

AT&T INC.
Form 11-K
June 22, 2007

**SECURITIES AND
EXCHANGE
COMMISSION**

Washington, D.C. 20549

(Mark One)
FORM 11-K

**ANNUAL REPORT
PURSUANT TO
SECTION 15(d)**

**OF THE SECURITIES
EXCHANGE ACT OF
1934**

For the fiscal year ended
December 31, 2006

OR

**TRANSITION
REPORT PURSUANT
TO SECTION 15(d)**

**OF THE SECURITIES
EXCHANGE ACT OF
1934**

For the transition period
from to

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:

AT&T OF PUERTO RICO, INC.

LONG TERM SAVINGS PLAN

FOR MANAGEMENT EMPLOYEES

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

Financial Statements, Supplemental Schedules and Exhibit

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Participants and Plan Administrator of the

AT&T of Puerto Rico, Inc. Long Term Savings Plan for Management Employees

We have audited the financial statements of the AT&T of Puerto Rico, Inc. Long Term Savings Plan for Management Employees as of December 31, 2006 and 2005, and for the year ended December 31, 2006, as listed in the accompanying contents page. 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. The Plan is not required to have, nor were we engaged to perform, an audit of its 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 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 net assets available for benefits of AT&T of Puerto Rico, Inc. Long Term Savings Plan for Management Employees as of December 31, 2006 and 2005, and the changes in its net assets available for benefits for the year ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed 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, 2006 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 audit 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.

San Antonio, Texas

June 22, 2007

AT&T OF PUERTO RICO, INC.

LONG TERM SAVINGS PLAN FOR MANAGEMENT EMPLOYEES

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

(Dollars in Thousands)

| | December 31, 2006 | 2005 |
|--|-----------------------------|----------|
| ASSETS | | |
| Investments, at fair value: | | |
| Investment in Master Trust | \$ 5,136 | \$ 5,450 |
| Participant loans receivable | 89 | 105 |
| Total Assets, at fair value | 5,225 | 5,555 |
| Adjustment from fair value to contract value for interest in Master Trust relating to fully benefit- responsive investment contracts | 25 | 5 |
| Net Assets Available for Benefits | \$ 5,250 | \$ 5,560 |

See Notes to Financial Statements.

AT&T OF PUERTO RICO, INC.

LONG TERM SAVINGS PLAN FOR MANAGEMENT EMPLOYEES

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR THE YEAR ENDED DECEMBER 31, 2006

(Dollars in Thousands)

| | |
|--|----------|
| Net Assets Available for Benefits, December 31, 2005 | \$ 5,560 |
| Additions to Net Assets: | |
| Contributions: | |
| Participant contributions | 63 |
| Employer contributions | 37 |
| | 100 |
| Investment Income: | |
| Net income from investment in Master Trust | 535 |
| Interest on participant loans | 5 |
| | 540 |
| Total Additions | 640 |
| Deductions from Net Assets: | |
| Distributions | 950 |
| Total Deductions | 950 |
| Net Decrease | (310) |
| Net Assets Available for Benefits, December 31, 2006 | \$ 5,250 |

See Notes to Financial Statements.

AT&T OF PUERTO RICO, INC.

LONG TERM SAVINGS PLAN FOR MANAGEMENT EMPLOYEES

NOTES TO FINANCIAL STATEMENTS

(Dollars in Thousands)

1. Plan Description The AT&T Puerto Rico, Inc. Long Term Savings Plan for Management Employees (Plan) is a defined contribution plan established by AT&T Corp. (ATTC) to provide a convenient way for eligible management employees of participating ATTC companies to save on a regular and long-term basis. The following description of the Plan provides only general information. The Plan has detailed provisions covering participant eligibility, participant allotments from pay, participant withdrawals, participant loans, employer contributions and related vesting of contributions and Plan expenses. The Plan documents include complete descriptions of these and other Plan provisions. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

On November 18, 2005, ATTC was acquired by AT&T Inc. (AT&T or the Company), formerly known as SBC Communications Inc. As a result of the acquisition, the AT&T Corp. common stock held in the AT&T Stock Fund was converted to AT&T common stock based on a conversion ratio.

The Plan participates in the AT&T Savings Master Trust (Master Trust) for the investment of the pooled assets of various funds. Each participating plan has an undivided interest in the Master Trust. The trustee of the Master Trust is State Street Bank and Trust Company (State Street). (See Note 5)

Participants can invest their contributions in one or more of twenty-six different funds as set forth in the current Plan documents. An employee may designate allotments as pre-tax allotments, after-tax allotments or as a combination of pre-tax and after-tax allotments. All participant contributions and earnings thereon are immediately vested and are not subject to forfeiture. Participant contributions may be made up to the Puerto Rico Department of Treasury limit. Employer contributions are made in accordance with the participant's elected investment direction. Employer contributions and earnings thereon are vested after three years of vesting service.

Loans are available to all participants in an amount not less than \$1 and up to a maximum of 50% of the participant's vested account balance or \$50 minus the participant's highest outstanding loan balance in the last twelve 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 and shall not exceed a term of fifty-six 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, or at a rate as otherwise approved by the Savings Plan Committee. Interest rates are fixed for the term of the loans and ranged from 4.00% to 8.00% on participant loans outstanding at December 31, 2006.

Participant forfeitures in 2006 were less than \$1. The total forfeited non-vested accounts were \$47 as of December 31, 2006 and \$43 as of December 31, 2005. Forfeitures may be used to reduce future employer contributions and administrative expenses. During 2006, no employer contributions were reduced by forfeitures.

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.

AT&T OF PUERTO RICO, INC.

LONG TERM SAVINGS PLAN FOR MANAGEMENT EMPLOYEES

NOTES TO FINANCIAL STATEMENTS

(Dollars in Thousands)

- Accounting Policies The accompanying financial statements were prepared in conformity with U.S. generally accepted accounting principles, which require management to make estimates that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The most significant estimates relate to the valuation of the investments. Benefits are recorded when paid. Income and assets of the Master Trust are allocated to the Plan based on participant balances. Certain amounts in prior-year financial statements have been reclassified to conform to the current year's presentation.

The net asset value of the Master Trust is calculated by State Street, which determines the value of the underlying assets in the investment manager portfolios taking into account the market values supplied by a recognized pricing or quotation services 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. All investments are carried at the fair value at the close of the business day on December 31. For contracts with insurance companies and financial institutions, which are fully benefit-responsive, an adjustment to contract value (representing contributions made under the contracts plus accumulated interest at the contract rates) is separately identified on the Statement of Net Assets Available for Benefits. 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 securities are recorded on the trade date. Dividend income is recorded on the ex-dividend date. Interest income is accrued as earned.

In December 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position AAG INV-1 and SOP 94-4-1, Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans (FSP). The FSP defines the circumstances in which an investment contract is considered fully benefit responsive and provides certain reporting and disclosure requirement for fully benefit-responsive investment contracts in defined contribution health and welfare and pension plans. The financial statement presentation and disclosure provision of the FSP are effective for financial statements issued for annual periods ending after December 15, 2006 and are required to be applied retroactively to all prior periods presented for comparative purposes. The Plan adopted the provisions of the FSP at December 31, 2006.

As required by the FSP, investments in the accompanying Statements of Net Assets Available for Benefits include fully benefit-responsive investment contracts recognized at fair value. AICPA Statement of Position 94-4, Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined Contribution Pension Plans, as amended, requires fully benefit-responsive investment contracts to be reported at fair value in the Plan's statements of Net Assets Available for Benefits with a corresponding adjustment to reflect these investments at contract value. The requirements of the FSP have been applied retroactively to the Statement of Net Assets Available for Benefits as of December 31, 2005 presented for comparative purposes. Adoption of the FSP had no effect on the Statement of Changes in Net Assets Available for Benefits for any period presented.

- Tax Status The Puerto Rico Department of Treasury has determined and informed AT&T by a 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 (Act). The Act has been amended and restated as the Puerto Rico Internal Revenue Code of 1994 (1994 Code). 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 1994 Code. Since the Plan and its associated trust are tax-exempt under the 1994 Code,

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no provision for income taxes has been included in the Plan's financial statements.

4. 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 Master Trust, unless those expenses are paid by the Company or participant(s). Fees for State Street's services are paid out of Master Trust assets. Expenses attributable to the management and investment of each of the investment funds are charged against those respective funds.

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AT&T OF PUERTO RICO, INC.

LONG TERM SAVINGS PLAN FOR MANAGEMENT EMPLOYEES

NOTES TO FINANCIAL STATEMENTS

(Dollars in Thousands)

5. Master Trust Investments The Master Trust investments presented as of December 31 are those held by State Street, as trustee, of the AT&T Savings Master Trust.

Type of Master Trust Investment

| | | | |
|--|--------------|--|--------------|
| | 2006 | | 2005 |
| Short-term securities | \$ 13,179 | | \$ 11,730 |
| Common stocks | 1,008,878 | | 855,818 |
| Mutual funds | 3,440,944 | | 3,204,651 |
| Commingled funds | 1,455,784 | | 1,355,098 |
| Investment contracts (at fair value): | | | |
| Guaranteed investment contracts | 136,056 | | 185,499 |
| Synthetic investment contracts | | | |
| Short-term investments | 62,116 | | 114,898 |
| Asset-backed securities | 711,685 | | 600,718 |
| Consumer loans receivable | 283,673 | | 317,164 |
| Corporate bonds | 809,478 | | 728,350 |
| Government securities | 890,859 | | 1,066,806 |
| Derivatives | 71 | | 79 |
| Unsettled trades and other | (164,082) | | (142,197) |
| Wrap Contract | - | | - |
| Cash | 3,160 | | 5,105 |
| Unsettled trades and other | 949 | | (1,142) |
| Master trust investments at fair value | 8,652,750 | | 8,302,577 |
| Adjustment from fair value to contract value for fully | | | |
| benefit-responsive investment contracts | 22,255 | | 4,885 |
| | \$ 8,675,005 | | \$ 8,307,462 |

Allocation of Master Trust Investments

| | | | | |
|--|-------------|---|--------|---|
| | 2006 | | 2005 | |
| AT&T Long Term Savings Plan for Management Employees | 83.97 | % | 83.96 | % |
| AT&T Long Term Savings and Security Plan | 15.19 | | 15.38 | |
| AT&T Retirement Savings and Profit Sharing Plan | 0.77 | | 0.59 | |
| AT&T of Puerto Rico, Inc. Long Term Savings Plan for | | | | |
| Management Employees | 0.06 | | 0.06 | |
| AT&T of Puerto Rico, Inc. Long Term Savings | | | | |
| and Security Plan | 0.01 | | 0.01 | |
| | 100.00 | % | 100.00 | % |

Net Appreciation in Fair Value of Master Trust Investments and Total Investment Income

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| | |
|--|-------------|
| | 2006 |
| Common stocks | \$ 133,524 |
| Mutual funds | 6,459 |
| Commingled funds | 132,987 |
| Total net appreciation in fair value of Master Trust Investments | \$ 272,970 |
| Investment income: | |
| Interest | \$ 136,718 |
| Dividends | 364,583 |
| Total investment income | \$ 501,301 |

Investments representing 5% or more of Plan net assets at December 31,

| | | |
|-----------------------------|--------------|--------------|
| | 2006 | 2005 |
| AT&T Stable Value Fund | \$ 2,752,349 | \$ 2,879,229 |
| AT&T U.S. Equity Fund | 1,031,991 | 1,006,485 |
| Fidelity Magellan Fund | 635,041 | 678,359 |
| Fidelity Equity Income Fund | 469,963 | 417,777 |

AT&T OF PUERTO RICO, INC.

LONG TERM SAVINGS PLAN FOR MANAGEMENT EMPLOYEES

NOTES TO FINANCIAL STATEMENTS

(Dollars in Thousands)

Fully benefit-responsive investment contracts

The AT&T Stable Value Fund consists primarily of contracts with various financial institutions and insurance companies that promise to repay principal plus accrued income at contract maturity, subject to the creditworthiness of the issuer. Interest crediting rates are generally established when the contract is purchased and may be periodically reset. The AT&T Stable Value Fund invests in synthetic investment contracts (SICs), also referred to as wrapper contracts. The assets supporting the SICs are owned by the Master Trust and generally consist of high quality fixed income securities. At December 31, 2006 the underlying assets had a fair value of \$2,730,094 and a contract value of \$2,752,349. At December 31, 2005 the underlying assets had a fair value of and a contract value of \$2,874,344 and \$2,879,229. For the years ended December 31, 2006 and 2005, the average yield earned by the Master Trust on these contracts was 5.68% and 4.70%, and, the average yield earned by the Master Trust adjusted to reflect actual interest rate credited to participants, was 4.90% and 4.50%. No valuation reserves were recorded to adjust contract amounts as of December 31, 2006 or 2005.

A bank or insurance company issues a wrapper contract that provides preservation of principal, maintains a stable interest rate and provides daily liquidity at contract value for participant directed transactions, in accordance with the provisions of the Plan. Wrapper contracts amortize the realized and unrealized gains and losses on the underlying fixed income investments through adjustments to the future interest crediting rate. The issuer of the wrapper contract provides assurance that the adjustments to the interest crediting rate do not result in a future interest crediting rate that is less than zero, which would result in a loss of principal or accrued interest. The fair value of the wrapper contracts were \$0 at December 31, 2006 and 2005.

Wrapper contracts interest crediting rates are typically reset on a monthly or quarterly basis and are based on the characteristics of the underlying fixed income securities. Other key factors that influence the interest crediting rates are market interest rates, the amount and timing of participant transactions into and out of the wrapper contract, investment returns on the underlying fixed income securities and the duration of those investments. All wrapper contracts provide for minimum interest crediting rate of zero percent. In the event that the interest crediting rate should fall to zero and the requirements of the wrapper contract are satisfied, the wrapper issuer will pay the plan the shortfall needed to maintain the rate at zero, ensuring participants principal and accrued interest is protected. The fixed crediting interest rate on these contracts was 5.06% at December 31, 2006 and 4.75% at December 31, 2005.

Changes in market interest rates can affect the yield to maturity and the market value of the underlying investments, and can have a material impact on the wrapper contract s interest crediting rate. Additionally, participant withdrawals and transfers from the AT&T Stable Value Fund are paid at contract value but funded through the market value liquidation of the underlying investments, which also impacts the interest crediting rate. The resulting gains and losses in the market value of the underlying investments relative to the wrapper contract value are represented on the Plan s Statement of Assets and Liabilities as the Adjustment from fair value to contract value for interest in Master Trust relating to fully benefit-responsive investment contracts. If this adjustment is positive, it indicates that the wrapper contract value is greater than the market value of the underlying investments and the embedded market value losses will be amortized in the future through a lower interest crediting rate. If the adjustment is negative, the embedded market gains would cause the future interest crediting rate to be higher.

In certain circumstances, the amount withdrawn from the wrapper contract could be payable at fair value rather than at contract value. These events include termination of the Master Trust, a material adverse change to the provisions of the Plan, if AT&T elects to withdraw from a wrapper contract in order to switch to a different investment provider or, in the event of a spin-off or sale of a division, if the terms of the successor plan do not meet the contract issuers underwriting criteria for issuance of a clone wrapper contract. Events that would permit a wrapper contract issuer to terminate a wrapper contract upon short notice include the Plan s loss of its qualified status, un-cured material breaches

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of responsibilities or material and adverse changes to the provisions of the Plan. We do not believe any of these events will occur in the foreseeable future.

AT&T OF PUERTO RICO, INC.

LONG TERM SAVINGS PLAN FOR MANAGEMENT EMPLOYEES

NOTES TO FINANCIAL STATEMENTS

(Dollars in Thousands)

Investment Risk

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 plan benefits. Plan participants' accounts that are invested in the Company stock fund option are exposed to market risk in the event of a significant decline in the value of AT&T stock.

In the normal course of operations, Master Trust assets are invested in financial instruments (futures, options and foreign currency contracts) which may give rise to off-balance sheet risk. These instruments involve, in varying degrees, elements of credit and market risk in excess of the amounts recognized on the statement of net assets available for benefits. The contract or notional amounts provide a measure of the Master Trust involvement in such instruments but are not indicative of potential loss. The intent is to use these financial instruments to reduce, rather than increase, market risk. The Master Trust's fiduciaries do not anticipate any material adverse effect on the Master Trust's financial position resulting from its involvement in these instruments.

Related Party Transactions and Party-in-Interest

During 2006, the Master Trust purchased \$48,776 and received proceeds of \$30,586 from AT&T common stock. At December 31, 2006, the total investment held by the Master Trust in AT&T common stock was \$328,833, or 4% of the Master Trust. At December 31, 2005, the total investment held by the Master Trust in AT&T common stock was \$211,632, or 3% of the Master Trust.

Certain investments held by the Master Trust are managed by State Street and Fidelity as trustee and record keeper, respectively, as defined by the Master Trust agreement. Therefore, these transactions and fees paid to these entities qualify as parties-in-interest transactions.

AT&T OF PUERTO RICO, INC.

LONG TERM SAVINGS PLAN FOR MANAGEMENT EMPLOYEES

NOTES TO FINANCIAL STATEMENTS

(Dollars in Thousands)

6. 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:

| | 2006 | 2005 |
|--|-----------------|----------|
| Net Assets Available for Benefits per the financial statements | \$ 5,250 | \$ 5,560 |
| Less: Adjustment from contract value to fair value for fully benefit-responsive investment contracts | (25) | - |
| Net Assets Available for Benefits per the Form 5500 | \$ 5,225 | \$ 5,560 |

The following is a reconciliation of total additions per the financial statements to the Form 5500 for the year ended December 31, 2006:

| | |
|--|--------|
| Total additions per the financial statements | \$ 640 |
| Less: Adjustment from contract value to fair value for fully benefit-responsive investment contracts | (25) |
| Total additions per the Form 5500 | \$ 615 |

Fully benefit-responsive contracts are recorded on the Form 5500 at fair value versus contract value on the financial statements.

7. Subsequent Events Effective January 1, 2007, AT&T amended the Plan to increase the company matching contribution and to add an Employee Stock Ownership Plan (ESOP) as an investment fund for the investment of company matching contributions. Participants are immediately eligible to diversify amounts contributed to the ESOP, regardless of whether they are vested. The Plan was also amended to clarify transfer provisions for employees transferring between AT&T subsidiaries. The Plan documents include complete descriptions of these and other Plan provisions.

AT&T OF PUERTO RICO, INC. LONG TERM SAVINGS PLAN FOR MANAGEMENT EMPLOYEES

EIN 66-0177929, PLAN NO. 001

SCHEDULE H, LINE 4(i) - SCHEDULE OF ASSETS (HELD AT END OF YEAR)

December 31, 2006

(Dollars in Thousands)

| Identity of Issue | Description of Investment | Cost | Current Value |
|--------------------------------|---------------------------|------|---------------|
| * Investment in Master Trust | Various investment funds | | \$ 5,136 |
| * Participant Loans Receivable | 4.00% - 8.00% | | 89 |
| * Party-in-Interest. | | | |

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.

AT&T of Puerto Rico, Inc. Long Term Savings Plan for
Management Employees

By AT&T Inc.,

Plan Administrator for the Foregoing Plan

By

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

Date: June 22, 2007

EXHIBIT INDEX

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

Exhibit
Number

23 Consent of Independent Registered Public Accounting Firm