AT&T INC.
Form 10-Q
November 03, 2017

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

FORM 10-Q

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

For the transition period from to

Commission File Number 1-8610

AT&T INC.

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

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

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

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

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

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

If an emerging growth company, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
Yes [ ]
No [ ]

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

At October 31, 2017, there were 6,139 million common shares outstanding.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

AT&T INC.

CONSOLIDATED STATEMENTS OF INCOME

Dollars in millions except per share amounts

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Operating Revenues				
Service	$36,378	$37,272	$109,372	$111,515
Equipment	3,290	3,618	9,498	10,430
Total operating revenues	39,668	40,890	118,870	121,945
Operating Expenses				
Cost of services and sales				
Equipment	4,191	4,455	12,177	13,090
Broadcast, programming and operations	5,284	4,909	15,156	14,239
Other cost of services (exclusive of depreciation and amortization shown separately below)	9,431	9,526	27,714	28,436
Selling, general and administrative	8,317	9,013	24,917	26,363
Depreciation and amortization	6,042	6,579	18,316	19,718
Total operating expenses	33,265	34,482	98,280	101,846
Operating Income	6,403	6,408	20,590	20,099
Other Income (Expense)				
Interest expense	(1,686)	(1,224)	(4,374)	(3,689)
Equity in net income (loss) of affiliates	11	16	(148)	57
Other income (expense) – net	246	(7)	354	154
Total other income (expense)	(1,429)	(1,215)	(4,168)	(3,478)
Income Before Income Taxes	4,974	5,193	16,422	16,621
Income tax expense	1,851	1,775	5,711	5,803
Net Income	3,123	3,418	10,711	10,818
Less: Net Income Attributable to Noncontrolling Interest	(94)	(90)	(298)	(279)
Net Income Attributable to AT&T	$3,029	$3,328	$10,413	$10,539
Basic Earnings Per Share Attributable to AT&T	$0.49	$0.54	$1.69	$1.70
Diluted Earnings Per Share Attributable to AT&T	$0.49	$0.54	$1.69	$1.70
Weighted Average Number of Common Shares Outstanding – Basic (in millions)	6,162	6,168	6,164	6,171
Weighted Average Number of Common Shares Outstanding – with Dilution (in millions)	6,182	6,189	6,184	6,191
Dividends Declared Per Common Share	$0.49	$0.48	$1.47	$1.44

See Notes to Consolidated Financial Statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Net income	$3,123	$3,418	$10,711	$10,818
Other comprehensive income (loss), net of tax:				
Foreign currency:				
Foreign currency translation adjustment (includes $10, $21, $6 and $21 attributable to noncontrolling interest), net of taxes of $74, $(91), $580 and $35	151	(225)	490	(51)
Available-for-sale securities:				
Net unrealized gains (losses), net of taxes of $28, $28, $72 and $15	45	46	128	25
Reclassification adjustment included in net income, net of taxes of $(50), $(3), $(54) and $(3)	(79)	(5)	(86)	(5)
Cash flow hedges:				
Net unrealized gains (losses), net of taxes of $178, $240, $(94) and $99	330	446	(174)	183
Reclassification adjustment included in net income, net of taxes of $5, $5, $15 and $15	10	10	29	29
Defined benefit postretirement plans:				
Net prior service credit arising during period, net of taxes of $0, $0, $594 and $0	-	-	969	-
Amortization of net prior service credit included in net income, net of taxes of $(157), $(131), $(447) and $(393)	(256)	(215)	(731)	(644)
Other comprehensive income (loss)	201	57	625	(463)
Total comprehensive income	3,324	3,475	11,336	10,355
Less: Total comprehensive income attributable to noncontrolling interest	(104)	(111)	(304)	(300)
Total Comprehensive Income Attributable to AT&T	$3,220	$3,364	$11,032	$10,055

See Notes to Consolidated Financial Statements.

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

	September 30, 2017 (Unaudited)	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	$ 48,499	$ 5,788
Accounts receivable - net of allowances for doubtful accounts of $741 and $661	15,876	16,794
Prepaid expenses	1,258	1,555
Other current assets	10,724	14,232
Total current assets	76,357	38,369
Property, plant and equipment	326,240	319,648
Less: accumulated depreciation and amortization	(199,778)	(194,749)
Property, Plant and Equipment – Net	126,462	124,899
Goodwill	105,668	105,207
Licenses	96,071	94,176
Customer Lists and Relationships – Net	11,573	14,243
Other Intangible Assets – Net	7,775	8,441
Investments in Equity Affiliates	1,627	1,674
Other Assets	18,332	16,812
Total Assets	$ 443,865	$ 403,821
Liabilities and Stockholders' Equity		
Current Liabilities		
Debt maturing within one year	$ 8,551	$ 9,832
Accounts payable and accrued liabilities	28,928	31,138
Advanced billing and customer deposits	4,503	4,519
Accrued taxes	2,703	2,079
Dividends payable	3,008	3,008
Total current liabilities	47,693	50,576
Long-Term Debt	154,728	113,681
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	64,381	60,128
Postemployment benefit obligation	31,231	33,578
Other noncurrent liabilities	19,723	21,748
Total deferred credits and other noncurrent liabilities	115,335	115,454
Stockholders' Equity		
Common stock ($1 par value, $14,000,000,000 authorized at September 30, 2017 and December 31, 2016: issued 6,495,231,088 at September 30, 2017 and December 31, 2016)	6,495	6,495
Additional paid-in capital	89,527	89,604
Retained earnings	36,074	34,734
Treasury stock (355,897,357 at September 30, 2017 and 356,237,141 at December 31, 2016, at cost)	(12,716)	(12,659)
Accumulated other comprehensive income	5,580	4,961
Noncontrolling interest	1,149	975
Total stockholders' equity	126,109	124,110

Total Liabilities and Stockholders' Equity	$ 443,865	$ 403,821

See Notes to Consolidated Financial Statements.

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

	Nine months ended September 30,	
	2017	2016
Operating Activities		
Net income	$10,711	$10,818
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,316	19,718
Undistributed loss (earnings) from investments in equity affiliates	171	(22)
Provision for uncollectible accounts	1,216	1,036
Deferred income tax expense	3,254	3,011
Net loss (gain) from sale of investments, net of impairments	(114)	(88)
Actuarial loss (gain) on pension and postretirement benefits	(259)	-
Changes in operating assets and liabilities:		
Accounts receivable	(652)	(1,108)
Other current assets	(106)	1,805
Accounts payable and other accrued liabilities	(1,437)	(1,173)
Equipment installment receivables and related sales	1,116	207
Deferred fulfillment costs	(1,102)	(1,883)
Retirement benefit funding	(420)	(770)
Other - net	(1,420)	(2,349)
Total adjustments	18,563	18,384
Net Cash Provided by Operating Activities	29,274	29,202
Investing Activities		
Capital expenditures:		
Purchase of property and equipment	(15,756)	(15,283)
Interest during construction	(718)	(669)
Acquisitions, net of cash acquired	1,154	(2,922)
Dispositions	56	184
(Purchases) sales of securities, net	(2)	501
Net Cash Used in Investing Activities	(15,266)	(18,189)
Financing Activities		
Issuance of long-term debt	46,761	10,140
Repayment of long-term debt	(10,309)	(10,688)
Purchase of treasury stock	(460)	(444)
Issuance of treasury stock	26	137
Dividends paid	(9,030)	(8,850)
Other	1,715	(534)
Net Cash Provided by (Used in) Financing Activities	28,703	(10,239)
Net increase in cash and cash equivalents	42,711	774
Cash and cash equivalents beginning of year	5,788	5,121
Cash and Cash Equivalents End of Period	$48,499	$5,895
Cash paid during the nine months ended September 30 for:		
Interest	$5,031	$4,430
Income taxes, net of refunds	$1,861	$3,166

See Notes to Consolidated Financial Statements.

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

	September 30, 2017	
	Shares	Amount
Common Stock		
Balance at beginning of year	6,495	$6,495
Issuance of stock	-	-
Balance at end of period	6,495	$6,495
Additional Paid-In Capital		
Balance at beginning of year		$89,604
Issuance of treasury stock		4
Share-based payments		(81)
Balance at end of period		$89,527
Retained Earnings		
Balance at beginning of year		$34,734
Net income attributable to AT&T ($1.69 per diluted share)		10,413
Dividends to stockholders ($1.47 per share)		(9,075)
Other		2
Balance at end of period		$36,074
Treasury Stock		
Balance at beginning of year	(356)	$(12,659)
Repurchase and acquisition of common stock	(14)	(530)
Issuance of treasury stock	14	473
Balance at end of period	(356)	$(12,716)
Accumulated Other Comprehensive Income Attributable to AT&T, net of tax		
Balance at beginning of year		$4,961
Other comprehensive income attributable to AT&T		619
Balance at end of period		$5,580
Noncontrolling Interest		
Balance at beginning of year		$975
Net income attributable to noncontrolling interest		298
Distributions		(270)
Acquisition of noncontrolling interest		140
Translation adjustments attributable to noncontrolling interest, net of taxes		6
Balance at end of period		$1,149
Total Stockholders' Equity at beginning of year		$124,110
Total Stockholders' Equity at end of period		$126,109

See Notes to Consolidated Financial Statements.

AT&T INC.
SEPTEMBER 30, 2017

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

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

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

NOTE 1. PREPARATION OF INTERIM FINANCIAL STATEMENTS

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

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

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

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

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

reporting periods beginning after December 15, 2017. See Note 5 for our components of net periodic benefit cost.

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

AT&T INC.
SEPTEMBER 30, 2017

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

NOTE 2. EARNINGS PER SHARE

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Numerators				
Numerator for basic earnings per share:				
Net Income	$3,123	$3,418	$10,711	$10,818
Less: Net income attributable to noncontrolling interest	(94)	(90)	(298)	(279)
Net Income attributable to AT&T	3,029	3,328	10,413	10,539
Dilutive potential common shares:				
Share-based payment	3	3	9	9
Numerator for diluted earnings per share	$3,032	$3,331	$10,422	$10,548
Denominators (000,000)				
Denominator for basic earnings per share:				
Weighted average number of common shares outstanding	6,162	6,168	6,164	6,171
Dilutive potential common shares:				
Share-based payment (in shares)	20	21	20	20
Denominator for diluted earnings per share	6,182	6,189	6,184	6,191
Basic earnings per share attributable to AT&T	$0.49	$0.54	$1.69	$1.70
Diluted earnings per share attributable to AT&T	$0.49	$0.54	$1.69	$1.70

AT&T INC.
SEPTEMBER 30, 2017

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

NOTE 3. OTHER COMPREHENSIVE INCOME

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

	Foreign Currency Translation Adjustment	Net Unrealized Gains (Losses) on Available-for-Sale Securities	Net Unrealized Gains (Losses) on Cash Flow Hedges	Defined Benefit Postretirement Plans	Accumulated Other Comprehensive Income
Balance as of December 31, 2016	$ (1,995)	$ 541	$ 744	$ 5,671	$ 4,961
Other comprehensive income (loss) before reclassifications	484	128	(174)	969	1,407
Amounts reclassified from accumulated OCI	-	[1] (86)	[1] 29	[2] (731)	[3] (788)
Net other comprehensive income (loss)	484	42	(145)	238	619
Balance as of September 30, 2017	$ (1,511)	$ 583	$ 599	$ 5,909	$ 5,580

	Foreign Currency Translation Adjustment	Net Unrealized Gains (Losses) on Available-for-Sale Securities	Net Unrealized Gains (Losses) on Cash Flow Hedges	Defined Benefit Postretirement Plans	Accumulated Other Comprehensive Income
Balance as of December 31, 2015	$ (1,198)	$ 484	$ 16	$ 6,032	$ 5,334
Other comprehensive income	(72)	25	183	-	136

(loss) before reclassifications					
Amounts reclassified from accumulated OCI	-	(5) [1]	29 [1]	(644) [2]	(620) [3]
Net other comprehensive income (loss)	(72)	20	212	(644)	(484)
Balance as of September 30, 2016	$ (1,270)	$ 504	$ 228	$ 5,388	$ 4,850

[1] (Gains) losses are included in Other income (expense) - net in the consolidated statements of income.

[2] (Gains) losses are included in Interest expense in the consolidated statements of income (see Note 6).

[3] The amortization of prior service credits associated with postretirement benefits, net of amounts capitalized as part of construction labor,
are included in Cost of services and sales and Selling, general and administrative in the consolidated statements of income (see Note 5).

NOTE 4. SEGMENT INFORMATION

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

We also evaluate segment performance based on EBITDA and/or EBITDA margin, which is defined as Segment Contribution excluding equity in net income (loss) of affiliates and depreciation and amortization. We believe EBITDA to be a relevant and useful measurement to our investors as it is part of our internal management reporting and planning processes and it is an important metric that management uses to evaluate segment operating performance. EBITDA does not give effect

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AT&T INC.
SEPTEMBER 30, 2017

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

to cash used for debt service requirements and thus does not reflect available funds for distributions, reinvestment or other discretionary uses. EBITDA margin is EBITDA divided by total revenues.

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

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

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

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

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

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

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

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

Our operating assets are utilized by multiple segments and consist of our wireless and wired networks as well as our satellite fleet. Our domestic communications business strategies reflect bundled product offerings that increasingly cut across product lines and utilize our asset base. Therefore, asset information and capital expenditures by segment are not presented. Depreciation is allocated based on asset utilization by segment.

AT&T INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Dollars in millions except per share amounts

For the three months ended September 30, 2017

	Revenues	Operations and Support Expenses	EBITDA	Depreciation and Amortization	Operating Income (Loss)	Equity in Net Income (Loss) of Affiliates	Segment Contribution
Business Solutions	$ 17,061	$ 10,233	$ 6,828	$ 2,325	$ 4,503	$ -	$ 4,503
Entertainment Group	12,648	9,953	2,695	1,379	1,316	(6)	1,310
Consumer Mobility	7,748	4,551	3,197	877	2,320	-	2,320
International	2,099	1,937	162	304	(142)	17	(125)
Segment Total	39,556	26,674	12,882	4,885	7,997	$ 11	$ 8,008
Corporate and Other	201	89	112	21	91		
Acquisition-related items	-	134	(134)	1,136	(1,270)		
Certain significant items	(89)	326	(415)	-	(415)		
AT&T Inc.	$ 39,668	$ 27,223	$ 12,445	$ 6,042	$ 6,403		

For the nine months ended September 30, 2017

	Revenues	Operations and Support Expenses	EBITDA	Depreciation and Amortization	Operating Income (Loss)	Equity in Net Income (Loss) of Affiliates	Segment Contribution
Business Solutions	$ 51,016	$ 30,722	$ 20,294	$ 6,972	$ 13,322	$ -	$ 13,322
Entertainment Group	37,953	29,112	8,841	4,256	4,585	(23)	4,562
Consumer Mobility	23,279	13,599	9,680	2,621	7,059	-	7,059
International	6,054	5,468	586	905	(319)	62	(257)
Segment Total	118,302	78,901	39,401	14,754	24,647	$ 39	$ 24,686
Corporate and Other	657	397	260	54	206		
Acquisition-related items	-	622	(622)	3,508	(4,130)		
Certain significant items	(89)	44	(133)	-	(133)		
AT&T Inc.	$ 118,870	$ 79,964	$ 38,906	$ 18,316	$ 20,590		

AT&T INC.
SEPTEMBER 30, 2017

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

For the three months ended September 30, 2016

	Revenues	Operations and Support Expenses	EBITDA	Depreciation and Amortization	Operating Income (Loss)	Equity in Net Income (Loss) of Affiliates	Segment Contribution
Business Solutions	$ 17,767	$ 10,925	$ 6,842	$ 2,539	$ 4,303	$ -	$ 4,303
Entertainment Group	12,720	9,728	2,992	1,504	1,488	-	1,488
Consumer Mobility	8,267	4,751	3,516	944	2,572	-	2,572
International	1,879	1,640	239	293	(54)	1	(53)
Segment Total	40,633	27,044	13,589	5,280	8,309	$ 1	$ 8,310
Corporate and Other	270	270	-	17	(17)		
Acquisition-related items	-	290	(290)	1,282	(1,572)		
Certain significant items	(13)	299	(312)	-	(312)		
AT&T Inc.	$ 40,890	$ 27,903	$ 12,987	$ 6,579	$ 6,408		

For the nine months ended September 30, 2016

	Revenues	Operations and Support Expenses	EBITDA	Depreciation and Amortization	Operating Income (Loss)	Equity in Net Income (Loss) of Affiliates	Segment Contribution
Business Solutions	$ 52,955	$ 32,584	$ 20,371	$ 7,568	$ 12,803	$ -	$ 12,803
Entertainment Group	38,089	28,875	9,214	4,481	4,733	1	4,734
Consumer Mobility	24,781	14,343	10,438	2,798	7,640	-	7,640
International	5,374	4,951	423	868	(445)	24	(421)
Segment Total	121,199	80,753	40,446	15,715	24,731	$ 25	$ 24,756
Corporate and Other	759	940	(181)	54	(235)		
Acquisition-related items	-	818	(818)	3,949	(4,767)		
Certain significant items	(13)	(383)	370	-	370		
AT&T Inc.	$ 121,945	$ 82,128	$ 39,817	$ 19,718	$ 20,099		

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The following table is a reconciliation of Segment Contribution to "Income Before Income Taxes" reported on our consolidated statements of income.

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Business Solutions	$4,503	$4,303	$13,322	$12,803
Entertainment Group	1,310	1,488	4,562	4,734
Consumer Mobility	2,320	2,572	7,059	7,640
International	(125)	(53)	(257)	(421)
Segment Contribution	8,008	8,310	24,686	24,756
Reconciling Items:				
Corporate and Other	91	(17)	206	(235)
Merger and integration charges	(134)	(290)	(622)	(818)
Amortization of intangibles acquired	(1,136)	(1,282)	(3,508)	(3,949)
Actuarial gain (loss)	-	-	259	-
Employee separation costs	(208)	(260)	(268)	(314)
Gain (loss) on wireless spectrum transactions	-	(22)	181	714
Natural disaster costs and revenue credits	(207)	(30)	(207)	(30)
Venezuela devaluation	-	-	(98)	-
Segment equity in net (income) loss of affiliates	(11)	(1)	(39)	(25)
AT&T Operating Income	6,403	6,408	20,590	20,099
Interest expense	1,686	1,224	4,374	3,689
Equity in net income (loss) of affiliates	11	16	(148)	57
Other income (expense) - net	246	(7)	354	154
Income Before Income Taxes	$4,974	$5,193	$16,422	$16,621

NOTE 5. PENSION AND POSTRETIREMENT BENEFITS

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

In 2013, we made a voluntary contribution of a preferred equity interest in AT&T Mobility II LLC (Mobility II), the primary holding company for our domestic wireless business, to the pension trust used to pay benefits under our qualified pension plans. The preferred equity interest had a value of $9,354 at September 30, 2017. The trust is entitled to receive cumulative cash distributions of $560 per annum, which are distributed quarterly by Mobility II to the trust, in equal amounts and accounted for as contributions. Mobility II distributed $420 to the trust during the nine months ended September 30, 2017. So long as those distributions are made, we will have no limitations on our ability to declare a dividend or repurchase shares. This preferred equity interest is a plan asset under ERISA and is recognized as such in the plan's separate financial statements. However, because the preferred equity interest is not unconditionally transferable to an unrelated party, it is not reflected in plan assets in our consolidated financial statements and instead has been eliminated in consolidation.

The preferred equity interest is not transferable by the trust except through its put and call features. In early September 2017, AT&T notified the trust and the fiduciary of the preferred equity interest that AT&T committed that it would not exercise its call option of the preferred interest until at least September 9, 2022, which resulted in an increase in the fair value of the preferred interest of approximately $1,245.

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Pension cost:				
Service cost – benefits earned during the period	$282	$278	$846	$834
Interest cost on projected benefit obligation	484	495	1,452	1,485
Expected return on assets	(783)	(778)	(2,350)	(2,336)
Amortization of prior service credit	(31)	(26)	(93)	(77)
Net pension (credit) cost	$(48)	$(31)	$(145)	$(94)
Postretirement cost:				
Service cost – benefits earned during the period	$32	$48	$107	$144
Interest cost on accumulated postretirement benefit obligation	193	243	617	729
Expected return on assets	(81)	(88)	(240)	(266)
Amortization of prior service credit	(382)	(320)	(1,084)	(958)
Actuarial (gain) loss	-	-	(259)	-
Net postretirement (credit) cost	$(238)	$(117)	$(859)	$(351)
Combined net pension and postretirement (credit) cost	$(286)	$(148)	$(1,004)	$(445)

As part of our second-quarter 2017 remeasurement, we decreased the weighted-average discount rate used to measure our postretirement benefit obligation to 4.10%. The discount rate in effect for determining postretirement service and interest costs after remeasurement is 4.50% and 3.30%, respectively.

We also provide senior- and middle-management employees with nonqualified, unfunded supplemental retirement and savings plans. For the third quarter ended 2017 and 2016, net supplemental pension benefits costs not included in the table above were $22 and $23. For the first nine months of 2017 and 2016, net supplemental pension benefit costs were $67 and $70.

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NOTE 6. FAIR VALUE MEASUREMENTS AND DISCLOSURE

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

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