

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

AT&T CORP
Form 11-K
July 12, 2004

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, 2003

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 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 Long Term Savings and Security Plan
Financial Statements
and Supplemental Schedule
December 31, 2003

AT&T Long Term Savings and Security Plan
Index
December 31, 2003 and 2002

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

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 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 Long Term Savings Plan and Security Plan (the "Plan") at December 31, 2003 and 2002, and the changes in net assets available for benefits for the year ended December 31, 2003 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, 2003 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 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.

July 1, 2004

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

AT&T Long Term Savings and Security Plan
 Statements of Net Assets Available for Benefits
 December 31, 2003 and 2002

(thousands of dollars)

| | 2003 | 2002 |
|-----------------------------------|--------------|--------------|
| Assets | | |
| Investments, at fair value | | |
| Investments in Group Trust | \$ 1,379,884 | \$ 1,243,991 |
| Participant loans receivable | 38,919 | 39,175 |
| | ----- | ----- |
| Total assets | 1,418,803 | 1,283,166 |
| Liabilities | | |
| | ----- | ----- |
| Total liabilities | -- | -- |
| | ----- | ----- |
| Net assets available for benefits | \$ 1,418,803 | \$ 1,283,166 |
| | ----- | ----- |

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

AT&T Long Term Savings and Security Plan
 Statement of Changes in Net Assets Available for Benefits
 Year Ended December 31, 2003

| | Total |
|---|--------------|
| Net assets available for benefits, January 1, 2003 | \$ 1,283,166 |
| | ----- |
| Additions | |
| Additions to net assets attributed to | |
| Net income from investment in Group Trust | 183,992 |
| Interest on participant loans | 1,913 |
| | ----- |
| | 185,905 |
| Contributions and transfers | |
| Employee contributions | 51,833 |
| Employing company contributions | 25,197 |
| Transfers of participants' balances from other plans, net | 7,248 |
| | ----- |
| | 84,278 |
| | ----- |
| Total additions | 270,183 |

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

| | |
|--|--------------|
| Deductions | |
| Distributions to participants | (134,546) |
| Total deductions | (134,546) |
| Net increase | 135,637 |
| Net assets available for benefits, December 31, 2003 | \$ 1,418,803 |

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

AT&T Long Term Savings and Security Plan
Notes to Financial Statements
December 31, 2003

1. Plan Description

The AT&T Long Term Savings and Security Plan (the "Plan" or "LTSSP") is a defined contribution plan established by AT&T Corp. ("AT&T") to provide a convenient way for occupational employees of participating AT&T companies to save on a regular and long-term basis. The LTSSP participates in a master trust (the "Group Trust") for the investment of the pooled assets of various funds. Each participating plan has an undivided interest in the Group Trust.

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

The AT&T Wireless Stock Fund and the Liberty Media Stock Fund were liquidated as of January 2003 and February 2003, respectively. Any balances remaining in these funds at the liquidation date were transferred to the AT&T Stable Value Fund.

On November 18, 2002, AT&T spun-off AT&T Broadband to AT&T shareholders of record as of November 15, 2002. Immediately after the spin-off, AT&T Broadband combined with the Comcast Corporation. For each share of AT&T Corp. common stock, shareholders received .3235 shares of Comcast Corporation Class A common stock as of the close on November 15, 2002. As a result, a Comcast Stock Fund was added to the Group Trust in November 2002. The Comcast Stock Fund is not an employer security and is frozen to employee contributions.

Employee allotments of 2% to 16% of salary may be authorized. An employee may designate allotments as pre-tax allotments, as after-tax allotments or as a combination of pre-tax and after-tax allotments. All participant contributions and earnings thereon are immediately vested and not subject to forfeiture. Pre-tax contributions may be made up to the Internal Revenue Service limit of \$12,000 in 2003. 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 66-2/3% of the first six percent (6%) of the employee's salary contributed. A participant becomes 100% vested in the employing company contributions after three years of credited service. Company contributions are made in accordance with the participants' elected

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

investment direction. The Plan provides that Company Matching Contributions associated with a participant's contribution to the International Brotherhood of Electrical Workers (IBEW) Sponsored Trust for Savings be invested in the AT&T Stock Fund and then are immediately available for participant redistribution.

Employees who are age 50 or older on or before December 31st may be eligible to make pre-tax contributions beyond the Internal Revenue Service pre-tax limit. The 2003 catch-up contribution limit set by the Internal Revenue Service is \$2,000. No company matching contribution is made on catch-up contributions.

Loans are available to all participants in an amount not less than \$1,000, up to a maximum of the lesser of \$50,000 minus the participant's highest outstanding loan balance in the last twelve (12) months or 50% of the employee's vested account balance. 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 fund from (to) the 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, 2003 range from 4.0 percent to 9.5 percent. Principal and interest are paid through payroll deductions or participant-initiated payments.

When a participant terminates employment, a single distribution will be made of all vested amounts in the participant's account 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 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.

Participant forfeitures in 2003 were \$362,695. The total forfeited non-vested accounts as of December 31, 2003 is \$664,665. Forfeitures will be used to reduce future employer contributions and administrative expenses. During 2003, employer contributions were reduced by \$101 due to 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 Security 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 Group Trust are allocated to the Plan based on participant balances. The net asset value of the Group Trust is calculated by the Trustee. The trustee determines the value of the underlying assets

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

in the investment manager portfolios, taking into account 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 at the close of business on December 31. Participant loans receivable are valued at cost which approximates fair value. Participant loans are not part of the Group Trust.

Purchases and Sales of Investments

Purchases and sales of securities are recorded as of 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

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 consist of the realized gains (losses) and the 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. The most significant estimates relate to the valuation of the investments.

Risks and Uncertainties

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

Certain amounts in prior periods have been reclassified to conform to the current presentation.

3. Tax Status

The Internal Revenue Service (IRS) has determined and informed AT&T by a letter dated December 19, 1995, that the Plan and related trust are qualified in accordance with applicable sections of the Internal Revenue Code (IRC). The Plan has been amended and restated since receiving the determination letter. The Company has applied for a new determination letter from the IRS on February 28, 2002, and the IRS is currently reviewing the request. However, the Plan Administrator believes that the

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

Plan is qualified and is currently being operated in compliance with the applicable requirements of the IRC.

4. Concentrations of Investment Risk

At December 31, 2003, Plan participants' accounts that are invested in the investment options mentioned herein, were exposed to market risk in the event of a significant decline in the value of AT&T Corp. stock, and/or Comcast 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. Group Trust Investments

The following table presents the investments in the Group Trust held by Fidelity Management Trust Company ("FMTC") as Trustee, at December 31, 2003 and 2002 (in thousands of dollars except for percentages).

| Type of Group Trust investments | 2003 | 2002 |
|---------------------------------|--------------|--------------|
| Asset Allocation Strategies | \$ 560,314 | \$ 476,869 |
| Index Funds | 342,148 | 269,382 |
| AT&T Custom Funds | 3,979,005 | 3,601,076 |
| Mutual Funds | 2,708,720 | 1,969,665 |
| Stock Funds | 754,883 | 830,588 |
| | ----- | ----- |
| Total Group Trust investments | \$ 8,345,070 | \$ 7,147,580 |
| | ----- | ----- |

| Type of Group Trust Investments | December 31, 2003 |
|---------------------------------|-------------------|
| Government securities | \$ 16,572 |
| Short-term securities | 10,189 |
| Corporate Bonds | 6,127 |
| Common stocks | 1,567,644 |
| Mutual funds | 2,795,255 |
| Commingled funds | 1,294,002 |
| Investment Contracts* | 2,652,419 |
| Cash | 2,862 |
| | ----- |
| Total Group Trust investments | \$ 8,345,070 |
| | ----- |

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

*Investment contracts include synthetic investment contracts with a contract value of \$2,294,485 wrapping fixed income investments of \$2,543,093.

| Allocation of Group Trust investments | December 31, | |
|---|--------------|---------|
| | 2003 | 2002 |
| AT&T Long Term Savings Plan for Management Employees | 83.15% | 82.54% |
| AT&T Long Term Savings and Security Plan | 16.54% | 17.26% |
| AT&T Retirement Savings and Profit Sharing Plan | 0.22% | 0.10% |
| AT&T of Puerto Rico, Inc. Long Term Savings Plan for Management Employees | 0.08% | 0.08% |
| AT&T of Puerto Rico, Inc. Long Term Savings and Security Plan | 0.01% | 0.02% |
| | 100.00% | 100.00% |

| Net appreciation in fair value of Group Trust investments | December 31, 2003 | |
|---|-------------------|-----------|
| Asset Allocation Strategies | \$ | 106,330 |
| Index Funds | | 48,591 |
| AT&T Custom Funds | | 319,077 |
| Mutual Funds | | 570,624 |
| Stock Funds | | 107,681 |
| Total net appreciation in fair value of Group Trust investments | \$ | 1,152,303 |
| Investment income | | |
| Interest | \$ | 168,492 |
| Dividends | | 10,353 |
| | \$ | 178,845 |

8. Related Party Transactions and Party-in-Interest

Certain Plan investments are in shares of mutual funds managed by Fidelity Management and Research (FMR), the parent of FMTC. FMTC is the trustee of the Plan and, therefore, these transactions qualify as party-in-interest transaction. At December 31, 2003 the total of these investments amounted to \$1,914,936,504 or approximately 23% of the Group Trust.

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

9. Subsequent Events

- 1) Effective January 2, 2004, State Street Bank and Trust Company was appointed as the Trustee to the Plan.

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

- 2) The Group Trust has been renamed the AT&T Savings Master Trust.
- 3) The Comcast Stock Fund was liquidated in May 2004. Balances remaining in these funds as of the liquidation date were transferred into the AT&T Stable Value Fund.

AT&T Long Term Savings and Security Plan
Schedule of Assets (Held at End of Year)
December 31, 2003

(thousands of dollars)

| Name of Issuer and Title of Issue | Cost | Value |
|--|-----------|--------------|
| Participant Loans Receivable (4.0% - 9.5%) | \$ 38,919 | \$ 38,919 |
| Group Trust | \$ | \$ 1,379,884 |

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 LONG TERM SAVINGS AND SECURITY PLAN

By Savings Plan Committee

/s/ Brian Byrnes

Brian Byrnes
Secretary of the Savings Plan Committee

Date: July 2, 2004

Exhibit Index

Exhibit No.

23 Consent of PricewaterhouseCoopers LLP