidance related to unrecognized tax benefits		**—**		—		(50)
Other		**(27)**		(67)		(34)
Balance at end of year		**$ 39,366**		$ 36,591		$ 33,297
Treasury Shares						
Balance at beginning of year	**(602)**	**$(21,410)**	(451)	$(15,683)	(256)	$ (7,368)
Purchase of shares	**—**	**—**	(164)	(6,077)	(267)	(10,390)
Issuance of shares	**9**	**150**	13	350	72	2,075
Balance at end of year	**(593)**	**$(21,260)**	(602)	$(21,410)	(451)	$(15,683)

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

Consolidated Statements of Changes in Stockholders' Equity (continued)

Dollars and shares in millions except per share amounts

	2009 Amount	2008 Amount	2007 Amount
Accumulated Other Comprehensive Income (Loss) Attributable to AT&T, net of tax:			
Balance at beginning of year	**$ (17,057)**	$ (380)	$ (5,314)
Foreign currency translation adjustments, net of taxes of $72, $(239), and $10	**151**	(443)	19
Net unrealized gains (losses) on available-for-sale securities:			
Unrealized gains (losses), net of taxes of $84, $(139), and $35	**176**	(259)	65
Less reclassification adjustment realized in net income, net of taxes of $23, $(9), and $(19)	**48**	(16)	(35)
Net unrealized gains (losses) on cash flow hedges:			
Unrealized gains (losses), net of taxes of $329, $(148), and $(38)	**610**	(274)	(71)
Less reclassification adjustment realized in net income, net of taxes of $8, $9, and $9	**15**	17	17
Defined benefit postretirement plans (see Note 11):			
Net actuarial gains (losses) and prior service benefit (cost) arising during period, net of taxes of $1,044, $(9,298), and $3,411	**1,397**	(15,582)	4,734
Amortization of net actuarial gains (losses) and prior service benefit (cost) included in net income, net of taxes of $157, $(74), and $125	**252**	(120)	206
Other	**—**	—	(1)
Other comprehensive income (loss) attributable to AT&T	**2,649**	(16,677)	4,934
Balance at end of year	**$ (14,408)**	$ (17,057)	$ (380)
Noncontrolling Interest:			
Balance at beginning of year	**$ 403**	$ 380	$ 386
Net income attributable to noncontrolling interest	**308**	261	196
Distributions	**(285)**	(260)	(205)
Translation adjustments applicable to noncontrolling interest, net of tax	**(1)**	22	3
Balance at end of year	**$ 425**	$ 403	$ 380
Total Stockholders' Equity at beginning of year	**$ 96,750**	$115,747	$115,926
Total Stockholders' Equity at end of year	**$102,325**	$ 96,750	$115,747
Total Comprehensive Income (Loss), net of tax:			
Net income attributable to AT&T	**$ 12,535**	$ 12,867	$ 11,951
Other comprehensive income (loss) attributable to AT&T per above	**2,649**	(16,677)	4,934
Comprehensive income (loss) attributable to AT&T	**$ 15,184**	$ (3,810)	$ 16,885
Net income attributable to noncontrolling interest	**$ 308**	$ 261	$ 196
Other comprehensive income (loss) attributable to noncontrolling interest per above	**(1)**	22	3
Comprehensive income attributable to noncontrolling interest	**$ 307**	$ 283	$ 199
Total Comprehensive Income (Loss)	**$ 15,491**	$ (3,527)	$ 17,084

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation Throughout this document, AT&T Inc. is referred to as "AT&T," "we" or the "Company." The consolidated financial statements have been prepared pursuant to Regulation S-X and other applicable rules of the Securities and Exchange Commission. The consolidated financial statements include the accounts of the Company and our majority-owned subsidiaries and affiliates. Our subsidiaries and affiliates operate in the communications services industry both domestically and internationally, providing wireless and wireline communications services and equipment, managed networking, wholesale services, and advertising solutions.

All significant intercompany transactions are eliminated in the consolidation process. Investments in partnerships and less-than-majority-owned subsidiaries where we have significant influence are accounted for under the equity method. Earnings from certain foreign equity investments accounted for using the equity method are included for periods ended within up to one month of our year-end (see Note 7).

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, including estimates of probable losses and expenses. Actual results could differ from those estimates. We have reclassified certain amounts in prior-period financial statements to conform to the current period's presentation.

Recent Accounting Standards

Accounting Standards Codification In June 2009, the Financial Accounting Standards Board (FASB) issued standards that established the FASB Accounting Standards Codification (ASC or Codification) as the source of authoritative GAAP by the FASB for nongovernmental entities. The ASC supersedes all non-SEC accounting and reporting standards that existed at the ASC's effective date. The FASB uses Accounting Standards Updates (ASU) to amend the ASC. We refer to ASUs throughout our interim and annual reports where deemed relevant and make general references to pre-Codification standards (e.g., GAAP standards for acquisitions). These standards were effective for interim and annual periods ending after September 15, 2009 (i.e., the quarterly period ended September 30, 2009, for us).

Subsequent Events In May 2009, the FASB issued a standard that established general standards of accounting for and disclosing events that occur after the balance sheet date but before financial statements are issued or are available for issuance. They were effective for interim and annual periods ending after June 15, 2009 (i.e., the quarterly period ended June 30, 2009, for us). In preparing the accompanying audited consolidated financial statements, we have reviewed all known events that have occurred after December 31, 2009, and through February 25, 2010, the filing date of our Annual Report on Form 10-K, for inclusion in the financial statements and footnotes.

Noncontrolling Interests Reporting In December 2007, the FASB issued a standard that requires noncontrolling interests held by parties other than the parent in subsidiaries to be clearly identified, labeled, and presented in the consolidated balance sheets within stockholders' equity, but separate from the parent's equity. For us, the new standard became effective January 1, 2009, with restatement of prior financial statements. Instead of including noncontrolling interest in Other income (expense) – net in our consolidated statements of income, we disclose three measures of net income: net income, net income attributable to noncontrolling interest, and net income attributable to AT&T, and our operating cash flows in our consolidated statements of cash flows reflect net income. Furthermore, we continue to base our basic and diluted earnings per share calculations on net income attributable to AT&T.

In January 2010, the FASB issued guidance that amends accounting and disclosure requirements for a decrease in ownership in a business under existing GAAP standards for consolidations. It also clarifies the types of businesses that are in the scope of these consolidations. As required by this guidance, we retroactively applied the amendments as of January 1, 2009, which did not have a material impact on our financial statements or footnote disclosures.

Fair Value Measurements and Disclosures In April 2009, the FASB issued staff positions that require enhanced disclosures, including interim disclosures, on financial instruments, determination of fair value in turbulent markets, and recognition and presentation of other-than-temporary impairments. These staff positions were effective for interim and annual reporting periods beginning in our second quarter of 2009. They increased our interim disclosures but have not had a material impact on our financial position or results of operations.

In August 2009, the FASB issued "Measuring Liabilities at Fair Value" (ASU 2009-05), which amends existing GAAP for fair value measurement guidance by clarifying the fair value measurement requirements for liabilities that lack a quoted price in an active market. Per the Codification, a valuation technique based on a quoted market price for the identical or similar liability when traded as an asset or another valuation technique (e.g., an income or market approach) that is consistent with the underlying principles of GAAP for fair value measurements would be appropriate. ASU 2009-05 also clarifies that a reporting entity is not required to add or adjust valuation inputs to compensate for transfer restrictions on in-scope liabilities. ASU 2009-05 was effective August 2009, the issuance date, and has not had a material impact on our financial position or results of operations.

In September 2009, the FASB issued "Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)" (ASU 2009-12), which provides guidance for an investor on using the net asset value per share provided by an investee to estimate the fair value of an alternative investment when the fair value for the primary investment is not readily determinable. It affects certain

investments that are required or permitted by GAAP to be measured or disclosed at fair value on a recurring or nonrecurring basis. It requires disclosures by major category of investment about certain attributes (e.g., applicable redemption restrictions, unfunded commitments to the issuer of the investments, and the investment strategies of that issuer). ASU 2009-12 was effective for interim and annual periods ending on or after December 15, 2009 (i.e., the year ended December 31, 2009, for us). See Note 11 for the impact of our adoption of ASU 2009-12.

In January 2010, the FASB issued "Fair Value Measurements and Disclosures—Improving Disclosures about Fair Value Measurements" (ASU 2010-06), which requires new disclosures and reasons for transfers of financial assets and liabilities between Levels 1 and 2. ASU 2010-06 also clarifies that fair value measurement disclosures are required for each class of financial asset and liability, which may be a subset of a caption in the consolidated balance sheets, and those disclosures should include a discussion of inputs and valuation techniques. It further clarifies that the reconciliation of Level 3 measurements should separately present purchases, sales, issuances, and settlements instead of netting these changes. With respect to matters other than Level 3 measurements, ASU 2010-06 is effective for fiscal years and interim periods beginning on or after December 15, 2009 (i.e., the quarter ending March 31, 2010, for us). New guidance related to Level 3 measurements is effective for fiscal years and interim periods beginning on or after December 15, 2010 (i.e., the quarter ending March 31, 2011, for us). We are currently evaluating the impact of ASU 2010-06 on our disclosures.

See Note 9 for fair value measurements and disclosures for our investment securities and derivatives.

Derivative Instruments and Hedging Activities Disclosures In March 2008, the FASB amended the disclosure requirements for derivative instruments and hedging activities. The new guidance requires enhanced disclosures about an entity's derivative and hedging activities to improve the transparency of financial reporting. We adopted the new guidance as of January 1, 2009, which increased our quarterly and annual disclosures but did not have an impact on our financial position and results of operations. See Note 9 for a comprehensive discussion of our derivatives and hedging activities, including the underlying risks that we are managing as a company, and the new disclosure requirements under GAAP.

Pension and Other Postretirement Benefits In December 2008, the FASB issued a staff position that amended an employer's disclosure requirements for pensions and other postretirement benefits. The new guidance replaced the requirement to disclose the percentage of fair value of total plan assets with a requirement to disclose the fair value of each major asset category. It also amended GAAP standards for fair value measurements to clarify that defined benefit pension or other postretirement plan assets were not subject to other prevailing GAAP standards for fair value disclosures. We adopted the new guidance for the year ended December 31, 2009. This guidance significantly increased the amount of annual disclosures for plan assets in our annual report, and it will increase our future interim disclosures in that regard (see Note 11).

Business Combinations In December 2007, the FASB amended GAAP for acquisitions, requiring that costs incurred to effect the acquisition (i.e., acquisition-related costs) be recognized separately from the acquisition. Under prior guidance, restructuring costs that the acquirer expected but was not obligated to incur, which included changes to benefit plans, were recognized as if they were a liability assumed at the acquisition date. Amended GAAP for acquisitions requires the acquirer to recognize those costs separately from the business combination. We adopted the new guidance as of January 1, 2009, and applied it to acquisitions consummated after 2008, including the Centennial Communications, Corp. (Centennial) acquisition, as discussed in Note 2.

Equity Method Investments Accounting In November 2008, the Emerging Issues Task Force (EITF) reached a consensus on new clarification guidance regarding the application of the equity method. It states equity method investments should be recognized using a cost accumulation model. It also requires that equity method investments as a whole be assessed for other-than-temporary impairment in accordance with existing GAAP for equity method investments. The new guidance was effective, on a prospective basis, for initial or additional equity method investments transactions and subsequent impairments recognized in interim and annual periods that began on or after December 15, 2008 (i.e., as of January 1, 2009, for us). The new guidance did not have a material impact on our financial position or results of operations.

Revenue Arrangements with Multiple Deliverables In October 2009, the FASB issued "Multiple-Deliverable Revenue Arrangements" (ASU 2009-13), which addresses how revenues should be allocated among all products and services included in our sales arrangements. It establishes a selling price hierarchy for determining the selling price of each product or service, with vendor-specific objective evidence (VSOE) at the highest level, third-party evidence of VSOE at the intermediate level, and a best estimate at the lowest level. It replaces "fair value" with "selling price" in revenue allocation guidance, eliminates the residual method as an acceptable allocation method, and requires the use of the relative selling price method as the basis for allocation. It also significantly expands the disclosure requirements for such arrangements, including, potentially, certain qualitative disclosures. ASU 2009-13 will be effective prospectively for sales entered into or materially modified in fiscal years beginning on or after June 15, 2010 (i.e., the year beginning January 1, 2011, for us). The FASB permits early adoption of ASU 2009-13, applied retrospectively, to the beginning of the year of adoption. We are currently evaluating the impact on our financial position and results of operations.

Software In October 2009, the FASB issued "Certain Revenue Arrangements That Include Software Elements" (ASU 2009-14), which clarifies the guidance for allocating and measuring revenue, including how to identify software that is out of the scope. ASU 2009-14 amends accounting and reporting guidance for revenue arrangements involving both tangible products and software that is "more than incidental to the tangible product as a whole." That type of software and hardware will be outside of the scope of software revenue guidance, and the hardware components will also be outside of the scope of software revenue guidance and may result in more revenue recognized at the time of the hardware sale. Additional disclosures will discuss allocation of revenue to products and services in our sales arrangements and the significant judgments applied in the revenue allocation method, including impacts on the timing and amount of revenue recognition. ASU 2009-14 will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010 (i.e., the year beginning January 1, 2011, for us). ASU 2009-14 has the same effective date, including early adoption provisions, as ASU 2009-13. Companies must adopt ASU 2009-14 and ASU 2009-13 at the same time. We are currently evaluating the impact on our financial position and results of operations.

Valuation and Other Adjustments Included in the current liabilities reported on our consolidated balance sheets are acquisition-related accruals established prior to 2009. The liabilities include accruals for severance, lease terminations and equipment removal costs associated with our acquisitions of AT&T Corp. (ATTC), BellSouth Corporation (BellSouth), and Dobson Communications Corporation (Dobson). Following is a summary of the accruals recorded at December 31, 2008, cash payments made during 2009, and the adjustments thereto:

	12/31/08 Balance	Cash Payments	Adjustments and Accruals	**12/31/09 Balance**
Severance accruals paid from:				
Company funds	$140	$(108)	$ (26)	**$ 6**
Pension and postemployment benefit plans	103	(5)	—	**98**
Lease terminations[1]	387	(53)	(122)	**212**
Equipment removal and other related costs	88	(38)	(27)	**23**
Total	$718	$(204)	$(175)	**$339**

[1]Adjustments and accruals include a $106 reversal of BellSouth lease termination costs, with an offset to goodwill.

Employee Separations In accordance with GAAP, we established obligations for expected termination benefits provided under existing plans to former or inactive employees after employment but before retirement. These benefits include severance payments, workers' compensation, disability, medical continuation coverage, and other benefits. At December 31, 2009, we had severance accruals of $676 and at December 31, 2008, we had severance accruals of $752.

Split-Dollar Life Insurance In 2007, the EITF ratified the consensus on new guidance related to the accounting for endorsement split-dollar life insurance arrangements and collateral assignment split-dollar life insurance arrangements. The new guidance covers split-dollar life insurance arrangements (where the company owns and controls the policy) and provides that an employer should recognize a liability for future benefits in accordance with GAAP standards for an employer's accounting for postretirement benefits other than pensions. The new guidance became effective for fiscal years that began after December 15, 2007 (i.e., as of January 1, 2008, for us), and we recorded additional postretirement liabilities of $101 and a decrease, net of taxes, to retained earnings of $63.

Income Taxes We adopted GAAP standards for income taxes, as amended, as of January 1, 2007. With our adoption of those amended standards, we provide deferred income taxes for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the computed tax basis of those assets and liabilities (per the amended standards). Under the amended standards, the tax basis of assets and liabilities are based on amounts that meet the recognition threshold and are measured pursuant to the measurement requirement in those standards. To the extent allowed by GAAP, we provide valuation allowances against the deferred tax assets for which the realization is uncertain. We review these items regularly in light of changes in federal and state tax laws and changes in our business.

We report, on a net basis, taxes imposed by governmental authorities on revenue-producing transactions between us and our customers in our consolidated statements of income.

Cash Equivalents Cash and cash equivalents include all highly-liquid investments with original maturities of three months or less, and the carrying amounts approximate fair value. At December 31, 2009, we held $437 in cash and $3,365 in money market funds and other cash equivalents.

Investment Securities See Note 9 for disclosures related to our investment securities, including available-for-sale securities.

Revenue Recognition Revenues derived from wireless, local telephone, long-distance, data and video services are recognized when services are provided. This is based upon either usage (e.g., minutes of traffic processed), period of time (e.g., monthly service fees) or other established fee schedules.

Our wireless service revenues are billed either in advance, arrears or are prepaid. Our wireless Rollover® rate plans include a feature whereby unused anytime minutes do not expire each month but rather are available, under certain conditions, for future use for a period not to exceed one year from the date of purchase. Using historical subscriber usage patterns, we defer these revenues based on an estimate of the portion of unused minutes expected to be utilized prior to expiration.

We record an estimated revenue reduction for future adjustments to customer accounts, other than a provision for doubtful accounts, at the time revenue is recognized based on historical experience. Service revenues also include billings to our customers for various regulatory fees imposed on us by governmental authorities. Cash incentives given to customers are recorded as a reduction of revenue. When required as part of providing service, revenues and associated expenses related to nonrefundable, upfront service activation and setup fees are deferred and recognized over the associated service contract period or customer life (for wireless). If no service contract exists, those fees are recognized over the average customer relationship period. Associated expenses are deferred only to the extent of such deferred revenue. For contracts that involve the bundling of services, revenue is allocated to the services based on their relative fair value. We record the sale of equipment to customers as gross revenue when we are the primary obligor in the arrangement, when title is passed and when the products are accepted by customers. For agreements involving the resale of third-party services in which we are not considered the primary obligor of the arrangement, we record the revenue net of the associated costs incurred. For contracts in which we provide customers with an indefeasible right to use network capacity, we recognize revenue ratably over the stated life of the agreement.

We recognize revenues and expenses related to publishing directories on the amortization method, which recognizes revenues and expenses ratably over the life of the directory title, typically 12 months.

Traffic Compensation Expense We use various estimates and assumptions to determine the amount of traffic compensation expenses recognized during any reporting period. Switched traffic compensation costs are accrued utilizing estimated rates by product, formulated from historical data and adjusted for known rate changes and volume levels. Such estimates are adjusted monthly to reflect newly-available information, such as rate changes and new contractual agreements. Bills reflecting actual incurred information are generally not received until three to nine months subsequent to the end of the reporting period, at which point a final adjustment is made to the accrued switched traffic compensation expense. Dedicated traffic compensation costs are estimated based on the number of circuits and the average projected circuit costs. These costs are adjusted to reflect actual expenses over the three months following the end of the reporting period as bills are received.

Allowance for Doubtful Accounts We maintain an allowance for doubtful accounts for estimated losses that result from the failure or inability of our customers to make required payments. When determining the allowance, we consider the probability of recoverability of accounts receivable based on past experience, taking into account current collection trends as well as general economic factors, including bankruptcy rates. Credit risks are assessed based on historical write-offs, net of recoveries, as well as an analysis of the aged accounts receivable balances with allowances generally increasing as the receivable ages. Accounts receivable may be fully reserved for when specific collection issues are known to exist, such as pending bankruptcy or catastrophes. The analysis of receivables is performed monthly, and the allowances are adjusted accordingly.

Inventory Inventories, which are included in "Other current assets" on our consolidated balance sheets, were $885 at December 31, 2009, and $862 at December 31, 2008. Wireless handsets and accessories, which are valued at the lower of cost or market value (determined using current replacement cost) were $790 as of December 31, 2009, and $749 as of December 31, 2008. The remainder of our inventory includes new and reusable supplies and network equipment of our local telephone operations, which are stated principally at average original cost, except that specific costs are used in the case of large individual items. Inventories of our other subsidiaries are stated at the lower of cost or market.

Property, Plant and Equipment Property, plant and equipment is stated at cost, except for assets acquired using acquisition accounting, which are recorded at fair value (see Note 2). The cost of additions and substantial improvements to property, plant and equipment is capitalized. The cost of maintenance and repairs of property, plant and equipment is charged to operating expenses. Property, plant and equipment is depreciated using straight-line methods over their estimated economic lives. Certain subsidiaries follow composite group depreciation methodology; accordingly, when a portion of their depreciable property, plant and equipment is retired in the ordinary course of business, the gross book value is reclassified to accumulated depreciation — no gain or loss is recognized on the disposition of this plant.

Property, plant and equipment is reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss shall be recognized only if the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset.

The fair value of a liability for an asset retirement obligation is recorded in the period in which it is incurred if a reasonable estimate of fair value can be made. In periods subsequent to initial measurement, period-to-period changes in the liability for an asset retirement obligation resulting from the passage of time and revisions to either the timing or the

amount of the original estimate of undiscounted cash flows are recognized. The increase in the carrying value of the associated long-lived asset is depreciated over the corresponding estimated economic life.

Software Costs It is our policy to capitalize certain costs incurred in connection with developing or obtaining internal-use software. Capitalized software costs are included in "Property, Plant and Equipment" on our consolidated balance sheets and are primarily amortized over a three-year period. Software costs that do not meet capitalization criteria are expensed immediately.

Goodwill and Other Intangible Assets Goodwill represents the excess of consideration paid over the fair value of net assets acquired in business combinations. Goodwill and other indefinite-lived intangible assets are not amortized but are tested at least annually for impairment. We have completed our annual goodwill impairment testing for 2009, which did not result in an impairment.

Intangible assets that have finite useful lives are amortized over their useful lives, a weighted-average of 8.1 years. Customer relationships are amortized using primarily the sum-of-the-months-digits method of amortization over the expected period in which those relationships are expected to contribute to our future cash flows based in such a way as to allocate it as equitably as possible to periods during which we expect to benefit from those relationships.

A significant portion of intangible assets in our Wireless segment are Federal Communications Commission (FCC) licenses that provide us with the exclusive right to utilize certain radio frequency spectrum to provide wireless communications services. While FCC licenses are issued for a fixed time (generally 10 years), renewals of FCC licenses have occurred routinely and at nominal cost. Moreover, we have determined that there are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful lives of our FCC licenses, and therefore the FCC licenses are indefinite-lived intangible assets under the GAAP standards for goodwill and other intangible assets.

In accordance with GAAP, we test wireless FCC licenses for impairment on an aggregate basis, consistent with the management of the business on a national scope. During the fourth quarter of 2009, we completed the annual impairment tests for indefinite-lived wireless FCC licenses. These annual impairment tests resulted in no material impairment of indefinite-lived wireless FCC licenses. We recorded an immaterial $18 impairment to wireline licenses we no longer plan to use.

Advertising Costs Advertising costs for advertising products and services or for promoting our corporate image are expensed as incurred.

Foreign Currency Translation We are exposed to foreign currency exchange risk through our foreign affiliates and equity investments in foreign companies. Our foreign subsidiaries and foreign investments generally report their earnings in their local currencies. We translate our share of their foreign assets and liabilities at exchange rates in effect at the balance sheet dates. We translate our share of their revenues and expenses using average rates during the year. The resulting foreign currency translation adjustments are recorded as a separate component of accumulated other comprehensive income in the accompanying consolidated balance sheets. We do not hedge foreign currency translation risk in the net assets and income we report from these sources. However, we do hedge a large portion of the foreign currency exchange risk involved in anticipation of highly probable foreign currency-denominated transactions, which we explain further in our discussion of our methods of managing our foreign currency risk (see Note 9).

NOTE 2. ACQUISITIONS, DISPOSITIONS, AND OTHER ADJUSTMENTS

Acquisitions

Centennial In November 2009, we acquired the assets of Centennial, a regional provider of wireless and wired communications services with approximately 865,000 customers as of December 31, 2009. Total consideration of $2,961 included $955 in cash for the redemption of Centennial's outstanding common stock and liquidation of outstanding stock options and $2,006 for our acquisition of Centennial's outstanding debt (including liabilities related to assets subject to sale, as discussed below), of which we repaid $1,957 after closing in 2009. The preliminary fair value measurement of Centennial's net assets at the acquisition date resulted in the recognition of $1,276 of goodwill, $647 of spectrum licenses, and $273 of customer lists and other intangible assets for the Wireless segment. The Wireline segment added $339 of goodwill and $174 of customer lists and other intangible assets from the acquisition. The acquisition of Centennial impacted our Wireless and Wireline segments, and we have included Centennial's operations in our consolidated results since the acquisition date. As the value of certain assets and liabilities are preliminary in nature, they are subject to adjustment as additional information is obtained about the facts and circumstances that existed at the acquisition date. When the valuation is final, any changes to the preliminary valuation of acquired assets and liabilities could result in adjustments to identified intangibles and goodwill. See Notes 6 and 8 for additional information regarding the impact of the Centennial acquisition on our goodwill and other intangibles and our long-term debt repayment for 2009.

Wireless Properties Transactions In May 2009, we announced a definitive agreement to acquire certain wireless assets from Verizon Wireless (VZ) for approximately $2,350 in cash. The assets primarily represent former Alltel Wireless assets. We will acquire wireless properties, including licenses and network assets, serving approximately 1.5 million subscribers in 79 service areas across 18 states. In October 2009, the Department of Justice (DOJ) cleared our acquisition of Centennial, subject to the DOJ's condition that we divest Centennial's operations in eight service areas in Louisiana and Mississippi. We are in the process of

finalizing definitive agreements and seeking regulatory approvals to sell all eight Centennial service areas ultimately identified in that ruling. We anticipate we will close the sales during the first half of 2010. As of December 31, 2009, the fair value of the assets subject to the sale, net of related liabilities, was $282. These net assets include property, plant and equipment, spectrum licenses, customer lists and other intangible assets, and working capital, which are not deemed material for isolated presentation as assets held for sale and liabilities related to assets held for sale in our consolidated balance sheet as of December 31, 2009, and we included these net assets in our Other current assets balance.

Dobson In November 2007, we acquired Dobson for approximately $2,500. Under the purchase method of accounting, the transaction was valued, for accounting purposes, at $2,580. Our December 31, 2007 consolidated balance sheet included the preliminary valuation of the fair value of Dobson's assets and liabilities, including goodwill of $2,623, FCC licenses of $2,230, customer lists of $517 and other intangible assets totaling $8 associated with this transaction. Final adjustments to the preliminary valuation included an increase to goodwill of $990, a decrease in licenses of $781 and a decrease in customer lists of $12. The resulting balances are $3,613 for goodwill, $1,449 for licenses and $505 for customer lists. Adjustments were primarily related to changes in the valuation of certain licenses and an increase in the estimate of relative obsolescence of property, plant and equipment resulting in a decrease in value and shorter average remaining economic life, and an adjustment to the value of the markets included in the divestiture order by the FCC. Pursuant to the order, we exchanged certain properties, spectrum and $355 in cash for other licenses and properties. Deferred tax adjustments are associated with the above mentioned items. Dobson marketed wireless services under the Cellular One brand and had provided roaming services to AT&T subsidiaries since 1990. Dobson had 1.7 million subscribers across 17 states. Dobson's operations were incorporated into our wireless operations following the date of acquisition.

Other Acquisitions During 2009, we acquired a provider of mobile application solutions and a security consulting business for a combined $50 before closing costs. The fair value of the acquired businesses' net assets resulted in the recognition of $41 of goodwill and $3 in customer lists and other intangible assets.

During 2008, we acquired Easterbrooke Cellular Corporation, Windstream Wireless, Wayport Inc. and the remaining 64% of Edge Wireless for a combined $663, recording $449 in goodwill. The acquisitions of these companies are designed to expand our wireless and Wi-Fi coverage area.

During 2007, we acquired Interwise®, a global provider of voice, Web and video conferencing services to businesses, for $122 and Ingenio™, a provider of Pay Per Call® technology for directory and local search business, for $195, net of cash. We recorded $304 of goodwill related to these acquisitions.

Dispositions
In 2009, we sold a professional services business for $174 and eliminated $113 of goodwill.

In April 2008, we sold to Local Insight Regatta Holdings, Inc., the parent company of Local Insight Yellow Pages, the Independent Line of Business segment of the L.M. Berry Company for $230.

In May 2007, we sold to Clearwire Corporation (Clearwire), a national provider of wireless broadband Internet access, education broadband service spectrum and broadband radio service spectrum valued at $300. Sale of this spectrum was required as a condition to the approval of our acquisition of BellSouth.

Other Adjustments
As ATTC and BellSouth stock options that were converted at the time of the respective acquisitions are exercised, the tax effect on those options may further reduce goodwill. During 2008, we recorded $1 in related goodwill reductions for ATTC and $9 for BellSouth.

NOTE 3. EARNINGS PER SHARE

A reconciliation of the numerators and denominators of basic earnings per share and diluted earnings per share for income from continuing operations for the years ended December 31, 2009, 2008 and 2007, are shown in the table below:

Year Ended December 31,	2009	2008	2007
Numerators			
Numerator for basic earnings per share:			
Net income attributable to AT&T	**$12,535**	$12,867	$11,951
Dilutive potential common shares:			
Other share-based payment	**10**	9	8
Numerator for diluted earnings per share	**$12,545**	$12,876	$11,959
Denominators (000,000)			
Denominator for basic earnings per share:			
Weighted-average number of common shares outstanding	**5,900**	5,927	6,127
Dilutive potential common shares:			
Stock options	**3**	9	24
Other share-based payment	**21**	22	19
Denominator for diluted earnings per share	**5,924**	5,958	6,170
Basic earnings per share	**$ 2.12**	$ 2.17	$ 1.95
Diluted earnings per share	**$ 2.12**	$ 2.16	$ 1.94

At December 31, 2009, 2008 and 2007, we had issued and outstanding options to purchase approximately 178 million, 204 million and 231 million shares of AT&T common stock. The exercise prices of options to purchase a weighted-average of 163 million, 144 million and 93 million shares in 2009, 2008, and 2007 were above the average market price of AT&T stock. Accordingly, we did not include these amounts in determining the dilutive potential common shares for the respective periods. At December 31, 2009, the exercise price of 19 million share options was below market price.

NOTE 4. SEGMENT INFORMATION

Our segments are strategic business units that offer different products and services over various technology platforms and are managed accordingly. Our operating segment results presented in Note 4 and discussed below for each segment follow our internal management reporting. We analyze our various operating segments based on segment income before income taxes. Interest expense and other income (expense) – net are managed only on a total company basis and are, accordingly, reflected only in consolidated results. Therefore, these items are not included in the calculation of each segment's percentage of our consolidated results. The customers and long-lived assets of our reportable segments are predominantly in the United States.
We have four reportable segments: (1) Wireless, (2) Wireline, (3) Advertising Solutions and (4) Other.

The Wireless segment uses our nationwide network to provide consumer and business customers with wireless voice and advanced data communications services.

The Wireline segment uses our regional, national and global network to provide consumer and business customers with landline voice and data communications services, AT&T U-verse℠ TV, high-speed broadband and voice services (U-verse) and managed networking to business customers. Additionally, we offer satellite television services through our agency arrangements.

The Advertising Solutions segment includes our directory operations, which publish Yellow and White Pages directories and sell directory advertising and Internet-based advertising and local search. This segment includes the results of YELLOWPAGES.COM, LLC (YPC), which was a joint venture with BellSouth prior to the December 29, 2006 acquisition and is now a wholly-owned subsidiary of AT&T. For segment reporting disclosure, we have carried forward the deferred revenue and deferred cost balances for BellSouth at the acquisition date in order to reflect how the segment is managed. This is different for consolidated reporting purposes where BellSouth deferred revenue and expenses from directories published during the 12-month period ending with the December 29, 2006 acquisition date, are not recognized and therefore were not included in the opening balance sheet. For management reporting purposes, we continue to amortize these balances over the life of the directory. Thus, our Advertising Solutions segment results in 2007 include revenue of $964 and expenses of $308, related to directories published in the Southeast region during 2006, prior to our acquisition of BellSouth. These amounts are eliminated in the consolidation and elimination column in the following reconciliation.

The Other segment includes results from Sterling Commerce, Inc. (Sterling), customer information services and all corporate and other operations. This segment includes our portion of the results from our international equity investments. Also included in the Other segment are impacts of corporate-wide decisions for which the individual operating segments are not being evaluated.

In the following tables, we show how our segment results are reconciled to our consolidated results reported in accordance with GAAP. The Wireless, Wireline, Advertising Solutions and Other columns represent the segment results of each such operating segment. The consolidation and elimination column adds in those line items that we manage on a consolidated basis only: interest expense and other income (expense) – net. This column also eliminates any intercompany transactions included in each segment's results as well as the Advertising Solutions revenue and expense in 2007 related to directories published in the Southeast region during 2006, mentioned previously. In the Segment assets line item, we have eliminated the value of our investments in our fully consolidated subsidiaries and the intercompany financing assets as these have no impact to the segments' operations.

Segment results, including a reconciliation to AT&T consolidated results, for 2009, 2008 and 2007 are as follows:

At December 31, 2009 or for the year ended	Wireless	Wireline	Advertising Solutions	Other	Consolidation and Elimination	Consolidated Results
Revenues from external customers	$ 53,504	$ 63,331	$4,724	$ 1,459	$ —	$123,018
Intersegment revenues	93	2,339	85	272	(2,789)	—
Total segment operating revenues	53,597	65,670	4,809	1,731	(2,789)	123,018
Operations and support expenses	34,561	44,646	2,922	2,471	(2,788)	81,812
Depreciation and amortization expenses	5,765	13,093	649	207	—	19,714
Total segment operating expenses	40,326	57,739	3,571	2,678	(2,788)	101,526
Segment operating income	13,271	7,931	1,238	(947)	(1)	21,492
Interest expense	—	—	—	—	3,379	3,379
Equity in net income of affiliates	9	18	—	706	1	734
Other income (expense) – net	—	—	—	—	152	152
Segment income before income taxes	$ 13,280	$ 7,949	$1,238	$ (241)	$ (3,227)	$ 18,999
Segment assets	$115,282	$163,028	$9,782	$13,567	$(32,907)	$268,752
Investment in equity method investees	4	—	—	2,917	—	2,921
Expenditures for additions to long-lived assets	5,921	11,166	22	226	—	17,335

At December 31, 2008 or for the year ended	Wireless	Wireline	Advertising Solutions	Other	Consolidation and Elimination	Consolidated Results
Revenues from external customers	$ 49,174	$ 67,669	$ 5,417	$1,768	$ —	$124,028
Intersegment revenues	161	2,186	85	274	(2,706)	—
Total segment operating revenues	49,335	69,855	5,502	2,042	(2,706)	124,028
Operations and support expenses	32,481	45,440	2,998	2,868	(2,705)	81,082
Depreciation and amortization expenses	5,770	13,206	789	118	—	19,883
Total segment operating expenses	38,251	58,646	3,787	2,986	(2,705)	100,965
Segment operating income	11,084	11,209	1,715	(944)	(1)	23,063
Interest expense	—	—	—	—	3,390	3,390
Equity in net income of affiliates	6	19	—	794	—	819
Other income (expense) – net	—	—	—	—	(328)	(328)
Segment income before income taxes	$ 11,090	$ 11,228	$ 1,715	$ (150)	$ (3,719)	$ 20,164
Segment assets	$112,146	$157,501	$11,038	$8,769	$(24,209)	$265,245
Investment in equity method investees	2	—	—	2,330	—	2,332
Expenditures for additions to long-lived assets	5,869	14,129	20	317	—	20,335

At December 31, 2007 or for the year ended	Wireless	Wireline	Advertising Solutions	Other	Consolidation and Elimination	Consolidated Results
Revenues from external customers	$ 42,574	$ 69,571	$ 5,771	$1,976	$ (964)	$118,928
Intersegment revenues	110	2,012	80	253	(2,455)	—
Total segment operating revenues	42,684	71,583	5,851	2,229	(3,419)	118,928
Operations and support expenses	28,585	46,177	3,066	1,882	(2,763)	76,947
Depreciation and amortization expenses	7,079	13,416	924	158	—	21,577
Total segment operating expenses	35,664	59,593	3,990	2,040	(2,763)	98,524
Segment operating income	7,020	11,990	1,861	189	(656)	20,404
Interest expense	—	—	—	—	3,507	3,507
Equity in net income of affiliates	16	31	—	645	—	692
Other income (expense) – net	—	—	—	—	810	810
Segment income before income taxes	$ 7,036	$ 12,021	$ 1,861	$ 834	$(3,353)	$ 18,399
Segment assets	$103,559	$158,338	$13,103	$2,859	$(2,215)	$275,644
Investment in equity method investees	13	—	—	2,257	—	2,270
Expenditures for additions to long-lived assets	3,840	13,767	25	256	—	17,888

NOTE 5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is summarized as follows at December 31:

	Lives (years)	2009	2008
Land	—	**$ 1,724**	$ 1,730
Buildings	35-45	**24,271**	23,372
Central office equipment	3-10	**78,314**	75,054
Cable, wiring and conduit	10-50	**74,325**	72,109
Other equipment	5-15	**39,918**	34,434
Software	3-5	**8,841**	8,348
Under construction	—	**3,159**	3,532
		230,552	218,579
Accumulated depreciation and amortization		**130,459**	119,491
Property, plant and equipment – net		**$100,093**	$ 99,088

Our depreciation expense was $15,959 in 2009, $15,313 in 2008 and $15,625 in 2007.

Certain facilities and equipment used in operations are leased under operating or capital leases. Rental expenses under operating leases were $2,889 for 2009, $2,733 for 2008 and $2,566 for 2007. At December 31, 2009, the future minimum rental payments under non-cancelable operating leases for the years 2010 through 2014 were $2,429, $2,276, $2,057, $1,859 and $1,707, with $10,230 due thereafter. Certain real estate operating leases contain renewal options that may be exercised. Capital leases are not significant.

American Tower Corp. Agreement

In August 2000, we reached an agreement with American Tower Corp. (American Tower) under which we granted American Tower the exclusive rights to lease space on a number of our communications towers. In exchange, we received a combination of cash and equity instruments as complete prepayment of rent with the closing of each leasing agreement. The value of the prepayments was recorded as deferred revenue and recognized in income as revenue over the life of the leases. The balance of deferred revenue was $509 in 2009, $539 in 2008 and $569 in 2007.

NOTE 6. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amounts of goodwill, by segment, for the years ended December 31, 2009 and 2008, are as follows:

	Wireless	Wireline	Advertising Solutions	Other	Total
Balance as of January 1, 2008	$ 32,713	$ 31,301	$ 5,788	$ 911	$ 70,713
Goodwill acquired	264	185	—	—	449
Goodwill adjustments for prior-year acquisitions and tax adjustments	990	(95)	(26)	—	869
Other	(116)	(10)	(68)	(8)	(202)
Balance as of December 31, 2008	33,851	31,381	5,694	903	71,829
Goodwill acquired	1,276	344	36	—	1,656
Other	(90)	(117)	1	(20)	(226)
Balance as of December 31, 2009	**$35,037**	**$31,608**	**$5,731**	**$883**	**$73,259**

Goodwill and wireless FCC licenses are not amortized but tested annually as of October 1 for impairment as required by GAAP. The carrying amounts of goodwill, by segment (which is the same as reporting unit for Wireless, Wireline and Advertising Solutions), at December 31, 2009 were Wireless $35,037; Wireline $31,608; Advertising Solutions $5,731; and Other $883 and at December 31, 2008 were Wireless $33,851; Wireline $31,381; Advertising Solutions $5,694; and Other $903. Within the Other segment, goodwill associated with our Sterling operations was $477 for 2009 and 2008. Additionally, FCC licenses are tested for impairment on an aggregate basis, consistent with the management of the business on a national scope. These annual impairment tests resulted in no impairment of indefinite-lived goodwill or wireless FCC licenses in 2009 and 2008. Goodwill in the Other segment as of January 1, 2008, is net of a $1,791 impairment that was recognized in a prior period. We review other long-lived assets for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable over the remaining life of the asset or asset group.

Goodwill acquired relates primarily to the acquisition of Centennial and a provider of mobile application solutions (see Note 2). Changes to goodwill include adjustments totaling $90 related to wireless liabilities in connection with a business combination and disposition of a wireline entity for $117 in 2009.

Our other intangible assets are summarized as follows:

	December 31, 2009		December 31, 2008	
Other Intangible Assets	*Gross Carrying Amount*	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer lists and relationships:				
AT&T Mobility	**$ 5,804**	**$ 3,097**	$10,429	$ 6,409
BellSouth	**9,215**	**5,597**	9,215	4,062
ATTC	**3,134**	**2,377**	3,100	2,038
Other	**926**	**588**	788	441
Subtotal	**19,079**	**11,659**	23,532	12,950
Other	**1,176**	**767**	1,724	1,130
Total	**$20,255**	**$12,426**	$25,256	$14,080
Indefinite-life intangible assets not subject to amortization:				
Licenses	**$48,759**		$47,306	
Trade name	**5,235**		5,230	
Total	**$53,994**		$52,536	

Amortized intangible assets are definite-life assets, and as such, we record amortization expense based on a method that most appropriately reflects our expected cash flows from these assets with a weighted-average amortization period of 8.1 years (8.0 years for customer lists and relationships and 9.6 years for other). Amortization expense for definite-life intangible assets was $3,755 for the year ended December 31, 2009, $4,570 for the year ended December 31, 2008, and $5,952 for the year ended December 31, 2007. Amortization expense is estimated to be $2,977 in 2010, $1,994 in 2011, $1,315 in 2012, $730 in 2013 and $346 in 2014. In 2009, Mobility wrote off $4,889 in fully amortized intangible assets (primarily customer lists).

Licenses include wireless FCC licenses of $48,650 at December 31, 2009, and $47,267 at December 31, 2008, that provide us with the exclusive right to utilize certain radio frequency spectrum to provide wireless communications services. While FCC licenses are issued for a fixed time, renewals of FCC licenses have occurred routinely and at nominal cost. Moreover, we have determined that there are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful lives of our FCC licenses and therefore we treat the FCC licenses as indefinite-lived intangible assets. In 2009, we recorded an immaterial $18 impairment to wireline licenses we no longer plan to use.

NOTE 7. EQUITY METHOD INVESTMENTS

Investments in partnerships, joint ventures and less-than-majority-owned subsidiaries in which we have significant influence are accounted for under the equity method.

Our investments in equity affiliates include primarily international investments. As of December 31, 2009, our investments in equity affiliates included a 9.8% interest in Télefonos de México, S.A. de C.V. (Telmex), Mexico's national telecommunications company, and an 8.8% interest in América Móvil S.A. de C.V. (América Móvil), primarily a wireless provider in Mexico with telecommunications investments in the United States and Latin America. In 2007, Telmex's Board of Directors and shareholders approved a strategic initiative to split off its Latin American businesses and its Mexican yellow pages business to a new holding company, Telmex Internacional, S.A.B. de C.V. (Telmex Internacional). Our investment in Telmex Internacional is 9.9%. We are a member of a consortium that holds all of the class AA shares of Telmex stock, representing voting control of the company. Another member of the consortium, Carso Global Telecom, S.A. de C.V. (CGT), has the right to appoint a majority of the directors of Telmex. We also are a member of a consortium that holds all of the class AA shares of América Móvil stock, representing voting control of the company. Another member of the consortium has the right to appoint a majority of the directors of América Móvil. On January 13, 2010, América Móvil announced that its Board of Directors had authorized it to submit an offer for 100% of the equity of CGT, a holding company that owns 59.4% of Telmex and 60.7% of Telmex Internacional, in exchange for América Móvil shares; and an offer for Telmex Internacional shares not owned by CGT, to be purchased for cash or to be exchanged for América Móvil shares, at the election of the shareholders.

The following table is a reconciliation of our investments in equity affiliates as presented on our consolidated balance sheets:

	2009	2008
Beginning of year	**$2,332**	$2,270
Additional investments	**44**	—
Equity in net income of affiliates	**734**	819
Dividends received	**(317)**	(164)
Currency translation adjustments	**125**	(574)
Other adjustments	**3**	(19)
End of year	**$2,921**	$2,332

Undistributed earnings from equity affiliates were $3,408 and $2,989 at December 31, 2009 and 2008. The currency translation adjustment for 2009 and 2008 reflects the effect of exchange rate fluctuations on our investments in Telmex, Telmex Internacional and América Móvil.

The fair value of our investment in Telmex, based on the equivalent value of Telmex L shares at December 31, 2009, was $1,492. The fair value of our investment in América Móvil, based on the equivalent value of América Móvil L shares at December 31, 2009, was $6,741. The fair value of our investment in Telmex Internacional, based on the equivalent value of Telmex Internacional L shares at December 31, 2009, was $1,597.

NOTE 8. DEBT

Long-term debt of AT&T and its subsidiaries, including interest rates and maturities, is summarized as follows at December 31:

		2009	2008
Notes and debentures			
Interest Rates	Maturities[1]		
0.35% – 2.99%	2009 – 2010	**$ 3,500**	$ 1,500
3.00% – 4.99%	2009 – 2014	**5,853**	10,577
5.00% – 6.99%	2009 – 2095	**41,331**	37,613
7.00% – 9.10%	2009 – 2097	**19,069**	18,007
Other		**136**	138
Fair value of interest rate swaps recorded in debt		**310**	527
		70,199	68,362
Unamortized premium, net of discount		**1,612**	1,846
Total notes and debentures		**71,811**	70,208
Capitalized leases		**237**	167
Total long-term debt, including current maturities		**72,048**	70,375
Current maturities of long-term debt		**(7,328)**	(9,503)
Total long-term debt		**$64,720**	$60,872

[1]Maturities assume putable debt is redeemed by the holders at the next opportunity.

Current maturities of long-term debt include debt that may be put back to us by the holders in 2010.

We have $1,000 of annual put reset securities issued by BellSouth that can be put each April until maturity in 2021. If the holders do not require us to repurchase the securities, the interest rate will be reset based on current market conditions. Likewise, we have an accreting zero-coupon note that may be redeemed each May, excluding May 2011, until maturity in 2022. If the zero-coupon note (issued for principal of $500 in 2007) is held to maturity, the redemption amount will be $1,030.

Debt maturing within one year consists of the following at December 31:

	2009	2008
Commercial paper	**$ —**	$ 4,575
Current maturities of long-term debt	**7,328**	9,503
Bank borrowings[1]	**33**	41
Total	**$7,361**	$14,119

[1]Outstanding balance of short-term credit facility of a foreign subsidiary.

During 2009, we received net proceeds of $8,161 from the issuance of $8,228 in long-term debt. Debt proceeds were used for general corporate purposes, including the repayment of maturing debt. Long-term debt issuances consisted of:

- $1,000 of 4.85% global notes due in 2014.
- $2,250 of 5.80% global notes due in 2019.
- $2,250 of 6.55% global notes due in 2039.
- £750 of 5.875% global notes due in 2017 (equivalent to $1,107 when issued).
- £1,100 of 7.0% global notes due in 2040 (equivalent to $1,621 when issued).

During 2009, debt repayments totaled $13,236 and consisted of:

- $8,633 in repayments of long-term debt (includes repayment of $1,957 for Centennial debt).
- $4,583 in repayments of commercial paper and short-term bank borrowings.
- $20 in repayments of other debt.

As of December 31, 2009 and 2008, we were in compliance with all covenants and conditions of instruments governing our debt. Substantially all of our outstanding long-term debt is unsecured. Excluding capitalized leases, the aggregate principal amounts of long-term debt and the corresponding weighted-average interest rate scheduled for repayment are as follows:

	2010	2011	2012	2013	2014	There-after
Debt repayments[1]	$7,328	$7,536	$4,836	$5,825	$4,789	$39,707
Weighted-average interest rate	3.4%	7.1%	6.6%	5.6%	5.1%	6.6%

[1]Debt repayments assume putable debt is redeemed by the holders at the next opportunity.

Credit Facility We have a five-year credit agreement with a syndicate of investment and commercial banks. In June 2009, one of the participating banks, Lehman Brothers Bank, Inc., which had declared bankruptcy, terminated its lending commitment of $535 and withdrew from the agreement. As a result of this termination, the outstanding commitments under the agreement were reduced from a total of $10,000 to $9,465. We still have the right to increase commitments up to an additional $2,535 provided no event of default under the credit agreement has occurred. The current agreement will expire in July 2011. We also have the right to terminate, in whole or in part, amounts committed by the lenders under this agreement in excess of any outstanding advances; however, any such terminated commitments may not be reinstated. Advances under this agreement may be used for general corporate purposes, including support of commercial paper borrowings and other short-term borrowings. There is no material adverse change provision governing the drawdown of advances under this credit agreement. This agreement contains a negative pledge covenant, which requires that, if at any time we or a subsidiary pledges assets or otherwise permits a lien on its properties, advances under this agreement will be ratably secured, subject to specified exceptions. We must maintain a debt-to-EBITDA (earnings before interest, income taxes, depreciation and amortization, and other modifications described in the agreement) financial ratio covenant of not more than three-to-one as of the last day of each fiscal quarter for the four quarters then ended. We comply with all covenants under the agreement. At December 31, 2009, we had no borrowings outstanding under this agreement.

Defaults under the agreement, which would permit the lenders to accelerate required payment, include nonpayment of principal or interest beyond any applicable grace period; failure by AT&T or any subsidiary to pay when due other debt above a threshold amount that results in acceleration of that debt (commonly referred to as "cross-acceleration") or commencement by a creditor of enforcement proceedings within a specified period after a monetary judgment above a threshold amount has become final; acquisition by any person of beneficial ownership of more than 50% of AT&T common shares or a change of more than a majority of AT&T's directors in any 24-month period other than as elected by the remaining directors (commonly referred to as a "change-in-control"); material breaches of representations in the agreement; failure to comply with the negative pledge or debt-to-EBITDA ratio covenants described above; failure to comply with other covenants for a specified period after notice; failure by AT&T or certain affiliates to make certain minimum funding payments under Employee Retirement Income Security Act of 1974, as amended (ERISA); and specified events of bankruptcy or insolvency.

NOTE 9. FAIR VALUE MEASUREMENTS AND DISCLOSURE

GAAP standards require disclosures for financial assets and liabilities that are remeasured at fair value at least annually. GAAP standards establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The Fair Value Measurement and Disclosure framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under Fair Value Measurement and Disclosure are described below:

LEVEL 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that AT&T has the ability to access.
LEVEL 2	Inputs to the valuation methodology include: • Quoted prices for similar assets and liabilities in active markets; • Quoted prices for identical or similar assets or liabilities in inactive markets; • Inputs other than quoted market prices that are observable for the asset or liability; • Inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
LEVEL 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement. • Fair value is often based on internally developed models in which there are few, if any, external observations.

The asset's or liability's fair value measurement level with the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation methodologies described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. AT&T believes its valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used at December 31, 2009 and 2008. See Note 11 for disclosures relating to pension and other postemployment benefits.

Long-Term Debt and Other Financial Instruments
The carrying amounts and estimated fair values of our long-term debt, including current maturities and other financial instruments, are summarized as follows at December 31:

	2009		2008	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Notes and debentures	**$71,811**	**$75,212**	$70,208	$70,955
Commercial paper	**—**	**—**	4,575	4,575
Bank borrowings	**33**	**33**	41	41
Available-for-sale securities	**1,885**	**1,885**	1,632	1,632

The fair values of our notes and debentures were estimated based on quoted market prices, where available, or on the net present value method of expected future cash flows using current interest rates. The carrying value of debt with an original maturity of less than one year approximates market value.

Investment Securities
Our investment securities consist of available-for-sale instruments which include $1,574 of equities, $226 in government fixed income bonds and $85 of other securities. Substantially all of our available-for-sale securities are Level 1 and Level 2. Realized gains and losses on these securities are included in "Other income (expense) – net" in the consolidated statements of income using the specific identification method. Unrealized gains and losses, net of tax, on available-for-sale securities are recorded in accumulated other comprehensive income (accumulated OCI). Unrealized losses that are considered other than temporary are recorded in other income (expense) – net, with the corresponding reduction to the carrying basis of the investment.

At the end of the first quarter of 2009 and at the end of 2008, we concluded that the severity in the decline in market values of these assets had led to an other-than-temporary impairment, writing them down $102 in 2009 and $332 in 2008, and recording the amount in Other Income (Expense).

Our short-term investments, other short-term and long-term held-to-maturity investments (including money market securities) and customer deposits are recorded at amortized cost, and the respective carrying amounts approximate fair values.

Our investment securities maturing within one year are recorded in "Other current assets," and instruments with maturities of more than one year are recorded in "Other Assets" on the consolidated balance sheets.

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

The majority of our derivatives are designated as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), or a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). Only a portion of our foreign exchange forward contracts are not designated to receive hedge accounting.

Fair Value Hedging We designate our fixed-to-floating interest rate swaps as fair value hedges. The purpose of these swaps is to manage interest rate risk by managing our mix of fixed-rate and floating-rate debt. These swaps involve the receipt of fixed rate amounts for floating interest rate payments over the life of the swaps without exchange of the underlying principal amount. Accrued and realized gains or losses from interest rate swaps impact interest expense on the consolidated statements of income. Unrealized gains on interest rate swaps are recorded at fair market value as assets, and unrealized losses on interest rate swaps are recorded at fair market value as liabilities. We record changes in the fair value of the swaps, along with the changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. Changes in the fair value of the interest rate swaps offset changes in the fair value of the fixed-rate notes payable they hedge due to changes in the designated benchmark interest rate and are recognized in interest expense, though they net to zero. Realized gains or losses upon early termination of our fair value hedges would be recognized in interest expense.

Cash Flow Hedging Unrealized gains on derivatives designated as cash flow hedges are recorded at fair value as assets, and unrealized losses on derivatives designated as cash flow hedges are recorded at fair value as liabilities, both for the period they are outstanding. For derivative instruments designated as cash flow hedges, the effective portion is reported as a component of accumulated OCI until reclassified into interest expense in the same period the hedged transaction affects earnings. The gain or loss on the ineffective portion is recognized in income from continuing operations in each current period.

We designate our cross-currency swaps as cash flow hedges. We have entered into multiple cross-currency swaps to hedge our exposure to variability in expected future cash flows that are attributable to foreign currency risk generated from the issuance of our Euro- and British pound sterling-denominated debt. These agreements include initial and final exchanges of principal from fixed foreign denominations to fixed U.S.-denominated amounts, to be exchanged at a specified rate, which was determined by the market spot rate upon issuance. They also include an interest rate swap of a fixed foreign-denominated rate to a fixed U.S.-denominated interest rate. We evaluate the effectiveness of our cross-currency swaps each quarter. In the year ended December 31, 2009, no material ineffectiveness was measured.

Periodically, we enter into and designate interest rate locks to partially hedge the risk of changes in interest payments attributable to increases in the benchmark interest rate during the period leading up to the probable issuance of fixed-rate debt. We designate our interest rate locks as cash flow hedges. Gains and losses when we settle our interest rate locks are amortized into income over the life of the related debt, except where a material amount is deemed to be ineffective, which would be immediately reclassified to income. In the year ended December 31, 2009, no material ineffectiveness was measured. Over the next 12 months, we expect to reclassify $21 from accumulated OCI to interest expense due to the amortization of net losses on historical interest rate locks. Our unutilized interest rate locks carry mandatory early terminations, the latest occurring in April 2012.

We hedge a large portion of the exchange risk involved in anticipation of highly probable foreign currency-denominated transactions. In anticipation of these transactions, we often enter into foreign exchange contracts to provide currency at a fixed rate. Some of these instruments are designated as cash flow hedges while others remain non-designated, largely based on size and duration. Gains and losses at the time we settle or take delivery on our designated foreign exchange contracts are amortized into income over the next few months as the hedged funds are spent by our foreign subsidiaries, except where a material amount is deemed to be ineffective, which would be immediately reclassified to income. In the year ended December 31, 2009, no material ineffectiveness was measured.

Non-designated and Discontinued Hedging Instruments Changes in the fair value of non-designated derivatives are recorded in other income (expense) – net, along with the change in fair value of the underlying asset or liability, as applicable. When hedge accounting is discontinued, the derivative is adjusted for changes in fair value through other income (expense) – net. For fair value hedges, the swap asset or liability and the underlying hedged liability or asset will no longer be adjusted for changes in fair value, and the net adjustment to the hedged item at that time will be amortized into earnings over the remaining life of the hedged item. For cash flow hedges, gains and losses that were in accumulated OCI as a component of stockholders' equity in connection with hedged assets or liabilities or forecasted transactions will be recognized in other income (expense) – net, in the same period the hedged item affects earnings.

Collateral and Credit-Risk Contingency We have entered into agreements with most of our derivative counterparties, establishing collateral thresholds based on respective credit ratings and netting agreements. At December 31, 2009, we held $222 of counterparty collateral (a receipt liability). Under the agreements, if our credit rating had been downgraded one rating level, we still would not have been required to post collateral (a deposit asset). We do not offset the fair value of collateral, whether the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable), against the fair value of the derivative instruments.

Following is the notional amount of our outstanding derivative positions:

	December 31, 2009
Interest rate swaps	$ 9,000
Cross-currency swaps	7,502
Interest rate locks	3,600
Foreign exchange contracts	293
Total	$20,395

Following are our derivative instruments and their related hedged items affecting our financial position and performance:

Fair Value of Derivatives in the Consolidated Balance Sheet
Derivatives designated as hedging instruments and reflected as other assets, other liabilities and, for a portion of interest rate swaps, accounts receivable.

Asset Derivatives	December 31, 2009
Interest rate swaps	$ 399
Cross-currency swaps	635
Interest rate locks	150
Foreign exchange contracts	2
Total	$1,186

Liability Derivatives	December 31, 2009
Cross-currency swaps	$ (390)
Interest rate locks	(6)
Foreign exchange contracts	(7)
Total	$ (403)

The balance of the unrealized derivative gain (loss) in accumulated OCI was $142 at December 31, 2009, and $(483) at December 31, 2008.

Effect of Derivatives on the Consolidated Statement of Income

Fair Value Hedging Relationships	Year ended December 31, 2009
Interest rate swaps (Interest expense):	
Gain (Loss) on interest rate swaps	$(216)
Gain (Loss) on long-term debt	216

In addition, the net swap settlements that accrued and settled in the year ended December 31, 2009, were also reported as reductions of interest expense.

Cash Flow Hedging Relationships	Year ended December 31, 2009
Cross-currency swaps:	
Gain (Loss) recognized in accumulated OCI	$738
Other income (expense) reclassified from accumulated OCI into income	—
Interest rate locks:	
Gain (Loss) recognized in accumulated OCI	203
Interest income (expense) reclassified from accumulated OCI into income	(23)
Foreign exchange contracts:	
Gain (Loss) recognized in accumulated OCI	(2)
Other income (expense) reclassified from accumulated OCI into income	—
Non-designated Hedging Instruments	
Foreign exchange contracts (Other income)	$ (1)

NOTE 10. INCOME TAXES

Significant components of our deferred tax liabilities (assets) are as follows at December 31:

	2009	2008
Depreciation and amortization	$ 18,796	$ 18,269
Intangibles (nonamortizable)	1,990	1,990
Employee benefits	(14,220)	(14,825)
Net operating loss and other carryforwards	(1,846)	(2,220)
Investment in wireless partnership	18,646	16,028
Other – net	(2,019)	(2,250)
Subtotal	21,347	16,992
Deferred tax assets valuation allowance	1,182	1,190
Net deferred tax liabilities	$ 22,529	$ 18,182
Net long-term deferred tax liabilities	$ 23,803	$ 19,196
Less: Net current deferred tax assets	(1,274)	(1,014)
Net deferred tax liabilities	$ 22,529	$ 18,182

At December 31, 2009, we had combined net operating and capital loss carryforwards (tax effected) for federal income tax purposes of $362 and for state and foreign income tax purposes of $1,125, expiring through 2028. Additionally, we had federal credit carryforwards of $66 and state credit carryforwards of $293, expiring primarily through 2026.

We recognize a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion, or all, of a deferred tax asset will not be realized. Our valuation allowances at December 31, 2008 and 2009, relate primarily to state net operating loss carryforwards.

As required by GAAP, we recognize the financial statement effects of a tax return position when it is more likely than not, based on the technical merits, that the position will ultimately be sustained. For tax positions that meet this recognition threshold, we apply our judgment, taking into account applicable tax laws, our experience in managing tax audits and relevant GAAP, to determine the amount of tax benefits to recognize in our financial statements. For each position, the difference between the benefit realized on our tax return and the benefit reflected in our financial statements is recorded on our balance sheet as an unrecognized tax benefit (UTB). We update our unrecognized tax benefits at each financial statement date to reflect the impacts of audit settlements and other resolution of audit issues, expiration of statutes of limitation, developments in tax law and ongoing discussions with taxing authorities. A reconciliation of the change in our UTB balance from January 1, 2009 to December 31, 2009, and January 1, 2008 to December 31, 2008, is as follows:

Federal, State and Foreign Tax	2009	2008
Balance at beginning of year	**$ 6,190**	$ 5,901
Increases for tax positions related to the current year	**982**	811
Increases for tax positions related to prior years	**877**	715
Decreases for tax positions related to prior years	**(1,984)**	(1,237)
Settlements	**(81)**	—
Balance at end of year	**5,984**	6,190
Accrued interest and penalties	**1,539**	1,802
Gross unrecognized income tax benefits	**7,523**	7,992
Less: Deferred federal and state income tax benefits	**(892)**	(998)
Less: Tax attributable to timing items included above	**(2,542)**	(3,371)
Total UTB that, if recognized, would impact the effective income tax rate as of the end of the year	**$ 4,089**	$ 3,623

During 2009 and 2008, we made net deposits totaling $1,151 and $191 to several taxing jurisdictions. These deposits are not included in the reconciliation above but reduce our unrecognized tax benefits balance. Net of these deposits and a $1,000 deposit made in 2007, our unrecognized tax benefits balance at December 31, 2009, was $5,181, of which $4,882 was included in "Other noncurrent liabilities" and $299 was included in "Accrued taxes" on our consolidated balance sheets. Our unrecognized tax benefits balance at December 31, 2008, was $6,801, of which $5,042 was included in "Other noncurrent liabilities" and $1,759 was included in "Accrued taxes" on our consolidated balance sheets.

We record interest and penalties related to federal, state and foreign unrecognized tax benefits in income tax expense. Accrued interest and penalties included in unrecognized tax benefits were $1,539 as of December 31, 2009, and $1,802 as of December 31, 2008. Interest and penalties included in our consolidated statements of income were $(215) for 2009, $152 for 2008, and $303 for 2007.

The Company and our subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. Our income tax returns are regularly audited and reviewed by the IRS as well as by state and foreign taxing authorities.

The IRS has completed field examinations of AT&T's tax returns through 2005, and all audit periods prior to 1998 are closed for federal purposes. We were unable to reach agreement with the IRS regarding treatment of Universal Service Fund receipts on our 1998 and 1999 tax returns and, as a result, we filed a refund suit in U.S. District Court (District Court). In July 2009, the District Court granted the Government's motion for summary judgment and entered final judgment for the Government. We appealed the final judgment to the U.S. Court of Appeals for the Fifth Circuit. We are engaged with the IRS Appeals Division (Appeals) in settling our 2000 – 2002 returns and expect to reach a resolution of most issues in early 2010. We do not expect the resolution to have a material impact on our unrecognized tax benefits. In early 2009, the IRS completed its field examination of our 2003 – 2005 income tax returns and issued its final Revenue Agent's Report (RAR). This RAR assessed additional taxes related primarily to the timing of certain deductions related to our network assets. We made a deposit of $650 to reduce the accrual of interest while we continue to work with Appeals to resolve the contested issues. The IRS began its examination of our 2006 – 2008 income tax returns in 2009. During 2010, we expect to reach an accelerated resolution with the IRS for depreciation and amortization deductions claimed on our 2008 return related to a restructuring of our wireless operations. At this time, we are unable to estimate the impact of a resolution on our unrecognized tax benefits. The IRS has completed the examination of all acquired entity tax returns through 2003 (ATTC and AT&T Mobility through 2005) and, with the exception of BellSouth, all years through 2001 are closed. We expect the IRS to complete its examination of the BellSouth 2004 – 2005 income tax returns during 2010.

The components of income tax expense are as follows:

	2009	2008	2007
Federal:			
Current	**$2,852**	$1,160	$5,872
Deferred – net	**2,194**	5,163	(413)
	5,046	6,323	5,459
State, local and foreign:			
Current	**1,200**	(13)	621
Deferred – net	**(90)**	726	173
	1,110	713	794
Total	**$6,156**	$7,036	$6,253

A reconciliation of income tax expense and the amount computed by applying the statutory federal income tax rate (35%) to income before income taxes, income from discontinued operations, extraordinary items and cumulative effect of accounting changes is as follows:

	2009	2008	2007
Taxes computed at federal statutory rate	**$ 6,649**	$7,057	$6,440
Increases (decreases) in income taxes resulting from:			
State and local income taxes – net of federal income tax benefit	**559**	497	549
Other – net	**(1,052)**	(518)	(737)
Total	**$ 6,156**	$7,036	$6,252
Effective Tax Rate	**32.4%**	34.9%	34.0%

NOTE 11. PENSION AND POSTRETIREMENT BENEFITS

Pension Benefits and Postretirement Benefits

Substantially all of our U.S. employees are covered by one of our noncontributory pension and death benefit plans. Many of our management employees participate in pension plans that have a traditional pension formula (i.e., a stated percentage of employees' adjusted career income) and a frozen cash balance or defined lump sum formula. In 2005, the management pension plan for those employees was amended to freeze benefit accruals previously earned under a cash balance formula. Each employee's existing cash balance continues to earn interest at a variable annual rate. After this change, those management employees, at retirement, may elect to receive the portion of their pension benefit derived under the cash balance or defined lump sum as a lump sum or an annuity. The remaining pension benefit, if any, will be paid as an annuity if its value exceeds a stated monthly amount. Management employees of former ATTC, BellSouth, AT&T Mobility and new hires after 2006 participate in cash balance pension plans. Nonmanagement employees' pension benefits are generally calculated using one of two formulas: benefits are based on a flat dollar amount per year according to job classification or are calculated under a cash balance plan that is based on an initial cash balance amount and a negotiated annual pension band and interest credits. Most nonmanagement employees can elect to receive their pension benefits in either a lump sum payment or an annuity.

We also provide a variety of medical, dental and life insurance benefits to certain retired employees under various plans and accrue actuarially determined postretirement benefit costs as active employees earn these benefits.

On December 31, 2009, the AT&T Pension Plan and the Cingular Wireless Pension Plan were merged into the AT&T Puerto Rico Pension Benefit Plan. At November 1, 2008, BellSouth pension plans and U.S. Domestic ATTC bargained employees were merged into the AT&T Pension Benefit Plan. At December 31, 2007, defined benefit pension plans formerly sponsored by Ameritech Publishing Ventures and AT&T Mobility were merged in the AT&T Pension Benefit Plan.

During 2009, union contracts covering 120,000 collectively bargained wireline employees expired. As of January 31, 2010, 86,000 employees covered by these expired collectively bargained wireline contracts have ratified new labor contracts. In the absence of an effective contract, the union is entitled to call a work stoppage.

For approximately 60,000 employees covered by these ratified agreements, the agreements provide for a three-year term and, for the vast majority of those covered employees, a 3 percent wage increase in years one and two, a wage increase in year three of 2.75 percent, and pension band increases of 2 percent for each year of the agreement. For both wage and pension band increases, there is a potential cost-of-living increase based on the Consumer Price Index for the third year. These agreements also provide for continued health care coverage with reasonable cost sharing.

For the remaining approximately 26,000 employees, the agreement provides for a four-year term with provisions substantially similar to the provisions of the ratified agreements discussed above, with a wage increase in year four of 2.75 percent and a potential cost-of-living increase in year four instead of in year three.

On February 8, 2010, the Company and the CWA announced a tentative agreement covering approximately 30,000 core wireline employees in the nine-state former BellSouth region, subject to ratification by those covered employees. The tentative agreement provides for a three-year term and, for the vast majority of those covered employees, a 3 percent wage increase in years one and two, a wage increase in year three of 2.75 percent, and pension band increases of 2 percent for each year of the agreement. These agreements also provide for continued health care coverage with reasonable cost sharing.

In August 2009, retirees were informed of medical and drug coverage changes. In addition, we adopted changes to our pension plans consistent with the Pension Protection Act of 2006 (PPA). Because of these modifications, our amortization of prior service (benefit) cost also changed, reducing costs by $128 in the third quarter of 2009. In the fourth quarter of 2009, our pension and postretirement costs have decreased, which is consistent with reductions that began in August 2009. These modifications will decrease costs in 2010.

Obligations and Funded Status

For defined benefit pension plans, the benefit obligation is the "projected benefit obligation," the actuarial present value, as of our December 31 measurement date, of all benefits attributed by the pension benefit formula to employee service rendered to that date. The amount of benefit to be paid depends on a number of future events incorporated into the pension benefit formula, including estimates of the average life of employees/survivors and average years of service rendered. It is measured based on assumptions concerning future interest rates and future employee compensation levels.

For postretirement benefit plans, the benefit obligation is the "accumulated postretirement benefit obligation," the actuarial present value as of a date of all future benefits attributed under the terms of the postretirement benefit plan to employee service rendered to the valuations date.

The following table presents this reconciliation and shows the change in the projected benefit obligation for the years ended December 31:

	Pension Benefits		Postretirement Benefits	
	2009	2008	**2009**	2008
Benefit obligation at beginning of year	**$50,822**	$53,522	**$37,531**	$40,385
Service cost – benefits earned during the period	**1,070**	1,173	**334**	429
Interest cost on projected benefit obligation	**3,355**	3,319	**2,434**	2,550
Amendments	**(685)**	(15)	**(3,115)**	(4)
Actuarial loss (gain)	**2,439**	(1,450)	**1,402**	(3,406)
Special termination benefits	**118**	70	**9**	5
Settlements	**—**	—	**—**	—
Benefits paid	**(6,269)**	(5,795)	**(2,370)**	(2,548)
Other	**—**	(2)	**—**	120
Benefit obligation at end of year	**$50,850**	$50,822	**$36,225**	$37,531

The following table presents the change in the value of plan assets for the years ended December 31 and the plans' funded status at December 31:

	Pension Benefits		Postretirement Benefits	
	2009	2008	**2009**	2008
Fair value of plan assets at beginning of year	**$46,828**	$ 70,810	**$ 10,175**	$ 16,999
Actual return on plan assets	**6,312**	(18,190)	**1,991**	(4,688)
Benefits paid[1]	**(6,269)**	(5,795)	**(823)**	(2,301)
Contributions	**2**	—	**195**	165
Other	**—**	3	**(25)**	—
Fair value of plan assets at end of year	**46,873**	46,828	**11,513**	10,175
Funded (unfunded) status at end of year[2]	**$ (3,977)**	$ (3,994)	**$(24,712)**	$(27,356)

[1]At our discretion, certain postretirement benefits are paid from AT&T cash accounts and do not reduce Voluntary Employee Beneficiary Association (VEBA) assets. Future benefit payments may be made from VEBA trusts and thus reduce those asset balances.
[2]Funded status is not indicative of our ability to pay ongoing pension benefits or of our obligation to fund retirement trusts. Required pension funding is determined in accordance with Employee Retirement Income Security Act (ERISA) regulations.

Amounts recognized on our consolidated balance sheets at December 31 are listed below:

	Pension Benefits		Postretirement Benefits	
	2009	2008	**2009**	2008
Current portion of employee benefit obligation[1]	**$ —**	$ —	**$ (2,021)**	$ (729)
Employee benefit obligation[2]	**(3,977)**	(3,994)	**(22,691)**	(26,627)
Net amount recognized	**$(3,977)**	$(3,994)	**$(24,712)**	$(27,356)

[1]Included in "Accounts payable and accrued liabilities."
[2]Included in "Postemployment benefit obligation."

Amounts included in our accumulated other comprehensive income that have not yet been recognized in net periodic benefit cost at December 31 are listed below:

	Pension Benefits		Postretirement Benefits	
	2009	2008	**2009**	2008
Net loss	**$23,041**	$23,004	**$ 3,991**	$ 3,695
Prior service cost (credit)	**(181)**	562	**(4,644)**	(1,999)
Total	**$22,860**	$23,566	**$ (653)**	$ 1,696

The accumulated benefit obligation for our pension plans represents the actuarial present value of benefits based on employee service and compensation as of a certain date and does not include an assumption about future compensation levels. The accumulated benefit obligation for our pension plans was $49,122 at December 31, 2009, and $48,618 at December 31, 2008.

Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive Income

Our combined net pension and postretirement cost recognized in our consolidated statements of income was $1,921, $324 and $1,078 for the years ended December 31, 2009, 2008 and 2007.

The following tables present the components of net periodic benefit obligation cost and other changes in plan assets and benefit obligations recognized in other comprehensive income:

Net Periodic Benefit Cost

	Pension Benefits			Postretirement Benefits		
	2009	2008	2007	**2009**	2008	2007
Service cost – benefits earned during the period	**$ 1,070**	$ 1,173	$ 1,257	**$ 334**	$ 429	$ 511
Interest cost on projected benefit obligation	**3,355**	3,319	3,220	**2,434**	2,550	2,588
Expected return on plan assets	**(4,561)**	(5,602)	(5,468)	**(955)**	(1,327)	(1,348)
Amortization of prior service cost (credit) and transition asset	**58**	133	142	**(469)**	(360)	(359)
Recognized actuarial (gain) loss	**656**	10	241	**(1)**	(1)	294
Net pension and postretirement cost (benefit)[1]	**$ 578**	$ (967)	$ (608)	**$1,343**	$ 1,291	$ 1,686

[1]During 2009, 2008 and 2007, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 reduced postretirement benefit cost by $255, $263 and $342. This effect is included in several line items above.

Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income

	Pension Benefits			Postretirement Benefits		
	2009	2008	2007	**2009**	2008	2007
Net loss (gain)	**$ 435**	$13,857	$(2,131)	**$(1,242)**	$1,716	$(2,525)
Prior service cost (credit)	**(392)**	(16)	139	**(322)**	32	(28)
Amortization of net loss (gain)	**412**	4	154	**(1)**	—	181
Amortization of prior service cost (credit)	**69**	83	78	**(223)**	(222)	(223)
Total recognized in net pension and postretirement cost and other comprehensive income	**$ 524**	$13,928	$(1,760)	**$(1,788)**	$1,526	$(2,595)

The estimated net loss for pension benefits that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $683, and the prior service credit for pension benefits that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $16. The estimated net gain for postretirement benefits that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $8, and the prior service credit for postretirement benefits that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $625.

Assumptions

In determining the projected benefit obligation and the net pension and postemployment benefit cost, we used the following significant weighted-average assumptions:

	2009	2008	2007
Discount rate for determining projected benefit obligation at December 31	**6.50%**	7.00%	6.50%
Discount rate in effect for determining net cost (benefit)	**7.00%**	6.50%	6.00%
Long-term rate of return on plan assets	**8.50%**	8.50%	8.50%
Composite rate of compensation increase for determining projected benefit obligation and net pension cost (benefit)	**4.00%**	4.00%	4.00%

Approximately 10% of pension and postretirement costs are capitalized as part of construction labor, providing a small reduction in the net expense recorded. Uncertainty in the securities markets and U.S. economy could result in investment returns less than those assumed. GAAP requires that actual gains and losses on pension and postretirement plan assets be recognized in the market-related value of assets (MRVA) equally over a period of not more than five years. We use a methodology, allowed under GAAP, under which we hold the MRVA to within 20% of the actual fair value of plan assets, which can have the effect of accelerating the recognition of excess actual gains and losses into the MRVA to less than five years. Due to investment losses on plan assets experienced in 2008, this methodology contributed approximately $1,577 to our combined net pension and postretirement cost in 2009 as compared with not using this methodology. This methodology did not have a material impact on 2008 and 2007 combined net pension and postretirement benefits. Should the securities markets decline or medical and prescription drug costs increase at a rate greater than assumed, we would expect increasing annual combined net pension and postretirement costs for the next several years. Should actual experience differ from actuarial assumptions, the projected pension benefit obligation and net pension cost and accumulated postretirement benefit obligation and postretirement benefit cost would be affected in future years.

Discount Rate Our assumed discount rate of 6.50% at December 31, 2009, reflects the hypothetical rate at which the projected benefit obligations could be effectively settled or paid out to participants. We determined our discount rate based on a range of factors, including a yield curve comprised of the rates of return on several hundred high-quality, fixed-income corporate bonds available at the measurement date and the related expected duration for the obligations. These bonds were all rated at least Aa3 or AA- by one of the nationally recognized statistical rating organizations, denominated in U.S. dollars, and neither callable, convertible nor index linked. For the year ended December 31, 2009, we decreased our discount rate by 0.50%, resulting in an increase in our pension plan benefit obligation of $2,065 and an increase in our postretirement benefit obligation of $1,847. For the year ended December 31, 2008, we increased our discount rate by 0.50%, resulting in a decrease in our pension plan benefit obligation of $2,176 and a decrease in our postretirement benefit obligation of $2,154.

Expected Long-Term Rate of Return Our expected long-term rate of return on plan assets of 8.50% for 2010 and 2009 reflects the average rate of earnings expected on the funds invested, or to be invested, to provide for the benefits included in the projected benefit obligations. In setting the long-term assumed rate of return, management considers capital markets future expectations and the asset mix of the plans' investments. Actual long-term return can, in relatively stable markets, also serve as a factor in determining future expectations. However, the dramatic adverse market conditions in 2008 have skewed traditional measures of long-term return, such as the 10-year return, which was 3.67% through 2009 and 4.21% through 2008, compared with 9.18% through 2007. The severity of the 2008 losses may make the 10-year return less of a relevant factor in future expectations. In 2009, we experienced actual returns on investments much greater than what was expected, which will create a reduction in combined pension and postretirement costs for 2010. Based on the future expectations for the target asset mix, this assumption will remain unchanged for 2010. We consider many factors that include, but are not limited to, historical returns on plan assets, current market information on long-term returns (e.g., long-term bond rates) and current and target asset allocations between asset categories. The target asset allocation is determined based on consultations with external investment advisors. This assumption, which is based on our long-term expectations of market returns in future years, is one of the most significant of the weighted-average assumptions used to determine our actuarial estimates of pension and postretirement benefit expense. If all other factors were to remain unchanged, we expect that a 1% decrease in the expected long-term rate of return would cause 2010 combined pension and postretirement cost to increase $639.

Composite Rate of Compensation Increase Our expected composite rate of compensation increase of 4% reflects the long-term average rate of salary increases.

Health Care Cost Trend Our health care cost trend assumptions are developed based on historical cost data, the near-term outlook and an assessment of likely long-term trends. In addition to the health care cost trend, we assume an annual 3% growth in administrative expenses and an annual 3% growth in dental claims. Due to benefit design changes (e.g., increased co-pays and deductibles for prescription drugs and certain medical services), we have generally experienced better-than-expected claims cost in recent years. The following table provides our assumed average health care cost trend based on the demographics of plan participants:

	2010	2009
Health care cost trend rate assumed for current year		
Retirees 64 and under	**5.00%**	5.21%
Retirees 65 and over	**5.00%**	5.36%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	**5.00%**	5.00%
Year that rate reaches the ultimate trend rate	**2010**	2010

A one percentage-point change in the assumed combined medical and dental cost trend rate would have the following effects:

	One Percentage-Point Increase	One Percentage-Point Decrease
Increase (decrease) in total of service and interest cost components	$ 325	$ (266)
Increase (decrease) in accumulated postretirement benefit obligation	3,423	(2,842)

Prior to August 2009, a majority of our labor contracts contained an annual dollar cap for nonmanagement retirees who retire during the term of the labor contract. However, we waived the cap during the relevant contract periods and thus did not collect contributions from those retirees. We have similarly waived the cap for nonmanagement retirees who retired prior to inception of the labor contract. In accordance with the substantive plan provisions required in accounting for postretirement benefits under GAAP, we did not account for the cap in the value of our accumulated postretirement benefit obligation (i.e., for GAAP purposes, we assumed the cap would be waived for all future contract periods). In August 2009, the company announced that the annual dollar caps would be enforced for some groups beginning in 2010, with alternative uncapped plans available and participants assumed to move to the uncapped plans. Consequently, no substantive assumptions about the annual caps being waived are reflected after August 2009.

We also changed from a static mortality table to a generational mortality table, creating an increase in our pension and postretirement benefit obligations as of December 31, 2009, as well as an increase in net pension and postretirement costs in 2010. Given full recognition of bargained changes, assumption changes and recognition of gains/losses, our combined pension and postretirement cost is expected to decrease for 2010 compared to 2009.

Plan Assets

Plan assets consist primarily of private and public equity, government and corporate bonds, and real assets. The asset allocations of the pension plans are maintained to meet ERISA requirements. Any plan contributions, as determined by ERISA regulations, are made to a pension trust for the benefit of plan participants. We maintain VEBA trusts to partially fund postretirement benefits; however, there are no ERISA or regulatory requirements that these postretirement benefit plans be funded annually.

The principal investment objectives are to ensure the availability of funds to pay pension and postretirement benefits as they become due under a broad range of future economic scenarios, to maximize long-term investment return with an acceptable level of risk based on our pension and postretirement obligations, and to be broadly diversified across and within the capital markets to insulate asset values against adverse experience in any one market. Each asset class has broadly diversified characteristics. Substantial biases toward any particular investing style or type of security are sought to be avoided by managing the aggregation of all accounts with portfolio benchmarks. Asset and benefit obligation forecasting studies are conducted periodically, generally every two to three years, or when significant changes have occurred in market conditions, benefits, participant demographics or funded status. Decisions regarding investment policy are made with an understanding of the effect of asset allocation on funded status, future contributions and projected expenses. The current asset allocation policy and risk level for the pension plan and VEBA assets are based on a study completed and approved during 2009.

The plans' weighted-average asset target and actual allocations as a percentage of plan assets, including the notional exposure of future contracts by asset categories at December 31, are as follows:

	Pension Assets			Postretirement (VEBA) Assets		
	Target	2009	2008	Target	2009	2008
Equity securities:						
Domestic	26% – 36%	**34%**	34%	34% – 44%	**39%**	39%
International	12% – 22%	**16**	16	22% – 32%	**27**	21
Fixed income securities	27% – 37%	**30**	30	15% – 25%	**20**	25
Real assets	6% – 16%	**8**	11	0% – 7%	**2**	3
Private equity	4% – 14%	**10**	9	0% – 9%	**4**	6
Other	0% – 5%	**2**	—	3% – 13%	**8**	6
Total		**100%**	100%		**100%**	100%

At December 31, 2009, AT&T securities represented less than one-half of a percent of assets held by our pension plans and VEBA trusts.

Investment Valuation
Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See "Fair Value Measurement" for further discussion.

Investments in securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the year. If no sale was reported on that date, they are valued at the last reported bid price. Investments in securities not traded on a national securities exchange are valued using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Over-the-counter (OTC) securities and government obligations are valued at the bid price or the average of the bid and asked price on the last business day of the year from published sources where available and, if not available, from other sources considered reliable. Depending on the types and contractual terms of OTC derivatives, fair value is measured using a series of techniques, such as Black-Scholes option pricing model, simulation models or a combination of various models.

Common/collective trust funds and 103-12 investment entities are valued at quoted redemption values that represent the net asset values of units held at year-end which management has determined approximates fair value.

Alternative investments, including investments in private equities, private bonds, limited partnerships, hedge funds, real assets and natural resources, do not have readily available market values. These estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed, and such differences could be material. Private equity, private bonds, limited partnership interests, hedge funds and other investments not having an established market are valued at net asset values as determined by the investment managers, which management has determined approximates fair value. Private equity investments are often valued initially based upon cost; however, valuations are reviewed utilizing available market data to determine if the carrying value of these investments should be adjusted. Such market data primarily includes observations of the trading multiples of public companies considered comparable to the private companies being valued. Investments in real assets funds are stated at the aggregate net asset value of the units of these funds, which management has determined approximates fair value. Real assets and natural resource investments are valued either at amounts based upon appraisal reports prepared by appraisers or at amounts as determined by an internal appraisal performed by the investment manager, which management has determined approximates fair value.

Purchases and sales of securities are recorded as of the trade date. Realized gains and losses on sales of securities are determined on the basis of average cost. Interest income is recognized on the accrual basis. Dividend income is recognized on the ex-dividend date.

Fair Value Measurement
GAAP standards require disclosures for financial assets and liabilities that are remeasured at fair value at least annually. GAAP standards establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. See Note 9 "Fair Value Measurement and Disclosure" for a discussion of fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

The following tables set forth by level, within the fair value hierarchy, the pension and postretirement assets and liabilities at fair value as of December 31, 2009:

Pension Assets and Liabilities at Fair Value as of December 31, 2009	Level 1	Level 2	Level 3	Total
Interest bearing investments	$ 134	$ 2,277	$ —	$ 2,411
Equity securities:				
Domestic	9,253	3,207	2	12,462
International	4,928	1,766	—	6,694
Fixed income securities:				
U.S. Government and governmental agencies	—	5,295	—	5,295
Corporate and other bonds and notes	—	4,548	—	4,548
Private equity	36	10	5,312	5,358
Real assets	—	—	3,650	3,650
Other	128	206	—	334
Market value of securities on loan:				
Interest bearing investments	—	300	—	300
Equity – domestic	1,907	1	—	1,908
Equity – international	597	15	—	612
U.S. Government and governmental agencies	—	2,962	—	2,962
Corporate bonds and notes	—	659	—	659
Other	22	8	—	30
Collateral value of securities lending	—	6,039	—	6,039
Total plan net assets at fair value	$17,005	$27,293	$8,964	$ 53,262
Other assets (liabilities)[1]				(6,389)
Total Plan Net Assets				**$46,873**

[1]Other assets (liabilities) include accounts receivable, accounts payable and net adjustment for securities lending payable.

Postretirement Assets and Liabilities at Fair Value as of December 31, 2009	Level 1	Level 2	Level 3	Total
Interest bearing investments	$ 49	$1,145	$ —	$ 1,194
Equity securities:				
Domestic	2,484	1,175	—	3,659
International	2,534	755	—	3,289
Fixed income securities:				
U.S. Government and governmental agencies	—	1,507	—	1,507
Corporate and other bonds and notes	—	485	—	485
Private equity	—	—	583	583
Real assets	—	—	117	117
Other	33	11	—	44
Market value of securities on loan:				
Equities – domestic	354	118	—	472
Equities – international	95	82	—	177
U.S. government bonds and notes	—	74	—	74
Corporate and other bonds and notes	—	15	—	15
Collateral value of securities lending	—	765	—	765
Total plan net assets at fair value	$5,549	$6,132	$700	$ 12,381
Other assets (liabilities)[1]				(868)
Total Plan Net Assets				**$11,513**

[1]Other assets (liabilities) include accounts receivable, accounts payable and net adjustment for securities lending payable.

The tables below set forth a summary of changes in the fair value of the pension and postretirement assets Level 3 investment assets for the year ended December 31, 2009:

Pension Assets	Equity-Domestic	Private Equity	Real Assets	Total
Balance, beginning of year	$ 21	$ 5,494	$ 5,281	$10,796
Actual return on plan assets:				
Assets sold during the period	—	130	(41)	89
Assets still held at reporting date	10	(652)	(1,829)	(2,471)
Purchases, sales, issuances and settlements (net)	(29)	340	239	550
Balance, End of Year	**$ 2**	**$5,312**	**$3,650**	**$ 8,964**

Postretirement Assets	Private Equity	Real Assets	Total
Balance, beginning of year	$669	$210	$ 879
Actual return on plan assets:			
Assets sold during the period	23	(34)	(11)
Assets still held at reporting date	(76)	(62)	(138)
Purchases, sales, issuances and settlements (net)	(33)	3	(30)
Balance, End of Year	**$583**	**$117**	**$700**

Estimated Future Benefit Payments

Expected benefit payments are estimated using the same assumptions used in determining our benefit obligation at December 31, 2009. Because benefit payments will depend on future employment and compensation levels, average years employed and average life spans, among other factors, changes in any of these factors could significantly affect these expected amounts. The following table provides expected benefit payments under our pension and postretirement plans:

	Pension Benefits	Postretirement Benefits	Medicare Subsidy Receipts
2010	$ 4,897	$ 2,836	$(113)
2011	4,605	2,665	(121)
2012	4,578	2,627	(132)
2013	4,504	2,615	(143)
2014	4,432	2,596	(154)
Years 2015 – 2019	21,449	12,729	(944)

Supplemental Retirement Plans

We also provide senior- and middle-management employees with nonqualified, unfunded supplemental retirement and savings plans. While these plans are unfunded, we have assets in a designated nonbankruptcy remote trust that are independently managed and used to provide for these benefits. These plans include supplemental pension benefits as well as compensation-deferral plans, some of which include a corresponding match by us based on a percentage of the compensation deferral.

We use the same significant assumptions for the discount rate and composite rate of compensation increase used in determining the projected benefit obligation and the net pension and postemployment benefit cost. The following tables provide the plans' benefit obligations and fair value of assets at December 31 and the components of the supplemental retirement pension benefit cost. The net amounts recorded as "Other noncurrent liabilities" on our consolidated balance sheets at December 31, 2009, was $2,139 and was $2,114 at December 31, 2008.

The following table provides information for our supplemental retirement plans with accumulated benefit obligations in excess of plan assets:

	2009	2008
Projected benefit obligation	**$(2,139)**	$(2,114)
Accumulated benefit obligation	**(2,058)**	(2,023)
Fair value of plan assets	**—**	—

The following tables present the components of net periodic benefit cost and other changes in plan assets and benefit obligations recognized in other comprehensive income:

Net Periodic Benefit Cost	2009	2008
Service cost – benefits earned during the period	**$ 11**	$ 13
Interest cost on projected benefit obligation	**140**	141
Amortization of prior service cost	**5**	6
Recognized actuarial loss	**10**	21
Net supplemental retirement pension cost	**$166**	$181

Other Changes Recognized in Other Comprehensive Income	2009	2008
Net loss (gain)	**$51**	$(66)
Prior service cost (credit)	**(5)**	—
Amortization of net loss (gain)	**7**	11
Amortization of prior service cost	**3**	4
Total recognized in net supplemental pension cost and other comprehensive income	**$56**	$(51)

The estimated net loss for our supplemental retirement plan benefits that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $16, and the prior service cost for our supplemental retirement plan benefits that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $2.

Deferred compensation expense was $95 in 2009, $54 in 2008 and $106 in 2007. Our deferred compensation liability, included in "Other noncurrent liabilities," was $1,031 at December 31, 2009, and $1,054 at December 31, 2008.

Non-U.S. Plans

As part of our ATTC acquisition, we acquired certain non-U.S. operations that have varying types of pension programs providing benefits for substantially all of their employees and, to a limited group, postemployment benefits. The net amounts recorded as "Postemployment benefit obligation" on our consolidated balance sheets at December 31, 2009 and 2008, were $(9) and $(7).

	2009	2008
Benefit obligations at end of year	**$(1,040)**	$(786)
Fair value of plan assets	**1,049**	793
Funded status at end of year	**$ 9**	$ 7

The following table provides information for certain non-U.S. defined-benefit pension plans with plan assets in excess of accumulated benefit obligations:

	2009	2008
Projected benefit obligation	**$1,040**	$786
Accumulated benefit obligation	**975**	700
Fair value of plan assets	**1,049**	793

Our International Pension Assets are composed of Level 1 and Level 2 assets. Level 2 assets are primarily made up of corporate bonds, notes and real assets totaling $688. The remaining assets at fair value are Level 1 assets totaling $361, related to equity investments and cash.

In determining the projected benefit obligation for certain non-U.S. defined-benefit pension plans, we use assumptions based upon interest rates relative to each country in which we sponsor a plan. Additionally, the expected return is based on the investment mix relative to each plan's assets. Following are the significant weighted-average assumptions:

	2009	2008
Discount rate for determining projected benefit obligation at December 31	**5.16%**	6.20%
Discount rate in effect for determining net cost (benefit)	**6.20%**	5.57%
Long-term rate of return on plan assets	**6.24%**	6.13%
Composite rate of compensation increase for determining projected benefit obligation at December 31	**3.99%**	4.06%
Composite rate of compensation increase for determining net pension cost	**4.06%**	4.25%

The following tables present the components of net periodic benefit cost and other changes in plan assets and benefit obligations recognized in other comprehensive income:

Net Periodic Benefit Cost	2009	2008
Service cost – benefits earned during the period	**$ 22**	$ 25
Interest cost on projected benefit obligation	**47**	54
Expected return on assets	**(58)**	(60)
Amortization of actuarial (gain)	**(17)**	(5)
Net pension cost	**$ (6)**	$ 14

Other Changes Recognized in Other Comprehensive Income	2009	2008
Net loss (gain)	**$75**	$70
Amortization of net loss (gain)	**(8)**	(2)
Amortization of prior service cost	**—**	—
Total recognized in net pension cost and other comprehensive income	**$67**	$68

The estimated net loss that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $1.

Contributory Savings Plans

We maintain contributory savings plans that cover substantially all employees. Under the savings plans, we match in cash or company stock a stated percentage of eligible employee contributions, subject to a specified ceiling. There are no debt-financed shares held by the Employee Stock Ownership Plans, allocated or unallocated.

Our match of employee contributions to the savings plans is fulfilled with purchases of our stock on the open market or company cash. Benefit cost is based on the cost of shares or units allocated to participating employees' accounts and was $586, $664 and $633 for the years ended December 31, 2009, 2008 and 2007.

NOTE 12. SHARE-BASED PAYMENT

We account for our share-based payment arrangements using GAAP standards for share-based awards. Our accounting under these standards may affect our ability to fully realize the value shown on our consolidated balance sheets of deferred tax assets associated with compensation expense. Full realization of these deferred tax assets requires stock options to be exercised at a price equaling or exceeding the sum of the exercise price plus the fair value of the options at the grant date. The provisions of GAAP standards for share-based awards do not allow a valuation allowance to be recorded unless our future taxable income is expected to be insufficient to recover the asset. Accordingly, there can be no assurance that the current stock price of our common shares will rise to levels sufficient to realize the entire tax benefit currently reflected in our consolidated balance sheets.

However, to the extent that additional tax benefits are generated in excess of the deferred taxes associated with compensation expense previously recognized, the potential future impact on income would be reduced.

At December 31, 2009, we had various share-based payment arrangements, which we describe in the following discussion. The compensation cost recognized for those plans was $317 for 2009, compared to $166 for 2008 and $720 for 2007, and is included in "Selling, general and administrative" in our consolidated statements of income. The total income tax benefit recognized in the consolidated statements of income for share-based payment arrangements was $121 for 2009, compared to $63 for 2008 and $275 for 2007.

Under our various plans, senior and other management and nonmanagement employees and nonemployee directors have received stock options, performance stock units, and other nonvested stock units. Stock options issued through December 31, 2009, carry exercise prices equal to the market price of our stock at the date of grant. Beginning in 1994 and ending in 1999, certain employees of AT&T Teleholdings, Inc. (formerly known as Ameritech) were awarded grants of nonqualified stock options with dividend equivalents. Prior to 2006, depending on the grant, stock options vesting could occur up to five years from the date of grant, with most options vesting ratably over three years. Stock options granted as part of a deferred compensation plan do not have a vesting period; since 2006, these are the only options issued by AT&T. Performance stock units, which are nonvested stock units, are granted to key employees based upon our stock price at the date of grant and are awarded in the form of AT&T common stock and cash at the end of a two- to three-year period, subject to the achievement of certain performance goals. Other nonvested stock units are valued at the market price of our common stock at the date of grant and vest typically over a two- to five-year period.

As of December 31, 2009, we were authorized to issue up to 110 million shares of common stock (in addition to shares that may be issued upon exercise of outstanding options or upon vesting of performance stock units or other nonvested stock units) to officers, employees, and directors pursuant to these various plans.

The compensation cost that we have charged against income for our share-based payment arrangements was as follows:

	2009	2008	2007
Performance stock units	**$290**	$152	$620
Stock options	**8**	11	14
Restricted stock	**21**	9	68
Other	**(2)**	(6)	18
Total	**$317**	$166	$720

The estimated fair value of the options when granted is amortized to expense over the options' vesting or required service period. The fair value for these options, for the indicated years ended, was estimated at the date of grant based on the expected life of the option and historical exercise experience, using a Black-Scholes option pricing model with the following weighted-average assumptions:

	2009	2008	2007
Risk-free interest rate	**3.17%**	3.96%	5.01%
Dividend yield	**6.82%**	4.36%	3.65%
Expected volatility factor	**19.65%**	18.76%	20.75%
Expected option life in years	**7.00**	7.00	7.00

A summary of option activity as of December 31, 2009, and changes during the year then ended, is presented below (shares in millions):

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value[1]
Outstanding at January 1, 2009	204	$39.41		
Granted	3	24.06		
Exercised	(1)	23.41		
Forfeited or expired	(28)	54.86		
Outstanding at December 31, 2009	178	36.79	1.86	$115
Exercisable at December 31, 2009	175	$37.01	1.73	$103

[1]Aggregate intrinsic value includes only those options with intrinsic value (options where the exercise price is below the market price).

The weighted-average fair value of each option granted during the period was $1.84 for 2009, compared to $5.04 for 2008 and $7.71 for 2007. The total intrinsic value of options exercised during 2009 was $5, compared to $78 for 2008 and $667 for 2007.

It is our policy to satisfy share option exercises using our treasury shares. The actual excess tax benefit realized for the tax deductions from option exercises from these arrangements was less than $1 in 2009, compared to $10 for 2008 and $77 for 2007.

A summary of the status of our nonvested stock units, which includes performance stock units as of December 31, 2009, and changes during the year then ended is presented as follows (shares in millions):

Nonvested Stock Units	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2009	24	$ 35.18
Granted	16	24.80
Vested	(14)	34.51
Forfeited	—	28.67
Nonvested at December 31, 2009	**26**	**$26.48**

As of December 31, 2009, there was $365 of total unrecognized compensation cost related to nonvested share-based payment arrangements granted. That cost is expected to be recognized over a weighted-average period of 1.88 years. The total fair value of shares vested during the year was $471 for 2009, compared to $554 for 2008 and $345 for 2007.

NOTE 13. STOCKHOLDERS' EQUITY

From time to time, we repurchase shares of common stock for distribution through our employee benefit plans or in connection with certain acquisitions. In December 2007, the Board of Directors authorized the repurchase of up to 400 million shares of our common stock. This authorization replaced previous authorizations and expired on December 31, 2009. As of December 31, 2009, we had repurchased approximately 164 million shares under this program.

During the Annual Meeting of Shareholders in April 2009, shareholders approved the increase of authorized common shares of AT&T stock from 7 billion to 14 billion, with no change to the currently authorized 10 million preferred shares of AT&T stock. As of December 31, 2009 and 2008, no preferred shares were outstanding.

In December 2009, the Company declared its quarterly dividend, which reflected an increase in the amount per share of common stock from $0.41 to $0.42.

NOTE 14. ADDITIONAL FINANCIAL INFORMATION

	December 31,	
Consolidated Balance Sheets	**2009**	2008
Accounts payable and accrued liabilities:		
Accounts payable	**$ 7,514**	$ 6,921
Accrued rents and other	**3,335**	4,437
Accrued payroll and commissions	**2,430**	2,401
Deferred directory revenue	**1,491**	1,984
Accrued interest	**1,717**	1,471
Compensated future absences	**563**	609
Current portion of employee benefit obligation	**2,021**	729
Other	**1,928**	1,480
Total accounts payable and accrued liabilities	**$20,999**	$20,032
Deferred compensation (included in Other noncurrent liabilities)	**$ 1,633**	$ 1,648

Consolidated Statements of Income	**2009**	2008	2007
Advertising expense	**$2,797**	$3,073	$3,430
Interest expense incurred	**$4,119**	$4,049	$3,678
Capitalized interest	**(740)**	(659)	(171)
Total interest expense	**$3,379**	$3,390	$3,507

Consolidated Statements of Cash Flows	**2009**	2008	2007
Cash paid during the year for:			
Interest	**$3,873**	$3,727	$3,445
Income taxes, net of refunds	**4,471**	5,307	4,013

Consolidated Statements of Changes in Stockholders' Equity	**2009**	2008	2007
Accumulated other comprehensive income (loss) is composed of the following components, net of taxes, at December 31:			
Foreign currency translation adjustment	**$ (761)**	$ (912)	$(469)
Unrealized gains on securities	**324**	100	375
Unrealized gains (losses) on cash flow hedges	**142**	(483)	(226)
Defined benefit postretirement plans	**(14,112)**	(15,761)	(59)
Other	**(1)**	(1)	(1)
Accumulated other comprehensive (loss)	**$(14,408)**	$(17,057)	$(380)

No customer accounted for more than 10% of consolidated revenues in 2009, 2008 or 2007.

A majority of our employees are represented by labor unions as of year-end 2009.

NOTE 15. CONTINGENT LIABILITIES

In addition to issues specifically discussed elsewhere, we are party to numerous lawsuits, regulatory proceedings and other matters arising in the ordinary course of business. In accordance with GAAP standards for contingencies, in evaluating these matters on an ongoing basis, we take into account amounts already accrued on the balance sheet. In our opinion, although the outcomes of these proceedings are uncertain, they should not have a material adverse effect on our financial position, results of operations or cash flows.

We have contractual obligations to purchase certain goods or services from various other parties. Our purchase obligations are expected to be approximately $2,890 in 2010, $4,095 in total for 2011 and 2012, $2,549 in total for 2013 and 2014 and $694 in total for years thereafter.

See Note 9 for a discussion of collateral and credit-risk contingencies.

NOTE 16. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following table represents our quarterly financial results:

Calendar Quarter	Total Operating Revenues	Operating Income	Net Income	Net Income Attributable to AT&T	Basic Earnings Per Share[1]	Diluted Earnings Per Share[1]	Stock Price		
							High	Low	Close
2009									
First	**$ 30,571**	**$ 5,737**	**$ 3,201**	**$ 3,126**	**$0.53**	**$0.53**	**$29.46**	**$21.44**	**$25.20**
Second	**30,734**	**5,506**	**3,276**	**3,198**	**0.54**	**0.54**	**27.09**	**23.38**	**24.84**
Third	**30,855**	**5,388**	**3,275**	**3,192**	**0.54**	**0.54**	**27.68**	**23.19**	**27.01**
Fourth	**30,858**	**4,861**	**3,091**	**3,019**	**0.51**	**0.51**	**28.61**	**25.00**	**28.03**
Annual	**$123,018**	**$21,492**	**$12,843**	**$12,535**	**2.12**	**2.12**			
2008									
First	$ 30,744	$ 5,980	$ 3,519	$ 3,461	$ 0.58	$ 0.57	$ 41.94	$ 32.95	$ 38.30
Second	30,866	6,567	3,843	3,772	0.64	0.63	40.70	32.63	33.69
Third	31,342	5,618	3,289	3,230	0.55	0.55	33.58	27.51	27.92
Fourth	31,076	4,898	2,477	2,404	0.41	0.41	30.65	20.90	28.50
Annual	$ 124,028	$ 23,063	$ 13,128	$ 12,867	2.17	2.16			

[1]Quarterly earnings per share impacts may not add to full-year earnings per share impacts due to the difference in weighted-average common shares for the quarters versus the weighted-average common shares for the year.

Report of Management

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles. The integrity and objectivity of the data in these financial statements, including estimates and judgments relating to matters not concluded by year-end, are the responsibility of management, as is all other information included in the Annual Report, unless otherwise indicated.

The financial statements of AT&T Inc. (AT&T) have been audited by Ernst & Young LLP, Independent Registered Public Accounting Firm. Management has made available to Ernst & Young LLP all of AT&T's financial records and related data, as well as the minutes of stockholders' and directors' meetings. Furthermore, management believes that all representations made to Ernst & Young LLP during its audit were valid and appropriate.

Management maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed by AT&T is recorded, processed, summarized, accumulated and communicated to its management, including its principal executive and principal financial officers, to allow timely decisions regarding required disclosure, and reported within the time periods specified by the Securities and Exchange Commission's rules and forms.

Management also seeks to ensure the objectivity and integrity of its financial data by the careful selection of its managers, by organizational arrangements that provide an appropriate division of responsibility and by communication programs aimed at ensuring that its policies, standards and managerial authorities are understood throughout the organization.

The Audit Committee of the Board of Directors meets periodically with management, the internal auditors and the independent auditors to review the manner in which they are performing their respective responsibilities and to discuss auditing, internal accounting controls and financial reporting matters. Both the internal auditors and the independent auditors periodically meet alone with the Audit Committee and have access to the Audit Committee at any time.

Assessment of Internal Control

The management of AT&T is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) or 15d-15(f) under the Securities Exchange Act of 1934. AT&T's internal control system was designed to provide reasonable assurance to the company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

AT&T management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2009. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework*. Based on its assessment, AT&T management believes that, as of December 31, 2009, the Company's internal control over financial reporting is effective based on those criteria.

Ernst & Young LLP, the independent registered public accounting firm that audited the financial statements included in this Annual Report, has issued an attestation report on the company's internal control over financial reporting.

Randall Stephenson
Chairman of the Board,
Chief Executive Officer and President

Richard G. Lindner
Senior Executive Vice President and
Chief Financial Officer

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
AT&T Inc.

We have audited the accompanying consolidated balance sheets of AT&T Inc. (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, in 2009 the Company changed its presentation of noncontrolling interests with the adoption of FASB statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment to ARB No. 51*, (codified in FASB Accounting Standards Codification (ASC) Topic 810, *Consolidation*) effective January 1, 2009.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2010 expressed an unqualified opinion thereon.

Ernst & Young LLP

Dallas, Texas
February 25, 2010

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

The Board of Directors and Stockholders
AT&T Inc.

We have audited AT&T Inc.'s (the Company) internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009 and our report dated February 25, 2010 expressed an unqualified opinion thereon.

Dallas, Texas
February 25, 2010

Ernst & Young LLP

AT&T Inc. Board of Directors

Randall L. Stephenson, 49 [4]

Chairman of the Board,
Chief Executive Officer and President
AT&T Inc.
Dallas, Texas
Director since 2005
Background: Telecommunications

Jon C. Madonna, 66 [1,2,4]

Lead Director
Retired Chairman and
Chief Executive Officer
KPMG
Director since 2005
AT&T Corp. Director 2002–2005
Background: Public accounting

William F. Aldinger III,* 62 [1,6]

Retired Chairman and
Chief Executive Officer
Capmark Financial Group Inc.
Director since 2005
AT&T Corp. Director 2003–2005
Background: Financial services

Gilbert F. Amelio, Ph.D., 67 [4,6,7]

Senior Partner
Sienna Ventures
Director since 2001
Advisory Director 1997–2001
Pacific Telesis Director 1995–1997
Background: Technology, electronics engineering

Reuben V. Anderson, 67 [4,5,7]

Senior Partner
Phelps Dunbar, LLP
Director since 2006
BellSouth Corporation
Director 1994–2006
Background: Law

James H. Blanchard, 68 [2,4,6]

Retired Chairman of the Board
and Chief Executive Officer
Synovus Financial Corp.
Director since 2006
BellSouth Corporation Director 1994–2006
BellSouth Telecommunications
Director 1988–1994
Background: Financial services

August A. Busch III,* 72 [2,3,4]

Retired Chairman of the Board
Anheuser-Busch Companies, Inc.
Director since 1983
Southwestern Bell Telephone
Director 1980–1983
Background: Brewing, family entertainment,
manufacturer of aluminum beverage containers

Jaime Chico Pardo, 60 [1,2]

Co-Chairman of the Board
Teléfonos de México, S.A.B. de C.V.
Director since 2008
Background: Telecommunications,
banking

James P. Kelly, 66 [1,3]

Retired Chairman of the Board
and Chief Executive Officer
United Parcel Service, Inc.
Director since 2006
BellSouth Corporation Director 2000–2006
Background: Air delivery and freight services

Lynn M. Martin, 70 [3,5]

President
The Martin Hall Group, LLC
Director since 1999
Ameritech Director 1993–1999
Background: Consulting, former
Congresswoman and U.S. Secretary of Labor

John B. McCoy, 66 [3,4,5]

Retired Chairman and
Chief Executive Officer
Bank One Corporation
Director since 1999
Ameritech Director 1991–1999
Background: Banking

Mary S. Metz,* Ph.D., 72 [3,7]

Chair Emerita of the Board of Trustees
American Conservatory Theater
Director since 1997
Pacific Telesis Director 1986–1997
Background: Education, administration

Joyce M. Roché, 62 [3,7]

President and Chief Executive Officer
Girls Incorporated
Director since 1998
Southern New England
Telecommunications
Director 1997–1998
Background: Marketing

Laura D'Andrea Tyson, Ph.D., 62 [2,5]

S. K. and Angela Chan Professor of
Global Management
Walter A. Haas School of Business
University of California at Berkeley
Director since 1999
Ameritech Director 1997–1999
Background: Economics, education

Patricia P. Upton, 71 [6,7]

President and Chief Executive Officer
Aromatique, Inc.
Director since 1993
Background: Manufacturing and
marketing of decorative fragrances

Committees of the Board:
(1) Audit
(2) Corporate Development
(3) Corporate Governance and Nominating
(4) Executive
(5) Finance/Pension
(6) Human Resources
(7) Public Policy

*Retiring April 30, 2010.

Senior Officers of AT&T Inc. and its Affiliates

Randall Stephenson, 49
Chairman, Chief Executive Officer and President

Jim Cicconi, 57
Senior Executive Vice President–External and Legislative Affairs AT&T Services, Inc.

Rick Lindner, 55
Senior Executive Vice President and Chief Financial Officer

John Stankey, 47
President and Chief Executive Officer AT&T Operations, Inc.

Bill Blase Jr., 54
Senior Executive Vice President–Human Resources

Cathy Coughlin, 52
Senior Executive Vice President and Global Marketing Officer

Forrest Miller, 57
Group President–Corporate Strategy and Development

Wayne Watts, 56
Senior Executive Vice President and General Counsel

Jim Callaway, 63
Senior Executive Vice President–Executive Operations

Ralph de la Vega, 58
President and Chief Executive Officer AT&T Mobility and Consumer Markets

Ron Spears, 61
President and Chief Executive Officer AT&T Business Solutions

Ray Wilkins Jr., 58
Chief Executive Officer-AT&T Diversified Businesses

EXHIBIT MGF - 4

NENA

Impacts of Using a Common Trunk Group to Carry Calls of Multiple Service Types into a Legacy Selective Router

Technical Information Document

(TID)

Impacts of Using a Common Trunk Group to Carry Calls of Multiple Service Types into a Legacy Selective Router
NENA 03-508, Version 1, March 15, 2010

Prepared by:
National Emergency Number Association (NENA) Network Technical Committee & Multiple Service Type Calls Working Group

Published by NENA
Printed in USA

One Nation 9-1-1 One Number

NENA
TECHNICAL INFORMATION DOCUMENT

NOTICE

The National Emergency Number Association (NENA) publishes this document as an information source for the designers and manufacturers of systems to be utilized for the purpose of processing emergency calls. It is not intended to provide complete design specifications or parameters or to assure the quality of performance for systems that process emergency calls.

NENA reserves the right to revise this TID for any reason including, but not limited to:

- conformity with criteria or standards promulgated by various agencies
- utilization of advances in the state of the technical arts
- Or to reflect changes in the design of network interface or services described herein.

It is possible that certain advances in technology will precede these revisions. Therefore, this TID should not be the only source of information used. NENA recommends that members contact their Telecommunications Carrier representative to ensure compatibility with the 9-1-1 network.

Patents may cover the specifications, techniques, or network interface/system characteristics disclosed herein. No license expressed or implied is hereby granted. This document shall not be construed as a suggestion to any manufacturer to modify or change any of its products, nor does this document represent any commitment by NENA or any affiliate thereof to purchase any product whether or not it provides the described characteristics.

This document has been prepared solely for the use of E9-1-1 Service System Providers, network interface and system vendors, participating telephone companies, etc.

By using this document, the user agrees that NENA will have no liability for any consequential, incidental, special, or punitive damages arising from use of the document.

NENA's Technical Committee has developed this document. Recommendations for change to this document may be submitted to:

National Emergency Number Association
4350 North Fairfax Drive, Suite750
Arlington, VA 22203-1695
800-332-3911
Or: techdoccomments@nena.org

Acknowledgments:

The National Emergency Number Association (NENA) Network Technical Committee & Multiple Service Type Calls Working Group.

NENA recognizes the following industry experts and their companies for their contributions in development of this document.

Version 1, Approval Date, 03/15/2010

Members	**Company**
Anand Akundi, Network Technical Committee Chair	Telcordia Technologies
John Garner, Network Technical Committee Vice-Chair	AT&T
Selena MacArthur, WG Leader	Time Warner Cable
Steven Zweifach, Technical Editor	Sprint Nextel
Dick Dickinson	TCS
Paul Stoffels	AT&T
Lisa Wirtanen	AT&T
Ric Atkins	Tarrant County E9-1-1 District
Raymond Greig	Sprint Nextel
Michael Cansler	AT&T
Robert Sherry	Intrado
Christian Militeau	Intrado
Greg Hunter	Sprint Nextel
Jim Winegarden	Qwest
Mitchell Feinsod	AT&T

This committee would also thank Roger Hixson (NENA Technical Issues Director) and Rick Jones (NENA Operational Issues Director) for their support and assistance.

TABLE OF CONTENTS

1 Executive Overview

This document provides a review of the topics that are associated with the practice of delivering more than one type of an emergency call over the same trunk group into a legacy type E9-1-1 selective router. It describes the market forces leading to the implementation of the practice as well as the technological pros and cons associated with it. The technical and operational implications of the practice are addressed from the perspective of many separate areas, including groups such as the originating service provider, network aggregator, E9-1-1 system service provider, Public Safety Agency (i.e., PSAP management/call takers), and regulatory bodies that govern 9-1-1 operations.

There are multiple reasons why service providers may wish to combine traffic on one common trunk group, such as managing fewer trunk groups, increased efficiency of call processing, and associated cost savings to all network entities. It also helps facilitate the advancement of efficient and cost effective delivery of emergency calls based upon emerging technologies and recognizing the convergence of consumer communications and devices, such as telematics, Mobile Satellite Services, Femtocells, Unlicensed Mobile Access, Fixed Mobile Convergence, etc.

Systems commonly referred to as "legacy" 9-1-1 deliver calls to traditional E9-1-1 selective routing switches over a dedicated network using trunks unique to each originating provider or service type. If one or more of these originating services is combined with another and placed onto a common trunk group into the E9-1-1 Selective Router, there could be consequences that could impact routing, default routing, and congestion control. Instances where calls of multiple service types route over a common trunk group can occur when a carrier combines traffic of more than one service type on a trunk or when a service aggregator combines traffic from more than one carrier on a trunk. A flowchart is provided that can be used by interested parties to assess if combining traffic on a common trunk group is an option in their particular system, area or regulatory climate.

This document does not address other network configurations such as originating carriers that connect directly to PSAPs without going through a selective router or into an IP or Next Generation network that performs the selective routing function differently than the traditional, legacy, E9-1-1 type network design.

2 Introduction

2.1 Operational Impacts Summary

Today, calls that are delivered to an E9-1-1 service provider's selective router often use a trunk group that only carries calls associated with one service type (i.e. wireline, wireless, or VoIP). In other instances, more than one service type such as wireline, wireless, VoIP, telematics, etc., are being combined with other traffic on common trunk groups to the selective router. In the E9-1-1 PSAP network today, some PSAPs may only take calls for a particular call type (i.e., wireless calls only), or may be taking calls from all call types throughout their service area. Market forces, competition, advancements in signaling technology, and addition of new and advanced services are many reasons why a carrier/aggregator would want to use a common trunk group for calls from multiple service types. The use of a common or multi-service trunk group into an E9-1-1 selective

router is becoming an evolutionary path, and can help support efficient and timely introduction of these new services.

There is a need for the various business parties to assess their operations to see if adjustments are needed. For example, normal call processing may be business as usual. Anomalies such as alternate routing and default routing may be addressed as one aspect of introducing such new service types. PSAP operations, 911 system service providers and originating carrier operations may all be impacted when common trunk groups are utilized by the originating carrier or aggregator to send calls to the selective router. In the unlikely event that a call is default routed, the selected default PSAP would receive calls from multiple service types based upon the default route that has been provisioned in the legacy selective router. Originating carriers and aggregators will need to work with the 9-1-1 Authority and E911 system service provider in order to define default routing strategies to address these challenges.

There are technical implementation details that are described later in section 3 that outline the responsibilities associated with the use of common trunk groups. Since PSAP, selective router and originating carrier operations are all impacted by the use of shared facilities; technical, operational, local and national policy guidelines will need to be considered during the decision process to use common trunks. A full impact analysis is a critical part of the decision process.

2.2 Security Impacts Summary

No security risks have been identified.

2.3 Document Terminology

The terms "shall", "must" and "required" are used throughout this document to indicate required parameters and to differentiate from those parameters that are recommendations. Recommendations are identified by the words "desirable", "should" or "preferably".

2.4 Reason for Issue/Reissue

A technical information document regarding the technical implications of sending calls from multiple service types over a common trunk group to legacy E9-1-1 selective router(s) has never been published. This TID provides enough technical detail such that the various experts can understand the impact on the various entities of using a common trunk group.

NENA reserves the right to modify this document. Upon revision, the reason(s) will be provided in the table below.

Version	Approval Date	Reason For Changes
Original	03/15/2010	Initial Document

2.5 Recommendation for Additional Development Work

There is no recommendation for additional development work required.

2.6 Date Compliance

All systems that are associated with the 9-1-1 process shall be designed and engineered to ensure that no detrimental, or other noticeable impact of any kind, will occur as a result of a date/time change up to 30 years subsequent to the manufacture of the system. This shall include embedded application, computer based or any other type application.

To ensure true compliance, the manufacturer shall upon request, provide verifiable test results to an industry acceptable test plan such as Telcordia GR-2945 or equivalent.

2.7 Anticipated Timeline

The decision and the timeframe to implement common trunks is made among the originating carrier/aggregator that is proposing multiple service types on a common trunk group, the E9-1-1 service provider(s), and the 9-1-1 Authority(ies). The timeframe of each implementation is set by these entities.

2.8 Costs Factors

The practice of combining different types of traffic on a common trunk group will have different impacts depending on what perspective you look at it from. In general in analyzing cost factors, there are savings associated with a lower number of trunks and trunk groups between an originating carrier's/aggregator's network and an E9-1-1 service provider's selective router versus the need to build out separate trunk groups for each service type and new services to be implemented. However, billing and cost recovery for providers or 911 Authorities could also be impacted by the amount of circuits installed, or used, so those factors may need to be considered in the decision making process as well.

Network modifications to consolidate service types over a common trunk could also have costs or savings associated with making or processing the change. In analyzing cost factors, the originating carrier/aggregator, E9-1-1 service provider, 9-1-1 Authority, or any other entity involved independently analyze their costs and efforts associated with the change versus the savings associated with facility reduction. For example, if reconfiguration and decommission of existing trunks are required to migrate connectivity to a common trunk group, costs associated with current term and termination liability are factored into the analysis.

Cost savings can be achieved in trunk reductions, switch ports reductions, transmission equipment reduction, backhaul expense reduction, and in other parts of the architecture that are in the call path, but these savings could be weighed against other costs, such as potential increases in administrative costs.

These potential cost savings might be realized by the carrier or the E9-1-1 Authority depending on cost recovery regulations.

2.9 Future Path Plan Criteria for Technical Evolution

In present and future applications of all technologies used for 9-1-1 call and data delivery, it is a requirement to maintain the same level or improve on the reliability and service characteristics inherent in present 9-1-1 system design.

New methods or solutions for current and future service needs and options should meet the criteria below. This inherently requires knowledge of current 9-1-1 system design factors and concepts, in order to evaluate new proposed methods or solutions against the Path Plan criteria.

Criteria to meet the Definition/Requirement:

1. Reliability/dependability as governed by NENA's technical standards and other generally accepted base characteristics of E9-1-1 service
2. Service parity for all potential 9-1-1 callers
3. Least complicated system design that results in fewest components to achieve needs (simplicity, maintainable)
4. Maximum probabilities for call and data delivery with least cost approach
5. Documented procedures, practices, and processes to ensure adequate implementation and ongoing maintenance for 9-1-1 systems

This basic technical policy is a guideline to focus technical development work on maintaining fundamental characteristics of E9-1-1 service by anyone providing equipment, software, or services.

2.10 Cost Recovery Considerations

Normal business practices shall be assumed to be the cost recovery mechanism.

2.11 Additional Impacts (non cost related)

The information or requirements contained in this NENA document are known to have both technical and operational impacts, based on the analysis of the authoring group. The primary impacts include:

a. Potential changes in policy, operation and/or call setup for originating carriers/aggregators

b. Changes that could impact E9-1-1 System Service Providers including selective router translations, cost recovery, call accounting, etc

c. Changes in the processes for delivery and / or operation of handling call anomalies to PSAPs

d. Call queuing priorities for callers may be impacted if a call to a selective router is transported by a multi-service trunk group.

2.12 Intellectual Property Rights Policy

NENA takes no position regarding the validity or scope of any Intellectual Property Rights or other rights that might be claimed to pertain to the implementation or use of the technology described in this document or the extent to which any license under such rights might or might not be available; nor does it represent that it has made any independent effort to identify any such rights.

NENA invites any interested party to bring to its attention any copyrights, patents or patent applications, or other proprietary rights that may cover technology that may be required to implement this standard.

Please address the information to:

National Emergency Number Association
4350 N Fairfax Dr, Suite 750
Arlington, VA 22203-1695
800-332-3911
or: techdoccomments@nena.org

2.13 Acronyms/Abbreviations

Some acronyms/abbreviations used in this document have not yet been included in the master glossary. After initial approval of this document, they will be included. See NENA 00-001 - NENA Master Glossary of 9-1-1 Terminology located on the NENA web site for a complete listing of terms used in NENA documents.

The following Acronyms are used in this document:		
Acronym	**Description**	**** N)ew (U)pdate**
ALI	Automatic Location Identification	
ANI	Automatic Number Identification	
ATIS	Alliance for Telecommunications Industry Solutions	
ESQK	Emergency Services Query Key	
ESRK	Emergency Services Routing Key	
NENA	National Emergency Number Association	
PSAP	Public Safety Answering Point	
SR	Selective Router	

3 Technical Description

This section outlines the technical considerations for interconnection and routing between originating carriers'/aggregators' networks and the legacy E9-1-1 selective router.

For purposes of this document, we make the following assumptions:

Interconnections may be direct connecting circuits between the networks, aggregated at the physical level (i.e. transport facilities) or logically aggregated where multiple service types are delivered across a common trunk group.

Call routing uses legacy techniques where the pANI (TN/ESRK/ESQK) is associated with a PSAP and a call is delivered to that PSAP.

Calls may be alternate routed if the Primary PSAP cannot be reached, e.g. all trunks busy.

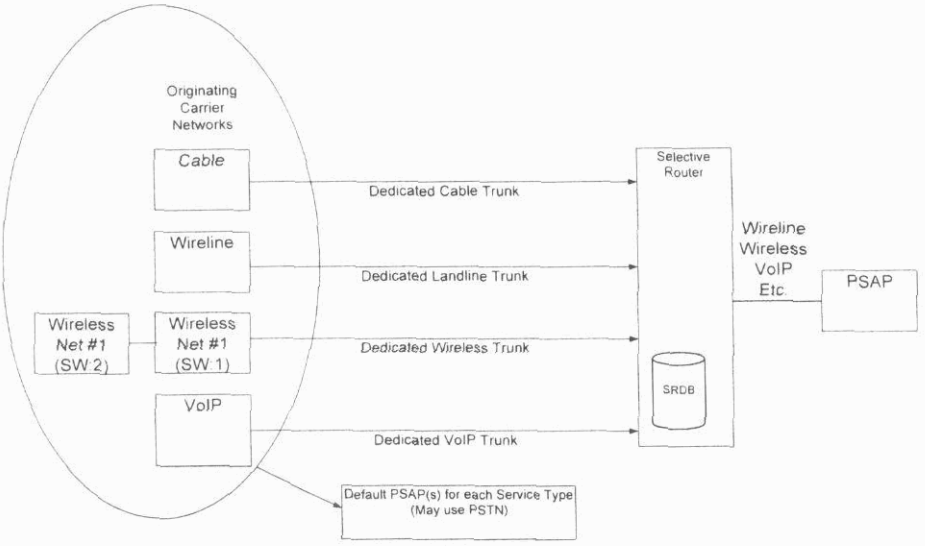
Calls may be default routed if there is an error in determining the Primary PSAP such as in the unlikely event that the ANI is missing from the call (ANI failure), No Record Found, data provisioning error, etc.

3.1 Carrier/Aggregator Configurations

Three (3) carrier/aggregator to selective router interconnection configurations are described below to help depict the architecture associated with a common trunk group. In these examples, aggregator is a network entity that takes calls of multiple traffic types or calls from multiple carriers and combines them on a trunk group to the selective router. A carrier may provide aggregation functions for their own network, or an entity can provide aggregator services for their clients.

3.1.1 Carrier using dedicated service specific trunks to a selective router

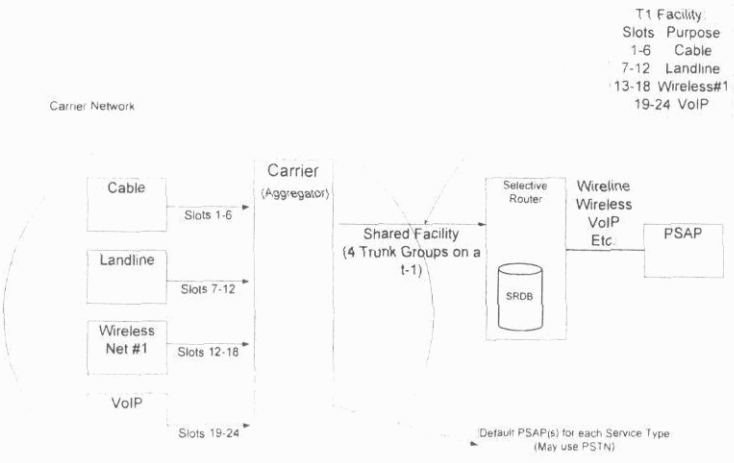
Current carrier to selective router interconnection typically consists of, at a *minimum*, one trunk group to a selective router from each switch that requires access to the PSAPs that are homed to that selective router. Typically, a single traffic type is carried on this dedicated trunk group. Traffic carrying similar service type calls from multiple switches may be combined by the originating carrier.



Carriers Using Dedicated Service Specific Trunks to a Selective Router

3.1.2 Carrier/Aggregator grooming traffic onto multiple trunk groups on a single digital facility

Originating carriers may engage in business arrangements with an aggregator to use a shared digital facility to interconnect to a selective router. In this case, the aggregator can assign multiple distinct trunk groups on the same digital facility on behalf of the originating carrier. The digital facility may contain calls from different traffic types and calls may be routed to different PSAPs, if the PSAPs are homed to the same selective router. The key here is that these are distinct trunk groups on the same digital facility.



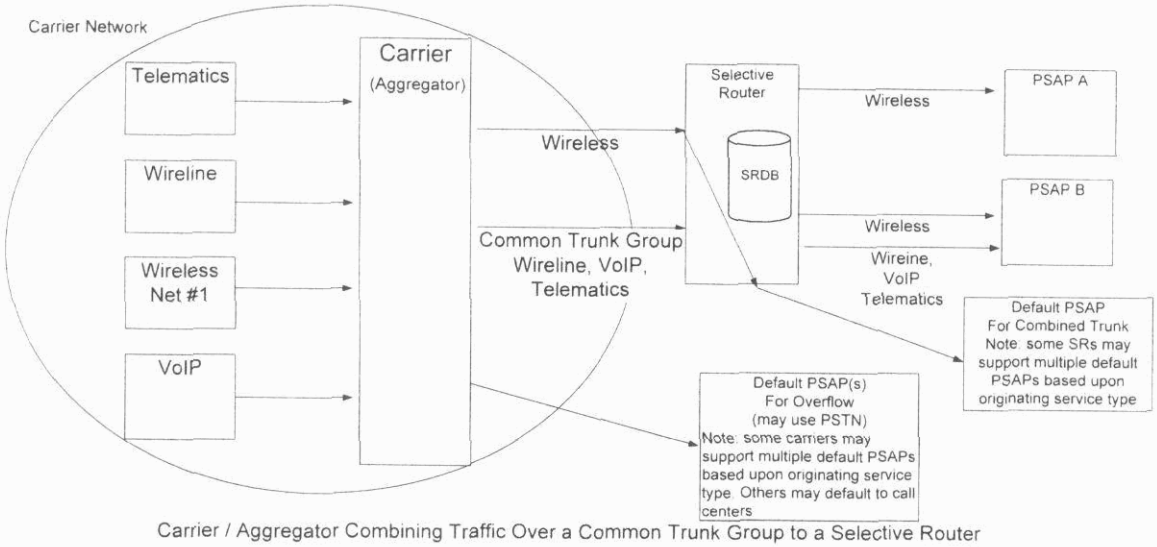
Carrier / Aggregator Grooming Traffic to Share a T1 to a Selective Router

3.1.3 Originating Carrier/Aggregator combining traffic to a common trunk group to a selective router

Originating carriers may engage in business arrangements with an aggregator(s) to route calls over their network and combine traffic on a common trunk group that connects to the selective router. In this case, the originating carriers deliver their calls to the aggregator and the aggregator uses its peering network to route the calls to the selective router via a common trunk group. An aggregator may combine traffic of various service types onto a common trunk group. An originating network service provider may use multiple aggregators and an aggregator may provide service to multiple originating carriers. Originating carriers may be different entities from aggregators and in some cases the originating carrier may have their own aggregator and provide a similar interconnection to the selective router. An example of this is originating carriers that are introducing Fixed Mobile Convergence (FMC) services that offer multiple service types within their service footprint. The common attribute here is that all of the traffic from multiple service types on the same trunk group will be directed to the appropriate PSAP via the selective router. This is the true definition of "common" trunk group as used throughout this TID.

The diagram below depicts one possible configuration. There are numerous other configurations currently in use that have been implemented or that are being proposed in the industry. This figure shows multiple carriers using a single aggregator to route calls to the PSAP. The originating carrier, e.g. telematics, may deliver its 9-1-1 calls to a point of presence of the aggregator. The aggregator uses its peering network to route the call to the selective router. In the figure, service types of wireless, wireline, VoIP and telematics are combined on a common trunk.

In the figure PSAP A only supports wireless calls while PSAP B supports all service types. Separate trunks for wireless are shown to PSAP B, however they could be combined such that all service types route across a single trunk group (e.g. CAMA trunks). Alternate PSAPs, not shown in the diagram, may receive calls when calls cannot be delivered to the PSAP (e.g. due to trunks busy). Alternate routing strategies are assigned in the selective router and are associated with the trunk group to the PSAP. Default PSAPs may be assigned to receive calls in the event that there is not sufficient information to determine the Primary PSAP. Based upon local agreements, the aggregator may have default routing strategies to deliver calls that cannot be properly routed to a default PSAP. The more likely scenario is that the originating carrier has agreements with the aggregator to deliver those calls to a call center to triage the calls. Once a call gets to the selective router the 9-1-1 Authority and the selective router operator may have agreements as to how to handle calls that cannot be delivered to the Primary PSAP. There may be a default PSAP assigned and the selective router may use the ingress trunk group, or other means, to route the call to the default PSAP.

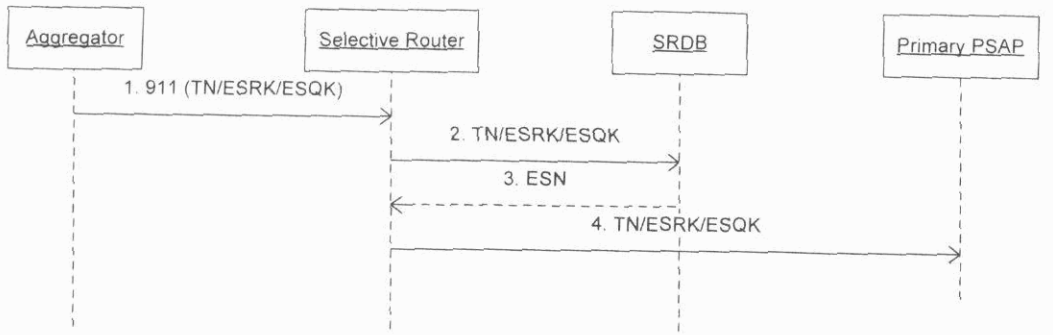


Carrier / Aggregator Combining Traffic Over a Common Trunk Group to a Selective Router

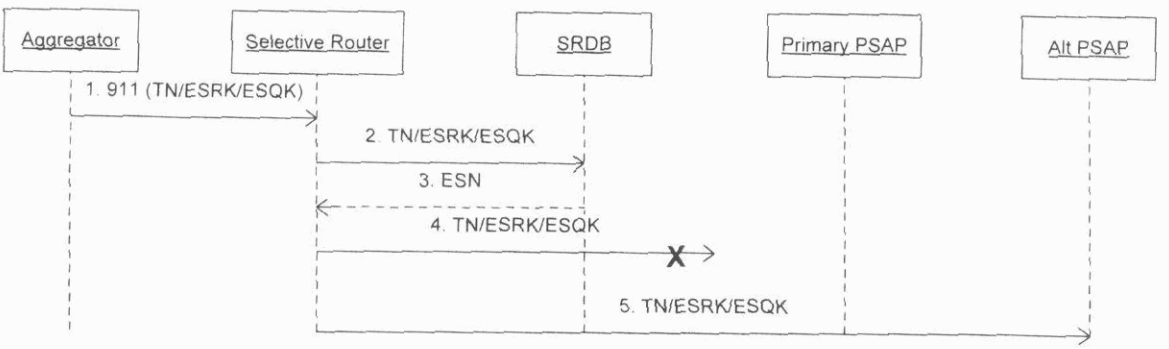
3.2 Normal Call Flow Scenarios Today

Today, emergency calls are predominantly selectively routed. That is, routed to the PSAP based on ANI/pANI and information in the Selective Router Database (SRDB). Further information to facilitate dispatch and call management is provided with the ALI information that is delivered to the PSAP. Selective routing of the specific call type can be performed by using different pANI ranges for different service types. If the call cannot be delivered to the Primary PSAP because all trunks are busy it may be alternate routed. If the Primary PSAP cannot be determined the selective router may route the call to a default PSAP.

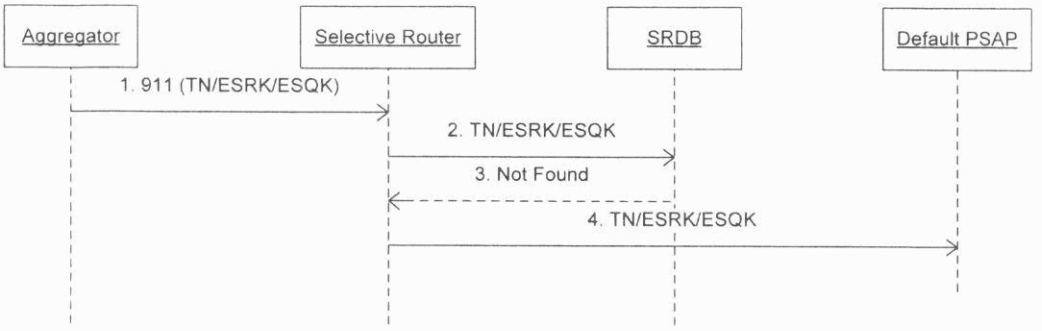
The following figure illustrates the normal call flow where the call is selectively routed and delivered to the Primary PSAP. The 9-1-1 call is routed from the aggregator (or originating carrier) to the selective router passing the ANI/pANI (TN/ESRK/ESQK) (1). The selective router queries the SRDB to obtain routing instructions (2) and the SRDB returns the ESN (3). The selective router delivers the call to the PSAP passing the ANI/pANI (TN/ESRK/ESQK) (4).



The following figure illustrates the scenario where a call cannot be delivered to the PSAP due to the fact that there are no trunks available (or other similar reasons). The 9-1-1 call is routed from the aggregator (or originating carrier) to the selective router passing the ANI/pANI (TN/ESRK/ESQK) (1). The selective router queries the SRDB to obtain routing instructions (2) and the SRDB returns the ESN (3). The selective router attempts to deliver the call to the Primary PSAP, but is unable to do so (4). The selective router determines its alternate routing strategies and delivers the call to the alternate PSAP passing the ANI/pANI (TN/ESRK/ESQK) (5).



The following figure illustrates one scenario where the selective router cannot determine the Primary PSAP and has to deliver it to a default PSAP. The 9-1-1 call is routed from the aggregator (or originating carrier) to the selective router passing the ANI/pANI (TN/ESRK/ESQK) (1). The selective router queries the SRDB to obtain routing instructions (2) and the SRDB is unable to associate the ANI/pANI (TN/ESRK/ESQK) with an ESN and return it to the selective router (3). The selective router uses default routing strategies to deliver the call to the default PSAP passing the ANI/pANI (TN/ESRK/ESQK) (4).



3.3 Impacts to Entities

3.3.1 PSAP Impact

Today, in the legacy TDM network interconnection architecture, an originating carrier typically interconnects to an E9-1-1 service provider's selective router using a trunk group that only carries calls associated with one service type (i.e. wireline, wireless, or VoIP). In the E9-1-1 PSAP network today, some PSAPs may only take calls for a subset of service types. Typically, the designation of a default PSAP at the SR is determined by several factors including the service type that is carried by the trunk group into the SR. In addition, at the SR only one PSAP may be designated for default routing (i.e. missing information in the call set up message or missing SRDB entry) and a different single PSAP could be designated at the SR for overflow routing.

When shared trunk groups are deployed, the multiple service types that are carried by the trunk group must match the capabilities of the designated alternate and default PSAPs. These considerations need to be addressed during service introduction and as part of business agreements between the network entities involved. For example, some PSAPs are designated for wireless and others are designated to receive all service types. In some instances, a designated default PSAP and overflow PSAP may be the same.

When multiple types of service are combined on a common trunk group, best practices traffic engineering should be used to match trunk group assignments to expected load. Realizing that no network can be designed for the severe overload scenarios, the aggregator may utilize a congestion control methodology in cooperation with the E9-1-1 service provider and the associated PSAP. Trunks that accommodate calls from all service types should be engineered so as to not render the trunk inaccessible to subsequent calls originating from other service types. In addition, PSAPs should have the ability to traffic engineer interconnection if they wish to segregate traffic types from the selective router to their PSAP. The capability and capacity of overflow routing to a default PSAP from the carrier or aggregator network may help mitigate congestion that can occur from a single event. See section 5.1 for an example of using trunk design to maintain routing in the event of overload due to a single event.

3.3.2 Originating Carrier/Aggregator Impact

Where permitted, a carrier might choose to utilize gateway architecture to combine calls from multiple service types onto a common trunk group. Thus, a carrier might have multiple sub-tending networks interconnected to the gateway where the gateway combines traffic onto the common trunk group.

When common trunk groups are deployed, in order to assist in testing and/or trouble resolution, the originating carrier/aggregator should be equipped with the capability to isolate and troubleshoot individual outages, call abandonments, nuisance calls, etc. from the different subtending networks.

Often an originating carrier/aggregator may alternate route calls if a trunk to a selective router is not available. Depending upon the carriers' implementation of common trunk groups, they may not be able to alternate route based upon originating call service type, and may only have one alternate route available for the entire common trunk group. In addition, some PSAPs also request overflow only on out-of-service conditions and not all trunks busy condition. The ability of the carrier to determine the reason for overflow and implementing it depends upon the carrier's architecture and the switching equipment that is deployed by the carrier. These alternate routing strategies need to be discussed among the business parties as the services are introduced.

The originating carrier/aggregator may have the capability to default route based upon the service type of the originating call. Some carrier equipment has this capability; or in some cases, business agreements require that these types of calls be routed to a call center for processing.

The use of an aggregator does not relieve the originating carrier of its responsibilities; however, often the aggregator manages these relationships for the originating carrier. Based on local conditions, or regulatory climate, the aggregator may need to or be expected to identify all their carriers and service types to the E9-1-1 Authority as the services are introduced.

If a common trunk group is utilized, activities associated with re-homing and re-configuration (e.g., moving from one 9-1-1 selective router to another, migrating from one switch to another, etc.), must be managed between the aggregator and the selective router provider. Waivers / releases from all impacted parties may be required when multiple service types are being carried on one common trunk group. Generally the aggregator manages these on behalf of the originating carrier.

When multiple types of service are combined on a common trunk group, the aggregator must manage their trunk selection and congestion control methodology based upon industry best practices for network engineering. For example, an event might consume all resources on a common trunk group between the originating carrier/aggregator network and the SR due to the generation of multiple calls at a single time, which could block traffic from other providers' customers from reaching the selective router. For these conditions, the aggregator may consider how to throttle or control traffic if calls from various traffic types are competing for the limited trunks that are going to the selective router over a common trunk group. The aggregator may utilize a congestion control methodology in association with the E9-1-1 service provider and the associated PSAP such that common trunks can accommodate calls from all service types, so that a single event does not render the trunk inaccessible to subsequent calls originating from other service types. The capability and capacity of routing to a default PSAP or call center from the carriers' or aggregators' network can provide an alternate route to a PSAP in the event that calls cannot be carried on its' primary route

selection. See Section 5.1 for an example on how trunk design can reduce the possibility of congestion and how trunk design can mitigate blocking from a single event consuming all available capacity.

The trunk group should be sized using sound traffic engineering principles. The designated overflow strategy may use alternate trunks to a selective router, a designated alternate PSAP or a call center that is accessible from the carrier's network and should be capable of handling traffic from all applicable traffic types.

3.3.3 Selective Router Impact

In order to effectively maintain and troubleshoot systems, a selective router operator should be able to work with the originating carrier/aggregator to trouble shoot problems and to easily identify and isolate network issues. Utilizing a common trunk group means that the selective router operator must work with the originating carrier/aggregator to identify network issues on trunks where multiple service types are carried. For example, if a selective router provider determined that they may need to take a trunk group out of service (for example, a PSAP reports that they are receiving an inordinate number of misdialed or harassing 911 calls traced to one of the service type coming in over the aggregator's trunks), it would have to work closely with the originating carrier/aggregator since doing so would impact other potential live traffic from other than the provider originating the trouble calls. Typically, trunks are not taken out of service to determine the root cause of service anomalies. If common trunks are used, it is important to note that since multiple types of calls are carried on the trunk, placing this trunk out of service will have a larger impact on the customer base that attempts to place emergency calls.

3.3.4 Business Impacts

The originating carrier or the aggregator may, in some cases, be required to understand and supply their traffic distribution (number of calls, minutes used, etc) by service type. Since a common trunk group may be used by all traffic types, simply looking at trunk utilization statistics may not provide the information that is required by the carrier or aggregator. Other logging mechanisms may be used to provide this information.

If a carrier or aggregator wishes to reconfigure their network to utilize common trunk groups, they may have termination liabilities associated with their current network configuration that economically prohibits them from re-architecting their network for maximum efficiency.

Congestion control, trouble isolation, alternate routing may be managed based upon business agreements among the originating network providers, 911 service providers and PSAPs. E9-1-1 trunk provisioning between an aggregator and a Selective Router is based upon the traffic engineering analysis among the aggregator and its originating network partners.

Grade of Service (GOS) accountability for the E9-1-1 network is the responsibility of all parties – the originating network, the transport network, the switching network, and the call receiver. In the event that a shared trunk is implemented, the carrier/aggregator holds a major stake in the implementation since they will integrate traffic from all service types onto the common trunk and deliver it to the E9-1-1 service providers' selective router. In both common trunk implementations

and dedicated service types trunks, the carrier/aggregator is responsible for the provisioning, sizing, and congestion control methodology on the TDM trunk between the carrier/aggregator network and the SR. Both the E9-1-1 service provider and the PSAP are responsible for maintaining the GOS for their portion of the network from SRs to the PSAP.

3.4 Congestion Control, Default Routing, Diversity, and Redundancy – Impacts of the use of Shared Trunk Groups.

Congestion control can be implemented using best practices network traffic engineering and recognizing responsibilities of the originating network service provider, aggregator, selective router operator, and PSAP administrator.

Default routing is different than congestion control. Default routing is an error situation and may be defined as not having the ANI (ANI failure) to route the call or not having the routing databases populated with routing information, or the originating carrier sending the call to the incorrect selective router. In today's reliable networks, ANI failure is a minimal issue (due to the use of SS7 signaling), SRDB quality is being resolved through effective database management practices, and work between providers is being done to assist in delivering calls to the proper selective router.

In the originating network, the carrier or the aggregator can provide facility diversity and redundancy to the selective router based upon sound engineering principles (i.e. diverse facilities, alternate routing to another SR, etc). If the selective router operator implements a dual tandem configuration, calls can be directed to a secondary or alternate selective router that will route the call to the PSAP. The alternate selective router must accommodate calls from the aggregator or carrier and also handle overflow and the necessary default routing.

Diversity and redundancy from the selective router to the PSAP is accommodated by the E9-1-1 service provider. Depending upon the capabilities of each PSAP regarding call processing, the network interconnection architecture between the SRs and the PSAPs, and the capabilities of the SR will determine how redundancy and diversity is implemented.

3.5 Introduction of New Services that may use Common Trunk Groups

There are emerging services that require access to emergency services, but their business cases may not support the build out of dedicated trunks to the selective router. This section provides an overview of those emerging services.

Telematics services started offering access to emergency services when the user pushed the emergency button on the car service panel. That activated a data, then voice call to the telematics service center. If the call center agent can converse with the occupant, they will ascertain the seriousness of the emergency. If first responders were needed, the call center agent would identify the appropriate PSAP and call the PSAP on its administrative line. The call center agent would give the PSAP sufficient information such that first responders could be dispatched. This is an inefficient method to dispatch emergency services since verbal communication is required to ascertain the location of the occupant. The evolution of this service is to route telematics calls as native 9-1-1 calls and deliver the location with the ALI query. This allows the PSAP to use normal call handling and dispatch processes to address the incident. Since telematics providers offer a nationwide service it is

impractical for them to build out trunks to each selective router. A cost effective procedure is to route these calls through an aggregator and have that aggregator deliver the call to the selective router across common trunks using the same mechanism as VoIP services.

Satellite carriers are also emerging and require access to emergency services. These carriers are introducing services that deploy GPS-enabled handsets that have the ability to provide the location of the caller. The first services required the user to dial 9-1-1 and those calls were routed to a call center similar to the way telematics processed the emergency call. The call agent determined the user's location and called the PSAP on its administrative line. The evolution of this service is to route satellite calls as native 9-1-1 calls and deliver the location with the ALI query. This allows the PSAP to use normal call handling and dispatch processes to address the incident. Since satellite providers offer a national/global service it is impractical for them to build out trunks to each selective router. A cost effective procedure is to route these calls to an aggregator and have that aggregator deliver the call to the selective router across common trunks using the same mechanism as VoIP services.

Another example of an emerging service is carriers that are introducing Fixed Mobile Convergence. These carriers may offer traditional wireless services and a VoIP-like service across their footprint.

If emerging services are required to continue to deliver emergency calls to the administrative number of the PSAP, then the PSAP will not be able to utilize the efficiencies that come with the use of the E9-1-1 environment to work the emergency.

The salient point to these examples is that in order to allow more users access to public safety and enhance network cost efficiencies, processes and procedures that allow call delivery over common trunk groups must be accepted by the industry and implemented.

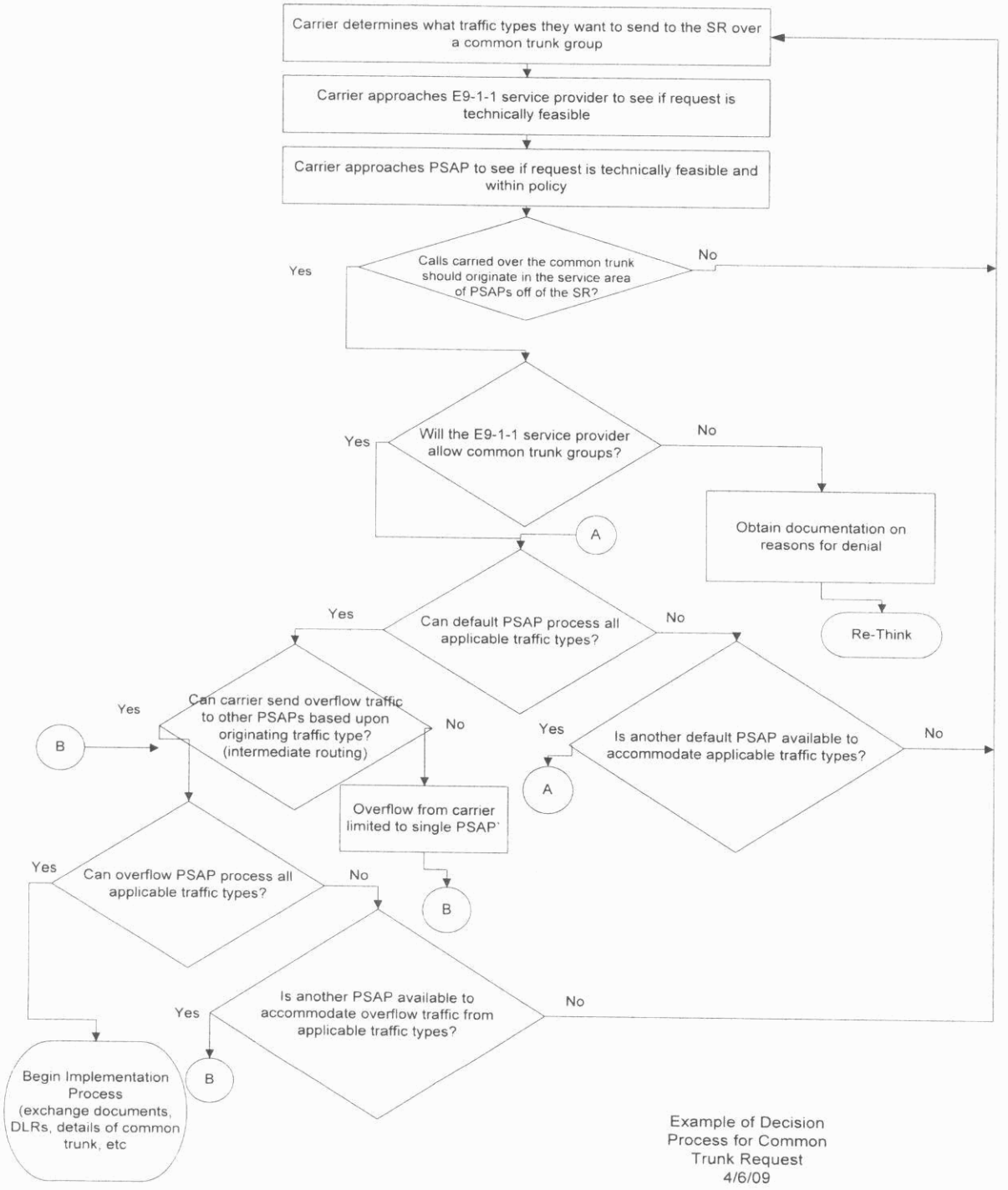
3.6 Decision Process to Address Anomalies

As discussed previously, default routing is an anomaly in call processing caused by the absence of ANI in the call flow or an error in the routing database. The following flowchart only applies for this anomaly when the PSAP requires different treatment (i.e. default routing) based upon different service types. The flowchart below represents an example of the decision process used by the parties in grouping and assessing the impact of default routing. This example considers default and overflow routing as conditions in the decision process. The decision flow and decision criteria will vary from E9-1-1 service provider to provider as well as locale to locale. This example shows what may be considered in honoring the request.

The analysis of the utilization of a shared trunk group for a carrier may be based upon:

a. Capabilities and policy at the PSAP level
b. Capabilities and policy at the E9-1-1 service provider level
c. Feedback from the 911 Authority
d. Hardware and default routing capabilities of the SR
e. Hardware and routing capabilities of the carriers' switching equipment
f. Capabilities of the Default PSAP
g. Capabilities of the Overflow PSAP

i. In the case of default and overflow PSAPs, alternate overflow or default PSAPs may be selected to accommodate the use of common trunk groups



Example of Decision Process for Common Trunk Request
4/6/09

4 Recommended Reading and References

NENA 00-001, Master Glossary of 9-1-1 Terminology

NENA Standard 03-006 titled "NENA Standards for E9-1-1 Call Congestion Management"

5 Exhibits

5.1 Example of controlling overflows from carrier network to selective router over common trunk group.

This example shows how trunk groups and route selection can be used to improve the reliability of call delivery into a selective router. This may be considered a form of congestion control, although it is more appropriate to classify it as sound traffic engineering principles to mitigate call overflow when a single event from a single service type overwhelms a network.

Trunk Groups 1 and 2 originate and terminate at the same location. But they are distinct trunk groups.

Total "common" trunk size is (members of trunk 1 group) + (members of trunk group 2)

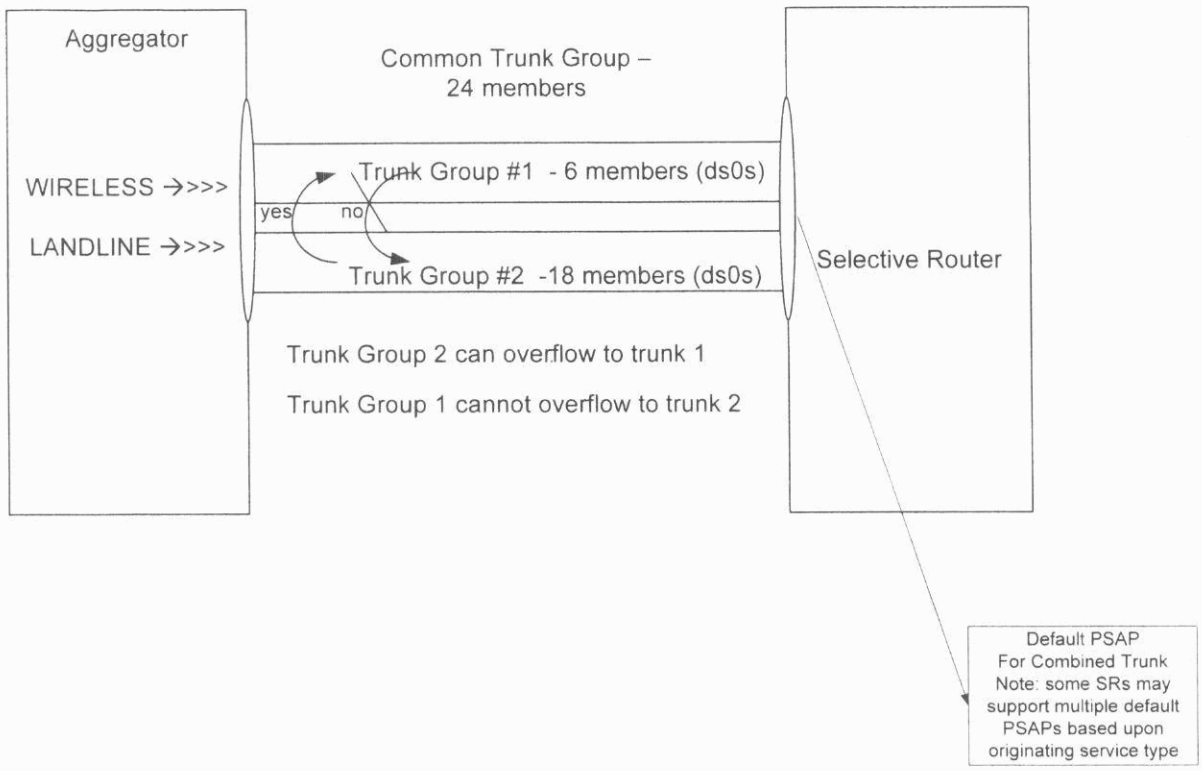
For example,

Trunk Group 2 has 18 available members
Trunk Group 1 has 6 available members
Common trunk size is 24 members

Through route selection, trunk group 2 can overflow to trunk group 1, but trunk group 1 cannot overflow to trunk group 2.

Type of service routing segments traffic as follows:
Wireline originations point to trunk 2
Wireless originations point to trunk 1

Trunk group 1 is sized for busy hour load of wireless (or largest user based upon call attempts per second)



If there is a highway emergency, trunk group 1 of the common trunk group may become congested and may not accept additional mobile calls. But trunk group 2 still has capacity to accept new originations from the aggregator from their wireline (non mobile) customers.

In the event of a wireline emergency, all 24 members would be used by wireline originations.