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, 2013

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]

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, 2013 and 2012, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. 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, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, 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, 2013, based on criteria established in Internal Control-Integrated Framework (1992 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 21, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Dallas, Texas
February 21, 2014

Dollars in millions except per share amounts

Deferred compensation expense was $122 in 2013, $118 in 2012 and $96 in 2011. Our deferred compensation liability, included in "Other noncurrent liabilities," was $1,118 at December 31, 2013, and $1,061 at December 31, 2012.

Contributory Savings Plans

We maintain contributory savings plans that cover substantially all employees. Under the savings plans, we match in cash or company stock a stated percentage of eligible employee contributions, subject to a specified ceiling. There are no debt-financed shares held by the Employee Stock Ownership Plans, allocated or unallocated.

Our match of employee contributions to the savings plans is fulfilled with purchases of our stock on the open market or company cash. Benefit cost is based on the cost of shares or units allocated to participating employees' accounts and was $654, $634 and $636 for the years ended December 31, 2013, 2012 and 2011.

NOTE 13. SHARE-BASED PAYMENTS

Under our various plans, senior and other management employees and nonemployee directors have received nonvested stock and stock units. We grant performance stock units, which are nonvested stock units, 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. We grant forfeitable restricted stock and stock units, which are valued at the market price of our common stock at the date of grant and vest typically over a two- to seven-year period. We also grant other nonvested stock units and award them in cash at the end of a three-year period, subject to the achievement of certain market based conditions. As of December 31, 2013, we were authorized to issue up to 128 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.

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. 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.

The compensation cost recognized for those plans was included in operating expenses in our consolidated statements of income, as reflected in the table below. The total income tax benefit recognized in the consolidated statements of income for share-based payment arrangements was $175 for 2013, compared to $195 for 2012 and $187 for 2011.

	2013	2012	2011
Performance stock units	**$ 381**	$ 397	$ 388
Restricted stock and stock units	**80**	102	91
Other nonvested stock units	**(3)**	12	4
Other	**-**	-	6
Total	**$ 458**	$ 511	$ 489

A summary of the status of our nonvested stock units as of December 31, 2013, 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, 2013	26	$ 28.55
Granted	11	35.36
Vested	(12)	27.99
Forfeited	(1)	31.10
Nonvested at December 31, 2013	**24**	**$ 31.93**

As of December 31, 2013, there was $348 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 1.95 years. The total fair value of shares vested during the year was $336 for 2013, compared to $333 for 2012 and $360 for 2011.

It is our policy to satisfy share option exercises using our treasury stock. Cash received from stock option exercises was $135 for 2013, $517 for 2012 and $250 for 2011.

NOTE 14. STOCKHOLDERS' EQUITY

Stock Repurchase Program 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, our Board of Directors authorized the repurchase of 300 million shares of our common stock. We began buying back stock under this program in 2012 and completed the purchase of authorized shares that year. In July 2012, our Board of Directors approved a second authorization to repurchase 300 million shares and we completed that program in May 2013. In March 2013, our Board of Directors approved a third authorization to repurchase 300 million shares, under which we are currently purchasing shares. For the year ended December 31, 2013, we had repurchased approximately 366 million shares totaling $13,028 under these authorizations. For the year ended December 31, 2012, we had repurchased approximately 371 million shares totaling $12,752 under these authorizations. We expect to make future repurchases opportunistically.

To implement these authorizations, we use open market repurchase programs, relying on Rule 10b5-1 of the Securities Exchange Act of 1934 where feasible. We also use accelerated share repurchase programs with large financial institutions to repurchase our stock.

Authorized Shares There are 14 billion authorized common shares of AT&T stock and 10 million authorized preferred shares of AT&T stock. As of December 31, 2013 and 2012, no preferred shares were outstanding.

Dividend Declarations In December 2013, the Company declared an increase in its quarterly dividend to $0.46 per share of common stock. In November 2012, the Company declared a quarterly dividend of $0.45 per share of common stock, which reflected an increase from the $0.44 quarterly dividend declared in December 2011.

Preferred Equity Interest The preferred equity interest discussed in Note 12 is not transferable by the trust except through its put and call features, and therefore has been eliminated in consolidation. After a period of five years from the contribution or, if earlier, the date upon which the pension plan trust is fully funded as determined under GAAP, AT&T has a right to purchase from the pension plan trust some or all of the preferred equity interest at the greater of their fair market value or minimum liquidation value plus any unpaid cumulative dividends. In addition, AT&T will have the right to purchase the preferred equity interest in the event AT&T's ownership of Mobility is less than 50% or there is a transaction that results in the transfer of 50% or more of the pension plan trust's assets to an entity not under common control with AT&T (collectively, a change of control). The pension plan trust has the right to require AT&T to purchase the preferred equity interest at the greater of their fair market value or minimum liquidation value plus any unpaid cumulative dividends, and in installments, as specified in the contribution agreement upon the occurrence of any of the following: (1) at any time if the ratio of debt to total capitalization of Mobility exceeds that of AT&T, (2) the date on which AT&T Inc. is rated below investment grade for two consecutive calendar quarters, (3) upon a change of control if AT&T does not exercise its purchase option, or (4) at any time after a seven-year period from the contribution date. In the event AT&T elects or is required to purchase the preferred equity interest, AT&T may elect to settle the purchase price in cash or shares of AT&T common stock or a combination thereof. Because the preferred equity interest was not considered outstanding for accounting purposes at year-end, it did not affect the calculation of earnings per share.

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SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant ☒ Filed by a Party other than the Registrant ☐

Check the appropriate box:

☐ Preliminary Proxy Statement

☐ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

☒ Definitive Proxy Statement

☐ Definitive Additional Materials

☐ Soliciting Material Pursuant to § 240.14a-12

AT&T Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

☒ No fee required.

☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which the transaction applies:

(2) Aggregate number of securities to which the transaction applies:

(3) Per unit price or other underlying value of the transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of the transaction:

(5) Total fee paid:

☐ Fee paid previously with preliminary materials.

☐ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

Compensation Discussion and Analysis

Compensation Committee Report

The Human Resources Committee has reviewed and discussed the Compensation Discussion and Analysis with management. Based on such review and discussions, the Human Resources Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in AT&T's Annual Report on Form 10-K and Proxy Statement for filing with the SEC.

February 12, 2014

The Human Resources Committee

Joyce M. Roché, Chairman
James H. Blanchard
John B. McCoy
Matthew K. Rose

Quick Reference Guide

Executive Summary

AT&T's mission is to connect people with their world everywhere they live and work, and do it better than anyone else. We're fulfilling this vision by creating new solutions for consumers and businesses and by driving innovation in the communications and entertainment industry. Our success in meeting these goals depends on our ability to attract, retain, and motivate world-class talent, beginning with our executive officers. The Human Resources Committee (***Committee***) has taken significant care in the development and refinement of an executive compensation program that not only recognizes the skill of our leadership team and the complexity of running an organization the magnitude and scope of AT&T, but also aligns executive pay with performance and stockholder interests.

During 2013, we continued to execute on our strategic goals as shown below. We believe our senior leaders' pay reflects this strong performance and closely aligns the interests of our management with those of stockholders.

Key Fiscal 2013 Business Results

Our executive officers make decisions every day that shape the future of our Company. The impact of these decisions can be seen both in our current results as well as in our long-term performance. Highlights for 2013 include the following:

Stockholder Returns

- 2013 total stockholder return of 9.8% from dividends and stock appreciation
- For the second consecutive year, returned nearly $23 billion to stockholders, including dividends paid of $9.7 billion and share buybacks of $13.0 billion
  - Since the beginning of 2012, AT&T has returned more than $45 billion to stockholders through dividends and share repurchases
- Increased the quarterly dividend for the 30th consecutive year

Financial Performance

- Record $128.8 billion in consolidated revenues, up 1.9% year over year, adjusting for 2012 Advertising Solutions divestiture
- Adjusted earnings per share increase of 8.2% for full-year 2013
  - After adjustments for both years, EPS was $2.50 in 2013 compared with $2.31 in 2012 (reported EPS was $3.39 in 2013 versus $1.25 in 2012)
- $34.8 billion in cash from operations
- $13.6 billion in free cash flow (cash from operations minus construction and capital expenditures)
- Invested $25 billion in capital expenditures and purchases of spectrum to expand and upgrade our network capabilities for customers in the United States and around the globe
- Refinanced $8 billion in debt to take advantage of historically low interest rates and maintained a net debt-to-adjusted EBITDA ratio below 1.8x
- Made contributions of over $9B to our pension plan. These contributions, combined with our existing plan assets, are essentially equivalent to the pension obligation at year-end

Growth Metrics

Mobility

- Our 4G LTE network covers nearly 280 million people and is the nation's most reliable
- Increased smartphone customers by 4.8 million to reach a record 51.9 million
  - At the end of 2013, 77% of postpaid phone subscribers were on smartphones, with more than half of postpaid smartphones being LTE capable

- Reached 110.4 million wireless subscribers, a net increase of 2.7 million
- Grew mobile data revenues 18.7% to a $23 billion annualized revenue stream
- Increased connected devices by 2.0 million net additions to 16.3 million
- Led the U.S. wireless industry in average revenues per contract user, which have increased for 20 straight quarters

Wireline Results

Business Solutions

- Increased strategic business services (VPN, Ethernet, cloud, hosting and other advanced IP services) revenues 15.0% to a $9 billion annualized revenue stream
  - Strategic business services now represent more than a quarter of all wireline business revenues

Home Solutions

- Reached a total of 10.7 million AT&T U-verse customers:
  - Record 2.7 million high speed Internet subscriber net adds
  - 924,000 video subscribers added, with record-low churn in the fourth quarter
- U-verse revenues grew 29.3% year over year, and U-verse is now a $13 billion annualized revenue stream
- Increased wireline consumer revenues 2.4%, the third consecutive year of growth

Strategic Achievements

- Significant progress under our strategic network expansion initiative, Project Velocity IP (Project VIP), to bring high-speed broadband connectivity to more customers:
  - Expanded our 4G LTE network to reach nearly 280 million people
  - Added more than 5 million new U-verse broadband customer locations, including 1.5 million video locations (since VIP launch in November 2012)
  - Launched a new U-verse speed tier with speeds up to 45 Mbps, which is now available to two-thirds of U-verse video customer locations
  - Extended our fiber build to more multi-tenant buildings, reaching more than 250,000 additional business customer locations
- Closed more than 60 wireless spectrum deals to improve coverage and service quality
- Strengthened our prepaid wireless offering with the launch of the Aio Wireless prepaid brand and pending acquisition of Leap Wireless, which will deliver increased competition, better device choices, improved customer care and a significantly enhanced mobile Internet experience for consumers seeking low-cost prepaid wireless service
- Generated $7 billion in cash through several initiatives, including an agreement to lease the rights to 9,000 towers and sell 600 towers, while maintaining the ability to add capacity as we need it

Compensation Philosophy and Best Practices

AT&T's executive compensation philosophy serves as the starting point for the development and evaluation of our pay programs. The foundational elements of this philosophy, as established by the Committee, include paying for performance, ensuring that our programs are competitive, balancing focus on both short- and long-term goals, and aligning executive officer compensation with both stockholder interests and competitive approaches in the marketplace.

The Committee reviews and adjusts our compensation and benefits program to ensure alignment with current market practices. Most recently, we have taken the following actions:

- We have limited severance compensation by removing the automatic vesting of restricted stock/units in the event of a manager's termination of employment following a change in control. In addition, we will no longer provide for vesting of stock options upon a change in control.

- Subject to stockholder approval at the 2014 Annual Meeting, we have adopted the AT&T Severance Policy (set out on pages 24-25), which will generally limit severance payments for executive officers to 2.99 times salary and target bonus. Following approval of the AT&T Severance Policy by stockholders, we will also amend the AT&T Change in Control Severance Plan so that its benefits, when added to other severance benefits, will not exceed the limits of the policy.

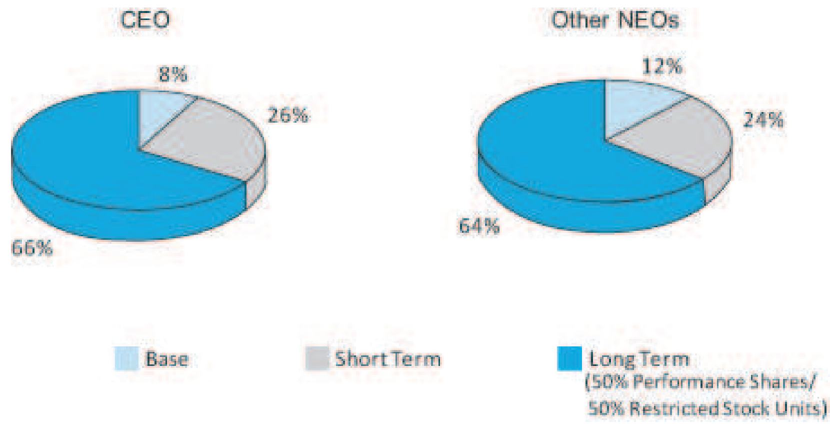
By continuing to evaluate and modify our programs as necessary and by designing our program around the following best practices, the Committee has shown its commitment to paying for performance and aligning executive pay with stockholder interests.

AT&T Compensation and Benefits Best Practices
Pay-for-Performance Focus – 92% of the Chief Executive Officer's target compensation and, on average, 88% of other Named Executive Officer target compensation is tied to Company performance, including stock price.
Stock Ownership Guidelines – All executive officers exceed these guidelines, which count only vested shares. Mr. Stephenson holds shares and deferred shares valued in excess of 24 times his salary; well above his required six times multiple.
Hold Until Retirement – Executive officers must hold 25% of the shares they receive from incentive, equity, and option awards, net of taxes, until one year after they leave the Company.
Mitigate Risk in Compensation Programs – The Committee reviews a risk analysis of our incentive-based compensation programs annually and believes that our programs do not create risks that are reasonably likely to have a material adverse impact on the Company.
Dividend Equivalents Payable at the End of the Performance Period and Only on Earned Performance Shares
No Tax Reimbursements except for certain non-deductible costs in the event of relocation
No Supplemental Executive Retirement Plans for Post-2008 Officers
Restitution Policy in Case of Misconduct – The Company may seek restitution of compensation received as a result of an employee's intentional or knowingly fraudulent or illegal conduct, including making a material misrepresentation that appears in the Company's financial statements.
No Repricing or Buyout of Underwater Stock Options
No Hedging or Short Sales Involving AT&T Stock
AT&T Severance Policy – This policy is being submitted to stockholders at the 2014 Annual Meeting, and, if approved, will generally limit severance payments for executive officers to 2.99 times salary and target bonus.

Impact of Performance Results on Executive Officer Compensation

In order to further its pay-for-performance goal, the Committee has determined to deliver a significant portion of executive officer compensation as performance-based compensation, including both short- and long-term incentives. The following charts depict how the Committee targets each element of compensation for the CEO and collectively for the other Named Executive Officers.

2013 Target Compensation Mix



When designing these incentives, the Committee employs a variety of metrics to ensure a strong link between executive compensation and performance. Metrics such as earnings per share, free cash flow, revenue, and return on invested capital connect compensation to Company performance while total stockholder return aligns executive pay with performance relative to peer companies.

An explanation of the individual pay elements of our executive officer compensation program and the impact of performance on each element is provided below. We believe that the greatest pay opportunities should exist for executives who demonstrate high levels of performance over a sustained period of time. A discussion of each named executive officer's 2013 performance may be found on pages 47 through 49.

Base Salary

When determining whether to grant an increase, the Committee considers the executive officer's individual performance and business results for the prior year, as well as his or her base salary compared to the market value for his or her job. Executive officers' salaries are set based on past and expected future contributions to the Company's long-term success.

2013 Base Salary Increases

For 2013, Named Executive Officers received, on average, a pay increase of 4.3%. In determining pay increases, the Committee considered performance and actual salary compared to market.

Short-Term Incentives

At the beginning of the annual performance period, the Committee establishes three Company performance metrics, which serve as a threshold trigger to qualify executive officers for the payment of any short-term awards. The qualification criteria are tied to overall Company performance because the Committee believes that each executive officer is ultimately responsible for attainment of the Company's strategic objectives.

If any of the established performance thresholds are met, the Committee then conducts an assessment of additional qualitative and quantitative factors, as they determine appropriate for each executive officer, in order to determine specific award payouts, which will not exceed a maximum amount approved by the Committee at the beginning of the performance period. These factors may include an assessment of the executive's ongoing individual performance; his or her contribution to overall Company results; and attainment of business unit goals, including financial, customer service, and growth targets. The Committee also considers intangible factors such as vision, innovation, ability to grow the business, and leadership.

2013 Short-Term Award Payouts

As described beginning on page 46, for 2013, the Committee established performance targets in the form of ranges for revenue, earnings per share, and free cash flow. The Committee chose these performance metrics because they are the key short-term financial metrics for the operation of our business and represent key metrics of importance to our stockholders. In addition, these metrics are commonly used in the marketplace as annual performance indicators that drive long-term sustainability. For 2013, AT&T performed within the target ranges for all three metrics.

As a result of Company, business unit, and individual performance, the Committee determined to pay executive officer short-term awards for 2013 generally at or below target award levels as described on page 49.

Long-Term Incentives

To appropriately focus our executives' attention on the long-term impacts of their decisions and to more closely align their interests with those of our stockholders, the majority of our executive compensation package is in the form of long-term incentives, which are comprised of 50% performance shares and 50% restricted stock units. For more information on our long-term compensation program, please refer to the section beginning on page 50.

The actual payout value of performance shares is based on two criteria: the attainment of predetermined performance criteria (which determines how many of the shares are actually payable) and our stock price. The actual payout value of restricted stock units is based on our stock price at the time of distribution.

Performance Share Payouts

For the 2011-2013 performance period, executive officer performance was measured against AT&T's Return on Invested Capital (ROIC – applicable to 75% of the award) and Total Stockholder Return against a peer group of companies (TSR – applicable to 25% of the award).

ROIC: The Committee chose ROIC as a long-term performance metric because it encourages our executive officers to focus not only on net income, but also on effectively employing capital and creating stockholder value.

- For the 2011-2013 performance period, ROIC attainment resulted in a 100% payout of the performance shares tied to this performance metric.
- The ROIC payout included the T-Mobile acquisition costs incurred in 2011 even though these costs qualify for exclusion per the terms of the grant.

TSR: In order to more closely tie the compensation of our executive officers to the interests of our stockholders, the Committee also applied a relative TSR performance metric to the determination of 2011-2013 performance share payouts.

- AT&T's TSR performance was in the 5th quintile of its peers resulting in 0% payout of the performance shares tied to this performance metric.

Restricted Stock Unit Payouts

Restricted Stock Units were first granted as part of officer long-term compensation in 2010.

- 50% of the units granted in 2010 were distributed in 2013.
- 50% of the units granted in 2010 were distributed in early 2014.

The value of these awards changes with AT&T's stock price, which aligns the interests of executives and stockholders.

The narrative on the following pages more fully describes how the Committee, with the input of its consultant, has designed AT&T's executive officer compensation and benefits program using the Committee's guiding pay principles as the pillars of the program. The narrative also outlines how we establish pay targets and how actual executive officer pay is determined. Finally, we provide a description of our benefits including personal benefits.

The Human Resources Committee and Its Role

The Committee is responsible for overseeing our management compensation practices. Annually, the Committee approves the base salaries, short-term incentive targets, and long-term incentive grant levels as well as short- and long-term award payouts for all officers, including the Named Executive Officers. The Committee recommends new benefit plans to the Board and acts as the administrator of certain of the Company's compensation and benefit plans. The Committee's charter is available on our web site at www.att.com. No AT&T employee serves on this Committee, which is composed entirely of independent Directors. The current members of the Committee are: Ms. Roché (Chairman), Mr. Blanchard, Mr. McCoy, and Mr. Rose.

Compensation Consultant

The Committee is authorized by its charter to employ independent compensation consultants and other advisors. The Committee has selected Total Rewards Strategies to serve as the Committee's independent consultant. The consultant reports directly to the Committee. From time to time, the consultant is engaged by the Corporate Governance and Nominating Committee to provide advice on director compensation. Total Rewards Strategies provides no other services to AT&T.

The Committee reviewed the following six independence factors, as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act, when evaluating the consultant's independence:

- Other services provided to the Company
- Percentage of the consultant's revenues paid by the Company
- Consultant's policies to prevent conflicts of interest
- Other relationships with compensation committee members
- Company stock owned by the consultant
- Other relationships with executive officers

Based on its evaluation of the consultant and the six factors listed above, the Committee has determined that its consultant meets the criteria for independence.

Following is a description of the consultant's duties:

- Attends all Committee meetings;
- Provides information, research, and analysis pertaining to executive compensation and benefits;
- Regularly updates the Committee on market trends, changing practices, and legislation pertaining to executive compensation and benefits;
- Reviews the Company's executive compensation strategy and program to ensure appropriateness and market-competitiveness;

- Makes recommendations on the design of the compensation program and the balance of pay-for-performance elements;
- Reviews market data and makes recommendations for establishing the market rates for jobs held by senior leaders;
- Analyzes compensation from other companies' proxy and financial statements for the Committee's review when making compensation decisions;
- Assists the Committee in making pay determinations for the Chief Executive Officer; and
- Advises the Committee on the appropriate comparator groups for compensation and benefits as well as the appropriate peer group against which to measure long-term performance.

Guiding Pay Principles

The Committee continually evaluates AT&T's compensation and benefits program in light of market and governance trends. Balancing these trends, the need to attract and retain talent, and with a focus on delivering value for our stockholders, the Committee has designed AT&T's executive compensation program around the following guiding pay principles:

Competitive and Market Based

Evaluate all components of our compensation and benefits program in light of appropriate comparator company practices to ensure we are able to attract, retain, and provide appropriate incentives for officers in a highly competitive talent market. Comparator company data provides information on market trends and may lead to changes in our approach and practices.

Pay-for-Performance

Tie a significant portion of compensation to the achievement of Company and business unit goals as well as recognize individual accomplishments that contribute to the Company's success. For example, in 2013, 92% of the CEO's target compensation (and, on average, 88% for other Named Executive Officers) was tied to short- and long-term performance incentives, including stock price performance.

Balanced Short- and Long-Term Focus

Ensure that compensation programs and packages provide an appropriate balance between the achievement of short- and long-term performance objectives, with a clear emphasis on managing the sustainability of the business and mitigation of risk.

Alignment with Stockholders

Set performance targets and provide compensation elements that closely align executives' interests with those of stockholders. For example, performance shares make up nearly 33% of target compensation for the CEO and the Named Executive Officers, and are tied to multi-year Company performance and the Company's stock price. In addition, AT&T has executive stock ownership guidelines and retention requirements, as described on page 55. Each of the Named Executive Officers exceeds the minimum stock ownership guidelines.

Alignment with Generally Accepted Approaches

Provide policies and programs that fit within the framework of generally accepted approaches adopted by leading major U.S. companies.

At the 2013 Annual Meeting, stockholders voted on the Company's compensation policies and programs with over 94.5% of the votes being cast in favor. The Committee reviewed these results and intends to continue following these guiding pay principles.

Compensation Design

Executive Compensation Program

We recognize that our long-term success depends on the talent and efforts of our employees and the leadership and performance of our executives. Because the relationship with any employee begins with the compensation and benefits program, it is in the stockholders' long-term interest that the program be structured in a way that makes attraction, retention, and motivation of the highest quality talent a reality. With that goal in mind, AT&T's executive compensation and benefits program includes a number of different elements, from fixed compensation (base salaries) to performance-based variable compensation (short- and long-term incentives), as well as key personal benefits which minimize distractions and allow our executives to focus on the success of the Company. Each of the elements shown below is designed for a specific purpose, with an overarching goal to encourage a high level of sustainable individual and Company performance well into the future:

Current Year Performance		Multi-Year Performance		Attraction & Retention
Salary and Short-Term Incentives	+	Long-Term Incentives (Performance Shares and Restricted Stock Units)	+	Retirement, Deferral/Savings Plans, Benefits, and Personal Benefits

Total Target Compensation

Total target compensation is the value of the compensation package that the Committee intends to deliver for "on target" performance against predefined goals. Actual compensation will depend on the applicable performance achievement and, for long-term incentive awards, the price of AT&T stock.

Total target compensation is detailed for each Named Executive Officer in the following table.

2013 NEO Target Compensation (Excludes Change in Pension and All Other Compensation)								
	Cash-Based Compensation				Stock-Based Long-Term Award (1) - Restricted Stock Units Vesting 2017 - Performance Shares 2013–15 Period		Total Target Comp.	% Performance Related (2)
	Base Salary		Short-Term Incentive					
Name	$	% of Total	$	% of Total	$	% of Total	$	
CEO								
Stephenson	1,650,000	8%	5,300,000	26%	13,650,000	66%	20,600,000	92%
Other NEOs								
Stephens	720,000	12%	1,500,000	25%	3,820,000	63%	6,040,000	88%
de la Vega	895,000	12%	1,695,000	23%	4,725,000	65%	7,315,000	88%
Stankey	895,000	12%	1,695,000	23%	4,725,000	65%	7,315,000	88%
Watts	790,000	14%	1,365,000	24%	3,600,000	63%	5,755,000	86%
Avg Other NEOs	825,000	12%	1,563,750	24%	4,217,500	64%	6,606,250	88%

1. *Long-term grants of performance shares are paid out, subject to meeting performance objectives, in cash based on the stock price on the date the award payout is approved. Restricted Stock Units are distributed in shares. Each represents 50% of the target award.*
2. *Total of Short-Term Incentive and Stock-Based Long-Term Award divided by Total Target Compensation.*

Incentive Compensation — A Balanced Approach to Manage Risk to Stockholders

We believe in balancing incentive compensation so that officers focus on the attainment of both short- and long-term corporate objectives. By ensuring that a significant portion of compensation is based on the long-term performance of the Company, we reduce the risk that executives will place too much focus on short-term achievements to the detriment of the long-term sustainability of the Company. Further, we structure short-term incentive compensation so that the accomplishment of short-term corporate and business unit goals supports the achievement of long-term corporate goals. Both of these elements work together for the benefit of the Company and its stockholders.

Finally, each year, the Committee reviews an analysis prepared by management of the Company's compensation policies and practices in order to evaluate whether they create risks that are reasonably likely to have a material adverse effect on AT&T. This analysis includes the steps AT&T takes to mitigate risk in our compensation plans, including: the use of multiple metrics in determining award payouts; the use of payout tables to provide partial payouts for partial performance attainment, payout caps, and/or budget maximums; and cross-functional department review and/or approval of all payouts (which includes Committee approval of all officer payouts). More than one form of long-term compensation is used in order to balance the risk of the long-term program. In addition, the Compensation Consultant also reviewed our programs and advised the Committee that the programs did not encourage risk-taking reasonably likely to have a material adverse effect on AT&T.

In addition, all award recipients are subject to our internal code of business conduct policy including penalties for violation of the policy. Based on this analysis, for 2013, the Committee determined that the Company's compensation policies and practices were not reasonably likely to have a material adverse effect on the Company.

Evaluation of Market to Determine Competitive Pay Levels

We believe that a job's value is determined by what we have to pay to remain competitive based on publicly-available compensation data for like positions at companies with which we compete for talent.

The starting point for determining Executive Officer compensation levels begins with an evaluation of market data. The consultant compiles both proxy and compensation survey data from third party sources for the comparator companies (selected by the Committee, and discussed below). The use of multiple sources of information and comparator groups ensures the availability of sufficient data to accurately reflect the competitive market and provides for the annual development of reliable market values by the consultant.

Our comparator companies are selected based on:
- similarity to AT&T in terms of size and/or industry,
- ability of the company to compete with AT&T for talent, and
- similarity to jobs at AT&T in terms of complexity and scope of officer positions.

Following are the 2013 comparator groups used by the consultant in making market value recommendations for officer positions.

2013 Comparator Groups Used by Compensation Consultant	
Type of Group	**Companies in Group**
A comparator group of 20 companies in the technology, telecommunications and entertainment industries selected by the consultant in consultation with the Committee	Apple, Boeing, Cisco Systems, Comcast, Dell, General Electric, Google, Hewlett-Packard, Honeywell, IBM, Intel, Johnson Controls, Lockheed Martin, Microsoft, Oracle, Time Warner Inc., Twenty-First Century Fox, United Technologies, Verizon Communications, Walt Disney
Top 25 companies included in the *Fortune 500* index, adjusted to eliminate AT&T as well as investment banking, investment holding/ management and privately owned companies	AmerisourceBergen, Apple, Archer Daniels Midland, Cardinal Health, Chevron, ConocoPhillips, Costco Wholesale, CVS Caremark, Exxon Mobil, Ford Motor, General Electric, General Motors, Hewlett-Packard, Home Depot, IBM, Kroger, Marathon Petroleum, McKesson, Microsoft, Procter & Gamble, UnitedHealth Group, Valero Energy, Verizon Communications, Wal-Mart Stores, Walgreen
Telecommunications and cable companies	Century Link, Comcast, Motorola Solutions, Sprint, Time Warner Inc., Verizon Communications

Executive officers' base salaries are generally targeted to the market 50th percentile. Total target cash compensation (the sum of base pay and short-term incentive target) and long-term grants are targeted to the market 62nd percentile, with the support of the Committee's consultant. These pay targets emphasize our pay-for-performance strategy and are consistent with our market leadership position as the nation's largest telecommunications company based on our revenue.

In making the market value recommendations to present to the Committee, the consultant reviews both the proxy and the survey compensation data at the percentiles of the market assigned by the Committee. The consultant applies his judgment and experience to this data in order to determine preliminary market value recommendations for each executive officer position. Prior to presenting the market values to the Committee, the consultant obtains input from members of management and the CEO (for officers other than the CEO) to obtain their views on the relative value of each position at AT&T and differences in responsibilities between AT&T jobs and those in the comparator groups. Based on this detailed analysis, AT&T-specific market values (***AT&T Market Values***) are presented to the Committee for each executive officer position. The AT&T Market Values are used as a reference point for the Committee's determination of actual compensation levels. They include components for base salary and short- and long-term incentive target awards.

Determining Target Compensation Levels

Annually, the Committee meets to set base salary and target short- and long-term incentive compensation levels for officers, including the Named Executive Officers, with the advice of the consultant. In setting compensation levels, the Committee reviews the AT&T Market Values provided by the consultant along with the CEO's compensation recommendations for the other executive officers.

The CEO bases his compensation recommendations on his judgment of the skills, experience, responsibilities, and achievements of each executive officer, as well as the officer's current compensation relative to the AT&T Market Value for his or her job. The Committee believes that input from both the CEO and the consultant provides necessary information and points of view to assist them in determining the appropriate target levels of pay. Once the Committee has received this input, they apply their judgment and experience to set compensation for the coming year. The Committee may determine that executives with significant experience and responsibilities, who demonstrate exemplary performance, have higher target compensation, while less experienced executives may have lower target compensation. To determine the compensation for the CEO, the Committee again uses its judgment of his skills, experience, responsibilities, achievements, and current compensation, along with the consultant's AT&T Market Value recommendation. The Committee utilizes total compensation analysis sheets to confirm the appropriateness of the compensation packages for executive officers.

2013 Compensation

Base Salaries

Objective	Key Features and Pay for Performance
Provides fixed compensation to assume the day-to-day responsibilities of the position	• Salary level recognizes an executive officer's experience, skill, and performance, with the goal of being market-competitive. • Adjustments may be made based on individual performance, pay relative to other AT&T officers, and the employee's pay relative to the market. • Represents 8% for the CEO and, on average, 12% for other executive officers' total target compensation, in line with our objective to have the majority of pay at risk and tied to Company performance. • This element is payable in cash. The executive officers have the option to defer a portion into Company stock.

In 2013, the Named Executive Officers received a salary increase of 4.3%, on average. In determining pay increases, the Committee considered individual performance and actual pay relative to market.

Short-Term Incentives

Objective	Key Features and Pay for Performance
Motivates and rewards the achievement of short-term Company performance	• Aligns executive officers' interests with our short-term corporate strategy, and aligns pay with the achievement of short-term Company and/or business unit objectives. These objectives support the accomplishment of long-term Company goals. • To qualify for a payout, executive officers must achieve at least one of the predetermined performance thresholds. Performance ranges are established for revenue, earnings per share, and free cash flow. Actual award payouts consider performance against these and other Company and business unit metrics as well as individual performance. • This element is payable in cash. The executive officers have the option to defer a portion into Company stock.

2013 Targets

Each year the Committee establishes a short-term target award for each executive officer based on the AT&T Market Values provided by the consultant and on recommendations from the CEO (other than for his own compensation). The short-term program emphasizes overall results of the Company by establishing one set of performance targets for our executive officers. The Committee believes it is important to focus the executive officers on the key objectives of the Company (other officers are measured, in part, on the success of their individual business units). The key performance objectives adopted by the Committee include three performance metrics and related target ranges that the executives are expected to achieve, which are shown in the following table. The Company must