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AT&T CORP
Form 8-K
July 24, 2003

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 8-K

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

Date of Report: July 24, 2003

AT&T CORP.
(Exact Name of Registrant as Specified in Charter)

New York

(State or Other Jurisdiction of Incorporation)

1-1105
(Commission File Number)

13-4924710
(IRS Employer Identification No.)

One AT&T Way
Bedminster, New Jersey
(Address of Principal Executive Offices)

07921
(Zip Code)

Registrant's telephone number, including area code: (908) 221-2000

Not Applicable

(Former Name or Former Address, If Changed Since Last Report)

A New York
Corporation

Commission File
No. 1-1105

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

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS.

(c) EXHIBITS

Exhibit 99 - Press release dated July 24, 2003.

ITEM 9. REGULATION FD DISCLOSURE.

On July 24, 2003, AT&T Corp. issued a press release announcing financial results for the second quarter and year-to-date 2003. A copy of the press release is attached as Exhibit 99.

This information furnished under "Item 9. Regulation FD Disclosure" is intended

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to be furnished under said Item 9 and also under "Item 12. Results of Operations and Financial Condition" in accordance with SEC Release No. 33-8216.

The information in this Form 8-K and the Exhibit attached hereto shall not be deemed "filed" for purposes of Section 18 of the Securities Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.

Exhibit 99

[AT&T Logo Omitted]

NEWS RELEASE

FOR RELEASE WEDNESDAY, JULY 24, 2003

AT&T Announces Second Quarter 2003 Earnings;
Board of Directors States its Intention to Increase the Dividend by 27%
and Authorizes the Repurchase of up to \$2 Billion in Debt

- o Second quarter earnings per diluted share from continuing operations of \$0.68
- o Consolidated revenue of \$8.8 billion
- o Operating income of \$1.0 billion

BEDMINSTER, N.J. -- AT&T (NYSE: T) today reported income from continuing operations of \$536 million, or earnings per diluted share of \$0.68, for the second quarter of 2003. The company's current quarter income from continuing operations compares to income of \$603 million, or earnings per diluted share of \$0.80, in the second quarter of 2002. AT&T's overall net income of \$536 million, compares to a loss of \$12.8 billion for the second quarter of 2002, which included a significant loss from discontinued operations.

"AT&T's second quarter results reflect our relentless focus on managing costs and driving share gains in key areas of our business despite ongoing economic weakness and increased competitive pressures," said AT&T Chairman and Chief Executive Officer David W. Dorman. "We continue to leverage our industry-leading scale and global networking expertise to widen our competitive advantages and position AT&T for the eventual economic turnaround."

AT&T reported second quarter 2003 consolidated revenue of \$8.8 billion, which included \$6.4 billion from AT&T Business Services and \$2.4 billion from AT&T Consumer Services. This represents a consolidated revenue decline of 8.2 percent versus the second quarter of 2002, primarily due to continued declines in long distance (LD) voice revenue, partially offset by the continued success of AT&T Consumer Services' bundled local and LD offering, as well as growth in several key markets of AT&T Business Services.

AT&T's second quarter 2003 operating income totaled \$1.0 billion, resulting in a consolidated operating margin of 11.7 percent. AT&T Business Services posted operating income of \$597 million, yielding a margin of 9.3 percent, while AT&T Consumer Services generated operating income of \$489 million, yielding a margin of 20.6 percent.

AT&T also announced that its Board of Directors has stated its intention to increase the company's quarterly per share cash dividend by \$0.05, to \$0.2375, beginning with AT&T's third quarter dividend payable in November. Additionally, the company announced that the Board has authorized management to repurchase up

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to \$2 billion of debt, subject to market conditions and other relevant considerations.

"AT&T continues to generate strong earnings and cash flow while carefully managing its costs and capital spending," said AT&T Chief Financial Officer Thomas W. Horton. "Today's announcement of a change in dividend policy, coupled with our plan to repurchase additional debt, demonstrates our ongoing commitment to returning value to our investors while maintaining our overall financial flexibility and balance sheet strength."

AT&T UNIT HIGHLIGHTS

AT&T Business Services

- o Revenue was \$6.4 billion, a decline of 5.0 percent from the prior year second quarter. The unit's revenue performance reflects pricing pressure, weakness in retail demand and overall telecommunications spending, partially offset by strong growth in local voice, wholesale LD voice and IP&E-services revenue.
- o Long distance voice revenue declined 10.9 percent on a quarter-over-quarter basis, driven by continued pricing pressure, partially offset by volume growth. Volumes grew approximately 12 percent on a quarter-over-quarter basis, driven by strong wholesale growth, which more than offset the decline in retail volumes.
- o Local voice revenue grew approximately 39 percent from the prior year second quarter. Local access lines totaled over 4.2 million at the end of the current period, representing an increase of nearly 135,000 lines from the first quarter of 2003.
- o IP&E-services revenue grew 13.1 percent, while data services revenue declined 4.1 percent from the prior year quarter.
- o The managed component of total data services and IP&E-services revenue grew more than 6 percent from the prior year second quarter and now comprises approximately 31 percent of this revenue total.
- o Operating income totaled \$597 million. Operating margin was 9.3 percent, compared with 12.7 percent in the prior year second quarter. The decline is primarily due to pricing pressure, weak retail demand resulting from a soft economy, and a mix shift from higher margin retail LD voice service to lower margin wholesale, data and IP&E services.

AT&T Consumer Services

- o Revenue was \$2.4 billion, a decline of 18.4 percent versus the prior year second quarter, driven by the continued impact of competition, wireless and Internet substitution, and customer migration to lower priced products and calling plans. The revenue decline was partially offset by growth in bundled revenue, which nearly doubled compared to the prior year second quarter and now represents over 19 percent of total AT&T Consumer Services' revenue.
- o Operating income totaled \$489 million, yielding an operating margin of 20.6 percent, compared with 27.0 percent in the prior year second quarter. The year-over-year decline reflects the impact of substitution, mix shift and competition.

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- o At the end of the second quarter, AT&T Consumer provided local service to more than 3.1 million customers, an increase of more than 100 percent from the prior year second quarter. During the current reporting period, AT&T began offering service in the Indiana, Maryland, Virginia and Massachusetts. As of June 30, 2003, local service was available in 12 markets. The company expects to offer local service in as many as 22 markets by the end of 2003.

OTHER CONSOLIDATED FINANCIAL HIGHLIGHTS

- o Second quarter 2003 net income of \$536 million included a restructuring charge of \$66 million related to separation costs associated with the realignment of the company's management.
- o AT&T realized \$25 million of equity earnings, net of income taxes, during the second quarter of 2003 primarily due to the favorable settlement of Concert related items.
- o Other income in the second quarter primarily consisted of investment-related income, gains from sales of our investment in Time Warner Telecom and the mark-to-market impacts of financial instruments.
- o AT&T ended the quarter with net debt of \$10.8 billion. Net debt is defined as total debt of \$17.5 billion less cash of \$5.3 billion, restricted cash of \$0.5 billion and net foreign debt fluctuations of \$1.0 billion.
- o Free cash flow was \$1.4 billion for the second quarter. Free cash flow is defined as cash flow from operations of \$2.1 billion less cash used for capital expenditures of \$0.8 billion.
- o Capital expenditures for the second quarter were \$790 million.
- o The company stated that it had completed nearly two-thirds of the employee separations that it had taken charges for in 2002 by the end of the 2003 second quarter, and that it will continue to drive additional cost efficiencies going forward. This is expected to result in a charge similar to or slightly higher than the current quarter charge during the second half of 2003, the majority of which could occur in the third quarter of 2003.
- o The combined effect of AT&T's previously announced employee separations and its ongoing management redesign effort will result in up to a 9% reduction in the company's 2003 year-end headcount versus year-end 2002 levels, yielding an annualized cost savings of more than \$500 million in the first full year after completion of these efforts.
- o The Board of Directors has stated its intention to increase the quarterly dividend by \$0.05 per share, starting with the third quarter dividend payable in November 2003. The actual declaration of the third quarter dividend has not yet taken place and will be subject to the usual review of the financial condition of the Company and other relevant factors by the Board of Directors at the time of the declaration.
- o The Board of Directors has authorized the repurchase of up to \$2 billion in debt. The timing and method of any such repurchases have not yet been determined and will depend on various market conditions and all other relevant factors and may take the form of calls, tender

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offers or open market purchases.

DEFINITIONS and NOTES

AT&T Business Services

LD Voice - includes all of AT&T's domestic and international LD revenue, including Intralata toll when purchased as part of an LD calling plan.

Local Voice - includes all local calling and feature revenue, Intralata toll when purchased as part of a local calling plan, as well as Inter-carrier local revenue.

Data Services- includes bandwidth services (dedicated private line services through high-capacity optical transport), frame relay and asynchronous transfer mode (ATM) revenue for LD and local, as well as revenue for managed data services.

Internet Protocol & Enhanced Services (IP&E-services) - includes all services that ride on the IP common backbone or that use IP technology, including managed IP services, as well as application services (e.g., hosting, security).

Outsourcing, Professional Services & Other - includes complex bundled solutions primarily in the wide area/local area network space, AT&T's professional services revenue associated with the company's federal government customers, as well as all other Business Services revenue (and eliminations) not previously defined. Also includes revenue from AT&T Latin America prior to the first quarter of 2003.

Data, IP&E-Services - Percent Managed - managed services refers to AT&T's management of a client's network or network and applications including applications that extend to the customer premise equipment.

Data, IP&E-Services - Percent International - a data service that either originates or terminates outside of the United States, or an IP&E-service installed or wholly delivered outside the United States.

AT&T Consumer Services

Bundled Services - includes any customer with a local relationship as a starting point, and all other AT&T subscription-based voice products provided to that customer.

Standalone LD, Transactional & Other Services - includes any customer with solely a long distance relationship, non-voice products, or a non subscription-based relationship.

Local Customers - residential customers who subscribe to AT&T local service.

Bundled Households - number of households in targeted markets where there is general availability of AT&T local service.

Other Definitions and Notes

Restricted cash - \$0.5 billion of cash that collateralizes a portion of private debt and is included in "other assets" on the balance sheet.

Foreign currency fluctuations - represents mark-to-market adjustments, net of cash collateral collected, that increased the debt balance by approximately \$1.0 billion at June 30, 2003, on non-U.S. denominated debt of about \$4.0 billion. AT&T has entered into foreign exchange hedges that substantially offset the fluctuations in the debt balance. The offsetting mark-to-market adjustments of the hedges are included in "other assets" on the balance sheet.

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Income Statement

	Three Month June 2003
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REVENUE	
AT&T Business Services	\$ 6,406
AT&T Consumer Services	2,376
Corporate and Other	13
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Total Revenue	8,795
OPERATING EXPENSES	
Access and other connection	2,708
Costs of services and products	1,958
Selling, general and administrative	1,837
Depreciation and amortization	1,197
Net restructuring and other charges	66
	<hr/>
Total operating expenses	7,766
Operating Income	1,029
Other income (expense), net	86
Interest (expense)	(296)
	<hr/>
Income from continuing operations before income taxes, minority interest income, and net earnings (losses) related to equity investments	819
(Provision) for income taxes	(308)
Minority interest income	-
Net income/(losses) related to equity investments	25
	<hr/>
Income from continuing operations	536
(Loss) from discontinued operations - net of taxes	-
	<hr/>
Net income (loss)	\$ 536
	<hr/>
Weighted-average common shares (millions)	787
Weighted-average common shares and potential common shares (millions)	787
PER BASIC SHARE:	
Earnings from continuing operations	\$ 0.68
(Loss) from discontinued operations	-
	<hr/>
Earnings (loss) per basic share	\$ 0.68
	<hr/>
PER DILUTED SHARE:	
Earnings from continuing operations	\$ 0.68
(Loss) from discontinued operations	-
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Earnings (loss) per diluted share	\$ 0.68
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Dividends declared per share

\$ 0.1875

Quarterly Income Statements

	Dollars in millions (except per share amounts)			
	2Q03	1Q03	4Q02	3Q02
REVENUE				
AT&T Business Services	\$ 6,406	\$ 6,437	\$ 6,588	\$ 6,700
AT&T Consumer Services	2,376	2,536	2,736	2,794
Corporate and Other	13	13	(34)	(85)
Total revenue	8,795	8,986	9,290	9,409
OPERATING EXPENSES				
Access and other connection	2,708	2,698	2,576	2,679
Costs of services and products	1,958	2,011	2,197	2,066
Selling, general and administrative	1,837	1,921	2,077	2,032
Depreciation and amortization	1,197	1,186	1,257	1,243
Net restructuring and other charges	66	4	1,463	(26)
Total operating expenses	7,766	7,820	9,570	7,994
Operating income (loss)	1,029	1,166	(280)	1,415
Other income (expense), net	86	10	208	(180)
Interest (expense)	(296)	(332)	(361)	(355)
Income (loss) from continuing operations before income taxes, minority interest income and net earnings (losses) related to, equity investments	819	844	(433)	880
(Provision) for income taxes	(308)	(297)	(225)	(370)
Minority interest income	-	1	33	28
Net (losses) earnings related to equity investments	25	(19)	14	(13)
Income (loss) from continuing operations	536	529	(611)	525
(Loss) from discontinued operations - net of taxes	-	-	(197)	(318)
Gain on disposition of discontinued operations - net of taxes	-	-	1,324	-
Income (loss) before cumulative effect of accounting changes	536	529	516	207
Cumulative effect of accounting changes, net of taxes	-	42	-	-
Net income (loss)	\$ 536	\$ 571	\$ 516	\$ 207
Weighted-average common shares (millions)	787	784	776	770
Weighted-average common shares and potential common shares (millions)	787	785	776	788
PER BASIC SHARE:				
Earnings (loss) from continuing operations	\$ 0.68	\$ 0.67	\$ (0.79)	\$ 0.68
(Loss) from discontinued operations	-	-	(0.26)	(0.41)
Gain on disposition of discontinued operations	-	-	1.71	-
Cumulative effect of accounting changes	-	0.06	-	-
Earnings (loss) per basic share	\$ 0.68	\$ 0.73	\$ 0.66	\$ 0.27
PER DILUTED SHARE:				
Earnings (loss) from continuing operations	\$ 0.68	\$ 0.67	\$ (0.79)	\$ 0.67
(Loss) from discontinued operations	-	-	(0.26)	(0.41)
Gain on disposition of discontinued operations	-	-	1.71	-
Cumulative effect of accounting changes	-	0.06	-	-
Earnings (loss) per diluted share	\$ 0.68	\$ 0.73	\$ 0.66	\$ 0.26

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Historical Segment Data

	2Q03	1Q03	4Q02	3Q02
LD Voice	\$ 2,873	\$ 2,961	\$ 2,853	\$ 3,000
Local Voice(1)	384	335	336	336
Total Voice	3,257	3,296	3,189	3,336
Data Services	1,993	2,000	2,079	2,000
IP&E-Services	459	445	442	442
Total Data Services, IP&E-Services	2,452	2,445	2,521	2,442
Outsourcing, Professional Services & Other	697	696	878	878
Total Revenue	6,406	6,437	6,588	6,588
Operating Income (Loss) (2)	597	600	(612)	(612)
Operating Margin	9.3%	9.3%	(9.3%)	(9.3%)
Capital Expenditures	763	636	1,297	1,297
Depreciation & Amortization	1,133	1,126	1,173	1,173
Total Data Services, IP&E-Services - % managed	31%	30%	30%	30%
Total Data Services, IP&E-Services - % international	14%	14%	15%	15%
LD Volume Growth - Yr/Yr	12%	12%	7%	7%
LD Volume % Wholesale	47%	45%	42%	42%
Standalone LD, Transactional and Other Services	\$ 1,916	\$ 2,112	\$ 2,375	\$ 2,375
Bundled Services	460	424	361	361
Total Revenue	2,376	2,536	2,736	2,736
Operating Income(3)	489	632	389	389
Operating Margin	20.6%	24.9%	14.2%	14.2%
Capital Expenditures	19	22	32	32
Depreciation & Amortization	36	35	57	57
Local Customers (in thousands)	3,130	2,778	2,423	2,423
Bundled Households (in millions)	40.1	32.2	32.2	32.2
Revenue	\$ 13	\$ 13	\$ (34)	\$ (34)
Operating (Loss) (4)	(57)	(66)	(57)	(57)
Capital Expenditures	8	4	17	17
Depreciation & Amortization	28	25	27	27
Revenue	\$ 8,795	\$ 8,986	\$ 9,290	\$ 9,290
Operating Income (Loss) (5)	1,029	1,166	(280)	(280)
Operating Margin	11.7%	13.0%	(3.0%)	(3.0%)
Capital Expenditures	790	662	1,346	1,346
Depreciation & Amortization	1,197	1,186	1,257	1,257

Balance Sheet

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	June 30, 2003	December 2002
ASSETS		
Cash and cash equivalents	\$ 5,256	\$ 8,01
Accounts receivable, less allowances of \$709 and \$669	4,771	5,28
Deferred income taxes	779	91
Other current assets	1,026	1,69
Total Current Assets	11,832	15,90
Property, plant and equipment, net of accumulated depreciation of \$33,017 and \$31,021	24,831	25,60
Goodwill	4,727	4,62
Other purchased intangible assets, net of accumulated depreciation of \$280 and \$244	530	55
Prepaid pension costs	3,723	3,59
Other assets	4,741	4,98
TOTAL ASSETS	\$50,384	\$55,27
LIABILITIES		
Accounts payable	\$ 3,300	\$ 3,81
Payroll and benefit-related liabilities	963	1,51
Debt maturing within one year	3,915	3,76
Other current liabilities	2,895	2,92
Total Current Liabilities	11,073	12,02
Long-term debt	13,563	18,81
Long-term benefit-related liabilities	4,185	4,00
Deferred income taxes	5,047	4,73
Other long-term liabilities and deferred credits	3,233	3,38
Total Liabilities	37,101	42,96
SHAREOWNERS' EQUITY		
AT&T Common Stock, \$1 par value, authorized 6,000,000,000 shares; issued and outstanding 787,543,059 shares (net of 171,760,068 treasury shares) at June 30, 2003 and 783,037,580 shares (net of 171,801,716 treasury shares) at December 31, 2002	788	78
Additional paid-in capital	27,980	28,16
Accumulated deficit	(15,459)	(16,56)
Accumulated other comprehensive loss	(26)	(6)
Total Shareowners' Equity	13,283	12,31
TOTAL LIABILITIES & SHAREOWNERS' EQUITY	\$ 50,384	\$ 55,27

Note to Financial Media: AT&T executives will discuss the company's performance in a two-way conference call for financial analysts at 8:15 a.m. ET today. Reporters are invited to listen to the call. U.S. callers should dial

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888-276-0010 to access the call. Callers outside the U.S. should dial + 1-612-326-1003.

In addition, Internet rebroadcasts of the call will be available on the AT&T Web site beginning later today. The Web site address is <http://www.att.com/ir>. An audio rebroadcast of the conference call will be available beginning in the afternoon on Thursday, July 24 until midnight on Friday, July 25. To access the replay, please visit <http://www.att.com/ir>, or U.S. callers can dial 800-475-6701, access code 661280. Callers outside the U.S. should dial +1-320-365-3844, access code 661280.

The foregoing, including statements relating to possible future dividends, are "forward-looking statements" which are based on management's beliefs as well as on a number of assumptions concerning future events made by and information currently available to management. Readers are cautioned not to put undue reliance on such forward-looking statements, which are not a guarantee of performance and are subject to a number of uncertainties and other factors, many of which are outside AT&T's control, that could cause actual results to differ materially from such statements. For a more detailed description of the factors that could cause such a difference, please see AT&T's 10-K, 10-Q, 8-K and other filings with the Securities and Exchange Commission. AT&T disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. This information is presented solely to provide additional information to further understand the results of AT&T. The declaration of future dividends is made at the discretion of AT&T's Board of Directors, which will consider AT&T's financial condition and all other relevant factors, and there can be no assurance as to the declaration and amount of future dividends, if any.

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Form 8-K
July 24, 2003

AT&T Corp.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AT&T CORP.

/s/ Robert S. Feit

By: Robert S. Feit
Vice President - Law and Secretary

July 24, 2003