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Form DEFA14A
March 07, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

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Rule14a-6(e) (2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Rule 14a-12

BELLSOUTH CORPORATION
(Name of Registrant as Specified in its Charter)

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

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No fee required

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(4) Date Filed:

AT&T/BellSouth Merger Announcement
Investor Relations Q&A

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1. What are the Benefits of This deal?
 - o The merger of AT&T and BellSouth combines two solid, very well-run companies with complementary strengths to create a more effective and efficient provider in the wireless, broadband, video, voice and data markets for consumers and businesses.
 - o The merger will allow AT&T to flow benefits to customers by offering new products and services that are fully integrated over Cingular's network, AT&T's national and global networks and BellSouth's fiber-rich local exchange and broadband networks.
 - o By combining the companies' three IP networks, the merged company will be better able to speed the convergence of services to the three screens of the wireless device, television and computer.
 - o The merger will bring world-class enterprise service to our customers who require the reach and scale of a national network but still want to have the efficiency and security of dealing with their local service provider.
2. Is this a merger or an acquisition?
 - o AT&T is acquiring BellSouth. (A wholly-owned subsidiary of AT&T will merge with and into BellSouth, with BellSouth being the surviving corporation in the merger and becoming a wholly-owned subsidiary of AT&T.)
3. How will my shares be exchanged?
 - o Each outstanding BellSouth share will be exchanged for 1.325 AT&T shares (AT&T will issue approximately 2.4 billion new AT&T shares). After the Merger, BellSouth shareholders will own approximately 38% of the combined company and AT&T Shareholders will own approximately 62% of the combined company.
 - o There is no collar or readjustment of price. BellSouth has traded consistently with AT&T's share price over the past 24 months.
4. What was the premium over the share price?
 - o Based on AT&T's closing stock price on March 3, 2006, this exchange ratio equals \$37.09 per BellSouth common share. This represents a 17.9 percent premium over BellSouth's closing stock price on March 3, 2006, and a total equity consideration currently valued at approximately \$67.1 billion.
5. How much BellSouth debt will be assumed by AT&T?
 - o AT&T will assume approximately \$22.3 billion in proportionate BellSouth debt net of cash on hand (BellSouth Net Debt = \$16.8B, Proportional Share of Cingular Net Debt = \$5.5B)
6. What will be the dividend rate of the combined company? Will AT&T maintain its current quarterly dividend?

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- o Each share of BellSouth stock, which currently pays an annual dividend of \$1.16, will first be converted to 1.325 shares of AT&T stock. Since AT&T's current annual dividend is \$1.33, the dividend received on a share held today will effectively increase 52% to \$1.76 post-merger.

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7. Why not a partial cash deal?
- o We considered that alternative. Given the benefits of the transaction and the opportunities provided by the resources of the combined companies, we believed our shareholders could participate in upside opportunity with nearly 38% ownership in the combined entity. The shareholders of the combined company will have the opportunity to participate in the upside of the synergies. Also as part of this deal AT&T's board of directors has approved an expanded share repurchase authorization of 400 million shares through 2008, replacing the existing program. PER DISCLOSED IN THE PRESS RELEASE ON MARCH 5: AT&T expects to buy back at least \$10 billion of its common shares over the next 22 months. It expects at least \$2 billion in repurchases during 2006, consistent with its previous guidance, and an additional \$8 billion in repurchases in 2007. This repurchase authorization is intended to approximate the share premium paid to BellSouth stockholders as part of this merger transaction. The timing and nature of these repurchases will depend on market conditions and applicable securities laws.
8. Given the recent run up in the stock price, shouldn't you have gotten more?
- o Based on AT&T's closing stock price on March 3, 2006, this exchange ratio equals \$37.09 per BellSouth common share. This represents a significant premium of 17.9 percent over BellSouth's closing stock price on March 3, 2006, and a total equity consideration currently valued at approximately \$67 billion. Furthermore, after the Merger, BellSouth shareholders will own approximately 38% of the combined company and AT&T shareholders will own approximately 62% of the combined company. Also, as a result of this transaction, our shareholders will receive what essentially amounts to a 52% increase in their dividend.
 - o It is also worth noting that BellSouth, AT&T and Verizon have all seen increases in their stock prices over the past several weeks.
9. Will there be any change in the Cingular operational structure prior to closing the deal?
- o No, all parties will operate under business as usual conditions prior to the close of the deal.
10. How is the waiting period going to be handled? Will the companies work closely together to plan the integration? Or will it be arms length?

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- o We will keep the two businesses completely separate until approvals are complete and closing has occurred.
11. What happens if there is a hostile bid for BellSouth prior to the closing?
- o We believe this agreement with AT&T provides significant strategic value and is the right opportunity for our customers, our shareholders and our employees. The agreement, which is on file with the SEC, sets forth the provisions relating to possible 3rd party bids. We understand those provisions are standard.

2. Terms of Agreement

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12. What are the key terms of the agreement?
 - o See questions 1 thru 6 above.
13. Any shareholder approvals required?
 - o The transaction is subject to the approval of both BellSouth and AT&T shareholders.
 - o BellSouth shareholders must approve the deal, while AT&T shareholders must approve the issuance of the new shares.
14. What are the walk-away provisions in the merger agreement?
 - o There is a \$1.7 billion break-up fee.
 - o There are also normal and customary provisions for Regulatory and Operational Material Adverse Changes. However, both provisions would entail substantial devaluation to AT&T or to BellSouth equity valuations.
15. Do you think it will be a tough sell to BellSouth shareholders?
 - o No, we believe this agreement with AT&T provides significant strategic and financial value to our shareholders. This agreement is the right opportunity for our customers, our shareholders and our employees.
16. When will the merger be finalized?
 - o We expect closing within approximately 12 months.
17. Until the merger has been finalized, what interim obligations does each company have?
 - o The agreement contains the usual and customary operating covenants, and until the merger is finalized, both companies will continue to operate independently until the deal closes.

3. Strategic Rationale & Merger Background

18. Who drove the deal? AT&T or BellSouth?

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- o This deal was a mutual agreement by both parties.
19. Is it fair to say that you pursued this merger because you became convinced that a stand-alone BellSouth would not survive in the long-term?
 - o BellSouth is financially solid and our operational results have demonstrated strong management performance through ongoing changes in our industry delivering 7% growth in earnings-per-share in 2005. BellSouth operates in an attractive region with a growing economy. In 2005, 75% of our revenue streams grew year-over-year and we delivered industry leading wireline margins with continued improvement from Cingular. Our balance sheet and cash flow remain strong.
20. Why now? Any regrets on not closing a deal with legacy T a few years ago?
 - o We firmly believe this is the right opportunity for BellSouth. Our comments referenced the industry as a "world in progress". In the past few years, there has been significant change and progress in the consumer choices, consumer demands, regulation, and technology. In

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today's world of convergent services, the combination of traditional local and long distance carriers is a sensible approach to meet customer communications needs. Technology advancement provides significant opportunity for converged wireline and wireless services, and for new and better video services. This merger will be about further progress and change in the industry and we are excited about participating in that opportunity.

4. Financial Issues

21. Will this be accretive or dilutive to AT&T?
- o As disclosed in March 5, 2006 press release: AT&T expects the transaction to be adjusted earnings-per-share neutral in 2007 and have a positive impact on its adjusted earnings per share thereafter (adjusted earnings per share exclude all merger integration costs and non-cash expenses for amortization of intangibles).
22. Can you quantify the savings that you'll be able to achieve through synergies?
- o As disclosed in March 5, 2005 press release: There is an expected net present value of \$18 billion in synergies resulting from a more than \$2 billion annual run rate in synergies expected in 2008, growing to \$3 billion in 2010.
23. Do you think the quoted synergies are achievable?
- o Yes, during the due diligence process we worked together to identify synergy opportunities and we believe they are achievable.

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- o The merger will allow the combined company to improve cost structure and generate benefits for the owners of the combined company and for customers. Efficiencies in network traffic, IT support and customer care platforms, branding, advertising and overhead management structure all provide sizeable opportunities to capture cost synergies.
24. Can you detail some of the efficiencies and cost reduction opportunities?
- o Approximately half of the total cost savings are expected to be from network operations and IT, as facilities and operations are consolidated and traffic is moved to a single IP network. Additional savings are expected to come from combining staff functions and from reduced ongoing advertising and branding expenses.
25. Will this allow capital expenditure synergies? Will BellSouth pull back on capital spending now in anticipation of the deal closing?
- o As disclosed on the March 6, 2005 conference call: Cap ex savings from the transaction are expected to reach a run rate of \$400 to \$500 million dollars in 2009.
 - o The savings expected will come from...
 - i. adopting the best from each company's procurement contracts
 - ii. rationalizing Cingular's IP network, voice and transport facilities with those of our wireline business
 - iii. and there are opportunities for savings with larger scale in IT

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data centers and support systems.

- o BellSouth will operate in a business as usual fashion until the deal closes. We will not change our plans to enhance our network by deploying incremental fiber and installations of ADSL2+ and VDSL2.0 technologies.
26. What impact will it have on the credit rating of AT&T and BellSouth?
- o The combined companies will have a strong balance sheet and credit metrics. We do not anticipate any issues with credit rating agencies.
27. What are the plans for Cingular's existing debt and impact will this transaction have on Cingular's credit rating?
- o You will need to direct that question to AT&T.
28. How is the acquisition going to be accounted for?
- o You will need to direct that question to AT&T.
29. Will BellSouth continue its share repurchase program or raise its dividend?
- o Per the agreement, BellSouth will only repurchase shares in connection with issuances under equity plans.
 - o Also, per the agreement, BellSouth may not raise its dividend.

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5. Regulatory Approval Process

30. What company approvals do you still have to go through?
- o The boards of directors of both companies have approved the transaction. In addition, BellSouth shareholders must approve the deal, while AT&T shareholders must approve the issuance of the new shares.
31. What regulatory approvals and reviews do you have to go through and how long are they expected to take?
- o The DOJ, the FCC, a number of state agencies and a limited number of international agencies (AT&T required).
 - o We expect the deal to close within approximately 12 months.
32. What states will require approvals?
- o We expect reviews in at least five states in BellSouth's region, namely Florida, Kentucky, Louisiana, Mississippi and North Carolina. We may have to file in some of our out of region states due to the CLEC and Long Distance authority we have in those states. We are still evaluating exactly which out of region states would require filings.
33. What conditions do you expect the federal government will demand? Do you think you will be forced to divest significant numbers of access lines?
- o There is intense and growing competition in the industry evidenced in part by the fact that both companies continue losing access lines to companies or technologies that didn't even exist a few short years ago. Since the merger will not eliminate an actual competitor in any market segment and will promote competition and benefit customers, we

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do not expect that federal or state agencies will impose any conditions or require any divestitures of access lines or other assets.

34. Do you think you might be required to divest some specific business customers as was required in the SBC/AT&T merger?
- o We don't believe that there's a substantial amount of overlap among facilities served, so we do not expect any such divestitures to be required.
35. If the acquisition is not approved, what happens then?
- o While we believe this is the right opportunity for BellSouth, BellSouth has a performance record that demonstrates it can operate as a stand-alone entity. BellSouth is financially solid and our operational results have demonstrated strong management performance through ongoing changes in our industry delivering 7% growth in earnings-per-share in 2005. BellSouth operates in an attractive region with a growing economy. In 2005, 75% of our revenue streams grew year-over-year and we delivered industry leading wireline

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margins with continued improvement from Cingular. Our balance sheet and cash flow remain strong.

6. Merger Integration Issues / Operational Issues

36. How long do you expect integration to take once the deal is approved and closed? When will the merger truly be complete?
- o You will need to direct that question to AT&T.
37. Does this mean BellSouth will now launch IPTV?
- o BellSouth will continue to make the necessary investments to upgrade our network. BellSouth will also continue with its evaluation of both the technology and economic opportunities of IPTV. We will not change that course of direction in response to this deal. We will also continue our strategic relationship with DirectTV.
38. Does this mean BellSouth will change its plans for network enhancements?
- o No, we plan to continue to invest in our network by deploying fiber deeper into our network and implementing new technologies such as ADSL2+ and VDSL2.0. As we have stated previously, this will bring 12-24 Mbps of bandwidth to 50% of households in our footprint by the end of 2007, and 75% by the end of 2009.
39. BellSouth has higher pricing points for many of its mass market services. Will BellSouth begin to lower prices on any of its services to align with AT&T's pricing structure?
- o BellSouth will make pricing changes based solely on competitive dynamics of consumer and business market. Competition is the best regulator of price.

Impacts to CINGULAR

40. How will Cingular be impacted?

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- o Until the deal is closed, Cingular will continue to operate under the current management and governance structure. Post closing impacts will need to be addressed by AT&T. AT&T announced that the Cingular brand name will no longer be used at closing and that Cingular's headquarters will remain in Atlanta.

8. Employee/Labor Issues

41. Will there be layoffs and operational closures? How many?
- o You will need to direct that question to AT&T.

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42. What effect will this have on existing agreements AT&T and BellSouth have with their unions?
- o This will have no direct impact on our existing union agreements. AT&T will assume all obligations under the BellSouth contract at closing.
43. BellSouth union agreement is more flexible than AT&T, will these terms change to come in alignment?
- o This will have no direct impact on our existing union agreements. AT&T will assume all obligations under the BellSouth contract at closing.

9. Miscellaneous Issues

44. Where will the headquarters be located?
- o AT&T corporate Headquarters will be in San Antonio. AT&T will maintain a regional Headquarters in Atlanta and Cingular Headquarters will remain in Atlanta. Also, BellSouth state headquarters will be maintained.

We have included or incorporated by reference in this document forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties, and actual results might differ materially from these statements. Such statements include, but are not limited to, statements about the benefits of the merger, including future financial and operating results, the combined company's plans, objectives, expectations and intentions, and other statements that are not historical facts. Such statements are based upon the current beliefs and expectations of the management of AT&T Inc. and BellSouth Corporation and are subject to significant risks and uncertainties and outside of our control.

The following factors, among others, could cause actual results to differ from those described in the forward-looking statements in this document: the ability to obtain governmental approvals of the merger on the proposed terms and schedule; the failure of AT&T shareholders to approve the issuance of AT&T common shares or the failure of BellSouth shareholders to approve the merger; the risk that the businesses of AT&T and BellSouth will not be integrated successfully or as quickly as expected; the risk that the cost savings and any other synergies from the merger, including any savings and other synergies

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relating to the resulting sole ownership of Cingular Wireless LLC may not be fully realized or may take longer to realize than expected; disruption from the merger making it more difficult to maintain relationships with customers, employees or suppliers; and competition and its effect on pricing, spending, third-party relationships and revenues. Additional factors that may affect future results are contained in AT&T's, BellSouth's, and Cingular Wireless LLC's filings with the Securities and Exchange Commission ("SEC"), which are available at the SEC's Web site (<http://www.sec.gov>). Neither AT&T nor BellSouth is under any obligation, and each expressly disclaim any obligation, to update, alter or otherwise revise any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future events or otherwise.

NOTE: IN CONNECTION WITH THE PROPOSED MERGER, AT&T INTENDS TO FILE A REGISTRATION STATEMENT ON FORM S-4, INCLUDING A JOINT PROXY STATEMENT OF AT&T AND BELLSOUTH, AND AT&T AND BELLSOUTH WILL FILE OTHER MATERIALS WITH THE SECURITIES AND EXCHANGE COMMISSION (THE "SEC"). INVESTORS ARE URGED TO READ THE REGISTRATION STATEMENT, INCLUDING THE JOINT PROXY STATEMENT (AND ALL AMENDMENTS AND SUPPLEMENTS TO IT) AND OTHER MATERIALS WHEN THEY BECOME AVAILABLE BECAUSE THEY CONTAIN IMPORTANT INFORMATION. Investors will be able to obtain free copies of the registration and joint proxy statement, when they becomes available, as well

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as other filings containing information about AT&T and BellSouth, without charge, at the SEC's Web site (www.sec.gov). Copies of AT&T's filings may also be obtained for free from AT&T at AT&T's Web site (www.att.com) or by directing a request to AT&T Inc. Stockholder Services, 175 E. Houston, San Antonio, Texas 78258. Copies of BellSouth's filings may be obtained without charge from BellSouth at BellSouth's Web site (www.bellsouth.com) or by directing a request to BellSouth at Investor Relations, 1155 Peachtree Street, Atlanta, Georgia 30309.

AT&T, BellSouth and their respective directors and executive officers and other members of management and employees are potential participants in the solicitation of proxies in respect of the proposed merger. Information regarding AT&T's directors and executive officers is available in AT&T's 2005 Annual Report on Form 10-K filed with the SEC on March 1, 2006 and AT&T's preliminary proxy statement for its 2006 annual meeting of stockholders, filed with the SEC on February 10, 2006, and information regarding BellSouth's directors and executive officers is available in BellSouth's 2005 Annual Report on Form 10-K filed with the SEC on February 28, 2006 and BellSouth's proxy statement for its 2006 annual meeting of shareholders, filed with the SEC on March 3, 2006. Additional information regarding the interests of such potential participants will be included in the registration and joint proxy statement, and the other relevant documents filed with the SEC when they become available.

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