

Edgar Filing: AT&T CORP - Form 11-K

AT&T CORP
Form 11-K
June 28, 2005

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 11-K

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

(Mark One)

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

For The Fiscal Year Ended December 31, 2004

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 1-1105

AT&T Corp.

A. Full title of the plan and the address of the plan, if
different from that of the issuer named below:

AT&T OF PUERTO RICO, INC. LONG TERM SAVINGS AND
SECURITY PLAN

B. Name and issuer of the securities held pursuant to the
plan and the address of its principal executive office:

AT&T CORP.
ONE AT&T WAY
BEDMINSTER, NJ 07921

AT&T of Puerto Rico, Inc.
Long Term Savings and Security Plan
Financial Statements
and Supplemental Schedule
December 31, 2004 and 2003

AT&T of Puerto Rico, Inc.
Long Term Savings and Security Plan
Index
December 31, 2004 and 2003

Edgar Filing: AT&T CORP - Form 11-K

| | Page (s) |
|--|----------|
| Report of Independent Registered Public Accounting Firm..... | 1 |
| Financial Statements | |
| Statements of Net Assets Available for Benefits..... | 2 |
| Statement of Changes in Net Assets Available for Benefits..... | 3 |
| Notes to Financial Statements..... | 4-8 |
| Supplemental Schedule | |
| Schedule of Assets (Held at End of Year)..... | 9 |

Report of Independent Registered Public Accounting Firm

To the Participants and Administrator of
AT&T of Puerto Rico, Inc. Long Term Savings and Security Plan

In our opinion, the accompanying statements 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 AT&T of Puerto Rico, Inc. Long Term Savings and Security Plan (the "Plan") as of December 31, 2004 and 2003, and the changes in net assets available for benefits for the year ended December 31, 2004 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 audits. We conducted our audits 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 audits provide a reasonable basis for our opinion.

Our audits were 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) as of December 31, 2004 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

Edgar Filing: AT&T CORP - Form 11-K

procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP
Florham Park, New Jersey

June 22, 2005

AT&T of Puerto Rico, Inc.
Long Term Savings and Security Plan
Statements of Net Assets Available for Benefits
December 31, 2004 and 2003

(thousands of dollars)

| | 2004 | 2003 |
|-----------------------------------|---------|---------|
| Assets | | |
| Investments, at fair value | | |
| Investment in Master Trust | \$ 915 | \$1,208 |
| Participant loans receivable | 129 | 153 |
| | ----- | ----- |
| Total assets | \$1,044 | \$1,361 |
| | ----- | ----- |
| Liabilities | | |
| Total liabilities | - | - |
| | ----- | ----- |
| Net assets available for benefits | \$1,044 | \$1,361 |
| | ----- | ----- |

The accompanying notes are an integral part of these financial statements.

AT&T of Puerto Rico, Inc.
Long Term Savings and Security Plan
Statement of Changes in Net Assets Available for Benefits
Years Ended December 31, 2004

(thousands of dollars)

| | Total |
|--|----------|
| Net assets available for benefits, January 1, 2004 | \$ 1,361 |
| | ----- |
| Additions | |
| Additions to net assets attributed to | |

Edgar Filing: AT&T CORP - Form 11-K

| | |
|---|----------|
| Net income from investment in Master Trust | 40 |
| Interest on participant loans | 6 |
| | ----- |
| | 46 |
| | ----- |
| Contributions and transfers | |
| Employee contributions | 90 |
| Employing company contributions | 51 |
| Transfers of participants' balances from other plans, net | 27 |
| | ----- |
| | 168 |
| | ----- |
| Total additions | 214 |
| | ----- |
| Deductions | |
| Distributions to participants | (531) |
| | ----- |
| Total deductions | (531) |
| | ----- |
| Net decrease | (317) |
| | ----- |
| Net assets available for benefits, December 31, 2004 | \$ 1,044 |
| | ----- |

The accompanying notes are an integral part of these financial statements.

AT&T of Puerto Rico, Inc.
 Long Term Savings and Security Plan
 Notes to Financial Statements
 December 31, 2004

1. Plan Description

The AT&T of Puerto Rico, Inc. Long Term Savings and Security Plan (the "Plan" or "LTSSP-PR") is a defined contribution plan established by AT&T Corp. ("AT&T") to provide a convenient way for occupational employees of AT&T of Puerto Rico, Inc. to save on a regular and long-term basis. Effective January 1, 2004, the AT&T Savings Master Trust ("Master Trust") was established as the successor trust to the Group Trust. Effective as of the same date, State Street Bank and Trust Company was appointed as successor trustee to Fidelity Management Trust Company for the AT&T Savings Master Trust. The LTSSP-PR participates in the Master Trust, for the investment of the pooled assets of various funds. Each participating plan has an undivided interest in the Master Trust.

An eligible employee enters the Plan by authorizing a payroll allotment to invest his/her contributions in one or more of the twenty-six (26) different funds as set forth in the current Plan

Edgar Filing: AT&T CORP - Form 11-K

document.

The Comcast Stock Fund was liquidated between March 18, 2004 and May 20, 2004. The proceeds from the sales were transferred into the AT&T Stable Value Fund. As of July 30, 2004, a participant who does not have, or maintain, a balance in the Fidelity Low-Priced Stock Fund, will not be able to invest in the Fidelity Low-Priced Stock Fund through the Plan. Shares of the Legg Mason Value Trust Investment option were converted from Financial Intermediary Class to Institutional Class as of 4:00 p.m. Eastern Time on September 30, 2004. Effective July 1, 2004, the Janus Overseas Fund and the Janus Worldwide Fund options in the Plan were closed to new contributions and exchanges in. A liquidation of assets in these two Janus funds began on October 8, 2004 and was completed on October 29, 2004. The proceeds from the sales were transferred into the AT&T Stable Value Fund in the Plan. Effective July 1, 2004, two new mutual fund investment options became available under the Plan. The American Funds Capital World Growth and Income Fund, Class R-5 and the Morgan Stanley Institutional Fund- International Equity Portfolio, Class A Shares are the two new mutual funds. On December 6, 2004, Fidelity implemented an enterprise-wide policy to monitor and address excessive short-term trading in Fidelity funds sold through retail or 401(k) plans for which they keep the records. This policy establishes standards for warning participants and suspending trading privileges, if necessary, in accordance with prospectus rules. Fidelity has offered to implement this policy for other mutual fund providers and subsequently T. Rowe Price and Legg Mason agreed to have their funds monitored by Fidelity.

Employee allotments of 2% to 16% of salary may be authorized. An employee may designate allotments as pre-tax allotments or after-tax allotments. All participant contributions and earnings thereon are immediately vested and are not subject to forfeiture. Pre-tax contributions may be made up to the Puerto Rico Department of Treasury limit of \$8,000 or 10% of the participants annual compensation, which ever is less in 2004. After one year of service, the employing company (AT&T or any AT&T subsidiary participating in the Plan) will contribute an amount equal to $66\frac{2}{3}\%$ of the first 6% of the employee's salary contributed. Employing company contributions are made in accordance with the participant's elected investment direction. Employing company contributions and earnings thereon are vested after five years of service.

Loans are available to all participants in an amount not less than \$1,000, up to a maximum of 50% of the participant's vested account balance or \$50,000 minus the participant's highest outstanding loan balance in the last twelve (12) months. Upon default, participants are considered to have received a distribution and are subject to income taxes on the distributed amount. Loan transactions are treated as a transfer to (from) the investment funds from (to) the Participant Loan Account. The term of the loan shall not exceed fifty-six (56) months. The loans are collateralized by the balance in the participant's account and bear interest at the prime rate on the last business day of the month preceding the month in which the loan was initiated. Interest rates are fixed for the term of the loan. Interest rates on participant loans outstanding as of December 31, 2004 range from 4.0% to 9.5%. Principal and interest are paid through payroll deductions or participant-initiated payments.

When a participant terminates employment, the entire vested amount in the participant's account will be distributed in a single payment, if the amount to be distributed is \$5,000 or less. However, if the amount to be distributed exceeds \$5,000, and the participant does not request

Edgar Filing: AT&T CORP - Form 11-K

the distribution, the participant's account shall remain in the Plan and may be withdrawn or distributed at the participant's request, or as minimum required distributions beginning when the participant attains age 70-1/2, or upon the participant's death, whichever is earlier. When a participant dies, the participant's beneficiary or beneficiaries may elect their share of the participant's account balance as a single payment or as a transfer to a LTSSP-PR account in the beneficiary's name.

Participant forfeitures in 2004 were \$15,520. The total forfeited non-vested account as of December 31, 2004 is \$17,038. Forfeitures will be used to reduce future employer contributions. During 2004, employer contributions were reduced by \$11,437 from forfeited non-vested accounts.

For a complete description of the Plan, participants should refer to the Plan Prospectus and Plan Summary Plan Description ("SPD"). The Plan is subject to the provisions of the Employee Retirement Income Savings Act of 1974 ("ERISA").

2. Accounting Policies

Basis of Accounting

The financial statements of the Plan are prepared under the accrual method of accounting.

Payment of Benefits

Benefits are recorded when paid.

Valuation of Investments

Income and assets of the Master Trust are allocated to the Plan based on participant balances. The net asset value of the Master Trust is calculated by the Trustee. The Trustee determines the value of the underlying assets in the investment manager portfolios, taking into account the market values supplied by a generally accepted pricing or quotation service or quotations furnished by one or more reputable sources, such as securities brokers, dealers or investment bankers, mutual fund administrators, values of comparable property, appraisals or other relevant information. Investments in AT&T common shares and other securities listed on national stock exchanges are carried at fair value determined on the basis of the last published sales price per share on the last business day of the year. Securities traded in over-the-counter markets are carried at fair value based on the last bid prices or closing prices on December 31, as listed in published sources if available or, if not available, from other sources considered reliable. Contracts with insurance companies and financial institutions, which are fully benefit responsive, are carried at contract value (representing contributions made under the contracts plus accumulated interest at the contract rates). All other investments are carried at the fair value on the close of business on December 31. Participant loans receivable are valued at cost which approximates fair value. Participant loans are assets of the Plan and are not part of the Master Trust.

Purchases and Sales of Investments

Purchases and sales of securities are recorded on the trade date.

Investment Income

Dividend income is recorded on the ex-dividend date. Interest income is accrued as earned.

Net Appreciation (Depreciation) in the Fair Value of Investments

Edgar Filing: AT&T CORP - Form 11-K

The Plan presents in the statement of changes in net assets available for benefits the net appreciation (depreciation) in the fair value of investments, which consists of the realized gains (losses) and the change for the year in unrealized appreciation (depreciation) on those investments.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Risks and Uncertainties

Investments held by the Master Trust and Plan are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments could occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits.

3. Tax Status

The Puerto Rico Department of Treasury has determined and informed AT&T by letter dated May 31, 1995, that the Plan and related trust are qualified in accordance with applicable sections of the Puerto Rico Income Tax Act of 1954 (the "Act"). The Plan has been amended and restated since receiving the determination letter. The Plan Administrator, however, believes that the Plan is qualified and is currently being operated in compliance with the applicable requirements of the Act.

4. Concentrations of Investment Risk

At December 31, 2004, Plan participants' accounts that are invested in the Company stock option are exposed to market risk in the event of a significant decline in the value of AT&T Corp. stock.

5. Plan Termination

Although it has not expressed any intent to do so, AT&T has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, the Plan provides that the net assets are to be distributed to participating employees in amounts equal to their respective interest in such assets.

6. Plan Expenses

In general, fees paid for Plan administration, including recordkeeping (except for such services as are attributable to the participant loan program), are paid from the trust, unless those expenses are paid by the Company or participant(s). Fees for trustee services are paid out of trust assets. Expenses attributable to the management and investment of each of the investment options shall be charged against respective options.

7. Master Trust Investments

The Trust Investments presented as of December 31, 2004 are those held by State Street Bank and Trust Company, as Trustee, in the AT&T

Edgar Filing: AT&T CORP - Form 11-K

Savings Master Trust. The investments presented as of December 31, 2003 are those held by Fidelity Management Trust Company, as Trustee, in the Group Trust.

| Type of Master Trust Investments | December 31 | |
|----------------------------------|-------------|-------------|
| (thousands of dollars) | 2004 | 2003 |
| Government Securities | \$ - | \$ 16,572 |
| Short-term securities | 40,201 | 10,189 |
| Corporate bonds | 1,205 | 6,127 |
| Common stocks | 1,009,660 | 1,567,644 |
| Mutual funds | 3,072,840 | 2,795,255 |
| Commingled funds | 1,381,388 | 1,294,002 |
| Investment contracts | | |
| Guaranteed Investment Contracts | 276,552 | 344,575 |
| Synthetic Investment Contracts | | |
| Government Securities | 348,836 | 625,298 |
| Short-term securities | 64,152 | 251,905 |
| Corporate bonds | 2,428,782 | 1,687,291 |
| Derivatives | 17 | 186 |
| Other | (44,387) | (173,684) |
| Wrapper | (62,410) | (83,151) |
| Cash | 5,650 | 2,862 |
| Total Master Trust Investments | \$8,522,486 | \$8,345,070 |

| | December 31, | |
|---|--------------|---------|
| Allocation of Master Trust investments | 2004 | 2003 |
| AT&T Long Term Savings Plan for Management Employees | 83.73% | 83.15% |
| AT&T Long Term Savings and Security Plan | 15.80 | 16.54 |
| AT&T Retirement Savings and Profit Sharing Plan | 0.39 | 0.22 |
| AT&T of Puerto Rico, Inc. Long Term Savings Plan for Management Employees | 0.07 | 0.08 |
| AT&T of Puerto Rico, Inc. Long Term Savings and Security Plan | 0.01 | 0.01 |
| | 100.00% | 100.00% |

| | Year Ended December 31, 2004 |
|--|---------------------------------|
| Net appreciation in fair value of Master Trust investments | |
| Corporate bonds | 240 |
| Common stocks | 10,919 |
| Mutual funds | 252,157 |
| Commingled funds | 147,355 |
| Total net appreciation in fair value of Master Trust investments | \$ 410,671 |
| Investment income | |
| Interest | \$ 123,603 |

Edgar Filing: AT&T CORP - Form 11-K

| | |
|-----------|------------|
| Dividends | 109,440 |
| | ----- |
| | \$ 233,043 |
| | ----- |

8. Related Party Transactions and Party-in-Interest

In addition, the Plan invests in common shares of AT&T Corp. stock, which qualifies as a related party transaction. At December 31, 2004 the total of these investments amounted to \$220,795,948 or approximately 3% of the Master Trust. At December 31, 2003, the total amounted to \$256,799,741 or approximately 3% of the Group Trust.

9. Subsequent Events

On January 31, 2005, SBC Communications and AT&T announced an agreement for SBC to acquire AT&T. Employees enrolled in the AT&T Savings Plans can continue to make contributions, choose investment direction and receive company matching contributions until the merger closes. Any decision on benefit plans after the close will be made by SBC, subject to any constraints provided by the merger agreement. Under the merger agreement, SBC has agreed that employees, for a period of time after the merger, will have compensation and benefit plans and programs that are no less favorable in the aggregate than they have at AT&T. This commitment will continue to the end of the plan year (December 31) following the first anniversary of the closing.

In March 2005, the automatic distribution threshold changed to \$1,000 from \$5,000.

AT&T of Puerto Rico, Inc.
 Long Term Savings and Security Plan
 Schedule of Assets (Held at End of Year)
 December 31, 2004

(thousands of dollars)

| Name of Issuer and Title of Issue | Cost | Value |
|--|--------|--------|
| Participant Loans Receivable (4.0%-9.5%) | \$ 129 | \$ 129 |
| Investment in Master Trust | | \$ 915 |
| | | ----- |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Savings Plan Committee has duly caused this annual report to be signed by the undersigned thereunto duly authorized.

AT&T OF PUERTO RICO, INC. LONG TERM

Edgar Filing: AT&T CORP - Form 11-K

SAVINGS AND SECURITY PLAN

By Savings Plan Committee

/s/ Brian Byrnes

Brian Byrnes
Secretary of the Savings Plan Committee

Date: June 27, 2005

Exhibit Index

Exhibit No.

23

Consent of PricewaterhouseCoopers LLP