

AT&T INC.  
Form 11-K  
June 29, 2007  
Table of Contents

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## SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

### FORM 11-K

x Annual Report Pursuant to Section 15(d) of the  
Securities Exchange Act of 1934

For the fiscal year ended December 31, 2006

or

.. Transition Report Pursuant to Section 15(d) of the  
Securities Exchange Act of 1934

For the transition period from

\_\_\_\_\_ to \_\_\_\_\_

Commission file number  
1-8610

BellSouth Retirement Savings Plan

**AT&T Inc.**

175 E. Houston Street

San Antonio, Texas 78205-2255



**Table of Contents**

**BELLSOUTH RETIREMENT SAVINGS PLAN**

**Table of Contents**

	<b>Page</b>
<u>Report of Independent Registered Public Accounting Firm</u>	2
<u>Report of Independent Registered Public Accounting Firm</u>	3
<u>Statements of Net Assets Available for Benefits as of December 31, 2006 and 2005</u>	4
<u>Statements of Changes in Net Assets Available for Benefits for the Years ended December 31, 2006 and 2005</u>	5
<u>Notes to Financial Statements</u>	6
<u>Signature Page</u>	19
Supplemental Schedules*	
<u>Schedule of Assets (Held at End of Year)</u>	20
* Other supplemental schedules required by Section 2520.103-10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA have been omitted because they are not applicable.	
Exhibit 23.1 Consent of Independent Registered Public Accounting Firm	21
Exhibit 23.2 Consent of Independent Registered Public Accounting Firm	22

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

Participants and Plan Administrator

BellSouth Retirement Savings Plan

We have audited the accompanying statement of net assets available for benefits of the BellSouth Retirement Savings Plan (the Plan ) as of December 31, 2006 and the related statement of changes in net assets available for benefits for the year ended December 31, 2006. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2006 and the changes in net assets available for benefits for the year ended December 31, 2006 in conformity with U.S. generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at end of year) is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan s management. The supplemental schedule has been subjected to the auditing procedures applied in the audit of the 2006 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2006 basic financial statements taken as a whole.

McConnell & Jones LLP

Houston, Texas

June 22, 2007

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

To the Participants and Administrator of the

BellSouth Retirement Savings Plan

In our opinion, the accompanying statement of net assets available for benefits and the related statement of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of the BellSouth Retirement Savings Plan (the Plan) at December 31, 2005, and the changes in net assets available for benefits for the year ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Atlanta, Georgia

June 28, 2006

**Table of Contents****BELLSOUTH RETIREMENT SAVINGS PLAN****STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS**

December 31, 2006 and 2005

(In Thousands)

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Share of Master Savings Trust net assets at fair value	\$ 5,702,895	\$ 5,067,613
Participant Loans	51,574	50,898
	<u>5,754,469</u>	<u>5,118,511</u>
Total Investments	5,754,469	5,118,511
Employee contributions receivable	5,585	5,854
Employer contributions receivable	2,392	2,988
Other receivables	5,739	2,258
	<u>5,768,185</u>	<u>5,129,611</u>
Total Assets	5,768,185	5,129,611
<b>LIABILITIES</b>		
Other payables	15,791	9,546
	<u>15,791</u>	<u>9,546</u>
Total Liabilities	15,791	9,546
Net Assets Available for Benefits at fair value	5,752,394	5,120,065
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	(9,902)	(5,491)
	<u>(9,902)</u>	<u>(5,491)</u>
Net Assets Available for Benefits	\$ 5,742,492	\$ 5,114,574

The accompanying notes are an integral part of these financial statements

**Table of Contents**

**BELLSOUTH RETIREMENT SAVINGS PLAN**

**STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE**

**FOR BENEFITS**

**Years Ended December 31, 2006 and 2005**

**(In Thousands)**

	<u>2006</u>	<u>2005</u>
Net Assets Available for Benefits at beginning of year	\$ 5,114,574	\$ 4,997,461
Employee contributions	197,965	168,954
Employer contributions	69,930	74,533
Transfer of participants' balances, net	5,794	11,135
Total Contributions and Transfers	273,689	254,622
Share of Master Savings Trust investment activities	1,077,693	263,517
Interest on participant loans	3,184	2,685
Total additions	1,354,566	520,824
Less: Distributions to participants	(726,648)	(403,711)
Net change	627,918	117,113
Net Assets Available for Benefits at end of year	\$ 5,742,492	\$ 5,114,574

The accompanying notes are an integral part of these financial statements

**Table of Contents**

**BELLSOUTH RETIREMENT SAVINGS PLAN**

**NOTES TO FINANCIAL STATEMENTS**

**(Dollars in Thousands, Except Per-Participant Amounts)**

**1. Plan Description**

**General**

The following description of the BellSouth Retirement Savings Plan (the Plan) provides only general information. For additional information, participants should refer to the Plan Prospectus/Summary Plan Description, as supplemented (SPD). A copy of the SPD can be obtained either online through Benefits at Your Fingertips or by calling the BellSouth Participant Service Center at 1-866-697-1006. In addition, copies of the Plan, trust agreement and other related documents which include details of the Plan can be obtained by writing to: Secretary, BellSouth Savings Plan Committee, Room 13C09, 1155 Peachtree Street, N.E., Atlanta, Georgia 30309-3610.

The Plan was established by BellSouth Corporation (BellSouth) to provide a convenient way for management employees to save for their retirement on a long-term basis and to acquire an ownership interest in BellSouth. The Plan consists of three parts: one is a profit sharing plan which includes a qualified cash or deferred arrangement and which is intended to qualify as such under Sections 401(a), 401(k) and 401(m) and related sections of the Internal Revenue Code of 1986, as amended (the Code); the second part is an Employee Stock Ownership Plan (ESOP) which is designed as a stock bonus plan to invest primarily in shares of BellSouth Common Stock and which is intended to qualify under Sections 401(a), 401(m) and 4975(e)(7) and related sections of the Code; and the third part is an employee stock ownership plan which is designed as a stock bonus plan to invest primarily in BellSouth shares held in the BellSouth Stock Fund and which is intended to qualify as such under Code sections 401(a), 401(k), 401(m) and 4975(e)(7) and related sections of the Code. As such, participants invested in the BellSouth Stock Fund may elect to have their quarterly dividends either reinvested in the fund or passed-through and paid to them outside the Plan in cash as taxable income. Effective March 15, 2002, participants in the Plan were able to diversify their past and future company match, previously held in the ESOP Allocated Shares Fund. Effective July 1, 2003, participants having shares in the Allocated ESOP fund were able to elect to have their quarterly dividends either reinvested in the fund or passed-through and paid to them outside the Plan in cash as taxable income. All regular full-time and part-time employees of participating BellSouth companies who are not covered by a collective bargaining agreement, have attained the age of 18, and have completed at least one month of service are eligible to participate. The Plan is subject to the Employee Retirement Income Security Act of 1974, (ERISA) as amended. Effective March 31, 2004, the ESOP Allocated Shares were merged into the BellSouth Stock Fund and the quarterly dividend election with respect to the BellSouth Stock Fund was applied to the merged Allocated ESOP shares for dividends payable on or after April 1, 2004. Upon the ESOP Allocated Shares merger into the BellSouth Stock Fund, the Employee Stock Ownership Plan (ESOP) terminated.

Effective January 1, 2004, participants Basic Contributions receive matching contributions in cash, allocated to investment funds with the same elections used for employee deferrals.

**Master Trust**



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For investment purposes, substantially all investable assets of the Plan are held in the BellSouth Master Savings Trust (the Master Savings Trust ). The Master Savings Trust also holds the investable assets of the BellSouth Savings and Security Plan ( SSP ).

The values of investments on the Statement of Net Assets Available for Benefit for December 31, 2006 are determined based on the closing price of the investment on the last business day of the year, which was December 29. Following the close of business on December 29, 2006, BellSouth was acquired by AT&T Inc. (AT&T). As a result of the acquisition the BellSouth common stock held in the BellSouth Stock Fund was

**Table of Contents**

**BELLSOUTH RETIREMENT SAVINGS PLAN**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**(Dollars in Thousands, Except Per-Participant Amounts)**

**1. Plan Description (continued)**

converted to AT&T common stock based on a conversion ratio of 1.325 AT&T shares for each share of BellSouth common stock owned by the Master Trust and any fractional shares were paid to the Master Trust in cash. The Master Trust has reflected the conversion of BellSouth common stock to AT&T common stock on the first business day following the acquisition and recorded \$2,009,948 or 56,222,332.425 shares of AT&T common stock.

Out of convenience to the reader, all references to company common stock held in the Master Trust are noted in BellSouth shares.

**Investment Options**

At December 31, 2006 and 2005, the Master Savings Trust's investments were comprised of the following investment vehicles: BellSouth Stock Fund, Indexed Stock Fund, Interest Income Fund, Bond Fund, Balanced Fund, BrokerageLink Account and the following mutual funds: Fidelity Growth & Income Portfolio, Vanguard Growth Index Institutional, DFA U.S. Small Cap Value II Fund, T. Rowe Price Mid-Cap Growth, DFA U.S. Large Cap Value II Fund and DFA International Value II Fund. Effective April 1, 2006, BGI LifePath portfolios were added as investment options to include the 2010, 2020, 2030, 2040 and Retirement funds.

Unlike the other funds offered by the Plan, BrokerageLink Account consists of individual brokerage accounts in which participants act as their own investment advisor and may choose from a broad range of investment options. The investment options include no-load and load mutual funds, stocks listed on U.S. securities exchanges, bonds and other fixed-income investments. Participants open a BrokerageLink account through transfer of existing balances from the other existing funds and are assessed additional fees and commissions which are discussed in Note 4. There were 1,298 participants invested in BrokerageLink at December 31, 2006 and 1,315 participants invested in the BrokerageLink at December 31, 2005.

BrokerageLink accounts cannot be accessed directly for loans, withdrawals or distributions. Participants who want a loan, withdrawal or distribution from the BrokerageLink accounts must first transfer the desired amount from the BrokerageLink accounts to the Interest Income Fund for a minimum of one day where it may then be transferred to another fund in the Plan.

Effective January 1, 2005, the participant fee for BrokerageLink access was eliminated.

**Concentrations of Risk**

At December 31, 2006 and 2005, the Plan's assets were significantly concentrated in shares of BellSouth Common Stock, the value of which is subject to fluctuations related to corporate, industry and economic factors.

The Plan's other investment options include a variety of stocks, bonds, fixed income securities, mutual funds and other investment securities. Investment securities subject participants to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the Statements of Net Assets Available for Benefits.

**Vesting**

All participant and company contributions vest immediately.

**Table of Contents**

**BELLSOUTH RETIREMENT SAVINGS PLAN**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**(Dollars in Thousands, Except Per-Participant Amounts)**

**1. Plan Description (continued)**

**Participant Loans**

Participants may borrow from their accounts a minimum of \$1,000 up to the lesser of \$50,000 minus the highest outstanding loan principal balance over the previous twelve months or 50 percent of their before-tax account balances as defined by the Plan document and any amounts rolled over to the Plan from other qualified plans. Loan balances are secured by the assets allocated to the participants' accounts and bear interest at various rates which ranged from 5.00% to 10.5% at December 31, 2006 and 2005. Principal and interest are paid ratably through periodic payroll deductions for active employees and by coupon for nonactive employees.

**Payment of Benefits**

On termination of service due to death, disability, or retirement, a participant may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his or her account, or installment payments. If the vested balance is \$1,000 or less, the full amount will be distributed in a lump-sum.

**Service Providers**

State Street Bank & Trust Company serves as the Trustee for the Master Savings Trust. Fidelity Investments, Inc. serves as the recordkeeper and service center for the Plan. Fidelity Investments, Inc. provides brokerage services for BrokerageLink.

**2. Summary of Significant Accounting Policies**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

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With respect to the Statements of Net Assets Available for Benefits, for the years presented, the allocated Share of Master Savings Trust Net Assets includes investments at fair value, accrued interest income, accrued dividends, receivables for investments sold, payables for investments purchased and accrued administrative expenses of the Master Savings Trust.

With respect to the Statements of Changes in Net Assets Available for Benefits, for the years presented, the allocated Share of Master Savings Trust investment activities includes the sum of realized gains, net of realized losses, the net change in unrealized appreciation/(depreciation) of the fair value of the investments, interest income, dividends, investment manager fees and other administrative fees paid by the Master Savings Trust.

Benefit payments are generally recorded when paid.

Certain 2005 amounts have been reclassified to conform to the 2006 presentation.

### **3. Contributions**

Employee contributions to the Plan are recorded based on Basic Contributions of up to 6% of eligible compensation and Supplemental Contributions of up to 9% of eligible compensation for those participants wishing to contribute additional amounts. Total contributions may not exceed 15% of eligible compensation. Contributions are designated by the participants as before-tax or after-tax, subject to certain IRS limitations.

**Table of Contents**

**BELLSOUTH RETIREMENT SAVINGS PLAN**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**(Dollars in Thousands, Except Per-Participant Amounts)**

**3. Contributions (continued)**

Effective November 1, 2002, BellSouth implemented a catch-up contribution feature which allowed eligible participants to contribute an additional \$1,000 in 2002. This amount increases by \$1,000 each year until it reaches \$5,000 in 2006 after which it may be adjusted for inflation in \$500 increments.

Effective April 1, 2006, BellSouth implemented Roth 401(k) contributions in accordance with Code Section 402A of the Internal Revenue Code of 1986, as amended, and applicable regulations thereunder.

As discussed in Section 3 of the Plan document, participants may also rollover amounts into the Plan from other qualified plans.

Participants' Basic Contributions receive a matching contribution in cash which is allocated to participant accounts according to their current investment elections:

<u>Contribution Type</u>	<u>%</u>	<u>Company Match</u>
Basic	2	100%
Basic	3-6	Varies by Company
Supplemental	7-15	None

The matching percentage is based on company financial performance and the performance of BellSouth stock. The match percentage remains in effect for a twelve-month period from April 1 through March 31. The range of effective match rates on Basic Contributions for the two years ended December 31, 2006 were as follows:

	<u>2006</u>	<u>2005</u>
January-March	85%	72%
April-December	72%	85%

**4. Plan Expenses**

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Each participant in the Plan is charged a flat annual fee for Plan administrative expenses, including recordkeeping, trustee and other expenses considered reasonable by the Plan administrator. The fee is divided on a pro rata basis among each investment option of the participant. The per-participant fee is \$36.00 for 2006 and 2005. Additional fees are charged to individual participants for various services provided by the Plan's recordkeeper.

Investment manager fees are paid by the Master Savings Trust. The Plan's share of investment manager fees included in allocated share of Trust investment activities in the Statements of Changes in Net Assets Available for Benefits, for the years presented, were as follows:

	For the Year Ended December 31,	
	(in 000s)	
	2006	2005
BellSouth Stock Fund	\$ 150	\$ 153
Indexed Stock Fund	83	88
Interest Income Fund	485	467
Balanced Fund	147	148
Bond Fund	363	360
	<u>\$ 1,228</u>	<u>\$ 1,216</u>

**Table of Contents****BELLSOUTH RETIREMENT SAVINGS PLAN****NOTES TO FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per-Participant Amounts)****4. Plan Expenses (continued)**

Mutual funds incur operating expenses which reduce the overall return of the respective mutual fund. These expenses, expressed as percentages of fund assets, which were assessed against the mutual funds by their respective managers, were as follows:

	<b>For the Year Ended December 31,</b>	
	<b>2006</b>	<b>2005</b>
Vanguard Growth Index-Institutional	0.08%	0.11%
Fidelity Growth & Income Portfolio	0.68%	0.68%
T. Rowe Price Mid-Cap Growth	0.83%	0.80%
DFA U.S. Small Cap Value II Fund	0.28%	0.27%
DFA International Value II Fund	0.37%	0.31%
DFA U.S. Large Cap Value II Fund	0.21%	0.18%
BGI LifePath Funds	0.20%	

**5. Tax Status**

The Plan was amended and restated effective July 1, 2001 to comply with the provisions of the GUST amendment to ERISA. The following acts are collectively referred to as the GUST amendment: the Retirement Protection Act of 1994, Uniformed Services Employment and Reemployment Rights Act of 1994, Small Business Job Protection Act of 1996, Taxpayer Relief Act of 1997, and the Internal Revenue Service Restructuring and Reform Act of 1998.

The Internal Revenue Service has determined and informed BellSouth by a favorable determination letter dated August 6, 2002 that the Plan and related Trust meet the requirements of Section 401(a) of the Code and are exempt from federal income taxes under Section 501(a) of the Code. Although the Plan has been amended since receiving the determination letter, the Plan administrator and the Plan's ERISA counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the Internal Revenue Code.

The federal income tax effects on participants with respect to the Plan are described in the SPD.



**6. Termination Priorities**

BellSouth intends to continue the Plan indefinitely but reserves the right to terminate or amend it. In the event the Plan is terminated and if BellSouth or its subsidiaries sponsor another defined contribution plan, the participants may elect to have their account balances transferred to the other plan. If BellSouth or its subsidiaries do not sponsor such a plan, the participants would receive a lump-sum distribution of the value of their account balances.

**7. Interest in BellSouth Master Savings Trust**

The assets of the Plan are held in the Master Savings Trust and are commingled with the assets of the BellSouth Savings and Security Plan. The assets of the Master Savings Trust are allocated to the Plan based upon the total of each individual plan participant's share of the Master Savings Trust's net assets. The Plan's allocated share of the total net assets of all investments in the Master Savings Trust was 67.36% at December 31, 2006 and

**Table of Contents****BELLSOUTH RETIREMENT SAVINGS PLAN****NOTES TO FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per-Participant Amounts)****7. Interest in BellSouth Master Savings Trust (continued)**

69.49% at December 31, 2005. The Plan's allocated shares of the net assets of each fund in the Master Savings Trust at December 31, 2006 and 2005 were as follows:

	<u>2006</u>	<u>2005</u>
BellSouth Stock Fund	53.66%	55.67%
Indexed Stock Fund	83.33%	84.56%
Interest Income Fund	69.26%	71.29%
Vanguard Growth Index-Institutional	66.96%	68.73%
Fidelity Growth & Income Portfolio	67.71%	69.37%
Balanced Fund	71.68%	73.78%
Bond Fund	75.86%	76.52%
T. Rowe Price Mid-Cap Growth	68.59%	70.59%
DFA U.S. Small Cap Value II Fund	69.11%	70.19%
BrokerageLink Account	100.00%	100.00%
DFA International Value II Fund	70.57%	70.69%
DFA U.S. Large Cap Value II Fund	69.31%	69.51%
BGI LifePath 2010 Fund	78.88%	
BGI LifePath 2020 Fund	75.28%	
BGI LifePath 2030 Fund	68.38%	
BGI LifePath 2040 Fund	72.52%	
BGI LifePath Retirement Fund	69.06%	
Other	64.27%	58.85%

**Table of Contents****BELLSOUTH RETIREMENT SAVINGS PLAN****NOTES TO FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per-Participant Amounts)****7. Interest in BellSouth Master Savings Trust (continued)**

The financial position of the Master Savings Trust at December 31, 2006 and 2005 was as follows:

	<b>2006</b>	<b>2005</b>
	<b>(in 000s)</b>	<b>(in 000s)</b>
Assets:		
Investments at value:		
BellSouth Stock Fund:		
BellSouth Common Stock	\$ 1,999,062#	\$ 1,600,771#
Temporary cash investments	40,775	6,023
Indexed Stock Fund:		
Equity Index Fund	738,497#	776,572#
Interest Income Fund:		
Security backed investments	2,168,909#	2,017,659#
Temporary cash investments	45,517	30,394
Vanguard Growth Index-Institutional	208,775	205,457
Fidelity Growth & Income Portfolio		