

AT&T INC.  
Form 11-K  
June 23, 2006

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 11-K**  
**ANNUAL REPORT**

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

For the fiscal year ended December 31, 2005

Commission File Number 1-8610

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

**Pacific Telesis Group**

**Employee Stock Ownership Plan**

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

**AT&T INC.**

175 E. Houston, San Antonio, Texas 78205

Pacific Telesis Group

Employee Stock Ownership Plan

Financial Statements, Supplemental Schedules and Exhibit

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Report of Independent Registered Public Accounting Firm

AT&T Teleholdings, Inc.,

Plan Administrator for

Pacific Telesis Group Employee Stock Ownership Plan

We have audited the accompanying statements of net assets available for benefits of Pacific Telesis Group Employee Stock Ownership Plan as of December 31, 2005 and 2004, and the related statement of changes in net assets available for benefits for the year ended December 31, 2005. 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 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. We were not engaged to perform an audit of the Plan's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 2005 and 2004, and the changes in its net assets available for benefits for the year ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedules of assets (held at end of year) as of December 31, 2005, and reportable transactions for the year then ended, are presented for purposes of additional analysis and are not a required part of the financial statements but are 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. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

San Antonio, Texas  
June 20, 2006

/s/ ERNST & YOUNG LLP

Pacific Telesis Group

Employee Stock Ownership Plan

Statements of Net Assets Available for Benefits

(Dollars in Thousands)

	December 31, <b>2005</b>	2004
<b>Assets</b>		
Investment in common stock of AT&T Inc., at fair value	\$ <b>69,633</b>	\$ 77,771
Cash equivalents	<b>39</b>	24
<b>Net assets available for benefits</b>	\$ <b>69,672</b>	\$ 77,795

*See accompanying notes.*

Pacific Telesis Group

Employee Stock Ownership Plan

Statement of Changes in Net Assets Available for Benefits

Year Ended December 31, 2005

(Dollars in Thousands)

**Additions:**

Dividend income	\$	3,810
Interest income		55
Total additions		3,865

**Deductions:**

Net depreciation of AT&T Inc. common stock		3,991
Distributions to participants		7,957
Administrative expenses		40
Total deductions		11,988
Net decrease		(8,123)

**Net assets available for benefits, beginning of year** 77,795

**Net assets available for benefits, end of year** \$ 69,672

*See accompanying notes.*

Pacific Telesis Group

Employee Stock Ownership Plan

Notes to Financial Statements

December 31, 2005 and 2004

(Dollars in Thousands)

## **1. Plan Description**

The Pacific Telesis Group Employee Stock Ownership Plan (the Plan) was established by AT&T Teleholdings, Inc. (Teleholdings), formerly known as the Pacific Telesis Group or PTG. The plan was created under the provisions of the Tax Reduction Act of 1975 as amended by the Tax Reform Acts of 1976 and 1986, to provide shares of the Company's common stock to eligible employees. PTG was subsequently acquired by and became a wholly owned subsidiary of SBC Communications Inc. (SBC) in 1997, at which time the Company's shares were replaced with SBC shares. In connection with the acquisition of AT&T Corp., SBC changed its name to AT&T Inc. (AT&T) in November 2005. Teleholdings is the plan sponsor, but due to the acquisition, the Plan is now invested in AT&T shares.

The following description of the Plan provides only general information. The Plan text and prospectus include complete descriptions of Plan provisions. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Contributions for years prior to the 1987 plan year were in amounts equal to the credit claimed by Teleholdings on its consolidated federal income tax return pursuant to Section 41 of the Internal Revenue Code of 1954 (IRC). This credit was one-half of one percent of compensation paid or accrued for all participants during the plan year up to a maximum of \$100 per participant.

The Tax Reform Act of 1986 repealed the income tax credit on employee stock ownership plan contributions for compensation paid or accrued after December 31, 1986. No contributions were made to the Plan beginning with the 1987 plan year. Employees with a balance in the Plan on December 31, 1986 and whose accounts have not been totally distributed in accordance with the terms of the Plan are eligible for participation in the Plan and continue to maintain a balance in the Plan. Employees who did not have a balance in the Plan at that time are not eligible to participate.

Teleholdings has the right under the Plan to terminate the Plan subject to the provisions of ERISA. Teleholdings will file an application for a determination of the Plan's qualified status with the Internal Revenue Service (IRS) in the third quarter of 2006, and intends to terminate the Plan within a reasonable period of time following receipt of a favorable determination letter from the IRS. The Plan termination will be subject to the conditions set forth by ERISA and as the Plan provides, the net assets will be distributed to participants in amounts equal to their respective interests in such assets.





Pacific Telesis Group

Employee Stock Ownership Plan

Notes to Financial Statements (continued)

December 31, 2005 and 2004

(Dollars in Thousands)

## **2. Summary of Significant Accounting Policies**

The fair value of AT&T common stock is determined on the basis of the closing price per share on the valuation date as reported at the official close of the New York Stock Exchange. Temporary cash investments are valued at cost, which approximates fair value. Purchases and sales of securities are reflected as of the trade date. Dividend income is recognized on the ex-dividend date. Interest earned on investments is recognized on the accrual basis.

The Plan provides for investments in investment securities, which in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets available for benefits and participant account balances.

Expenses incurred to administer the Plan are paid by Teleholdings. A portion of these expenses, up to \$100 per year, is reimbursed by the Plan to Teleholdings.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

## **3. Allocations and Distributions to Participants**

The Plan maintains an account for each participant. Distribution of the shares allocated to a participant's account is generally made to a participant after termination of employment but no later than April of the plan year following the plan year in which the participant attains age 70 1/2, or to a beneficiary as soon as practicable after the participant's death. For each distribution, the participant or beneficiary may elect to receive stock or cash, but if no election is made, the distribution will be made in cash.



Pacific Telesis Group

Employee Stock Ownership Plan

Notes to Financial Statements

December 31, 2005 and 2004

(Dollars in Thousands)

All quarterly dividends for a year earned on shares held in participants' accounts are held in an interest-bearing account until paid to participants on an annual basis in November of each year. Effective January 1, 2002, the Plan was amended to allow participants the option to reinvest dividends on AT&T common stock held in their accounts. Reinvested dividends are used to purchase AT&T common stock. Earnings attributable to dividends pending distribution, which exceed administrative expenses paid by the Plan, are used to purchase additional shares of AT&T common stock. These shares are proportionately allocated to each participant's account.

#### **4. Tax Status**

The IRS issued a determination letter on May 11, 1998, stating that the Plan and related trust are designed in accordance with applicable sections of the IRC. The Plan has been amended since the determination letter was received. The Plan Administrator believes that the Plan is currently designed and is operating in compliance with the applicable requirements of the IRC.

On February 28, 2002, the Plan filed for, but has not yet received, a new tax determination letter from the IRS to reflect legally required changes and other changes made to the Plan since the previous determination letter was issued.

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Pacific Telesis Group

Employee Stock Ownership Plan

Notes to Financial Statements

December 31, 2005 and 2004

(Dollars in Thousands)

**5. Reconciliation of Financial Statements to Form 5500**

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500 as of December 31:

	2005	2004
Net assets available for benefits per the financial statements	\$ 69,672	\$ 77,795
Less: Distributions payable to participants	(154)	(237)
Net assets available for benefits per the Form 5500	\$ 69,518	\$ 77,558

The following is a reconciliation of benefits paid to participants per the financial statements to the Form 5500 for the year ended December 31, 2005:

Distributions to participants per the financial statements	\$ 7,957
Add: distributions payable to participants at December 31, 2005	154
Less: distributions payable to participants at December 31, 2004	(237)
Distributions to participants per the Form 5500	\$ 7,874

Distributions payable to participants are recorded on the Form 5500 for benefit claims that have been processed and approved for payment prior to December 31, but not yet paid as of that date.



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Employee Stock Ownership Plan

Schedule H, Line 4(i) Schedule of Assets (Held at End of Year)

EIN: 94-2919931 Plan No.: 006

December 31, 2005

(Dollars in Thousands)

**Name of Issue, Borrower, Lessor**

<b>or Similar Party</b>	<b>Description of Investment</b>	<b>Cost</b>	<b>Current Value</b>
* AT&T Inc. Common Stock	2,843,311 shares	\$ 21,257	\$ 69,633
* Mellon Trust of New England, National Association Pooled Employee Funds Daily Liquidity Fund	Temporary cash investment	39	39
		\$ 21,296	\$ 69,672

\* Party-in-Interest.

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Employee Stock Ownership Plan

Schedule H, Line 4(j) Schedule of Reportable Transactions

EIN: 94-2919931 Plan No.: 006

Year Ended December 31, 2005

(Dollars in Thousands)

Identity of Party Involved	Description of Asset	Purchase Price	Selling Price	Cost of Asset	Current Value of Asset on Transaction Date	Net Gain (Loss)
<b>Category (3) Series of Transactions in Excess of 5 Percent of Plan Assets</b>						
* Mellon Trust of New England, Pooled Employee Funds National Association	Daily Liquidity Fund	\$ 13,222	\$	\$ 13,222	\$ 13,222	\$
* Mellon Trust of New England, Pooled Employee Funds National Association	Daily Liquidity Fund		13,207	13,207	13,207	
* AT&T Inc.	AT&T Inc. Common Stock	324		324	324	
* AT&T Inc.	AT&T Inc. Common Stock		4,152	1,283	4,152	2,869

\* All transactions were purchased and sold on the market.

There were no Category (1), (2) or (4) reportable transactions during the year ended December 31, 2005.





SIGNATURE

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

Pacific Telesis Group Employee

Stock Ownership Plan

By AT&T Teleholdings, Inc.,

Plan Administrator for the Foregoing Plan

By

/s/ John J. Stephens  
John J. Stephens  
Senior Vice President and Controller

Date: June 23, 2006

EXHIBIT INDEX

Exhibit identified below, Exhibit 23 is filed herein as an exhibit hereto.

Exhibit  
Number

23          Consent of Independent Registered Public Accounting Firm