

FORM 10-K

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

(Mark One)



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

For the fiscal year ended December 31, 2011

OR



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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-8610

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

Securities registered pursuant to Section 12(b) of the Act: (See attached Schedule A)

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [X] No [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

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

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 "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [X]

Accelerated filer [ ]

Non-accelerated filer [ ]

Smaller reporting company [ ]

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

Based on the closing price of \$31.41 per share on June 30, 2011, the aggregate market value of our voting and non-voting common stock held by non-affiliates was \$186.1 billion.

At January 31, 2012, common shares outstanding were 5,928,751,656.

DOCUMENTS INCORPORATED BY REFERENCE

- (1) Portions of AT&T Inc.'s Annual Report to Stockholders for the fiscal year ended December 31, 2011 (Parts I and II).
- (2) Portions of AT&T Inc.'s Notice of 2012 Annual Meeting and Proxy Statement dated on or about March 9, 2012 to be filed within the period permitted under General Instruction G(3) (Parts III and IV).

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of AT&T Inc.

We have audited the accompanying consolidated balance sheets of AT&T Inc. (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. 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, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

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, 2011, 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 24, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
Dallas, Texas  
February 24, 2012

NOTE 12. SHARE-BASED PAYMENT

We account for our share-based payment arrangements based on the fair value of the awards on their respective grant date, which 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. We record a valuation allowance when our future taxable income is not expected to be sufficient 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 on our consolidated balance sheets. However, to the extent we generate excess tax benefits (i.e., that additional tax benefits in excess of the deferred taxes associated with compensation expense previously recognized) the potential future impact on income would be reduced.

At December 31, 2011, we had various share-based payment arrangements, which we describe in the following discussion. The compensation cost recognized for those plans was included in operating expenses in our consolidated statements of income. The total income tax benefit recognized in the consolidated statements of income for share-based payment arrangements was \$187 for 2011, compared to \$196 for 2010 and \$121 for 2009.

Under our various plans, senior and other management employees and nonemployee directors have received stock options, performance stock units, and other nonvested stock and stock units. Stock options issued through December 31, 2011, carry exercise prices equal to the market price of our stock at the date of grant. 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. We grant performance stock units, which are nonvested stock units, to key employees based upon our stock price at the date of grant and award them in the form of AT&T common stock and cash at the end of a three-year period, subject to the achievement of certain performance goals. We treat the cash portion of these awards as a liability. Other nonvested stock and 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, 2011, we were authorized to issue up to 121 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:

	2011	2010	2009
Performance stock units	\$ 392	\$ 421	\$ 289
Restricted stock	91	85	21
Stock options	6	6	8
Other	—	1	(2)
<b>Total</b>	<b>\$ 489</b>	<b>\$ 513</b>	<b>\$ 316</b>

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:

	2011	2010	2009
Risk-free interest rate	2.91%	3.06%	3.17%
Dividend yield	5.96%	6.61%	6.82%
Expected volatility factor	14.74%	15.75%	19.65%
Expected option life in years	7.00	7.00	7.00

A summary of option activity as of December 31, 2011, 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 <sup>1</sup>
Outstanding at January 1, 2011	130	\$ 34.60	1.69	\$ 150
Granted	2	28.90		
Exercised	(9)	26.24		
Forfeited or expired	(57)	40.37		
<b>Outstanding at December 31, 2011</b>	<b>66</b>	<b>30.62</b>	<b>1.99</b>	<b>148</b>
<b>Exercisable at December 31, 2011</b>	<b>64</b>	<b>\$ 30.68</b>	<b>1.72</b>	<b>\$ 145</b>

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 \$1.57 for 2011, compared to \$1.34 for 2010 and \$1.84 for 2009. The total intrinsic value of options exercised during 2011 was \$40, compared to \$13 for 2010, and \$5 for 2009.

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 \$2 for 2011, compared to \$0 for 2010 and \$0 for 2009.

A summary of the status of our nonvested stock units, which includes performance stock units as of December 31, 2011, 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, 2011	29	\$ 25.30
Granted	13	28.17
Vested	(14)	25.30
Forfeited	(1)	25.93
<b>Nonvested at December 31, 2011</b>	<b>27</b>	<b>\$ 26.53</b>

As of December 31, 2011, there was \$329 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 \$426 for 2011, compared to \$331 for 2010 and \$369 for 2009.

#### 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 2010, the Board of Directors authorized the repurchase of up to 300 million shares of our common stock. As of December 31, 2011, we had repurchased no shares under this program. We began buying back stock under this program in January 2012.

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, 2011 and 2010, no preferred shares were outstanding.

In December 2011, the Company declared its quarterly dividend, which reflected an increase in the amount per share of common stock to \$0.44. In December 2010, the Company declared its quarterly dividend, increasing the amount per share of common stock from \$0.42 to \$0.43.