

BELLSOUTH CORP
Form DEFM14A
June 02, 2006

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**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
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-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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(3) Filing Party:

(4) Date Filed:

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**PROXY STATEMENT
AND PROSPECTUS OF AT&T INC.**

**PROXY STATEMENT
OF BELLSOUTH CORPORATION**

June 2, 2006

Dear Shareholders:

The boards of directors of AT&T and BellSouth have agreed to combine in a merger that will result in a more effective and efficient provider of wireless, broadband, video, voice, data and directory services. It will also put control of Cingular Wireless in one company. We are very excited about the prospects for the combined company.

If the merger is completed, BellSouth shareholders will receive 1.325 AT&T common shares for each BellSouth common share held immediately prior to the merger.

Based on the closing price of \$27.99 per AT&T common share on the New York Stock Exchange on March 3, 2006, the last trading day before the public announcement of the merger, the 1.325 exchange ratio represented approximately \$37.09 per BellSouth common share, a 17.9% premium over the closing price of the BellSouth common shares on the NYSE on March 3, 2006. Based on the closing price of \$26.91 per AT&T common share on the NYSE on June 1, 2006, the latest practicable date before the printing of this joint proxy statement/prospectus, the total merger consideration was valued at approximately \$35.66 per BellSouth common share. Because the number of AT&T common shares to be issued in exchange for each BellSouth common share is fixed, the actual value of the merger consideration that BellSouth shareholders will receive at the time of the merger for each BellSouth common share will depend on the price per AT&T common share at that time. Based on the estimated number of BellSouth common shares outstanding on the record date for the meetings, AT&T expects to issue approximately 2,400,000,000 AT&T common shares to BellSouth shareholders in the merger. Former BellSouth shareholders are expected to own approximately 38% of the AT&T common shares outstanding immediately after the merger. AT&T common shares are quoted on the NYSE under the symbol **T**. BellSouth common shares are quoted on the NYSE under the symbol **BLS**.

Each company is holding a special meeting of shareholders in order to obtain the shareholder approvals necessary to complete the merger as more fully described in this joint proxy statement/prospectus. The accompanying joint proxy statement/prospectus provides a detailed description of the proposed merger and the merger consideration. In addition, it provides you with important information regarding these meetings. **We urge you to read the enclosed materials (and any documents incorporated by reference into this joint proxy statement/prospectus) carefully. Please pay particular attention to the Risk Factors section beginning on page 17.**

We cannot complete the merger unless the shareholders of both of our companies approve proposals related to the merger. **Your vote is very important, regardless of the number of shares you own. Whether or not you expect to attend either special meeting, please vote all proxy cards that you receive as soon as possible to ensure that your shares are represented at the applicable special meeting. If you are a BellSouth shareholder, please note that a failure to vote your shares is the equivalent of a vote against the merger.** If you are an AT&T shareholder, please note that a failure to vote your shares may result in an insufficient number of shares being voted at the AT&T special meeting for the proposal to issue AT&T common shares to be approved. Registered and many broker-managed shareholders can vote their shares by using a toll-free telephone number or the Internet. Instructions for using these convenient services are provided on the accompanying proxy card. Of course, you may still vote your shares by marking your votes on the accompanying proxy card, signing and dating it and mailing it in the envelope provided. If you sign and return your proxy card without specifying your choices, it will be understood that you wish to have your shares voted in accordance with your board of directors' recommendations. If you are a shareholder of both AT&T and BellSouth, you will receive two separate packages of proxy materials. Please sign, date and return all proxy cards that you receive, whether from AT&T or BellSouth, or vote as either an AT&T or BellSouth shareholder by Internet or telephone. If you have any questions or need assistance voting your shares, please call D.F. King & Co., Inc., who is assisting AT&T, toll free at (800) 431-9643 or collect at (212) 269-5550, if you are an AT&T shareholder, or

Morrow & Co., Inc., who is assisting BellSouth, toll free at (877) 366-1576, if you are a BellSouth shareholder.

The AT&T board of directors recommends that AT&T shareholders vote FOR the proposal to authorize the issuance of AT&T common shares required to be issued to BellSouth shareholders pursuant to the merger agreement. The BellSouth board of directors recommends that BellSouth shareholders vote FOR the proposal to approve the merger agreement.

Sincerely,

Edward E. Whitacre, Jr.
Chairman of the Board and Chief Executive Officer
AT&T Inc.

F. Duane Ackerman
Chairman of the Board and Chief Executive Officer
BellSouth Corporation

Neither the Securities and Exchange Commission (SEC) nor any state securities commission has approved or disapproved of the securities to be issued in connection with the merger or passed upon the adequacy or accuracy of this document. Any representation to the contrary is a criminal offense.

This joint proxy statement/prospectus is dated June 2, 2006 and is expected to be first mailed to AT&T s shareholders on or about June 7, 2006 and to BellSouth s shareholders on or about June 8, 2006.

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REFERENCE TO ADDITIONAL INFORMATION

This joint proxy statement/ prospectus incorporates by reference important business and financial information about AT&T and BellSouth from documents that are not included in or delivered with this joint proxy statement/prospectus. For a listing of the documents incorporated by reference into this joint proxy statement/ prospectus, see "Where You Can Find More Information" beginning on page 136. This information is available to you without charge upon your written or oral request. You can obtain documents related to AT&T and BellSouth that are incorporated by reference into this joint proxy statement/ prospectus, without charge, from the SEC's Web site (www.sec.gov) or by requesting them in writing or by telephone from the appropriate company.

AT&T Inc.
175 East Houston
San Antonio, TX 78205
(210) 821-4105
Attn: Stockholder Services
www.att.com

BellSouth Corporation
1155 Peachtree Street, N.E., Room 14B06
Atlanta, Georgia 30309
(404) 249-2000
Attn: Investor Relations
www.bellsouth.com/investor

(All Web site addresses given in this joint proxy statement/ prospectus are for information only and are not intended to be an active link or to incorporate any Web site information into this joint proxy statement/ prospectus.)

Please note that copies of the documents provided to you will not include exhibits, unless the exhibits are specifically incorporated by reference into the documents or this joint proxy statement/ prospectus.

In order to receive timely delivery of requested documents in advance of the special meetings, you should make your request no later than July 14, 2006.

ABOUT THIS DOCUMENT

This document, which forms part of a registration statement on Form S-4 filed with the SEC by AT&T (File No. 333-132904), constitutes a prospectus of AT&T under Section 5 of the Securities Act of 1933, which we refer to as the Securities Act, with respect to the AT&T common shares to be issued to BellSouth shareholders as required by the merger agreement. This document also constitutes a joint proxy statement under Section 14(a) of the Securities Exchange Act of 1934, which we refer to as the Exchange Act. It also constitutes a notice of meeting with respect to the special meeting of AT&T shareholders, at which AT&T's shareholders will be asked to consider and vote upon a proposal to authorize the issuance of AT&T common shares required to be issued to BellSouth shareholders pursuant to the merger agreement, and a notice of meeting with respect to the special meeting of BellSouth shareholders, at which BellSouth's shareholders will be asked to consider and vote upon a proposal to approve the merger agreement.

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BellSouth Corporation
1155 Peachtree Street, N.E.
Atlanta, Georgia 30309
NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
To be held on Friday, July 21, 2006

To BellSouth Shareholders:

A special meeting of shareholders of BellSouth Corporation, a Georgia corporation (BellSouth), will be held at 11:00 a.m. Eastern time on Friday, July 21, 2006, at the Cobb Galleria Centre, 2 Galleria Parkway, Atlanta, Georgia 30339, for the following purposes:

To consider and vote upon a proposal to approve the Agreement and Plan of Merger, dated as of March 4, 2006, by and among BellSouth, AT&T Inc. and a wholly-owned subsidiary of AT&T, as that agreement may be amended; and

To conduct any other business that may properly come before the special meeting or any properly reconvened meeting following an adjournment or postponement of the special meeting.

Holders of record of BellSouth common shares at the close of business on June 1, 2006 are entitled to vote at the special meeting and any adjournment of the special meeting. Your shares can be voted at the special meeting only if you are present or represented by a valid proxy. Shareholders who owned BellSouth common shares as of the record date will be admitted to the special meeting with verification of ownership, such as an account statement or a valid admission card as attached to the proxy card.

Your vote is important. Please vote as soon as possible in one of the following ways, even if you plan to attend the meeting:

By **Internet** visit the website on the proxy card or in your e-mail notice; or

By **telephone** use the toll-free telephone number on the proxy card; or

By **mail** mark, sign, date and promptly return the enclosed proxy card(s) in the postage-paid envelope.

You may also submit a ballot at the special meeting on July 21, 2006.

By Order of the BellSouth Board of Directors.

Rebecca M. Dunn

*Senior Vice President Corporate Compliance and
Corporate Secretary*

BellSouth Corporation

June 2, 2006

IMPORTANT NOTICE

For the merger agreement to be approved by BellSouth shareholders, a majority of the outstanding BellSouth common shares must be voted in favor of approval of the merger agreement. Accordingly, if you do not vote your BellSouth common shares, it will have the same effect as a vote against approval of the merger agreement and the merger. Please vote your shares.

If you do not plan to attend the special meeting to vote your shares, please complete, date, sign and promptly mail the enclosed proxy card(s) in the return envelope provided. No postage is necessary if mailed in the United States. Shareholders of record and many broker-managed shareholders may also give their proxy by telephone or through the Internet in accordance with the instructions accompanying the proxy card(s). Any person giving a proxy has the power to revoke it at any time, and shareholders who are present at the meeting may withdraw their proxies and vote in person.

Please do not send share certificates at this time. If the merger is completed, you will be sent instructions regarding the surrender of your share certificates.

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QUESTIONS AND ANSWERS

The following are some of the questions that you, as a shareholder of AT&T or BellSouth, may have, and answers to those questions. These questions and answers, as well as the following summary, are not meant to be a substitute for the information contained in the remainder of this joint proxy statement/prospectus, and this information is qualified in its entirety by the more detailed descriptions and explanations contained elsewhere in this joint proxy statement/prospectus. We urge you to read this joint proxy statement/prospectus in its entirety prior to making any decision.

Q1: Why am I receiving this joint proxy statement/prospectus?

A1: AT&T and BellSouth have agreed to combine their respective businesses by means of a merger. We expect the combined company will be a more effective and efficient provider in the wireless, broadband, video, voice and data markets. It will also put control of Cingular Wireless in one company.

AT&T is holding a special meeting of shareholders in order to obtain the shareholder approval necessary to issue AT&T common shares in the merger, as described in this joint proxy statement/prospectus. BellSouth is holding a special meeting of shareholders in order to obtain shareholder approval of the merger agreement, as described in this joint proxy statement/prospectus.

We will be unable to complete the merger unless AT&T and BellSouth shareholders approve these proposals at their respective special meetings.

We have included in this joint proxy statement/prospectus important information about the merger, the merger agreement and the special meetings of the shareholders of AT&T and BellSouth. You should read this information carefully and in its entirety. We have attached a copy of the merger agreement as Annex A. The enclosed voting materials allow you to vote your shares without attending the applicable special meeting. **Your vote is very important and we encourage you to vote your proxy as soon as possible.**

Q2: What will I receive in the merger?

A2: If the merger is completed, BellSouth shareholders will receive 1.325 AT&T common shares for each BellSouth common share held immediately prior to the merger.

Holders of BellSouth common shares will not receive any fractional AT&T common shares in the merger. Instead, the total number of AT&T common shares that each BellSouth shareholder will receive in the merger will be rounded down to the nearest whole number, and AT&T will pay cash for the remaining fractional AT&T common share that a BellSouth shareholder would otherwise be entitled to receive. The amount of cash payable for a fractional AT&T common share will be determined by multiplying the fraction by the average closing price for an AT&T common share for the five trading days ending on the trading day immediately prior to the completion of the merger.

AT&T shareholders will continue to hold their AT&T common shares.

Q3: How do I calculate the value of the merger consideration?

A3: BellSouth shareholders will receive merger consideration consisting of a fixed number of 1.325 AT&T common shares for each BellSouth common share they own. Based on the closing price of \$27.99 per AT&T common share on the New York Stock Exchange, which we refer to as the NYSE, on March 3, 2006, the last trading day before the public announcement of the merger, the exchange ratio represented approximately \$37.09 per

BellSouth common share, a 17.9% premium over the closing price of BellSouth common shares on the NYSE on March 3, 2006. Based on the closing price of \$26.91 per share of AT&T common shares on the NYSE on June 1, 2006, the latest practicable date before the printing of this joint proxy statement/prospectus, the exchange ratio represented approximately \$35.66 per BellSouth common share.

Because AT&T will issue a fixed number of AT&T common shares in exchange for each BellSouth common share, the value of the merger consideration that BellSouth shareholders will receive in the merger for each BellSouth common share will depend on the price per AT&T common share at the

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time the merger is completed. That price will not be known at the time of the meeting and may be less than the current price or the price at the time of the meeting. Former BellSouth shareholders are currently expected to own approximately 38% of the AT&T common shares outstanding immediately after the merger.

Q4: What is required to complete the merger?

A4: We are not required to complete the merger unless a number of conditions are satisfied or waived. These conditions include receipt of shareholder approvals, receipt of the approval of the Federal Communications Commission, which we refer to as the FCC, and other regulatory consents, expiration of the waiting period under the Hart-Scott-Rodino Act, which we refer to as the HSR Act, and receipt of legal opinions that the merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, which we refer to as the Code. For a more complete summary of the conditions that must be satisfied or waived prior to completion of the merger, see The Merger Agreement Conditions to the Merger beginning on page 91.

Q5: When and where will the special meetings be held?

A5: The AT&T special meeting is scheduled to be held at 3:00 p.m. Central time, at the Charline McCombs Empire Theatre, 226 North St. Mary's Street, San Antonio, Texas, on July 21, 2006. The BellSouth special meeting is scheduled to be held at 11:00 a.m. Eastern time at the Cobb Galleria Centre, 2 Galleria Parkway, Atlanta, Georgia, on July 21, 2006.

Q6: Who is entitled to vote at the AT&T and BellSouth special meetings?

A6: AT&T has fixed June 1, 2006 as the record date for the AT&T special meeting. If you were an AT&T shareholder at the close of business on the record date, you are entitled to vote on matters that come before the AT&T special meeting. However, an AT&T shareholder may only vote his or her shares if he or she is present in person or is represented by proxy at the AT&T special meeting.

BellSouth has fixed June 1, 2006 as the record date for the BellSouth special meeting. If you were a BellSouth shareholder at the close of business on the record date, you are entitled to vote on matters that come before the BellSouth special meeting. However, a BellSouth shareholder may only vote his or her shares if he or she is present in person or is represented by proxy at the BellSouth special meeting.

Q7: I hold my shares in street name. How are my shares voted?

A7: If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial holder of the shares held for you in what is known as street name. If this is the case, this joint proxy statement/prospectus has been forwarded to you by your brokerage firm, bank or other nominee, or their agent. As the beneficial holder, you have the right to direct your broker, bank or other nominee as to how to vote your shares. **If you do not provide your broker, bank or other nominee with instructions on how to vote your street name shares, your broker, bank or other nominee will not be permitted to vote them on either the proposal to authorize the issuance of AT&T common shares in the merger if you are an AT&T shareholder or the proposal to approve the merger agreement if you are a BellSouth shareholder. You should therefore be sure to provide your broker, bank or other nominee with instructions on how to vote your shares.**

Q8: How do I vote?

A8: If you are entitled to vote at your company's special meeting, you can vote in person by completing a ballot at the special meeting, or you can vote by proxy before the special meeting. Even if you plan to attend your

company's special meeting, we encourage you to vote your shares by proxy as soon as possible. After carefully reading and considering the information contained in this joint proxy statement/ prospectus, please submit your proxy by telephone or Internet in accordance with the instructions set forth on the enclosed proxy card, or fill out, sign and date the proxy card, and then mail your signed proxy card in the enclosed envelope as soon as possible so that your shares may be voted at your company's special meeting. For detailed information, please see Information About the AT&T Special Meeting How to Vote beginning on page 70 and Information About the BellSouth Special Meeting How to Vote beginning on page 73. **The vote required to approve the**

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merger agreement at the BellSouth special meeting is a majority of the outstanding BellSouth common shares. Accordingly, a BellSouth shareholder's failure to vote his or her BellSouth common shares will have the same effect as a vote of those shares against the proposal to approve the merger agreement.

Q9: How many votes do I have?

A9: You are entitled to one vote for each AT&T common share that you owned as of the record date. As of the close of business on May 31, 2006, there were approximately 3,883,378,517 outstanding AT&T common shares. As of that date, less than 1% of the outstanding AT&T common shares were held by the directors and executive officers of AT&T.

You are entitled to one vote for each BellSouth common share that you owned as of the record date. As of the close of business on May 31, 2006, there were 1,825,692,542 outstanding BellSouth common shares. As of that date, less than 1% of the outstanding BellSouth common shares were held by the directors and executive officers of BellSouth.

Q10: What if I hold shares in both AT&T and BellSouth?

A10: If you are a shareholder of both AT&T and BellSouth, you will receive two separate packages of proxy materials. **A vote as a BellSouth shareholder for the proposal to approve the merger agreement will not constitute a vote as an AT&T shareholder for the proposal to authorize the issuance of AT&T common shares required to be issued in the merger, or vice versa. THEREFORE, PLEASE SIGN, DATE AND RETURN ALL PROXY CARDS THAT YOU RECEIVE, WHETHER FROM AT&T OR BELLSOUTH, OR VOTE AS BOTH AN AT&T AND BELLSOUTH SHAREHOLDER BY INTERNET OR TELEPHONE.**

Q11: How are my employee plan shares voted?

A11: *For Employees of AT&T:* In certain cases, the proxy card, or a proxy submitted by telephone or through the Internet, will also serve as voting instructions to the plan administrator or trustee for shares held on behalf of a participant under certain employee benefit plans, described on page 70. To ensure that all shares are voted, please sign and return every proxy card received or submit a proxy by telephone or through the Internet for each proxy card. To allow sufficient time for voting by the trustees of the plans, participants in AT&T employee benefit plans must provide voting instructions to the trustees no later than 5:00 p.m. Eastern time on Tuesday, July 18, 2006. For more information about the voting of plan shares by the trustees of the AT&T employee benefit plans, see *Information About the AT&T Special Meeting How to Vote* on page 70.

For Employees of BellSouth: If you are a registered shareholder of BellSouth and/or you own BellSouth common shares through a BellSouth employee benefit plan, and the accounts are in the same name, you will receive a proxy card representing your combined directly-owned and plan-owned shares that will serve as voting instructions to the designated BellSouth proxy, if applicable, and also to the trustees of those plans. To allow sufficient time for voting by the trustees of the plans, participants in BellSouth employee benefit plans must provide voting instructions to the trustees no later than 5:00 p.m. Eastern time on Tuesday, July 18, 2006. For more information about the voting of plan shares by the trustees of the BellSouth employee benefit plans, see *Information About the BellSouth Special Meeting How to Vote* on page 73.

For Employees of Cingular: If you own BellSouth and/or AT&T common shares through the Cingular Wireless 401(k) Savings Plan, and you are also a registered BellSouth and/or AT&T shareholder with your account in the same name, you will receive a proxy card representing the combined BellSouth common shares and a proxy card representing the combined AT&T common shares, each of which will serve as voting

instructions to the applicable designated proxy, and also to the trustees of that plan. To allow sufficient time for voting by the trustees of the plans, participants in the Cingular Wireless 401(k) Savings Plan who hold AT&T or BellSouth shares through that plan must provide voting instructions to the trustees no later than 5:00 p.m. Eastern time on Tuesday, July 18, 2006. For more information about the voting of plan shares by the trustees of the Cingular Wireless 401(k) Savings Plan, see [Information About the AT&T Special Meeting](#) [How](#)

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to Vote on page 70 and Information About the BellSouth Special Meeting How to Vote on page 73.

Q12: What constitutes a quorum?

A12: Shareholders who hold at least 40% of the AT&T outstanding common shares as of the close of business on the record date and who are entitled to vote must be present or represented by proxy in order to constitute a quorum to conduct business at the AT&T special meeting under AT&T's corporate by-laws.

Shareholders who hold at least 40% of the outstanding BellSouth common shares as of the close of business on the record date must be present, either in person or represented by proxy, in order for there to be a quorum necessary to conduct the BellSouth special meeting.

Q13: What vote is required to approve each proposal?

A13: *To authorize the issuance of AT&T common shares as required by the merger agreement:* the affirmative vote of the holders of a majority of AT&T common shares voting on the proposal, so long as a majority of the AT&T common shares outstanding is voted, is required to approve the proposal to authorize the issuance of AT&T common shares required to be issued pursuant to the merger agreement. Brokers, banks or other nominees holding AT&T common shares as nominees will not have discretionary authority to vote those shares in the absence of instructions from the beneficial owners of those shares.

To approve the merger agreement: the affirmative vote of the holders of a majority of outstanding BellSouth common shares entitled to vote is required to approve the merger agreement. **Because the affirmative vote required to approve the merger agreement is based upon the total number of outstanding BellSouth shares, the failure to submit a proxy card (or to submit a proxy by telephone or by Internet or to vote in person at the BellSouth special meeting) or the abstention from voting by a shareholder will have the same effect as a vote against approval of the merger agreement.** Brokers, banks or other nominees holding BellSouth common shares as nominees will not have discretionary authority to vote those shares in the absence of instructions from the beneficial owners of those shares, so the failure to provide voting instructions to your broker, bank or nominee will also have the same effect as a vote against approval of the merger agreement.

Q14: What are the recommendations of the AT&T and BellSouth boards of directors?

A14: Each board of directors has approved and adopted the merger agreement, approved the transactions contemplated by the merger agreement, including the merger, and determined that these transactions are in the best interests of its shareholders.

The AT&T board of directors recommends that AT&T shareholders vote **FOR** the proposal to authorize the issuance of AT&T common shares required to be issued pursuant to the merger agreement. See The Merger AT&T's Reasons for the Merger beginning on page 27 and The Merger Recommendation of the AT&T Board of Directors on page 29.

The BellSouth board of directors recommends that BellSouth shareholders vote **FOR** the proposal to approve the merger agreement. See The Merger BellSouth's Reasons for the Merger beginning on page 29 and The Merger Recommendation of the BellSouth Board of Directors on page 33.

Q15: What if I return my proxy card but do not mark it to show how I am voting?

A15:

If your proxy card is signed and returned without specifying your choices, your shares will be voted in favor of the merger in accordance with the recommendations of the AT&T or BellSouth board of directors, as the case may be.

Q16: Can I change my vote *after* I have submitted a proxy by telephone or Internet or mailed my signed proxy card?

A16: Yes. You can change your vote by revoking your proxy at any time before it is exercised at the AT&T or BellSouth special meeting.

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You can revoke your proxy in one of three ways: (1) vote again by telephone or Internet prior to midnight on the night before the special meeting; (2) sign another proxy card with a later date and return it prior to the special meeting; (3) attend the AT&T or BellSouth special meeting and complete a ballot; or (4) send a written notice of revocation to the secretary of AT&T or BellSouth.

Q17: What will happen to the dividend on AT&T and BellSouth common shares following completion of the merger?

A17: If the merger is completed, holders of AT&T common shares will continue to receive their dividends, if any, as they have been receiving them from AT&T prior to the merger. After the closing, former BellSouth shareholders who were holders of uncertificated BellSouth common shares, or who were holders of certificated BellSouth common shares and have surrendered their BellSouth share certificates according to the instructions provided to them, will receive the same dividends on the AT&T shares that they receive in the merger that all other holders will receive on AT&T common shares with any dividend record date that occurs after the merger is completed. Former BellSouth shareholders who hold BellSouth share certificates will not be entitled to receive dividends otherwise payable on the AT&T common shares into which their BellSouth shares are exchangeable until they surrender their BellSouth share certificates according to the instructions provided to them. Dividends will be accrued for these shareholders and they will receive the accrued dividends when they surrender their BellSouth share certificates subject to abandoned property laws.

AT&T most recently paid a quarterly dividend on May 1, 2006, in an amount equal to \$0.3325 per AT&T common share. BellSouth most recently paid a quarterly dividend of \$0.29 per BellSouth common share on May 1, 2006. If the merger had been completed before the record date for that dividend payable on an AT&T common share, the 1.325 AT&T common shares that a BellSouth shareholder would have received in the merger for each BellSouth common share would have entitled that shareholder to receive a dividend of \$0.4406, a 52% increase over BellSouth's most recently paid quarterly dividend. All future dividends on AT&T common shares remain subject to approval by the AT&T board of directors, and may be more or less than prior dividends and there can be no assurance that dividends will continue to be paid.

Q18: What are the material United States federal income tax consequences of the merger to U.S. holders of BellSouth common shares?

A18: The merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code. A U.S. holder of BellSouth common shares generally will not recognize any gain or loss upon receipt of AT&T common shares solely in exchange for BellSouth common shares in the merger, except with respect to cash received in lieu of a fractional AT&T common share. See *The Merger* Material United States Federal Income Tax Consequences beginning on page 62.

Q19: When do you expect the merger to be completed?

A19: AT&T and BellSouth are working to complete the merger by the end of 2006. However, the merger is subject to various regulatory approvals and other conditions, and it is possible that factors outside the control of both companies could result in the merger being completed at a later time, or not at all. There may be a substantial amount of time between the respective AT&T and BellSouth special meetings and the completion of the merger. AT&T and BellSouth hope to complete the merger as soon as reasonably practicable.

Q20: What do I need to do now?

A20:

Read and consider the information contained in this joint proxy statement/prospectus carefully, and then please vote your shares as soon as possible so that your shares may be represented at your special meeting.

Q21: Should BellSouth or AT&T shareholders send in their share certificates now for the exchange?

A21: No. BellSouth shareholders should keep any share certificates they hold at this time. After the merger is completed, BellSouth shareholders holding share certificates will receive a letter of

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transmittal and instructions on how to obtain AT&T common shares, together with cash in lieu of fractional AT&T common shares, to which they are entitled in exchange for their BellSouth common shares.

AT&T shareholders will not be required to exchange their certificates in connection with the merger, and shareholders holding certificates should keep their share certificates both now and after the merger is completed.

Q22: Who should I call if I have questions about the proxy materials or voting procedures?

A22: If you have questions about the merger, or if you need assistance in submitting your proxy or voting your shares or need additional copies of the joint proxy statement/prospectus or the enclosed proxy card, you should contact the proxy solicitation agent for the company in which you hold shares. If you are an AT&T shareholder, you should contact D.F. King & Co., Inc., the proxy solicitation agent for AT&T, by mail at 48 Wall Street, New York, New York 10005, or by telephone at (800) 431-9643 (toll free) or (212) 269-5550 (collect). If you are a BellSouth shareholder, you should contact Morrow & Co., Inc., the proxy solicitation agent for BellSouth, by mail at Attn: BellSouth Administrator, 470 West Avenue 3rd Floor, Stamford, Connecticut 06902, or by telephone at (877) 366-1576 (toll free). If your shares are held in a stock brokerage account or by a bank or other nominee, you should call your broker, bank or other nominee for additional information.

Table of Contents**SUMMARY**

*This summary highlights selected information about the merger in this joint proxy statement/prospectus and does not contain all of the information that may be important to you. You should carefully read this entire joint proxy statement/prospectus and the other documents to which this joint proxy statement/prospectus refers for a more complete understanding of the matters being considered at the special meetings. See *Where You Can Find More Information* beginning on page 136. Unless we have stated otherwise, all references in this joint proxy statement/prospectus to AT&T are to AT&T Inc., all references to BellSouth are to BellSouth Corporation, all references to Merger Sub are to ABC Consolidation Corp., all references to Cingular are references to Cingular Wireless LLC, Cingular Wireless Corporation, or both, as the context requires, all references to ATTC are references to AT&T Corp., a subsidiary of AT&T Inc., all references to SBC are to SBC Communications Inc., which was the former name of AT&T Inc., and all references to the merger agreement are to the Agreement and Plan of Merger, dated as of March 4, 2006, by and among BellSouth, AT&T and Merger Sub, a copy of which is attached as Annex A to this joint proxy statement/prospectus.*

The Companies (Page 24)

BellSouth. BellSouth Corporation was formed in December 1983 as one of several regional holding companies created to hold ATTC's local telephone companies. In 2005, BellSouth had annual revenues of over \$20 billion, net income of almost \$3.3 billion and income from continuing operations of over \$2.9 billion. BellSouth's core business is wireline communications and its largest customer segment is the retail consumer segment. BellSouth is the leading wireline communications service provider in the southeastern United States, serving substantial portions of the population within Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina and Tennessee. BellSouth owns a 40% interest in Cingular and shares control with AT&T, which owns a 60% interest in Cingular.

Through BellSouth AnswersSM, residential and small business customers can bundle their local and long distance service with dial up and high speed DSL Internet access, satellite television and Cingular Wireless service. For businesses, BellSouth provides secure, reliable local and long distance voice and data networking solutions. BellSouth also operates one of the largest directory and advertising businesses in the United States.

BellSouth's principal executive offices are located at 1155 Peachtree Street, N.E., Atlanta, Georgia 30309-3610 (telephone number 404-249-2000). BellSouth was incorporated in 1983 under the laws of the State of Georgia and became a publicly traded company in December 1983.

AT&T. AT&T, formerly known as SBC Communications Inc., was formed in December 1983 as one of several regional holding companies created to hold ATTC's local telephone companies. At formation, SBC primarily operated in five southwestern states. SBC acquired Pacific Telesis Group in 1997, Southern New England Telecommunications Corporation in 1998 and Ameritech Corporation in 1999, thereby expanding SBC's operations as the incumbent local exchange carrier, which we refer to as an ILEC, into a total of 13 states. On November 18, 2005, SBC acquired ATTC to create the current AT&T, one of the world's largest telecommunications providers. In connection with that acquisition, the name of the company was changed from SBC Communications Inc. to AT&T Inc. AT&T also owns 60% of Cingular.

AT&T ranks among the largest providers of telecommunications services in the United States and the world. In 2005, AT&T had annual revenues of over \$43 billion and net income of over \$4.7 billion. (These figures do not include revenue and net income of ATTC for the period before November 18, 2005.) Through its subsidiaries and affiliates, AT&T provides communications services and products in the U.S. and internationally. AT&T offers services and products to consumers in the U.S. and services and products to businesses and other providers of telecommunications services worldwide. The services and products that AT&T offers vary by market, and include: local exchange services, wireless communications, long-distance services, data/broadband and Internet services, telecommunications equipment, managed networking, and wholesale transport services and directory advertising and publishing. AT&T is also backed by the research and development capabilities of AT&T Labs.

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AT&T Inc. is a holding company incorporated under the laws of the State of Delaware in 1983. AT&T's principal executive offices are located at 175 E. Houston, San Antonio, Texas 78205-2233 (telephone number 210-821-4105).

Merger Sub. ABC Consolidation Corp., a wholly-owned subsidiary of AT&T, which we refer to as Merger Sub, is a Georgia corporation formed on March 2, 2006 for the purpose of effecting the merger. Upon completion of the merger, Merger Sub will be merged with and into BellSouth and the resulting company will be called BellSouth Corporation.

Merger Sub has not conducted any activities other than those incidental to its formation and the matters contemplated by the merger agreement, including the preparation of applicable regulatory filings in connection with the merger.

The Merger (Page 25)

The transaction will be implemented by means of a merger of Merger Sub with and into BellSouth. Following completion of the merger, BellSouth will be a wholly-owned subsidiary of AT&T.

Merger Consideration (Page 77)

In the merger, BellSouth's issued and outstanding common shares will be converted into the right to receive 1.325 AT&T common shares, which we refer to as the exchange ratio.

Holder of BellSouth common shares will not receive any fractional AT&T common shares in the merger. Instead, the total number of AT&T common shares that each BellSouth shareholder will receive in the merger will be rounded down to the nearest whole number and AT&T will pay cash for any resulting fractional AT&T common share that a BellSouth shareholder otherwise would be entitled to receive. The amount of cash payable for a fractional AT&T common share will be determined by multiplying the fraction by the average closing price for an AT&T common share for the five trading days ending on the trading day immediately prior to the completion of the merger.

For example, if a BellSouth shareholder owned 100 BellSouth common shares, and the average closing price for an AT&T common share as reported on the NYSE composite transactions reporting system for the five trading days ending on the trading day immediately prior to the closing date of the merger was \$25.00, that BellSouth shareholder would receive 132 AT&T common shares (which is the whole number resulting from multiplying the 100 BellSouth common shares and the exchange ratio of 1.325 rounded down to the nearest whole number) plus \$12.50 in cash (which is the dollar amount resulting from multiplying the 0.5 fractional AT&T common share (that resulted from multiplying the 100 BellSouth common shares and the exchange ratio of 1.325) and the assumed average closing price of \$25.00) instead of the 0.5 fractional AT&T common share that the BellSouth shareholder would otherwise have been entitled to receive.

Former BellSouth shareholders are currently expected to own approximately 38% of the outstanding AT&T common shares after the merger, based on shares outstanding as of May 31, 2006.

Recommendation of the AT&T Board of Directors (Page 70)

After careful consideration, the AT&T board of directors resolved that the merger agreement and the transactions it contemplates are fair to and in the best interests of AT&T's shareholders and approved the merger agreement. The AT&T board of directors recommends that holders of AT&T common shares vote **FOR** the proposal to authorize the issuance of AT&T common shares required to be issued to BellSouth shareholders pursuant to the merger agreement.

In approving the merger agreement and making its recommendation, the AT&T board of directors consulted with AT&T's senior management and AT&T's financial and legal advisors and considered a number of strategic, financial and other considerations referred to under "The Merger" AT&T's Reasons for the Merger beginning on page 27.

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Recommendation of the BellSouth Board of Directors (Page 73)

After careful consideration, the BellSouth board of directors approved and adopted the merger agreement. The BellSouth board of directors recommends that BellSouth shareholders vote **FOR** the approval of the merger agreement.

In reaching its decision to approve and adopt the merger agreement and to recommend that BellSouth shareholders vote to approve the merger agreement, the BellSouth board of directors consulted with BellSouth's management and BellSouth's financial and legal advisors and considered a number of strategic, financial and other considerations referred to under "The Merger" BellSouth's Reasons for the Merger" beginning on page 29.

Opinions of AT&T's Financial Advisors (Page 36)

In connection with the proposed merger, AT&T engaged Lehman Brothers Inc., which we refer to as Lehman Brothers, and Evercore Group Inc., which we refer to as Evercore, to act as its financial advisors. On March 4, 2006, Lehman Brothers rendered its opinion to the AT&T board of directors that, as of such date and based upon and subject to the matters stated in its opinion, from a financial point of view, the exchange ratio in the merger was fair to AT&T. In connection with Evercore's engagement, the AT&T board of directors requested that Evercore render an opinion with respect to the fairness, from a financial point of view, to AT&T, of the exchange ratio. At the meeting of the AT&T board of directors on March 4, 2006, Evercore rendered its oral opinion, which was subsequently confirmed in writing dated March 4, 2006, that, as of such date and based upon and subject to the matters stated in its opinion, the exchange ratio was fair, from a financial point of view, to AT&T. **The full texts of Lehman Brothers' and Evercore's written opinions, each dated March 4, 2006, are attached as Annex B and Annex C, respectively, to this joint proxy statement/prospectus. You are urged to read each of the opinions carefully and in its entirety for a description of the assumptions made, procedures followed, matters considered and limitations on the review undertaken.**

The opinions of Lehman Brothers and Evercore are not intended to be and do not constitute a recommendation to any shareholder of AT&T as to how that shareholder should vote or act with respect to any matter relating to the proposed merger or any other matter described in this joint proxy statement/prospectus.

Opinions of BellSouth's Financial Advisors (Page 47)

In connection with the proposed merger, BellSouth's financial advisors, Citigroup Global Markets Inc., which we refer to as Citigroup, and Goldman, Sachs & Co., which we refer to as Goldman Sachs, each have delivered an opinion with respect to the fairness of the exchange ratio to be received by the holders of BellSouth common shares in the merger. Citigroup rendered its opinion that, as of March 4, 2006, the exchange ratio was fair, from a financial point of view, to the holders of BellSouth common shares. Goldman Sachs rendered its opinion that, as of March 4, 2006, the exchange ratio pursuant to the merger agreement was fair, from a financial point of view, to the holders of BellSouth common shares. **The full texts of the written opinions of Citigroup and Goldman Sachs are attached as Annex D and Annex E, respectively, to this joint proxy statement/prospectus. You are urged to read each of the opinions carefully and in its entirety for a description of the assumptions made, procedures followed, matters considered and limitations on the review undertaken.**

The Citigroup and Goldman Sachs opinions are not intended to be and do not constitute recommendations to any shareholder as to how that shareholder should vote or act with respect to the proposed merger or any other matter described in this joint proxy statement/prospectus.

Treatment of BellSouth Stock Options and Stock-Based Awards (Page 77)

At the effective time of the merger, all outstanding BellSouth employee stock options will vest and be converted into options to acquire AT&T common shares. The number of shares subject to each option and the exercise price of each option will be adjusted to give effect to the exchange ratio. All BellSouth stock-

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based awards outstanding at the effective time of the merger will be similarly converted into stock-based awards reflecting a number of shares of AT&T common shares determined based on the exchange ratio.

Interests of BellSouth Executive Officers and Directors in the Merger (Page 58)

You should be aware that some of the directors and executive officers of BellSouth have interests in the merger that are different from, or are in addition to, the interests of BellSouth shareholders generally. These interests relate to the treatment of equity-based compensation awards held by directors and executive officers of BellSouth in the merger, the appointment of three directors of BellSouth as directors of AT&T after the merger, AT&T's commitment to offer BellSouth's executive officers (other than its chief executive officer) positions with AT&T or its subsidiaries after the merger and the indemnification of BellSouth directors and officers by AT&T. In addition, these interests relate to severance benefits payable to BellSouth's executive officers whose employment is not continued prior to (in contemplation of the merger) or within two years following completion of the merger.

Pursuant to an agreement with F. Duane Ackerman, BellSouth's chairman and Chief Executive Officer, Mr. Ackerman will retire within 90 days following completion of the merger. Mr. Ackerman will be entitled to the payments he would have been entitled to receive if his employment had terminated with good reason immediately following the merger, including a cash severance payment estimated to be approximately \$9.2 million and certain other equity-related payments (restricted stock, restricted stock units, stock options and performance shares) valued at approximately \$36.9 million based on the average closing share price for BellSouth over the 90-day period before May 31, 2006. For additional information on the payments and benefits that Mr. Ackerman will be entitled to receive in connection with his retirement, and the assumptions underlying the estimated payments, see *Interests of BellSouth's Executive Officers and Directors in the Merger* beginning on page 58.

Material United States Federal Income Tax Consequences (Page 62)

The merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code. A U.S. holder of BellSouth common shares generally will not recognize any gain or loss upon receipt of AT&T common shares solely in exchange for BellSouth common shares in the merger, except with respect to cash received in lieu of a fractional AT&T common share.

Holders of BellSouth common shares should read *The Merger - Material United States Federal Income Tax Consequences* beginning on page 62 for a more complete discussion of the United States federal income tax consequences of the merger. Holders of BellSouth common shares are urged to consult with their tax advisors regarding the tax consequences of the merger to them, including the effects of United States federal, state and local, foreign and other tax laws.

Procedures for Exchange of BellSouth Common Shares for AT&T Common Shares (Page 77)

After we complete the merger, an exchange agent will provide transmittal materials to each holder of record of certificated BellSouth common shares. These materials will describe the procedure for surrendering BellSouth share certificates to the exchange agent.

Holders of uncertificated BellSouth common shares (holders whose shares are held in book entry) will automatically be issued uncertificated (book entry) AT&T common shares as soon as possible after the completion of the merger.

In addition, the exchange agent will mail to BellSouth shareholders a check in the amount (after giving effect to any required tax withholdings) of any cash payable in lieu of fractional AT&T common shares.

Accounting Treatment (Page 64)

The merger will be accounted for as an acquisition by AT&T of BellSouth under the purchase method of accounting according to U.S. generally accepted accounting principles. As the sole owner of Cingular following the merger, AT&T will be required to include Cingular's operating results under *Operating Revenues* and *Operating Expenses* on AT&T's consolidated financial statements.

Table of Contents**Regulatory Matters Related to the Merger (Page 65)**

HSR Act and Antitrust. The merger is subject to the requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, which we refer to as the HSR Act, which prevents us from completing the merger until we furnish required information and materials to the Antitrust Division of the Department of Justice, which we refer to as the DOJ, and the Federal Trade Commission, which we refer to as the FTC, and the applicable waiting period is terminated or expires. On March 31, 2006, we filed the requisite Pre-Merger Notification and Report Forms under the HSR Act with the DOJ and the FTC. On May 1, 2006, the DOJ issued requests for additional information and documentary material to AT&T and BellSouth. As a result, the waiting period applicable to the merger has been extended until after both parties have complied with this request and the DOJ has completed its review.

FCC Approval. Under the Communications Act of 1934, as amended, which we refer to as the Communications Act, we are required to obtain the approval of the FCC prior to the transfer of control of BellSouth's FCC licenses and other authorizations that will result from the merger. On March 31, 2006, we filed an application for FCC consent to the transfer of control of licenses and authorizations held directly by BellSouth and indirectly through its subsidiaries, as well as for transfer of control of Cingular Wireless LLC and its subsidiaries and affiliates. Applications for FCC consent are subject to public comment and objections and oppositions of third parties who may interpose objections. Comments on and petitions to deny the application are due on June 5, 2006, and reply comments are due on June 20, 2006. The FCC has set for itself a goal of completing action on transfer of control applications within 180 days of public notice of the application, which target completion date would be on or around October 16, 2006 for the application filed by AT&T and BellSouth. However, no law or regulation requires the FCC to complete its action by that date, or any date, and the FCC acknowledges that more complex applications may take longer.

State Regulatory Approvals. We are required to make filings to provide notice of the merger or obtain approval of the merger in 32 states, and BellSouth has filed for approval to withdraw its authorizations for telecommunications services in four states and the District of Columbia. The filings were made with the relevant public utilities commissions on March 31, 2006. The commissions may subject our filings to public comments, objections by third parties, or other proceedings. As of June 1, 2006, requirements were complete in several jurisdictions. The remaining jurisdictions were still reviewing our filing.

Cable Television Franchises. BellSouth holds 19 cable television franchises for which the change in control of the operative BellSouth subsidiary pursuant to the merger is subject to local franchising authority approval as directed by the Communications Act. The relevant federal laws generally require action by the local franchising authority within 120 days, but this deadline may be extended under certain circumstances. Most of the filings were made on March 31, 2006.

Foreign and Certain Other Regulatory Matters. As of June 1, 2006, the merger was cleared by the governments of Germany and Norway, and was still being reviewed by the government of the United Kingdom.

The merger may be subject to certain regulatory requirements of other municipal, state, federal and foreign governmental agencies and authorities.

Completion of the Merger (Page 76)

We expect to complete the merger after we receive shareholder approvals at the special meetings of AT&T and BellSouth scheduled to be held on July 21, 2006 and after we receive all required regulatory approvals. We currently expect to complete the merger by the end of 2006. However, it is possible that factors outside our control could require us to complete the merger at a later time or not to complete it at all. See *The Merger* Regulatory Matters Related to the Merger beginning on page 65.

No Dissenters' Rights (Page 66)

Under Georgia law, the holders of BellSouth common shares are not entitled to dissenters' rights with respect to the merger. If dissenters' rights were applicable, a shareholder who did not vote its shares in

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favor of the transaction and complied with various notice requirements could demand that the merging company pay to the shareholder in cash the fair value of its shares. In transactions in which shareholders of a merging company are entitled to dissenters' rights, a shareholder who does not vote his or her shares in favor of the transaction and complies with various notice requirements generally may demand that the merging company pay the shareholders in cash the fair value of its shares. If the Company and the shareholders cannot agree, the fair value of the shares is determined by a court in an appraisal proceeding. Under Georgia law, the holders of BellSouth common shares are not entitled to dissenters' rights with respect to the merger. Therefore, although holders of BellSouth common shares may vote against the merger, they will not have the right under Georgia law to demand from BellSouth in an appraisal proceeding the fair value of their shares. However, a holder of BellSouth common shares who does not wish to be an AT&T shareholder may elect to sell his or her shares at any time in the public market at the value set by the market.

The Merger Agreement (Page 76)

The merger agreement is described beginning on page 76. The merger agreement also is attached as Annex A to this joint proxy statement/prospectus. We urge you to read the merger agreement in its entirety because it contains important provisions governing the terms and conditions of the merger.

Alternative Acquisition Proposals (Page 84)

Under the merger agreement, BellSouth:

is not permitted to initiate, solicit or knowingly facilitate or encourage any inquiries that could lead to, or the making of, any acquisition proposal for BellSouth; and

is generally not permitted to engage in any discussions regarding, or provide any non-public information to any person who has made, or proposes to make, an acquisition proposal for BellSouth.

However, before the merger agreement is approved by BellSouth's shareholders, BellSouth may:

provide non-public information requested by a person who has made an unsolicited bona fide written acquisition proposal for BellSouth, if BellSouth receives from that person an executed confidentiality agreement together with a standstill agreement (which would customarily prohibit or restrict for a specified period of time a prospective acquirer's direct or indirect acquisition of the securities or assets of an entity and attempts to obtain control of an entity); or

engage in discussions with any person who has made an unsolicited bona fide written acquisition proposal; only if, in each case, the BellSouth board of directors determines in good faith, that doing so is necessary for the directors to comply with their fiduciary duties under applicable law and, if engaging in discussions, if the BellSouth board of directors also determines in good faith that the acquisition proposal either constitutes or is reasonably likely to result in a superior proposal to the merger with AT&T.

Conditions to Closing (Page 91)

We are not required to complete the merger unless a number of conditions are satisfied or waived. These conditions include:

approval of the merger agreement by BellSouth's shareholders;

approval by AT&T's shareholders of the issuance of AT&T common shares in the merger;

expiration of the waiting period under the HSR Act;

receipt of all approvals required from the FCC;

receipt of all approvals and authorizations required from state PUCs;

receipt of all other approvals and authorizations which if not obtained would reasonably be likely to result in a regulatory material adverse effect or in an officer or director of AT&T or BellSouth being subject to criminal liability; and

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absence of any law issued or promulgated by a U.S. or U.K. governmental entity after the signing of the merger agreement that prohibits the merger, and the absence of any law issued or promulgated by any other governmental entity that prohibits the merger and which is reasonably likely to result in a regulatory material adverse effect or to subject any officer or director of AT&T or BellSouth to criminal liability.

Even though the merger agreement does not provide that any of these conditions are not waivable, we do not believe we can complete the merger unless the conditions described in the first four bullets above are satisfied.

In addition, AT&T is not required to complete the merger unless a number of other conditions are satisfied or waived. These conditions, any or all of which can be waived by AT&T, include:

material accuracy of the representations and warranties of BellSouth;

material performance by BellSouth of its pre-closing obligations under the merger agreement;

the governmental consents that have been obtained do not impose any condition that would reasonably be expected to result in a regulatory material adverse effect;

all FCC consents must have been obtained by a final order;

BellSouth has obtained the consent of each person whose consent is required under any material contract in connection with the merger, except as would not reasonably be expected to result in a material adverse effect on BellSouth; and

AT&T must have received the written opinion of its tax counsel, dated the closing date of the merger, to the effect that the merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code.

In addition, BellSouth is not required to complete the merger unless a number of further conditions are satisfied or waived. These conditions, any or all of which can be waived by BellSouth, include:

material accuracy of the representations and warranties of AT&T;

material performance by AT&T of its pre-closing obligations under the merger agreement; and

BellSouth must have received the written opinion of its tax counsel, dated the closing date of the merger, to the effect that the merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code.

BellSouth does not currently anticipate waiving any of its closing conditions. However, if BellSouth were to waive its tax opinion closing condition and if the tax consequences of the merger will be materially different from those we describe in this joint proxy statement/prospectus, BellSouth will resolicit votes of its shareholders with respect to the merger and ask them to take the waiver into consideration. BellSouth does not, however, intend to resolicit votes of its shareholders in connection with any waiver of any other of its conditions to closing.

Termination of the Merger Agreement (Page 94)

We may terminate the merger agreement and decide not to proceed with the merger at any time before completion if we both agree. Either AT&T or BellSouth may terminate the merger agreement and decide not to proceed with the merger at any time before we complete the merger if:

we do not complete the merger by a March 6, 2007 termination date, unless closing conditions relating to governmental consents have not been satisfied by the termination date, in which case either company may extend the termination date one or more times to a date not beyond September 6, 2007;

BellSouth's shareholders do not approve the merger agreement at the BellSouth special meeting;

AT&T's shareholders do not approve the issuance of the common shares required to be issued in the merger at the AT&T special meeting; or

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any governmental order is issued that permanently prohibits the completion of the merger, except for certain types of orders.

BellSouth may terminate the merger agreement and decide not to proceed with the merger before we complete the merger if:

before AT&T's shareholders approve the issuance of AT&T common shares required to be issued in the merger, AT&T's board of directors withdraws, or qualifies in a manner reasonably likely to be understood to be adverse to BellSouth, its recommendation to issue the shares; or

before BellSouth's shareholders approve the merger agreement, and after giving AT&T advance notice, the BellSouth board of directors approves and authorizes BellSouth to enter into a binding written agreement for a superior proposal and BellSouth pays a \$1.7 billion termination fee to AT&T; or

AT&T breaches any representation, warranty, covenant or agreement in a way that the related condition to closing would not be satisfied and this breach is not curable by the termination date.

AT&T may terminate the merger agreement and decide not to proceed with the merger before we complete the merger if:

before BellSouth's shareholders approve the merger agreement, BellSouth's board of directors withdraws, or qualifies in a manner reasonably likely to be understood to be adverse to AT&T, its recommendation of the merger;

before BellSouth's shareholders approve the merger agreement, the BellSouth board of directors approves or recommends to the shareholders of BellSouth, any acquisition proposal other than a merger with AT&T;

BellSouth breaches any of its representations, warranties, covenants or agreements in a way that the related condition to closing would not be satisfied and this breach is not curable by the termination date; or

BellSouth willfully or intentionally breaches in any material respect its obligations under the merger agreement relating to acquisition proposals and the BellSouth board of directors' recommendation of the merger.

Effect of Termination; Termination Fees (Page 95)

In general, if the merger agreement is terminated, neither BellSouth nor AT&T will have any liability to the other under the merger agreement except for damages resulting from willful or intentional breach of the merger agreement and any obligation to pay a termination fee or the fees and expenses of the other party.

BellSouth will be required to pay a \$1.7 billion termination fee to AT&T if the merger agreement is terminated:

by BellSouth in order to enter into a proposal superior to the AT&T merger; or

by AT&T because BellSouth willfully or intentionally breached in any material respect its obligations under the merger agreement relating to acquisition proposals and the BellSouth board of directors' recommendation of the merger.

BellSouth will also be required to pay a \$1.7 billion termination fee to AT&T if, within 12 months of termination, BellSouth completes, executes or publicly announces an agreement in which any person other than AT&T or its affiliates agrees to acquire at least 50% of the outstanding BellSouth common shares or 50% of the fair market value of BellSouth's consolidated assets, if a third party makes an acquisition proposal for 50% of the outstanding BellSouth common shares or 50% of BellSouth's assets before the merger agreement is terminated and the merger agreement is later terminated:

by either AT&T or BellSouth because BellSouth's shareholders did not approve the merger agreement at the BellSouth special meeting;

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by AT&T because BellSouth's board of directors withdrew, or qualified in a manner reasonably likely to be understood to be adverse to AT&T, its recommendation of the merger before the BellSouth special meeting; or

by AT&T because BellSouth breached any of its representations, warranties, covenants or agreements in a way that the related condition to closing would not be satisfied and this breach is not curable by the termination date.

BellSouth will be required to reimburse AT&T for fees and expenses incurred by AT&T (including 60% of costs incurred by Cingular) in connection with the merger, up to a maximum of \$120 million, if the merger agreement is terminated:

by BellSouth or AT&T, because BellSouth's shareholders did not approve the merger agreement at the BellSouth special meeting; or

by AT&T, because BellSouth's board of directors withdrew, or qualified in a manner reasonably likely to be understood to be adverse to AT&T, its recommendation of the merger before the BellSouth special meeting.

If BellSouth must also pay a termination fee, then the earlier reimbursement of fees and expenses will be applied to reduce the amount of the termination fee owed.

AT&T will be required to pay BellSouth a \$1.7 billion termination fee if AT&T completes, executes or publicly announces an agreement in which any person other than BellSouth or its affiliates agrees to acquire at least 50% of the outstanding AT&T common shares or 50% of the fair market value of AT&T's consolidated assets within 12 months of termination, if a third party makes an acquisition proposal for 50% of the outstanding AT&T common shares or 50% of AT&T's assets before the merger agreement is terminated and the merger agreement is later terminated:

by either AT&T or BellSouth because AT&T's shareholders did not approve the issuance of AT&T common shares required to be issued in the merger at the AT&T special meeting; or

by BellSouth because AT&T's board of directors withdrew, or qualified in a manner reasonably likely to be understood to be adverse to BellSouth, its recommendation before the AT&T special meeting.

AT&T will also be required to reimburse BellSouth for fees and expenses incurred by BellSouth (including 40% of costs incurred by Cingular) in connection with the merger, up to a maximum of \$120 million, upon termination:

by AT&T or BellSouth, because AT&T's shareholders did not approve the issuance of AT&T common shares required to be issued in the merger at the AT&T special meeting; or

by BellSouth, because AT&T's board of directors withdrew, or qualified in a manner reasonably likely to be understood to be adverse to BellSouth, its recommendation before the AT&T special meeting.

If AT&T must also pay a termination fee, then the earlier reimbursement of fees and expenses will reduce the amount of the termination fee owed.

Recommendation (Page 86)

Under the merger agreement, neither AT&T's nor BellSouth's board of directors may withdraw its recommendation in favor of the issuance of shares or approval of the merger agreement, respectively, or qualify that recommendation in a manner that is reasonably likely to be understood as adverse to the other party, unless the party withdrawing or qualifying its recommendation:

receives a superior proposal; and

first gives the other party three business days' advance notice of its intention to withdraw its recommendation and works with the other party to determine whether the superior proposal will remain superior.

Table of Contents**SELECTED HISTORICAL FINANCIAL DATA OF AT&T INC.**

The following statements of operations data for each of the three years in the period ended December 31, 2005 and the balance sheet data as of December 31, 2005 and 2004 have been derived from AT&T's audited consolidated financial statements contained in its Annual Report on Form 10-K for the fiscal year ended December 31, 2005, which are incorporated into this document by reference. The statements of operations data for the years ended December 31, 2002 and 2001 and the balance sheet data as of December 31, 2003, 2002 and 2001 have been derived from AT&T's audited consolidated financial statements for such years, which have not been incorporated into this document by reference. The historical financial information of AT&T does not include the results of ATTC for any date or period prior to the November 18, 2005 acquisition of ATTC.

The statements of operations data for each of the three-month periods ended March 31, 2006 and 2005 and the balance sheet data as of March 31, 2006 have been derived from AT&T's unaudited consolidated financial statements, which are incorporated into this document by reference.

You should read this selected historical financial data together with the financial statements that are incorporated by reference into this document and their accompanying notes and management's discussion and analysis of operations and financial condition of AT&T contained in such reports.

	Quarter Ended March 31,		Year Ended December 31,				
	2006	2005	2005	2004	2003	2002	2001
	(\$ in millions, except per share data)						
Operating revenues	\$ 15,835	\$ 10,248	\$ 43,862	\$ 40,787	\$ 40,498	\$ 42,821	\$ 45,381
Operating income	2,191	1,556	6,168	5,901	6,284	8,438	10,296
Income from continuing operations	1,445	885	4,786	4,979	5,859	7,361	6,881
Net income	1,445	885	4,786	5,887	8,505	5,653	7,008
Earnings per common share:							
Income from continuing operations	\$ 0.37	\$ 0.27	\$ 1.42	\$ 1.50	\$ 1.77	\$ 2.21	\$ 2.04
Net income	\$ 0.37	\$ 0.27	\$ 1.42	\$ 1.78	\$ 2.56	\$ 1.70	\$ 2.08
Earnings per common share assuming dilution:							
Income from continuing operations	\$ 0.37	\$ 0.27	\$ 1.42	\$ 1.50	\$ 1.76	\$ 2.20	\$ 2.03
Net income	\$ 0.37	\$ 0.27	\$ 1.42	\$ 1.77	\$ 2.56	\$ 1.69	\$ 2.07
Total assets(1)	\$ 144,437	\$ 108,212	\$ 145,632	\$ 110,265	\$ 102,016	\$ 95,170	\$ 96,416
Long-term debt	25,829	20,937	26,115	21,231	16,097	18,578	17,153
Dividends declared per common share(2)	\$ 0.3325	\$ 0.3225	\$ 1.30	\$ 1.26	\$ 1.41	\$ 1.08	\$ 1.025
Book value per common share	\$ 14.17	\$ 12.22	\$ 14.11	\$ 12.27	\$ 11.57	\$ 10.01	\$ 9.82
Debt ratio(3)	36.4%	40.2%	35.9%	40.0%	32.0%	39.9%	44.3%
Operating Data:							
Number of employees	186,560	160,880	189,950	162,700	168,950	175,980	193,420

- (1) Certain amounts have been reclassified to record accounts receivable in AT&T's directory segment on a gross basis.
- (2) Dividends declared by AT&T's board of directors reflect that, in 2003, the board declared three additional dividends totaling \$0.25 per share above AT&T's regular quarterly dividend payout.
- (3) Debt ratio reflects debt as a percentage of total capital calculated as follows:

	Quarter Ended March 31,		Year Ended December 31,				
	2006	2005	2005	2004	2003	2002	2001
	(\$ in millions)						
Total debt	\$ 31,541	\$ 27,112	\$ 30,570	\$ 26,965	\$ 17,976	\$ 22,083	\$ 26,186
Total equity	55,089	40,404	54,690	40,504	38,248	33,199	32,919
Total capital (debt plus equity)	86,630	67,516	85,260	67,469	56,224	55,282	59,105
Debt as a percentage of total capital	36.4%	40.2%	35.9%	40.0%	32.0%	39.9%	44.3%

Table of Contents**SELECTED HISTORICAL FINANCIAL DATA OF BELLSOUTH**

The following statements of operations data for each of the three years in the period ended December 31, 2005 and the balance sheet data as of December 31, 2005 and 2004 have been derived from BellSouth's audited consolidated financial statements contained in its Annual Report on Form 10-K for the fiscal year ended December 31, 2005, which are incorporated into this document by reference. The results of operations data for the years ended December 31, 2002 and 2001 and the balance sheet data as of December 31, 2003, 2002 and 2001 have been derived from BellSouth's audited consolidated financial statements for such years, which have not been incorporated into this document by reference.

The statements of operations data for each of the three-month periods ended March 31, 2006 and 2005 and the balance sheet data as of March 31, 2006 have been derived from BellSouth's unaudited consolidated financial statements, which are incorporated into this document by reference.

You should read this selected historical financial data together with the financial statements of BellSouth that are incorporated by reference into this document and their accompanying notes and management's discussion and analysis of operations and financial condition of BellSouth contained in such reports.

	Quarter Ended March 31,		Year Ended December 31,				
	2006	2005	2005	2004	2003	2002	2001
	(\$ in millions, except per share data)						
Operating revenues	\$ 5,171	\$ 5,091	\$ 20,547	\$ 20,300	\$ 20,341	\$ 20,207	\$ 21,211
Operating income	1,246	1,352	4,670	5,289	5,557	4,454	5,872
Income from continuing operations	784	683	2,913	3,394	3,488	3,475	2,786
Net income	784	1,064	3,294	4,758	3,904	1,323	2,447
Earnings per common share:							
Income from continuing operations	\$ 0.44	\$ 0.37	\$ 1.60	\$ 1.85	\$ 1.89	\$ 1.86	\$ 1.49
Net income	\$ 0.44	\$ 0.58	\$ 1.81	\$ 2.60	\$ 2.11	\$ 0.71	\$ 1.31
Earnings per common share assuming dilution:							
Income from continuing operations	\$ 0.43	\$ 0.37	\$ 1.59	\$ 1.85	\$ 1.88	\$ 1.85	\$ 1.48
Net income	\$ 0.43	\$ 0.58	\$ 1.80	\$ 2.59	\$ 2.11	\$ 0.71	\$ 1.30
Total assets	\$ 57,650	\$ 57,445	\$ 56,553	\$ 59,339	\$ 49,622	\$ 49,368	\$ 51,912
Long-term debt	13,062	14,669	13,079	15,108	11,489	12,283	15,014
Dividends declared per common share	\$ 0.29	\$ 0.27	\$ 1.14	\$ 1.06	\$ 0.92	\$ 0.79	\$ 0.76
Book value per common share	\$ 13.33	\$ 12.93	\$ 13.09	\$ 12.60	\$ 10.77	\$ 9.63	\$ 9.99
Debt ratio(1)	42.0%	44.3%	42.2%	47.2%	43.2%	49.3%	51.8%
Operating Data:							
Number of employees	n/a	n/a	63,066	62,564	75,743	77,020	87,875

(1) Debt ratio reflects debt as a percentage of total capital calculated as follows:

	Quarter Ended March 31,		Year Ended December 31,				
	2006	2005	2005	2004	2003	2002	2001
	(\$ in millions)						
Total debt	\$ 17,470	\$ 18,818	\$ 17,188	\$ 20,583	\$ 14,980	\$ 17,397	\$ 20,125
Total equity	24,085	23,676	23,534	23,066	19,712	17,906	18,758
Total capital (debt plus equity)	41,555	42,494	40,722	43,649	34,692	35,303	38,883
Debt as a percentage of total capital	42.0%	44.3%	42.2%	47.2%	43.2%	49.3%	51.8%

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**SELECTED UNAUDITED PRO FORMA
CONDENSED COMBINED FINANCIAL DATA
AS OF AND FOR THE QUARTER ENDED MARCH 31, 2006**

The following table sets forth selected unaudited pro forma condensed combined financial data of AT&T, BellSouth and Cingular as of and for the quarter ended March 31, 2006. The pro forma amounts in the table below are based upon the historical financial statements of AT&T, BellSouth and Cingular adjusted to give effect to the merger. It has been assumed for purposes of the pro forma financial data provided below that the merger was completed on January 1, 2005 for income statement purposes, and on March 31, 2006 for balance sheet purposes. These pro forma amounts have been derived from (a) the unaudited consolidated financial statements of AT&T contained in its Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, which are incorporated by reference into this document, (b) the unaudited consolidated financial statements of BellSouth contained in its Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, which are incorporated by reference into this document, and (c) the unaudited consolidated financial statements of Cingular contained in its Quarterly Report on Form 10-Q for the quarter year ended March 31, 2006, which are incorporated by reference into this document.

The pro forma financial data in the table below is provided for illustrative purposes only and does not purport to represent what the actual consolidated results of operations or the consolidated financial position of AT&T would have been had the merger occurred on the date assumed, nor is it necessarily indicative of future consolidated results of operations or financial position.

The pro forma financial data in the table below does not include the realization of cost savings from operating efficiencies, revenue synergies or restructuring costs resulting from the merger. You should read this information in conjunction with the separate historical consolidated financial statements and accompanying notes of AT&T, BellSouth and Cingular that are incorporated by reference into this document and the Unaudited Pro Forma Condensed Combined Financial Information as of and for the Quarter Ended March 31, 2006 beginning on page 98.

	As of and for the quarter ended March 31, 2006
	(\$ in millions, except per share data)
	Pro Forma Combined
Operating revenues	\$ 28,909
Operating income	3,333
Net income	1,652
Net income per basic share	0.26
Net income per diluted share	0.26
Dividends declared per common share	0.3325
Total assets	273,251
Long-term debt	51,384
Debt ratio	34.0%
Total stockholders' equity	120,505

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**SELECTED UNAUDITED PRO FORMA
CONDENSED COMBINED FINANCIAL DATA
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005**

The following table sets forth selected unaudited pro forma condensed combined financial data of AT&T, ATTC, BellSouth and Cingular as of and for the year ended December 31, 2005. The pro forma amounts in the table below are based upon the historical financial statements of AT&T, ATTC, BellSouth and Cingular, adjusted to give effect to the mergers. It has been assumed for purposes of the pro forma financial data provided below that the merger of AT&T and BellSouth and the merger of AT&T and ATTC each was completed on January 1, 2005 for income statement purposes, and that the merger of AT&T and BellSouth was completed on December 31, 2005 for balance sheet purposes. These pro forma amounts have been derived from (a) the audited consolidated financial statements of AT&T contained in its Annual Report on Form 10-K for the fiscal year ended December 31, 2005, which are incorporated by reference into this document, (b) the audited consolidated financial statements of BellSouth contained in its Annual Report on Form 10-K for the year ended December 31, 2005, which are incorporated by reference into this document, (c) the audited consolidated financial statements of Cingular contained in the Annual Reports on Form 10-K of AT&T and BellSouth which are incorporated by reference into this document, and (d) the unaudited books and records of ATTC prior to AT&T's November 18, 2005 acquisition of ATTC, adjusted to reclassify certain ATTC amounts to conform to AT&T presentation.

The pro forma financial data in the table below is provided for illustrative purposes only and does not purport to represent what the actual consolidated results of operations or the consolidated financial position of AT&T would have been had the mergers occurred on the date assumed, nor is it necessarily indicative of future consolidated results of operations or financial position.

The pro forma financial data in the table below does not include the realization of cost savings from operating efficiencies, revenue synergies or restructuring costs resulting from the merger. You should read this information in conjunction with the separate historical consolidated financial statements and accompanying notes of AT&T, BellSouth and Cingular that are incorporated by reference into this document and the Unaudited Pro Forma Condensed Combined Statement of Income as of and for the Year Ended December 31, 2005 beginning on page 109.

	As of and for the year ended December 31, 2005
	Pro Forma Combined
	(\$ in millions, except per share data)
Operating revenues	\$ 117,437
Operating income	11,326
Income from continuing operations	6,547
Income from continuing operations per basic share	1.05
Income from continuing operations per diluted share	1.04
Dividends declared per common share	1.30
Total assets	275,125
Long-term debt	52,345
Debt ratio(1)	34.3%
Total stockholders' equity	\$ 119,781
Operating Data:	
Number of employees	317,000

(1) Debt ratio reflects debt as a percentage of total capital calculated as follows:

	As of the year ended December 31, 2005
	(\$ in millions)
Total Debt	\$ 62,434
Total Equity	119,781
Total Capital (debt plus equity)	182,215
Debt as percentage of total capital	34.3%

Table of Contents**UNAUDITED COMPARATIVE PER SHARE DATA
FOR THE QUARTER ENDED MARCH 31, 2006**

The following table summarizes unaudited per share information for AT&T and BellSouth on a historical basis, a pro forma combined basis for AT&T and an equivalent pro forma combined basis for BellSouth. It has been assumed for purposes of the pro forma financial information provided below that the merger was completed on January 1, 2005 for income statement purposes, and on March 31, 2006 for balance sheet purposes. The following information should be read in conjunction with the unaudited consolidated financial statements of AT&T and BellSouth at and for the three-month period ended March 31, 2006, which are incorporated by reference into this document, and the Unaudited Pro Forma Condensed Combined Financial Information as of and for the Quarter Ended March 31, 2006 beginning on page 98. The pro forma information below is presented for illustrative purposes only and is not necessarily indicative of the operating results or financial position that would have occurred if the merger had been completed as of the beginning of the period presented, nor is it necessarily indicative of the future operating results or financial position of the combined company. The historical book value per share is computed by dividing total stockholders' equity by the number of common shares outstanding at the end of the period. The pro forma per share income from continuing operations of the combined company is computed by dividing the pro forma loss from continuing operations available to holders of the combined company's common shares by the pro forma weighted average number of shares outstanding over the period. The pro forma combined book value per share is computed by dividing total pro forma stockholders' equity by the pro forma number of common shares outstanding at the end of the period. BellSouth equivalent pro forma combined per share amounts are calculated by multiplying the pro forma combined per share amounts by 1.325, the number of shares of AT&T common shares that will be exchanged for each BellSouth common share in the merger.

	Quarter Ended March 31, 2006
AT&T Historical	
Historical per common share:	
Basic net income per share	\$ 0.37
Diluted net income per share	0.37
Dividends declared per common share	0.3325
Book value per share	14.17
BellSouth Historical	
Historical per common share:	
Basic net income per share	\$ 0.44
Diluted net income per share	0.43
Dividends declared per common share	0.29
Book value per share	13.33
Unaudited Pro Forma Combined	
Unaudited pro forma share of AT&T common shares:	
Basic net income per share	\$ 0.26
Diluted net income per share	0.26
Dividends declared per common share	0.3325
Book value per share	19.18
Unaudited Pro Forma BellSouth Equivalents(1)	
Unaudited pro forma per AT&T common share:	
Basic net income per share	\$ 0.34
Diluted net income per share	0.34
Dividends declared per common share	0.4406
Book value per share	25.41

- (1) BellSouth equivalent per share amounts are calculated by multiplying pro forma per share amounts by the exchange ratio of 1.325.

Table of Contents**UNAUDITED COMPARATIVE PER SHARE DATA
FOR THE YEAR ENDED DECEMBER 31, 2005**

The following table summarizes unaudited per share information for AT&T and BellSouth on a historical basis, a pro forma combined basis for AT&T, giving effect to the pro forma effects of the merger with BellSouth, and an equivalent pro forma combined basis for BellSouth. It has been assumed for purposes of the pro forma financial information provided below that the mergers were completed on January 1, 2005 for income statement purposes, and on December 31, 2005 for balance sheet purposes. The income per share from continuing operations of AT&T does not reflect any income items of ATTC prior to the November 18, 2005 acquisition of ATTC by AT&T. The following information should be read in conjunction with the audited consolidated financial statements of AT&T and BellSouth as of and for the year ended December 31, 2005, which are incorporated by reference into this document, and the Unaudited Pro Forma Condensed Combined Statement of Income for the Year Ended December 31, 2005 beginning on page 109. The pro forma information below is presented for illustrative purposes only and is not necessarily indicative of the operating results or financial position that would have occurred if the mergers had been completed as of the beginning of the period presented, nor is it necessarily indicative of the future operating results or financial position of the combined company. The historical book value per share is computed by dividing total stockholders equity by the number of common shares outstanding at the end of the period. The pro forma per share income from continuing operations of the combined company is computed by dividing the pro forma income from continuing operations available to holders of the combined company's common shares by the pro forma weighted average number of shares outstanding over the period. The pro forma combined book value per share is computed by dividing total pro forma stockholders' equity by the pro forma number of common shares outstanding at the end of the period. BellSouth equivalent pro forma combined per share amounts are calculated by multiplying the pro forma combined per share amounts by 1.325, the number of shares of AT&T common shares that will be exchanged for each BellSouth common share in the merger.

**Year Ended
December 31, 2005**

AT&T Historical

Historical per common share:

Basic income per share from continuing operations	\$ 1.42
Diluted income per share from continuing operations	1.42
Dividends declared per common share	1.30
Book value per share	14.11

BellSouth Historical

Historical per common share:

Basic income per share from continuing operations	\$ 1.60
Diluted income per share from continuing operations	1.59
Dividends declared per common share	1.14
Book value per share	13.09

Unaudited Pro Forma Combined

Unaudited pro forma share of AT&T common shares:

Basic income per share from continuing operations	\$ 1.05
Diluted income per share from continuing operations	1.04
Dividends declared per common share	1.30
Book value per share	19.14

Unaudited Pro Forma BellSouth Equivalents(1)

Unaudited pro forma per AT&T common share:

Basic income per share from continuing operations	\$ 1.40
Diluted income per share from continuing operations	1.38

Dividends declared per common share	1.72
Book value per share	25.36

- (1) BellSouth equivalent per share amounts are calculated by multiplying pro forma per share amounts by the exchange ratio of 1.325.

Table of Contents**COMPARATIVE MARKET DATA**

AT&T common shares are listed on the NYSE under the symbol T . BellSouth common shares are listed on the NYSE under the symbol BLS . The following table presents trading information for AT&T and BellSouth common shares on March 3, 2006, the last trading day before the public announcement of the execution of the merger agreement, and June 1, 2006, the latest practicable trading day before the date of this joint proxy statement/prospectus. You should read the information presented below in conjunction with Comparative Per Share Market Price Data and Dividend Information , below.

	T Common Shares			BLS Common Shares		
	High	Low	Close	High	Low	Close
March 3, 2006	\$ 28.20	\$ 27.85	\$ 27.99	\$ 31.81	\$ 31.21	\$ 31.46
June 1, 2006	\$ 26.95	\$ 26.24	\$ 26.91	\$ 34.99	\$ 33.96	\$ 34.83

For illustrative purposes, the following table provides BellSouth equivalent per share information on each of the specified dates. BellSouth equivalent per share amounts are calculated by multiplying AT&T per share amounts by the exchange ratio of 1.325.

	T Common Shares			BLS Common Shares		
	High	Low	Close	High	Low	Close
March 3, 2006	\$ 28.20	\$ 27.85	\$ 27.99	\$ 42.15	\$ 41.35	\$ 41.68
June 1, 2006	\$ 26.95	\$ 26.24	\$ 26.91	\$ 35.71	\$ 34.77	\$ 35.66

COMPARATIVE PER SHARE MARKET PRICE DATA AND DIVIDEND INFORMATION

The table below sets forth, for the calendar quarters indicated, the high and low sale prices per share reported on the NYSE composite transactions reporting system and the dividends declared on AT&T common shares and on BellSouth common shares.

	AT&T Common Shares			BellSouth Common Shares		
	High	Low	Dividends	High	Low	Dividends
2004						
First Quarter	\$ 27.73	\$ 23.18	\$ 0.3125	\$ 31.00	\$ 26.13	\$ 0.25
Second Quarter	25.68	23.50	0.3125	27.94	24.46	0.27
Third Quarter	26.88	22.98	0.3125	27.94	25.08	0.27
Fourth Quarter	27.29	24.55	0.3225	28.96	25.65	0.27
2005						
First Quarter	\$ 25.98	\$ 22.99	\$ 0.3225	\$ 28.12	\$ 24.85	\$ 0.27
Second Quarter	24.33	22.78	0.3225	27.36	25.38	0.29
Third Quarter	24.97	23.20	0.3225	27.90	25.51	0.29
Fourth Quarter	25.60	21.75	0.3325	28.03	24.32	0.29
2006						
First Quarter	\$ 28.82	\$ 24.24	\$ 0.3325	\$ 35.25	\$ 26.42	\$ 0.29

Second Quarter (through June 1, 2006)	\$ 27.25	\$ 24.72	\$ 35.03	\$ 31.65
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On June 1, 2006 the latest practicable trading day prior to the date of this joint proxy statement/prospectus, the last sale price per share of AT&T common shares was \$26.91 and the last sale price per share of BellSouth common shares was \$34.83, in each case on the NYSE composite transactions reporting system.

We urge you to obtain current market quotations for AT&T and BellSouth common shares before making any decision regarding the merger or the authorization to issue AT&T common shares.

Table of Contents**RISK FACTORS**

*In addition to the other information included or incorporated by reference into this joint proxy statement/prospectus, including the matters addressed under the caption **Cautionary Statement Concerning Forward-Looking Statements** beginning on page 137, you should carefully consider the matters described below in deciding whether, in the case of AT&T shareholders, to vote to approve the proposal to authorize the issuance of AT&T common shares required to be issued pursuant to the merger agreement or, in the case of BellSouth shareholders, to approve the merger agreement.*

Risk Factors Relating to the Merger

Because the market price of AT&T common shares will fluctuate, BellSouth shareholders cannot be sure of the market value of the AT&T common shares that they will receive in the merger.

When we complete the merger, BellSouth common shares will be converted into the right to receive 1.325 AT&T common shares. The exchange ratio is fixed and will not be adjusted for changes in the market price of either AT&T common shares or BellSouth common shares. The merger agreement does not provide for any price-based termination right. Accordingly, the market value of the AT&T common shares that BellSouth shareholders will be entitled to receive when we complete the merger will depend on the market value of AT&T common shares at the time that we complete the merger and could vary significantly from the market value on the date of this joint proxy statement/prospectus or the date of the BellSouth special meeting. The market value of the AT&T common shares will likely continue to fluctuate after the completion of the merger. For example, during the fourth calendar quarter of 2005 and the first calendar quarter of 2006, the market price of AT&T common shares ranged from a low of \$21.75 to a high of \$28.82, all as reported on the NYSE composite transactions reporting system. See **Comparative Per Share Market Price Data and Dividend Information** on page 16.

These variations could result from changes in the business, operations or prospects of BellSouth or AT&T or Cingular prior to or following the merger, regulatory considerations, general market and economic conditions and other factors both within and beyond the control of AT&T or BellSouth. We will likely complete the merger a considerable period after the date of the BellSouth special meeting. As such, at the time of the special meetings, BellSouth shareholders will not know with certainty the value of the AT&T common shares that they will receive upon completion of the merger.

Our ability to complete the merger is subject to the receipt of consents and approvals from government entities, which may impose conditions that could have an adverse effect on AT&T or could cause us to abandon the merger.

We are unable to complete the merger until after the applicable waiting period under the HSR Act expires or terminates and we receive approvals from various local, state, federal and foreign governmental entities, including the FCC. In deciding whether to grant some of these approvals, the relevant governmental entity will consider the effect of the merger on competition in various jurisdictions. The terms and conditions of the approvals that are granted may require us to divest certain assets or operations of AT&T or BellSouth or may impose other conditions.

The merger agreement requires us to accept significant conditions from these regulators before either of us may refuse to close the merger on the basis of those regulatory conditions. We can provide no assurance that we will obtain the necessary approvals or that any required divestitures or other conditions will not have a material adverse effect on AT&T following the merger. In addition, we can provide no assurance that these conditions will not result in the abandonment of the merger. See **The Merger Regulatory Matters Related to the Merger** beginning on page 65 and **The Merger Agreement Conditions to the Merger** beginning on page 91.

Any delay in completing the merger may reduce or eliminate the benefits expected.

In addition to the required regulatory approvals, the merger is subject to a number of other conditions beyond our control that may prevent, delay or otherwise materially adversely affect its completion. We

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cannot predict whether and when these other conditions will be satisfied. Further, the requirements for obtaining the required clearances and approvals could delay the completion of the merger for a significant period of time or prevent it from occurring. Any delay in completing the merger could cause us not to realize some or all of the synergies that we expect to achieve if the merger is successfully completed within its expected timeframe. See *The Merger Agreement – Conditions to the Merger* beginning on page 91.

Because directors and executive officers of BellSouth have interests in seeing the merger completed that are different than those of BellSouth's other shareholders, directors of BellSouth have potential conflicts of interest in recommending that BellSouth shareholders vote to approve the merger agreement.

Directors of BellSouth have arrangements or other interests that provide them with interests in the merger that are different than those of BellSouth's other shareholders. For example, the merger agreement provides that three directors of BellSouth will become directors of AT&T after the merger. While other BellSouth directors will not become directors of AT&T after the merger, in either case, AT&T will indemnify and maintain liability insurance for each of the BellSouth directors' services as directors of BellSouth before the merger. In addition, the executive officers of BellSouth have change in control and severance arrangements and other interests that are different than the interests of BellSouth shareholders. For example, if all of BellSouth's eight executive officers were terminated other than for cause or for good reason prior to (in contemplation of the merger) or within two years following completion of the merger, they would be entitled to cash severance payments estimated to be approximately \$32 million in the aggregate. These and other material interests of the directors and executive officers of BellSouth in the merger that are different than those of the other BellSouth shareholders are described under *The Merger – Interests of BellSouth Executive Officers and Directors in the Merger* beginning on page 58.

The merger agreement contains provisions that could discourage a potential competing acquiror that might be willing to pay more for the BellSouth shares than is being paid by AT&T in the merger or could result in any competing proposal being at a lower price than it might otherwise be.

The merger agreement contains no shop provisions that, subject to limited exceptions, restrict BellSouth's ability to solicit, facilitate, discuss or commit to competing third-party proposals to acquire all or a significant part of BellSouth. Further, there are only limited exceptions to BellSouth's agreement that the BellSouth board of directors will not withdraw or qualify in a manner that could reasonably be understood as adverse to AT&T or its recommendation of the merger agreement, and AT&T generally has a right to match any competing acquisition proposals that may be made. Although the BellSouth board of directors is permitted to terminate the merger agreement in response to a superior proposal if it determines that doing so is necessary to comply with its fiduciary duties, BellSouth would, under these circumstances, be required to pay a \$1.7 billion termination fee to AT&T. In addition, if a third party publicly makes a proposal for a competing transaction with BellSouth before the special meeting and BellSouth's shareholders do not approve the merger, BellSouth will be required to pay AT&T a \$1.7 billion termination fee if within 12 months thereafter, BellSouth completes or enters into an agreement for an alternative acquisition transaction. Furthermore, if the BellSouth shareholders do not approve the merger for any reason, whether or not a third party has publicly made a proposal for a competing transaction with BellSouth, BellSouth would be required to reimburse up to \$120 million of AT&T's expenses in connection with the merger (this reimbursement would be applied to reduce the amount of any termination fee, if paid). Moreover, although BellSouth's board of directors is permitted to withdraw its recommendation of the merger in response to a superior proposal, if it believes that doing so is necessary to comply with its fiduciary duties, its doing so would entitle AT&T to terminate the merger agreement and to collect reimbursement of expenses from BellSouth of up to \$120 million (which would be applied to reduce the termination fee, if paid). In addition, the termination fee of \$1.7 billion could become payable if BellSouth completes, or enters into an agreement with respect to, an alternative acquisition transaction during the 12 months following the termination. We describe these provisions under *The Merger Agreement – Covenants and Agreements – Acquisition Proposals* beginning on page 84, *Termination of the Merger Agreement* beginning on page 94 and *Termination Fees and Expenses* beginning on page 95.

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These provisions could discourage a potential competing acquiror that might have an interest in acquiring all or a significant part of BellSouth from considering or proposing that acquisition, even if it were prepared to pay consideration with a higher per share cash or market value than that proposed to be paid in the merger, or might result in a potential competing acquiror proposing to pay a lower per share price to acquire BellSouth than it might otherwise have proposed to pay because of the added expense of the termination fee that may become payable to AT&T in certain circumstances.

If the merger is terminated and BellSouth determines to seek another business combination, BellSouth may not be able to negotiate a transaction with another company on terms comparable to, or better than, the terms of the merger.

Risk Factors Relating to AT&T Following the Merger

AT&T may fail to realize the anticipated cost savings, revenue enhancements and other benefits expected from the merger, which could adversely affect the value of AT&T common shares after the merger.

The merger involves the integration of AT&T and BellSouth, two companies that have previously operated independently, and Cingular, their joint venture. AT&T and BellSouth entered into the merger agreement with the expectation that, among other things, the merger would combine the two companies' local exchange businesses, provide the combined company with access to BellSouth's fiber network and put control of Cingular in one company, all of which is expected to create opportunities to achieve cost savings and revenue synergies, to share technological developments and to achieve other synergistic benefits.

Delays we encounter in the transition process could have a material adverse effect on the revenues, expenses, operating results and financial condition of the combined company. Although AT&T and BellSouth expect significant benefits, such as increased cost savings, to result from the merger, there can be no assurance that the combined company will actually realize these anticipated benefits.

The value of AT&T common shares following completion of the merger may be affected by the ability of the combined company to achieve the benefits expected to result from completion of the merger. Achieving the benefits of the merger will depend in part upon meeting the challenges inherent in the successful combination of three business enterprises of the size and scope of AT&T, BellSouth and Cingular and the possible resulting diversion of management attention for an extended period of time. There can be no assurance that we will meet these challenges and that such diversion will not negatively impact the operations of the combined company following the merger. This risk may be heightened due to the fact that AT&T just recently completed the merger of SBC and ATTC, and management attention has been focused and continues to be focused on combining those two business enterprises. See

The Merger AT&T's Reasons for the Merger beginning on page 27.

AT&T has incurred substantial expenses related to the integration of ATTC and expects to incur additional substantial expenses related to the continued integration of ATTC, the continued integration of AT&T Wireless and Cingular and the integration of BellSouth as a result of the merger.

AT&T has incurred, and continues to incur, substantial expenses in connection with the integration of the businesses, policies, procedures, operations, technologies and systems of ATTC. At the same time, Cingular has incurred substantial expenses in connection with the integration of AT&T Wireless Services, Inc., which we refer to as AT&T Wireless, which Cingular acquired in October 2004. AT&T expects to incur substantial expenses in connection with the integration of the businesses, policies, procedures, operations, technologies, systems and personnel of BellSouth with those of AT&T. These include certain integration expenses related to AT&T's assumption of 100% ownership of Cingular in connection with the merger.

There are a large number of systems that must be integrated, including management information, purchasing, accounting and finance, sales, billing, payroll and benefits, fixed asset and lease administration systems and regulatory compliance. While AT&T has assumed that a certain level of expenses would be incurred, there are a number of factors beyond its control that could affect the total amount or the timing

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of all of the expected integration expenses including, among others, constraints arising under U.S. federal or state antitrust laws (such as limitations on sharing of information) that may prevent or hinder AT&T from fully developing integration plans and constraints arising as a result of the regulatory approval process. Moreover, many of the expenses that will be incurred, by their nature, are impracticable to estimate at the present time. These expenses could, particularly in the near term, exceed the savings that AT&T expects to achieve from the elimination of duplicative expenses and the realization of economies of scale and cost savings and revenue synergies related to the integration of the businesses following the completion of the merger. These integration expenses likely will result in AT&T taking significant charges against earnings, both cash and non-cash, primarily from the amortization of intangibles following the completion of the merger. The amount and timing of any such charges are uncertain at present.

The combined company's indebtedness following the completion of the merger will be higher than AT&T's existing indebtedness. This increased level of indebtedness could adversely affect AT&T in many ways, including by reducing funds available for other business purposes.

The indebtedness of AT&T as of April 30, 2006 was approximately \$31,315,000,000. AT&T's pro forma indebtedness as of April 30, 2006, after giving effect to the merger and taking into account Cingular's indebtedness to parties other than AT&T and BellSouth, was approximately \$62,000,000,000. As a result of the increase in debt, demands on AT&T's cash resources may increase after the merger. AT&T also expects to repurchase approximately \$10 billion of its shares by the end of 2007, the funding of which will increase demands on AT&T's cash resources and potentially increase its debt levels. The increased levels of indebtedness could reduce funds available to AT&T for investment in research and development and capital expenditures or create competitive disadvantages for AT&T compared to other companies with lower debt levels.

Uncertainties associated with the merger may cause a loss of employees and may otherwise materially adversely affect the future business and operations of AT&T, BellSouth and Cingular.

AT&T's success after the merger will depend in part upon the ability of AT&T to retain key employees of AT&T, BellSouth and Cingular. Competition for qualified personnel can be intense. Current and prospective employees of AT&T, BellSouth and Cingular may experience uncertainty about their post-merger roles with AT&T following the merger. This may materially adversely affect the ability of each of AT&T, BellSouth and Cingular to attract and retain key management, sales, marketing, technical and other personnel. In addition, key employees may depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with AT&T following the merger. Accordingly, no assurance can be given that AT&T will be able to attract or retain key employees of AT&T, BellSouth and Cingular to the same extent that those companies have been able to attract or retain their own employees in the past.

Technological innovation is important to AT&T's success and depends, to a significant degree, on the work of technically skilled employees. Competition for the services of these types of employees is vigorous. AT&T cannot provide assurance that it will be able to attract and retain these employees following the merger with BellSouth. If, following the merger, AT&T were unable to attract and maintain technically skilled employees, the competitive position of AT&T could be materially adversely affected.

Similarly, in connection with the pendency of the merger, some of our and Cingular's customers and strategic partners may delay or defer decisions to use our or Cingular's services. This could negatively impact our and Cingular's revenues, earnings and cash flows, as well as the market prices of AT&T common shares and BellSouth common shares, regardless of whether we are able to complete the merger.

AT&T will continue to face significant competition, which may reduce its market share and lower its profits.

Rapid development in telecommunications technologies, such as wireless, cable and Voice over Internet Protocol (VoIP), has significantly increased competition in the telecommunications industry. As a

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result, AT&T will compete not only with other traditional telephone companies including long distance carriers, but also with new competitors such as wireless companies, cable companies and VoIP providers. These competitors are typically subject to less or no regulation and therefore are able to offer services at lower cost. In addition, these competitors also have lower cost structures compared to AT&T, due in part to the absence of a unionized workforce at the competitors, their offering of lower benefits to employees and their having fewer retirees (as most of the competitors are relatively new companies). The increased competition will put further pressure on the price of the services provided by AT&T following the merger and may result in reduced revenues and loss of profits.

AT&T's future growth will depend upon its ability to implement its business strategy.

AT&T's business strategy following the merger will continue to be focused on providing integrated, high-quality and competitively priced communications solutions and services. AT&T cannot provide assurance that the implementation of these initiatives will not be delayed, or that they will ever be successfully implemented, whether due to factors within AT&T's control, such as failure to execute these initiatives, or factors outside of AT&T's control, such as a change in general economic or regulatory conditions. Even if these initiatives are implemented, AT&T cannot assure you that they will allow AT&T to increase its revenues from its existing service offerings or from emerging communications services.

AT&T's ability to maintain leading technological capabilities is uncertain and its failure to do so could lead to a material adverse effect on its future competitive position and financial performance.

AT&T's operating results will depend to a significant extent upon its ability to continue to expand its business to include other communications services and to reduce costs of its existing services. AT&T cannot assure you that it will successfully develop and market new service opportunities in a timely or cost-effective manner. The success of new service development depends on many factors, including proper identification of customer needs, cost, timely completion and introduction, differentiation from offerings of competitors and market acceptance.

Technology in the telecommunications industry changes rapidly as new technologies are developed, which could cause AT&T's products and services to become obsolete. AT&T cannot assure you that it and its suppliers will be able to keep pace with technological developments. If the new technologies on which AT&T intends to focus its research and development investments fail to achieve acceptance in the marketplace, AT&T could suffer a material adverse effect on its future competitive position that could cause a reduction in its revenues and earnings. For example, competitors of AT&T could be the first to obtain proprietary technologies that are perceived by the marketplace as being superior. Further, after substantial research and development costs, one or more of the technologies under development by AT&T or any of its strategic partners could become obsolete prior to its introduction. In addition, delays in the delivery of components or other unforeseen problems in AT&T's telecommunication systems may occur that could materially adversely affect its ability to generate revenue, offer new services and remain competitive.

The success of AT&T's Project Lightspeed broadband initiative will depend on the timing, extent and cost of deployment, the development of attractive and profitable service offerings and the extent to which regulatory, franchise fees and build-out requirements apply to this initiative.

The trend in telecommunications technology is to shift from the traditional circuit and wire-based technology to Internet Protocol-based technology, which we refer to as IP. IP-based technology can transport voice and data, as well as video, from both wired and wireless networks. IP-based networks also potentially cost less to operate than traditional networks. AT&T's competitors, many of which are newer companies, are deploying this IP-based technology. In order to continue to offer attractive and competitively-priced services, AT&T is deploying a new broadband network to offer IP-based voice, data and video services. AT&T has been building out its network in numerous locations and began providing services, including IP video, in one limited market in late 2005. AT&T's goal in this controlled market entry is to fully apply its new operating and back-office systems, gain information on customer preferences

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and, if needed, to fine-tune the service. To that end, AT&T has restricted the number of customers and services offered to the necessary minimum. Subject to successful results from this controlled market entry and successful testing of its additional IP video services, AT&T plans to enter 15 to 20 additional markets by the end of 2006. During that expansion, AT&T expects to add additional features to its IP video service offering. AT&T expects to spend approximately \$4.6 billion on its Project Lightspeed initiative to reach nearly 19 million households by year-end 2008 as part of its initial deployment. Using a new and sophisticated technology on a very large scale entails risks but also presents opportunities to expand service offerings to customers. Should deployment of this network be delayed or costs exceed expected amounts, AT&T's margins would be adversely affected and these effects could be material. Should regulatory requirements be different than AT&T anticipated, deployment could be delayed, perhaps significantly, or limited to only those geographical areas where regulation is not burdensome. In addition, should the delivery of services expected to be deployed on our network be delayed due to technological or regulatory constraints or other reasons, or the cost of providing these services becomes higher than expected, customers may decide to purchase services from competitors which would adversely affect AT&T's revenues and margins, and these effects could be material.

Changes to federal and state regulations and decisions in regulatory proceedings could materially adversely affect AT&T's future competitive position and financial performance.

The wireline and ATTC subsidiaries of AT&T are subject to significant federal and state regulation, while many of the competitors of AT&T are not. The adoption of new regulations or changes to existing regulations could significantly increase costs, which either would reduce AT&T's operating margins or potentially could increase customer turnover should AT&T attempt to increase prices to cover its increased costs. In addition, the development of new technologies, such as IP-based services, has created or potentially could create conflicting regulation between the FCC and various state and local authorities, which may involve lengthy litigation to resolve and may result in outcomes unfavorable to us.

Resales of AT&T common shares following the merger and additional obligations to issue AT&T common shares may cause the market price of AT&T common shares to fall.

As of May 31, 2006, AT&T had approximately 3,883,378,517 common shares outstanding and approximately 376,311,739 common shares subject to outstanding options and other rights to purchase or acquire its shares. AT&T currently expects that it will issue approximately 2,400,000,000 AT&T common shares in connection with the merger. The issuance of these new AT&T common shares and the sale of additional AT&T common shares that may become eligible for sale in the public market from time to time upon exercise of options (including a substantial number of AT&T options that will replace existing BellSouth options) could have the effect of depressing the market price for AT&T common shares.

In addition, many BellSouth shareholders are already shareholders of AT&T. Those shareholders may decide not to hold the additional AT&T shares they will receive in the merger. The sale of those AT&T shares could also have the effect of depressing the market price for the AT&T common shares.

The trading price of AT&T common shares may be affected by factors different from those affecting the price of BellSouth common shares.

When we complete the merger, holders of BellSouth common shares will become holders of AT&T common shares. The results of operations of AT&T, as well as the trading price of AT&T common shares, after the merger may be affected by factors different from those currently affecting BellSouth's results of operations and the trading price of BellSouth common shares. For a discussion of the businesses of AT&T and BellSouth and of certain factors to consider in connection with those businesses, see the documents incorporated by reference in this joint proxy statement/prospectus and referred to under "Where You Can Find More Information" beginning on page 136.

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Cingular faces substantial competition in all aspects of its business as competition continues to increase in the wireless communications industry.

Under current FCC rules, six or more PCS licensees, two cellular licensees and one or more enhanced specialized mobile radio licensees may operate in each of Cingular's service areas. On average, Cingular has three to four other wireless competitors in each of its service areas and competes for customers based principally on price, service offerings, call quality, coverage area and customer service.

Cingular's competitors are principally three national and a larger number of regional providers of cellular, PCS and other wireless communications services. Cingular also competes with resellers and wireline service providers. Moreover, Cingular may experience significant competition from companies that provide similar services using other communications technologies and services. While some of these technologies and services are now operational, others are being developed or may be developed in the future.

AT&T expects that intense industry competition and market saturation likely will cause the wireless industry's customer growth rate to moderate in comparison with historical growth rates. This competition will continue to put pressure on pricing, margins and customer turnover as the carriers compete for potential customers. The substantial competition Cingular is facing could have a material adverse effect on its ability to achieve revenue and profit growth, and this in turn could hurt AT&T's bottom line.

As a result of the merger, AT&T's ownership of Cingular will increase from 60% to 100% and the proportion of AT&T's business represented by Cingular will increase. As a result, AT&T's exposure to risks that Cingular faces and to the risks associated with operating a wireless telecommunications business will increase.

Uncertainty in the U.S. securities markets and adverse medical cost trends could cause AT&T's pension and postretirement costs to increase further following the merger.

AT&T's pension and postretirement costs have increased in recent years, primarily due to a continued increase in medical and prescription drug costs. Investment returns of AT&T's pension funds depend largely on trends in the U.S. securities markets and the U.S. economy in general. In particular, uncertainty in the U.S. securities markets and U.S. economy could result in investment returns less than those previously assumed and a decline in the value of plan assets used in pension and postretirement calculations, which AT&T will be required to recognize over the next several years under U.S. generally accepted accounting principles. Should the securities markets decline and medical and prescription drug costs continue to increase significantly, AT&T would expect to face increasing annual combined net pension and postretirement costs.

Table of Contents**THE COMPANIES****BellSouth**

BellSouth was formed in 1983 as a result of the breakup of the Bell System. In 2005, BellSouth had annual revenues of over \$20 billion, net income of almost \$3.3 billion and income from continuing operations of over \$2.9 billion. BellSouth's core business is wireline communications and its largest customer segment is the retail consumer segment. BellSouth is the leading wireline communications service provider in the southeastern United States, serving substantial portions of the population within Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina and Tennessee. BellSouth owns a 40% interest in Cingular and shares control with AT&T, which owns a 60% interest in Cingular. Through BellSouth Answerssm, residential and small business customers can bundle their local and long distance service with dial up and high speed DSL Internet access, satellite television and Cingular Wireless service. For businesses, BellSouth provides secure, reliable local and long distance voice and data networking solutions. BellSouth also operates one of the largest directory and advertising businesses in the United States. BellSouth's principal executive offices are located at 1155 Peachtree Street, N.E., Atlanta, Georgia 30309-3610 (telephone number 404-249-2000). BellSouth was incorporated in 1983 under the laws of the State of Georgia and became a publicly traded company in December 1983.

AT&T

AT&T is a holding company incorporated under the laws of the State of Delaware in 1983 as a result of the breakup of the Bell System. AT&T's principal executive offices are located at 175 E. Houston, San Antonio, Texas 78205-2233 (telephone number 210-821-4105).

AT&T, formerly known as SBC Communications Inc., was formed as one of several regional holding companies created to hold ATTC's local telephone companies. At formation, SBC primarily operated in five southwestern states. Subsidiaries of SBC merged with Pacific Telesis Group in 1997, Southern New England Telecommunications Corporation in 1998 and Ameritech Corporation in 1999, thereby expanding SBC's operations as the incumbent local exchange carrier (ILEC) into a total of 13 states. On November 18, 2005, one of SBC's subsidiaries merged with ATTC, creating AT&T, one of the world's largest telecommunications providers. In connection with the merger, the name of the company was changed from SBC Communications Inc. to AT&T Inc. AT&T also owns a 60% interest in Cingular.

AT&T ranks among the largest providers of telecommunications services in the United States and the world. In 2005, AT&T had annual revenues of over \$43 billion and net income of over \$4.7 billion. Through AT&T's subsidiaries and affiliates, it provides communications services and products in the U.S. and internationally. AT&T offers services and products to consumers in the U.S. and services and products to businesses and other providers of telecommunications services worldwide. The services and products that AT&T offers vary by market, and include: local exchange services, wireless communications, long-distance services, data/broadband and Internet services, telecommunications equipment, managed networking, and wholesale transport services and directory advertising and publishing. AT&T is also backed by the research and development capabilities of AT&T Labs.

Merger Sub

ABC Consolidation Corp., a wholly-owned subsidiary of AT&T is a Georgia corporation formed on March 2, 2006 for the purpose of effecting the merger. Upon completion of the merger, Merger Sub will be merged with and into BellSouth and the resulting company will be called BellSouth Corporation.

Merger Sub has not conducted any activities other than those incidental to its formation and the matters contemplated by the merger agreement, including the preparation of applicable regulatory filings in connection with the merger.

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THE MERGER

Background of the Merger

AT&T and BellSouth have each considered the possibility of combining with the other from time to time since even before the passage of the Telecommunications Act of 1996 and from time to time have had preliminary discussions regarding the possibility of such a transaction.

In 2000, AT&T (then known as SBC) and BellSouth contributed their respective mobile wireless voice and data businesses to their Cingular joint venture. Cingular is 60% owned by AT&T and 40% owned by BellSouth, but control of the joint venture is shared equally. As co-owners of Cingular, AT&T and BellSouth are party to various governance arrangements, including the limited liability company agreement of Cingular Wireless LLC and the shareholders agreement of Cingular Wireless Corporation, and each was a party to the merger agreement between Cingular and AT&T Wireless in February 2004. The existence of Cingular, its increasing importance to each of AT&T and BellSouth, its governance arrangements and Cingular's acquisition of AT&T Wireless in 2004 resulted in senior executives of AT&T and BellSouth working together to maximize the business strength and value of Cingular both on its own and as a complement to the other businesses of AT&T and BellSouth. AT&T and BellSouth also work together on their YellowPages.com joint venture, established in October 2004.

Prior to 2006, representatives of AT&T and BellSouth had last discussed the possibility of a business combination in late 2004 and early 2005, but were unable to agree on the transaction and a basis to proceed with discussions, primarily because mutually agreeable economic terms were unable to be agreed. In January 2005, AT&T entered into an agreement to acquire ATTC in a transaction that closed in November 2005. In the fall of 2005, BellSouth and its Board of Directors considered a wide range of strategic alternatives for BellSouth, including combinations with AT&T or another large telecommunications company and sales or distributions of certain of its businesses, including its interest in Cingular. BellSouth did not commence negotiations in 2005 with respect to a potential combination with AT&T because AT&T was in the midst of acquiring ATTC. In its review of strategic alternatives, the BellSouth Board reviewed the feasibility of a business combination with a large telecommunications company other than AT&T or a sale or spin-off of certain of BellSouth's businesses, including its interest in Cingular. BellSouth did not engage in negotiations with any third party regarding, nor did it otherwise pursue, any such transaction because each presented significant tax, regulatory or control issues that would make execution difficult and potentially adversely impact shareholder value. As a result, BellSouth determined that remaining independent presented a more favorable alternative at that time.

In early January 2006, AT&T requested one of its financial advisors to meet with Mr. Ackerman to determine if BellSouth was interested in reopening discussions concerning a business combination between AT&T and BellSouth. AT&T's financial advisor and Mr. Ackerman met on January 13. At this meeting, AT&T's financial advisor discussed a potential merger in which BellSouth shareholders would receive a 15% premium over the market value of their shares. Mr. Ackerman indicated that, although he was open to discussing such a transaction with Mr. Whitacre, the premium suggested by the AT&T advisor would not be adequate. The next day, Mr. Whitacre and Mr. Ackerman met in a previously scheduled meeting and briefly discussed the possibility of combining the two companies. Mr. Whitacre suggested a transaction in which BellSouth shareholders would receive a premium in the range of 15 to 20% over the market value of their shares, and Mr. Ackerman indicated that, for a transaction to be acceptable to BellSouth, it must provide BellSouth shareholders with a premium of at least 20%. Messrs. Whitacre and Ackerman agreed to consult with their respective boards of directors regarding the possibility of a merger.

On January 23, 2006, Mr. Ackerman discussed with the BellSouth board his brief discussions with Mr. Whitacre about a possible transaction with AT&T. Based on this discussion with the BellSouth Board, on January 26, 2006, Mr. Ackerman contacted Mr. Whitacre and indicated that BellSouth was willing to further discuss a transaction. Mr. Whitacre briefed the AT&T Board on these discussions at AT&T's January 27, 2006 Board meeting. The AT&T Board indicated that AT&T should consider a possible transaction. On February 7, 2006, the BellSouth Board met telephonically and discussed the potential

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transaction with AT&T. The BellSouth Board conveyed its views on a proposed transaction with AT&T to Mr. Ackerman and approved further discussions with AT&T.

Mr. Whitacre and Mr. Ackerman met on February 10, 2006 to discuss a possible business combination. At that meeting, Mr. Ackerman proposed to Mr. Whitacre a possible transaction whereby AT&T and BellSouth would seek to negotiate a business combination on the basis of an exchange ratio of 1.325 AT&T common shares for each BellSouth common share and with one or more BellSouth directors becoming members of the AT&T Board. The 1.325 exchange ratio represented an approximately 20% premium over averages extending back over an approximate two year period. This represented an amount that AT&T believed would be accretive to AT&T's adjusted earnings per share (earnings adjusted for amortization of intangibles and merger related integration costs) within a reasonable period of time and worth paying to obtain BellSouth, including control of Cingular. Messrs. Whitacre and Ackerman also agreed at this time that the headquarters of the combined company would remain in San Antonio, Texas, that the Southeast regional telephone company headquarters would be in Atlanta, Georgia and that the headquarters of Cingular would remain in Atlanta for at least a period of time. Furthermore, they decided to commence detailed due diligence and contract negotiations promptly, with the goal of announcing a transaction within a few weeks.

On February 13, 2006, Mr. Whitacre contacted Mr. Ackerman to confirm AT&T's interest in proceeding with a business combination on the basis of a 1.325 exchange ratio. Mr. Ackerman discussed these developments with the BellSouth Board at a telephonic meeting on February 14, 2006 and the BellSouth Board requested that Mr. Ackerman continue discussions with AT&T. Later that day, members of the senior managements of AT&T and BellSouth met to discuss how to proceed with entering into a merger agreement and the process for conducting due diligence.

BellSouth and AT&T entered into a mutual confidentiality agreement on February 16, 2006 and on that date commenced due diligence reviews of each other's businesses based upon non-public information and began to negotiate the terms of the merger agreement. Thereafter and until shortly before the merger agreement was executed on March 4, 2006, AT&T and BellSouth and their respective representatives engaged in due diligence of the other's businesses, discussions regarding their respective businesses, prospects and the synergies and business benefits that could result from the merger as well as the terms and conditions of the merger agreement. Significant areas of negotiation included the scope and degree of reciprocity of representations and warranties and interim operating covenants, the conditions to closing, the terms upon which BellSouth could consider an alternative acquisition proposal and the process for dealing with any such proposal and the amount and triggers for payment of termination fees. In that connection, the parties discussed whether BellSouth would be permitted to terminate the merger agreement to accept a proposal for a superior transaction or would be required to submit the merger agreement to a vote of its shareholders. The \$1.7 billion termination fee was agreed to after the parties made a series of termination fee proposals ranging from less than \$1 billion to \$2.5 billion. The parties also discussed various benefit and employee related provisions of the merger agreement, including the terms of a severance program and retention bonuses for BellSouth employees and the potential roles BellSouth management would be offered with AT&T and its affiliates. During these discussions, AT&T also raised the possibility of paying a portion of the merger consideration in cash but BellSouth preferred a transaction in which its shareholders would receive consideration comprised solely of stock in order to afford BellSouth's shareholders the opportunity to share in the expected benefits of the combined entity. At the time that the proposed merger was announced, AT&T announced a new share repurchase authorization that replaced its share repurchase program in effect before the merger announcement. Under the new program, AT&T is authorized to repurchase 400 million shares through 2008. The new repurchase authorization is intended to approximate the premium being paid to BellSouth shareholders by AT&T in the merger.

The AT&T Board held a telephonic meeting on February 20, 2006, and heard reports from management on the status of discussions with BellSouth and discussed the proposed transaction. The BellSouth Board met on February 26 and 27, 2006 and received reports from management on the status of the discussions with AT&T, as well as presentations from management on the preliminary results of its due diligence investigation and from management and BellSouth's financial advisors on the financial effects

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of the merger. The BellSouth Board also was advised by BellSouth management and outside legal counsel, Fried, Frank, Harris, Shriver & Jacobson LLP, regarding the regulatory approvals that would be necessary to complete the merger and the BellSouth Board's fiduciary obligations in connection with considering and approving the merger agreement. On March 4, 2006, the Boards of Directors of AT&T and BellSouth met separately and each received presentations regarding the results of its management's due diligence investigations, the terms and conditions of the merger agreement, the approval process and the financial and strategic implications of the merger. At the BellSouth Board of Directors meeting, Goldman Sachs and Citigroup rendered their respective opinions that, as of the date of the meeting and based upon and subject to the factors, assumptions, matters, procedures, limitations and qualifications set forth in such opinions, the exchange ratio to be received by the holders of BellSouth common shares in the merger was fair, from a financial point of view, to such holders. At the AT&T Board of Directors meeting, Lehman Brothers and Evercore rendered their respective opinions that, as of the date of the meeting and based upon and subject to the matters stated in these opinions, from a financial point of view, the exchange ratio in the merger was fair to AT&T. Immediately after the conclusion of the Board of Directors meetings, AT&T, BellSouth and Merger Sub executed and delivered to each other the merger agreement.

AT&T's Reasons for the Merger

In reaching its conclusion to approve the merger and the merger agreement and recommend that AT&T shareholders vote FOR approval of the issuance of AT&T common shares required to be issued pursuant to the merger agreement, the AT&T Board of Directors considered a number of factors, including the following:

100% Ownership of Cingular

Ownership of 100% of Cingular will permit AT&T to better integrate Cingular wireless offerings with AT&T's other communication offerings. This is expected to create enhanced marketing opportunities, significant network synergies resulting from combining multiple IP networks into a single IP network, the ability to more rapidly develop and make available advanced products and services and reduced marketing costs (by rebranding Cingular to the AT&T brand).

Ownership of 100% of Cingular also will improve the speed and focus of decision making in the Cingular business, which should help it develop and deliver more quickly to customers the new products and services they desire.

Network Integration

The ability to integrate the IP networks of AT&T, BellSouth and Cingular into a single, fully integrated wireless and wireline IP network will offer not only substantial cost savings opportunities, but also should permit AT&T to offer more quickly the kinds of tightly integrated voice, data and video products it believes will be increasingly demanded by customers in the near future.

The addition of the BellSouth wireline network, which already includes a substantial build-out of fiber optic cable to points near-end users, will complement AT&T's existing plans to deploy IPTV to existing wireline service areas and increase the number of potential customers for AT&T's IPTV product.

Financial Impacts

The merger is expected to have a positive impact on AT&T's adjusted earnings per share (meaning AT&T's earnings per share adjusted to exclude all merger integration costs and non-cash expenses for amortization of intangibles) beginning in 2008, taking into account the effects of AT&T's proposed share repurchase, although because of expenses for amortization of intangibles and integration costs, the merger is expected to be dilutive to reported earnings per share for at least several years.

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The merger will increase AT&T's investment in the faster growing wireless business, a move that should help facilitate enhanced future revenue growth.

The merger is expected to improve free cash flow (cash from operations minus capital expenditures and dividends) beginning in 2008, and is expected to have a modestly negative effect on net debt to EBITDA coverage ratios, even after taking into account the anticipated 2007 share repurchases.

The merger is expected to result in cost savings, revenue enhancements and capital savings with a net present value of approximately \$18 billion.

Other Factors Considered by the AT&T Board

The information concerning AT&T's and BellSouth's respective historic businesses and financial results and prospects, including the results of AT&T's due diligence investigation of BellSouth.

AT&T management's assessment that it can, working with BellSouth managers and employees, effectively and efficiently integrate the BellSouth wireline and directories businesses with the similar AT&T businesses.

The opinions of AT&T's financial advisors, Lehman Brothers and Evercore (each of which will receive a fee for their services as financial advisors to AT&T in connection with the merger, a substantial portion of which, in the case of Evercore, is contingent upon completion of the merger and, in the case of Lehman Brothers, is contingent alternatively upon either consummation of the merger or payment by BellSouth of a termination fee to AT&T), that, as of March 4, 2006 and subject to the matters stated in their respective opinions, from a financial point of view, the exchange ratio was fair to AT&T.

The fact that the exchange ratio is fixed and will not fluctuate based upon changes in AT&T's stock price between signing and closing.

The terms of the merger agreement that create a strong commitment on the part of BellSouth to complete the merger.

Potential Risks Considered by the AT&T Board

The risks of integrating the operations of two businesses the size of the BellSouth wireline business and directories business with the corresponding businesses at AT&T, including the risks that integration costs may be greater, and synergy benefits lower, than anticipated by AT&T management, which risks are amplified by the ongoing integration of AT&T and ATTIC.

The risk that regulatory agencies may not approve the merger or may impose terms and conditions on their approvals that adversely affect the projected financial results of the combined company.

The risk that an unanticipated technological development may adversely affect the business benefits anticipated to result from the merger.

The terms of the Merger Agreement that create a strong commitment on AT&T to complete the merger.

The AT&T Board of Directors recognized that there can be no assurance about future results, including results expected or considered in the factors listed above. The AT&T Board of Directors concluded, however, that the potential advantages of the merger outweighed its potential risks.

The foregoing discussion of the information and factors considered by the AT&T Board of Directors is not exhaustive, but includes the material factors considered by it. The AT&T Board of Directors did not quantify or assign relative weights to the specific factors considered in reaching the determination to recommend that AT&T shareholders vote FOR approval of the issuance of the AT&T common shares required to be issued pursuant to the merger agreement. In addition, individual directors may have given different weights to different factors.

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Recommendation of the AT&T Board of Directors

After careful consideration, the AT&T Board of Directors unanimously resolved that the merger and the other transactions contemplated by the merger agreement, including the issuance of AT&T common shares, are advisable and approved the merger agreement. **THE AT&T BOARD OF DIRECTORS RECOMMENDS THAT THE HOLDERS OF AT&T COMMON SHARES VOTE FOR THE PROPOSAL TO ISSUE AT&T COMMON SHARES REQUIRED TO BE ISSUED TO BELLSOUTH SHAREHOLDERS PURSUANT TO THE MERGER AGREEMENT.**

BellSouth's Reasons for the Merger

The BellSouth Board, at its meeting on March 4, 2006, unanimously approved and adopted the merger agreement and the transactions contemplated thereby, including the merger. The BellSouth Board unanimously recommends that the BellSouth shareholders vote FOR the approval of the merger agreement.

In reaching its decision to approve and adopt the merger agreement and to recommend that the BellSouth shareholders vote for the approval of the merger agreement, the BellSouth Board consulted with BellSouth's management and its financial and legal advisors and considered a variety of factors, including the material factors described below.

Financial Considerations

The BellSouth Board considered the following financial factors:

the financial terms of the transaction, including:

the fixed exchange ratio of 1.325 AT&T common shares for each BellSouth common share;

that the exchange ratio reflected a 20% premium to the BellSouth shareholders based on the historical trading relationship of the securities of the two companies;

that based on the closing trading prices of BellSouth common shares and AT&T common shares on the trading day prior to the announcement of the merger, the exchange ratio represented approximately \$37.09 per BellSouth common share, a 17.9% percent premium over the closing price of the BellSouth common shares on the NYSE on that day;

the expectation that, based on the current annual dividend paid by AT&T and the 1.325 exchange ratio, the annual dividend BellSouth shareholders will receive after the transaction will be 52% greater than the annual dividend currently paid to holders of BellSouth common shares;

the BellSouth shareholders will hold approximately 38% of the outstanding common shares of the combined company immediately after closing and will have the opportunity to share in the future growth and expected synergies of the combined company, while retaining the flexibility of selling all or a portion of those shares for cash into a very liquid market at any time;

the financial analyses and opinions of each of Citigroup Global Markets Inc. and Goldman, Sachs & Co., BellSouth's financial advisors that, as of March 4, 2006, and based upon and subject to the factors, assumptions, matters, procedures, qualifications and limitations set forth in the opinions, the exchange ratio was fair, from a financial point of view, to holders of BellSouth common shares (each opinion is more fully described under

Opinions of BellSouth's Financial Advisors); the fees payable to Citigroup and Goldman Sachs are contingent alternatively upon either consummation of the merger or payment by AT&T of a termination fee to BellSouth);

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based upon the advice of BellSouth management who had discussions with AT&T management, the significant synergies that could result from the transaction, including:

synergies with a net present value of an estimated \$18 billion expected to result from the transaction, including annual synergies of \$2 billion expected beginning in 2008, growing to \$3 billion beginning in 2009;

the multiple sources of the synergies and that 90% of the anticipated synergies are expected to be derived from clearly identified expense and capital reductions; and

the demonstrated ability of AT&T's management to successfully integrate and obtain synergistic benefits from previous acquisitions.

Business Considerations

The BellSouth Board considered the following business factors:

the BellSouth Board's view of BellSouth's prospects and potential future financial performance as an independent company;

the expectation that the combined company would be a more effective and efficient provider of wireless, broadband, video, data and directory services;

the simplification of the ownership structure of Cingular Wireless;

the anticipated enhanced capabilities and competitiveness of the combined company as compared to BellSouth on a stand-alone basis, including:

greater financial, technical, research and development, network and marketing resources to better serve consumers and large-business customers, and the acceleration of the introduction of new and improved products and services for those customers;

greater scale, scope and reach to leverage the significant spending required to develop next generation products and services for both business and consumer customers;

the expectation that the greater scale, scope and reach of the post merger company would make it a more attractive partner for companies with national or international business models;

the ability to better offer integrated wireless, wireline, and broadband products and services over a single IP network, and to strengthen capabilities in business markets through converged services and a single point of contact for wireless and wireline services; and

the ability to more economically deploy next-generation IP television networks and similar services over BellSouth's extensive, fiber rich broadband network.

Other Transaction Considerations

The BellSouth Board also considered the following factors:

the BellSouth Board's judgment, after consultation with BellSouth's management and financial advisors, that an alternative transaction that would provide a greater value to the shareholders of BellSouth was unlikely to be available, while leaving the BellSouth Board with the possibility to consider an alternative transaction;

the merger agreement permits BellSouth under certain circumstances, to provide non-public information to, and engage in discussions with, any third-party that proposes an alternative transaction and to terminate the merger agreement to accept a superior proposal;

the BellSouth Board's judgment that, although certain terms of the merger agreement, including the \$1.7 billion termination fee, may make it more costly for a third party to effect an alternative transaction with BellSouth, those terms should not preclude a third party with the financial ability

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to complete a transaction from proposing an alternative transaction involving BellSouth in view of the fact that \$1.7 billion represents a relatively small percentage of the aggregate consideration that would be payable in any alternative transaction;

the BellSouth Board's judgment, after consultation with BellSouth's financial advisors, that as a percentage of the merger consideration at the time of the announcement of the transaction, the \$1.7 billion termination fee was at the low end of the range of termination fees provided for in 26 recent large acquisition transactions and that, on average, the termination fee payable in those transactions was approximately 3.0% of the aggregate value of the merger consideration;

the \$1.7 billion termination fee was the result of considerable negotiation between representatives of BellSouth and AT&T;

the consideration by the BellSouth Board, after consultation with counsel, of the likelihood that the merger would be approved by the requisite authorities, without the imposition of material conditions that would prevent or materially delay the merger and of the required efforts of the parties to obtain such approvals;

the expressed intention of AT&T to broadly utilize the services of the management and employees of BellSouth following the merger, and the proposed management arrangements of the combined company under which each executive officer of BellSouth (other than the Chief Executive Officer) will be given the opportunity to become a senior officer of AT&T or a subsidiary of AT&T with a position of significant managerial experience for at least three years following the completion of the merger;

three BellSouth directors will join the AT&T board of directors following the completion of the merger;

the following employee benefit arrangements, which the BellSouth Board believed would increase the likelihood of a successful integration and operation of the combined company and are designed to ensure the retention of BellSouth employees in the unlikely event that the merger is not completed:

the retention bonus arrangements for management to be implemented in connection with the merger;

the broad-based severance plan for BellSouth's management employee base contemplated by the merger agreement;

that aggregate pre-closing levels of BellSouth compensation and employee benefits will be maintained for at least twelve months following completion of the merger, excluding equity compensation; and

that AT&T agreed to maintain a number of specified benefit plans through the second anniversary of the completion of the merger;

AT&T's commitment to continue BellSouth's historic levels of charitable contributions and community activities, including the continued funding of charitable activities throughout BellSouth's nine-state region as has previously been provided through the BellSouth Foundation and to continue to support economic development and education in BellSouth's nine-state region;

AT&T's commitment to maintain the headquarters of Cingular Wireless in Atlanta, Georgia for at least five years following the merger and to keep the Southeast regional telephone company headquarters in Atlanta, Georgia; and

the expectation that the merger would qualify as a reorganization for U.S. federal income tax purposes and that, as a result, the exchange by BellSouth shareholders of their BellSouth common shares for AT&T common shares

in the merger generally would be tax-free to the BellSouth shareholders.

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Potential Risks

The BellSouth Board considered a variety of risks and other potentially negative factors, including the following:

the price of AT&T common shares at the time of closing could be lower than the price as of the time of signing and accordingly, the value of the consideration received by BellSouth shareholders in the merger could be materially less than the value as of the date of the merger agreement;

the difficulties and challenges inherent in completing a merger and integrating the businesses, especially in light of AT&T's 2005 acquisition of ATTC;

the expected synergies and other benefits of the merger might not be fully achieved or may not be achieved within the timeframes expected;

given the size of the combined company and the mix of assets it will own, the challenges it will face in continuing to grow its revenues;

the fact that the AT&T dividend is subject to change by the board of directors of AT&T;

the risks of the type and nature described above under "Risk Factors" beginning on page 17;

the merger ultimately may not be completed as a result of material adverse conditions imposed by regulatory authorities or otherwise;

certain provisions of the merger agreement may have the effect of discouraging proposals for alternative transactions with BellSouth, including:

the restriction on BellSouth's ability to solicit proposals for alternative transactions;

the requirement that BellSouth provide AT&T the right to obtain information with respect to proposals for alternative transactions and to a three business day negotiating period after receipt by BellSouth of a superior proposal before the BellSouth Board may terminate the merger agreement and accept the superior proposal, withdraw its recommendation of the merger or recommend the superior proposal; and

the requirement that BellSouth pay a termination fee of \$1.7 billion to AT&T, in order for BellSouth to terminate the merger agreement and accept a superior proposal;

that BellSouth would also be required to pay a termination fee of \$1.7 billion to AT&T under the following circumstances:

the merger agreement is terminated because BellSouth willfully or intentionally breaches in any material respect the provisions of the merger agreement restricting BellSouth's ability to solicit proposals for an alternative transaction and the BellSouth Board's ability to withdraw or modify its recommendation of the merger; or

the merger agreement is terminated because either BellSouth's shareholders fail to approve the merger, the BellSouth Board withdraws its recommendation of the merger or qualifies its recommendation in a manner (as permitted by the merger agreement) that could be reasonably understood to be adverse to AT&T, or BellSouth willfully and intentionally breaches materially its representation or covenants under the merger agreement after a third party proposes an alternative transaction with BellSouth and within 12 months of termination, a third party signs or completes an acquisition transaction with BellSouth or BellSouth announces an alternative transaction involving a spin-off or other distribution that is completed.

these additional triggers for the payment of a termination fee were generally consistent with the termination fee triggers in other public company merger transactions;

the failure on the part of the BellSouth shareholders to approve the merger, by itself, would not trigger a payment of a \$1.7 billion termination fee by BellSouth, and the obligation on the part of

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BellSouth to reimburse AT&T's expenses that would be triggered in the event of such a failure is capped at \$120 million;

the prohibition in the merger agreement on the ability of the BellSouth Board to withdraw its recommendation of the merger or qualify its recommendation in a manner that could be reasonably understood to be adverse to AT&T, other than in connection with BellSouth's receipt of a proposal to acquire BellSouth that is more favorable to the BellSouth shareholders than the merger;

the circumstances under which AT&T may terminate the merger agreement, including AT&T's right to terminate the merger agreement if the BellSouth Board withdraws its recommendation of the merger or qualifies its recommendation in a manner that could be reasonably understood to be adverse to AT&T;

the circumstances under which BellSouth may be obligated to reimburse AT&T for AT&T's expenses (up to \$120 million, in total), including in the event that BellSouth shareholders fail to approve the merger agreement;

certain of BellSouth's directors and officers may have conflicts of interest in connection with the merger, as they will receive certain benefits that are different from, and in addition to, those of BellSouth's other shareholders (see *Interests of BellSouth Executive Officers and Directors in the Merger*); and

the risk and costs that the merger might not be completed, the potential impact of the restrictions under the merger agreement on BellSouth's ability to take certain actions during the pendency of the merger agreement, the potential for diversion of management and employee attention and for employee attrition during that period and the potential effect on BellSouth's business and relations with customers and service providers.

The BellSouth Board considered all of the foregoing factors as a whole and concluded that it supported a favorable determination to approve and adopt the merger agreement and recommend the merger agreement to the BellSouth shareholders.

The foregoing discussion of the information and factors discussed by the BellSouth Board is not exhaustive but does include the material factors considered by the BellSouth Board. The BellSouth Board did not quantify or assign any relative or specific weight to the various factors that it considered. Rather, the BellSouth Board based its recommendation on the totality of the information presented to and considered by it. In addition, individual members of the BellSouth Board may have given no weight or different weight to different factors.

Recommendation of the BellSouth Board of Directors

After careful consideration, the BellSouth board of directors approved and adopted the merger agreement and the merger. **THE BELLSOUTH BOARD OF DIRECTORS RECOMMENDS THAT THE HOLDERS OF BELLSOUTH COMMON SHARES VOTE FOR APPROVAL OF THE MERGER AGREEMENT.**

Certain Financial Projections

Although BellSouth and AT&T periodically may issue limited guidance to investors concerning their respective expected financial performance, BellSouth and AT&T do not as a matter of course publicly disclose detailed financial projections. However, in connection with their respective confirmatory due diligence, AT&T requested, and BellSouth's management provided AT&T and its financial advisors with, non-public, financial projections prepared by BellSouth management in November 2005 for internal BellSouth planning purposes and BellSouth requested, and AT&T's management provided BellSouth and its financial advisors with, non-public, financial projections prepared by AT&T management also during 2005 for AT&T's internal budget planning process. In addition, BellSouth does not provide guidance relating to a period of more than one-year forward. Further, AT&T's projections were finalized shortly

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following the completion of the merger with ATTC with the benefit of only a very brief period of combined operations to observe. A summary of each company's financial projections is set forth below.

BellSouth Summary Financial Projections**(all amounts are approximate)**

	2006	2007
Total Revenues (\$000,000)	\$ 20,400	\$ 20,340
EPS	\$ 1.96	\$ 2.65

AT&T Summary Financial Projections**(all amounts are approximate)**

	2006	2007
Total Revenues (\$000,000)	\$ 63,000	\$ 61,500
Total Net Income (\$000,000)	\$ 5,700	\$ 7,500

While the financial projections set forth above were prepared in good faith by BellSouth's and AT&T's managements, respectively, no assurance can be given regarding future events. Therefore, such financial projections cannot be considered a reliable predictor of future operating results, and this information should not be relied on as such. The financial projections in this section were not prepared with a view toward public disclosure or with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information or published guidelines of the SEC regarding forward-looking statements. The financial projections are not historical fact and should not be relied upon as being necessarily indicative of future results. In light of the foregoing, and considering that the BellSouth and AT&T shareholder meetings, will be held at least eight months after the date the financial projections of BellSouth included above were prepared, and at least six months after the date the financial projections of AT&T included above were prepared, as well as the uncertainties inherent in any financial projections, shareholders are cautioned not to rely on these financial projections.

The prospective financial information of BellSouth included in this Form S-4 has been prepared by, and is the responsibility of, BellSouth's management. PricewaterhouseCoopers LLP has neither examined nor compiled the accompanying prospective financial information and, accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect thereto. The PricewaterhouseCoopers LLP report incorporated by reference into this Form S-4 relates to BellSouth's historical financial information. It does not extend to the prospective financial information and should not be read to do so. The prospective financial information of AT&T included in this Form S-4 has been prepared by, and is the responsibility of, AT&T's management. Ernst & Young LLP has neither examined nor compiled the accompanying financial projections of AT&T and, accordingly, Ernst & Young LLP expresses no opinion or any other form of assurance with respect thereto. The Ernst & Young LLP report, incorporated by reference into this document relate to AT&T's historical financial information. They do not extend to the financial projections and should not be read to do so.

BellSouth's financial projections were prepared using generally accepted accounting principles and using the same methodologies, to the extent applicable, as those used to prepare its historical financial statements. Significant assumptions underlying BellSouth's financial projections included the following:

the current economic expansion would continue through the periods covered by the projections with the Southeast economy marginally outperforming the U.S. average;

during the periods covered by the projections there would be an overall increase in demand for communications services, but continued negative impacts on demand for traditional wireline service due to wireline competition and product substitution;

competitive pressures would continue to drive retail line losses through 2007;

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there would be a shift in where wireline competitive losses occur, moving from traditional wholesale-based competition and wireless substitution, to more facilities-based competition (VoIP/cable voice);

growth rate in long distance, and to a lesser extent, DSL subscribers and revenues would slow in comparison to recent trends due to higher penetration of the customer base;

there would be a moderate decline in BellSouth's expenses in 2006 and 2007 as previously announced headcount reductions and productivity increases more than offset wage inflation;

BellSouth's level of capital spending would be consistent with recent trends measured as a percentage of revenue;

BellSouth would realize significantly improving equity earnings from Cingular Wireless;

BellSouth would complete its previously announced \$2 billion share repurchase by the end of 2007; and

no provision for the potential material effects of extraordinary business events, such as adverse regulatory developments, major new product launches or natural disasters.

AT&T's financial projections were prepared using generally accepted accounting principles and using the same methodologies, to the extent applicable, as those used to prepare its historical financial statements. Significant assumptions underlying AT&T's financial projections included the following:

realization of significantly improving equity earnings from Cingular Wireless;

continued realization of SBC/ ATTC merger-related synergies;

an overall increase in the market for total communication services, but a continued decline in traditional voice services due to shifts from retail access lines to alternative technologies, such as wireless, VoIP and cable;

continued expansion of DSL;

a continued decline in revenues from its subsidiary ATTC, but at a decreasing rate; and

significant increases in capital expenditures from 2005 levels due primarily to the acquisition of ATTC and Project Lightspeed.

The estimates and assumptions underlying the financial projections of BellSouth and AT&T involve judgments with respect to, among other things, future economic, competitive, regulatory and financial market conditions and future business decisions. In any event, these estimates and assumptions may not be realized and are inherently subject to significant business, economic, competitive and regulatory uncertainties, all of which are difficult to predict and many of which are beyond the control of BellSouth and AT&T and will be beyond the control of the combined company after the merger. In addition, the financial projections prepared by BellSouth and AT&T represent each company's own evaluation of its future financial performance on a stand-alone basis, and without reference to transaction-related costs or benefits. Accordingly, there can be no assurance that the projected results would be realized or that actual results would not differ materially from those presented in the financial projections. The inclusion of these financial projections should not be interpreted as an indication that AT&T and BellSouth consider this information a reliable prediction of future results, and this information should not be relied on for that purpose. AT&T and its management did not participate in preparing, and does not express any view on, the BellSouth financial projections summarized above, or the assumptions underlying such financial projections. BellSouth and its management did not participate in preparing, and does not express any view on, the AT&T financial projections summarized above, or the assumptions underlying such financial projections. AT&T has publicly disclosed certain expectations concerning the financial prospects of the combined company. In its analysis of the merger, AT&T

utilized different amounts for BellSouth, which were more conservative than those included above for BellSouth. Shareholders are cautioned not to add the amounts set forth above (or take into account the Pro Forma adjustments set forth under Unaudited Pro Forma Condensed Combined Financial Information as of and for the Quarter Ended March 31, 2006 beginning on page 98 and under Unaudited Pro Forma Condensed Combined Statement of Income for the Year Ended December 31, 2005 beginning on page 109) in order to obtain a view as to projections

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for the combined company. These projections are not included in this document in order to induce any AT&T shareholder to vote in favor of authorizing the issuance of shares required to be issued to BellSouth shareholders pursuant to the merger agreement, or any BellSouth shareholder to vote to approve the merger agreement, or to impact any investment decision with respect to AT&T common shares. See Cautionary Statement Regarding Forward-Looking Statements beginning on page 137.

NEITHER BELLSOUTH NOR AT&T HAS UPDATED AND NEITHER BELLSOUTH NOR AT&T INTENDS TO UPDATE OR OTHERWISE REVISE THESE PROJECTIONS TO REFLECT CIRCUMSTANCES EXISTING SINCE THEIR PREPARATION OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS EVEN IN THE EVENT THAT ANY OR ALL OF THE UNDERLYING ASSUMPTIONS ARE SHOWN TO BE IN ERROR. FURTHERMORE, BELLSOUTH AND AT&T HAVE NOT UPDATED AND DO NOT INTEND TO UPDATE OR REVISE THESE PROJECTIONS TO REFLECT CHANGES IN GENERAL ECONOMIC OR INDUSTRY CONDITIONS.

Opinions of AT&T's Financial Advisors

Descriptions of the fairness opinions of AT&T's financial advisors in connection with the merger, Lehman Brothers and Evercore, are set forth below. These descriptions are qualified in their entirety by reference to the full text of the opinions included as Annexes B and C, respectively, to this joint proxy statement/prospectus. You are urged to read the opinions for a discussion of the assumptions made, procedures followed, matters considered and limitations on the reviews undertaken by Lehman Brothers and Evercore in rendering their respective opinions.

AT&T has, consistent with its historical actions on very significant transactions, engaged multiple financial advisors because of the magnitude of the transaction.

Lehman Brothers Fairness Opinion

AT&T engaged Lehman Brothers to act as one of its financial advisors with respect to pursuing a strategic combination with BellSouth. On March 4, 2006, Lehman Brothers rendered its opinion to the AT&T board of directors that, as of such date and based upon and subject to the matters stated in its opinion, from a financial point of view, the exchange ratio in the merger was fair to AT&T.

The full text of Lehman Brothers' written opinion, dated March 4, 2006, is attached as Annex B to this joint proxy statement/prospectus. AT&T shareholders are encouraged to read Lehman Brothers' opinion carefully and in its entirety for a description of the assumptions made, procedures followed, factors considered and limitations upon the review undertaken by Lehman Brothers in rendering its opinion. The following is a summary of Lehman Brothers' opinion and the methodology that Lehman Brothers used to render its opinion. This summary is qualified in its entirety by reference to the full text of the opinion.

Lehman Brothers' advisory services and opinion were provided for the use and benefit of the AT&T board of directors in connection with its consideration of the merger. Lehman Brothers' opinion is not intended to be and does not constitute a recommendation to any shareholder of AT&T as to how such shareholder should vote in connection with the merger. Lehman Brothers was not requested to opine as to, and Lehman Brothers' opinion does not address, AT&T's underlying business decision to proceed with or effect the merger.

In arriving at its opinion, Lehman Brothers reviewed and analyzed, among other things:
the merger agreement and the specific terms of the merger;

publicly available information concerning AT&T and BellSouth that Lehman Brothers believed to be relevant to its analysis, including each of AT&T's and BellSouth's Annual Reports on Form 10-K for the fiscal year ended December 31, 2005;

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financial and operating information with respect to the businesses, operations and prospects of BellSouth furnished to Lehman Brothers by BellSouth and AT&T, including (i) financial projections of BellSouth prepared by BellSouth's management, and (ii) financial projections of BellSouth prepared by AT&T's management;

financial and operating information with respect to the businesses, operations and prospects of AT&T furnished to Lehman Brothers by AT&T, including (i) financial projections of AT&T prepared by AT&T's management, and (ii) the amount and timing of synergies expected by AT&T's management to result from the merger;

the recent and historical trading prices of AT&T common shares and of BellSouth common shares and a comparison of each of these trading histories with each other and other telecommunications companies that Lehman Brothers deemed relevant;

a comparison of the historical financial results, present financial condition and trading multiples of AT&T and of BellSouth with each other and with those of other telecommunications companies that Lehman Brothers deemed relevant;

a comparison of the financial terms of the merger with the financial terms of certain other transactions that Lehman Brothers deemed relevant;

published estimates of third party research analysts with respect to the future financial performance of both AT&T and BellSouth;

the relative contributions of AT&T and BellSouth to the current and future financial performance of the combined company on a pro forma basis;

the potential pro forma financial impact of the merger on the future financial performance of the combined company, including the expected synergies and the anticipated restructuring charges and integration costs in connection therewith furnished to it by AT&T; and

the potential pro forma financial impact of AT&T's share repurchase program which was announced contemporaneously with the merger.

In addition, Lehman Brothers had discussions with the managements of AT&T and BellSouth concerning their respective businesses, operations, assets, liabilities, financial conditions and prospects and the potential strategic benefits expected by AT&T's management to result from the merger. Lehman Brothers also undertook such other studies, analyses and investigations as Lehman Brothers deemed appropriate.

In arriving at its opinion, Lehman Brothers assumed and relied upon the accuracy and completeness of the financial and other information used by Lehman Brothers without assuming any responsibility for independent verification of such information. Lehman Brothers further relied upon the assurances of the managements of AT&T and BellSouth that they were not aware of any facts or circumstances that would make such information inaccurate or misleading. With respect to the financial projections of BellSouth prepared by BellSouth's management, upon advice of BellSouth and with the consent of AT&T, Lehman Brothers assumed that such projections were reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of BellSouth as to the future financial performance of BellSouth. With respect to the financial projections of BellSouth prepared by AT&T's management, upon advice of and with the consent of AT&T, Lehman Brothers assumed that such projections were reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of AT&T as to the future financial performance of BellSouth and that those projections are a reasonable basis upon which to evaluate the future financial performance of BellSouth, and Lehman Brothers has primarily relied on those projections in performing its analyses. With respect to the financial projections of AT&T, Lehman Brothers assumed with the consent of AT&T that those projections were reasonably prepared on a basis reflecting the best

currently available estimates and judgments of the management of AT&T as to the future financial performance of AT&T and that AT&T would perform on a stand-alone basis substantially in accordance with those projections. With respect to the amount and

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timing of the synergies and the restructuring charges and integration costs estimated by the management of AT&T to result from a combination of the businesses of AT&T and BellSouth, Lehman Brothers assumed with the consent of AT&T that the timing and amount of such synergies, charges and expenses are reasonable and will be realized substantially in accordance with such estimates. In arriving at its opinion, Lehman Brothers did not conduct a physical inspection of the properties or facilities of AT&T or BellSouth and Lehman Brothers did not make or obtain any evaluation or appraisals of the assets or liabilities of AT&T or BellSouth. Lehman Brothers' opinion was necessarily based upon market, economic and other conditions as they existed on, and could be evaluated as of, March 4, 2006.

In rendering its opinion, Lehman Brothers expressed no opinion as to the prices at which AT&T common shares or BellSouth common shares will trade at any time following the announcement of the proposed merger or as to the price at which AT&T common shares will trade at any time following the completion of the merger.

Lehman Brothers is an internationally recognized investment banking firm and, as part of its investment banking activities, is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive bids, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. AT&T selected Lehman Brothers because of its expertise, reputation and familiarity with AT&T and the telecommunications industry generally and because its investment banking professionals have substantial experience in transactions comparable to the merger.

Lehman Brothers acted as financial advisor to AT&T in connection with the merger pursuant to a letter agreement dated March 4, 2006. Lehman Brothers received a fee of \$6.5 million in connection with the announcement of the merger and will receive an additional fee of \$19.5 million upon the completion of the merger or \$19 million in the event that the merger agreement is terminated or the merger is not otherwise completed and AT&T receives a termination fee from BellSouth. In addition, AT&T has agreed that, at its sole discretion, it may pay Lehman Brothers a discretionary bonus payment, based upon AT&T's evaluation of the quality and quantity of the work performed and the value added by Lehman Brothers prior to the closing of the merger. As of the date hereof, AT&T has not made any decision as to whether or not any discretionary bonus will be paid, or, if so, the amount that would be paid. In addition, AT&T has agreed to reimburse Lehman Brothers for reasonable out-of-pocket expenses incurred in connection with the merger and to indemnify Lehman Brothers for certain liabilities that may arise out of its engagement by AT&T and the rendering of Lehman Brothers' opinion.

Lehman Brothers in the past has rendered investment banking services to AT&T, BellSouth and their affiliates and received an aggregate of approximately \$61 million and \$16 million in fees from AT&T and BellSouth and their affiliates, respectively, over the past two years. These amounts include AT&T's and BellSouth's respective pro rata share of fees paid by Cingular Wireless to Lehman Brothers over the past two years. Lehman Brothers may provide AT&T and its affiliates with investment banking services in the future for which it may receive compensation.

In the ordinary course of its business, Lehman Brothers may actively trade in the debt or equity securities of AT&T and BellSouth for its own account and for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities.

Evercore Group Inc. Fairness Opinion

Evercore has acted as one of AT&T's financial advisors in connection with the merger. In connection with Evercore's engagement, the AT&T board of directors requested that Evercore render an opinion with respect to the fairness, from a financial point of view, to AT&T, of the exchange ratio. At the meeting of the AT&T board of directors on March 4, 2006, Evercore rendered its oral opinion, which was subsequently confirmed in writing dated March 4, 2006, that, based upon and subject to the matters described in its opinion, the exchange ratio was fair, from a financial point of view, to AT&T.

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The full text of Evercore's opinion, dated March 4, 2006, which sets forth, among other things, the procedures followed, matters considered and limitations of the review undertaken in connection with its opinion, is attached as Annex C to this joint proxy statement/prospectus and is incorporated herein by reference. The summary of Evercore's fairness opinion set forth in this joint proxy statement/prospectus is qualified in its entirety by reference to the full text of the opinion. Shareholders should read the opinion carefully and in its entirety.

Evercore's opinion is directed to the board of directors of AT&T, addresses only the fairness, from a financial point of view, to AT&T of the exchange ratio and does not address any other aspect or implication of the merger or any other agreement, arrangement or understanding entered into in connection with the merger or otherwise. Evercore's opinion does not constitute a recommendation to any shareholder of AT&T as to how such shareholder should vote or act with respect to any matter relating to the merger.

In arriving at its opinion, Evercore, among other things:

analyzed certain publicly available financial statements and other publicly available business information relating to AT&T and BellSouth that Evercore deemed relevant to its analysis;

analyzed certain internal non-public financial and operating data concerning AT&T and BellSouth prepared and furnished to Evercore by the management of each of AT&T and BellSouth, respectively, and AT&T provided Evercore with, and reviewed with Evercore, the estimated amount and timing of the synergies as well as the expected restructuring charges;

analyzed certain financial projections concerning AT&T and BellSouth furnished to Evercore by the management of AT&T and certain financial projections concerning BellSouth furnished to Evercore by the management of BellSouth;

discussed the past and current operations and financial condition and the prospects of AT&T and BellSouth with the management of each of AT&T and BellSouth, respectively;

reviewed the reported prices and trading activity of the BellSouth common shares and the AT&T common shares;

compared the financial performance of BellSouth and the prices and trading activity of the BellSouth common shares with that of selected publicly traded telecommunications companies and their securities;

compared the financial performance of AT&T and the prices and trading activity of AT&T common shares with that of selected publicly traded telecommunications companies and their securities;

compared the proposed financial terms of the merger with publicly available financial terms of certain transactions that Evercore deemed reasonably comparable to the merger;

considered the potential financial impact of AT&T's contemplated share repurchase program expected to be announced contemporaneously with the transaction;

considered the potential pro forma impact of the merger on AT&T, based on inputs and analysis provided by AT&T management;

reviewed a draft of the merger agreement dated March 4, 2006, which Evercore assumed was in substantially final form and would not vary in any respect material to its analysis; and

performed such other analyses and examinations and considered such other factors as Evercore in its sole judgment deemed appropriate for purposes of its opinion.

For purposes of its analyses and opinion, Evercore relied upon and assumed, without assuming any responsibility for independently verifying, the accuracy and completeness of all the financial and other information that was publicly available or was furnished to it by BellSouth or AT&T or otherwise

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discussed with or reviewed by or for Evercore, and it has not assumed any liability therefor. Evercore further relied upon the assurances of the management of AT&T and BellSouth, respectively, that they are not aware of any facts that would make such information inaccurate or misleading. Evercore has not made nor assumed any responsibility for making any valuation or appraisal of any assets or liabilities of AT&T or BellSouth, nor have any such valuations or appraisals been provided to Evercore, nor has Evercore evaluated the solvency of AT&T or BellSouth under any state or federal laws relating to bankruptcy, insolvency or similar matters.

With respect to the AT&T and BellSouth projections provided to Evercore by AT&T management and the BellSouth projections provided to Evercore by BellSouth management, Evercore assumed that such projections were reasonably prepared on a basis reflecting the best currently available estimates and judgments of each of the management of AT&T and BellSouth, respectively, as to future financial performance. With respect to the synergies and expected restructuring charges estimated by the management of AT&T to result from the merger, Evercore assumed that the timing and amounts of such synergies and expected restructuring charges are reasonable. Evercore expressed no view as to such financial analyses and forecasts, the synergies and the expected restructuring charges or the assumptions on which they were based. Evercore also assumed that the merger would qualify as a tax-free reorganization for United States federal income tax purposes, and that the merger and the other transactions contemplated by the merger agreement would be completed as described in the merger agreement and without any waiver, amendment or modification of any terms or conditions that are material to Evercore's opinion. Evercore further assumed that all required governmental, regulatory or other consents and approvals necessary for the completion of the merger would be obtained without any regulatory material adverse effect. Evercore also assumed that the final form of the merger agreement would not differ in any material respect from the last draft reviewed by Evercore.

Evercore's opinion was necessarily based on economic, market and other conditions as in effect on, and the information made available to it as of, March 4, 2006. It should be understood that subsequent developments may affect Evercore's opinion and that Evercore does not have any obligation to update, revise, or reaffirm its opinion. Evercore's opinion was limited to the fairness, from a financial point of view, to AT&T of the exchange ratio and it expressed no opinion as to the underlying decision by AT&T to engage in the merger. Evercore expressed no opinion as to the price at which AT&T common shares would trade at any future time.

AT&T engaged Evercore to act as a financial advisor based on its qualifications, experience and reputation and its knowledge of the business of AT&T. Evercore is an internationally recognized investment banking firm and is regularly engaged in the valuation of businesses in connection with mergers and acquisitions, leveraged buyouts, competitive biddings, private placements and valuations for corporate and other purposes.

Evercore acted as financial advisor to AT&T with respect to the proposed merger pursuant to a letter agreement dated March 4, 2006. Evercore received a fee of \$6.5 million in connection with the announcement of the merger and will receive an additional fee of \$19.5 million (which may be increased by AT&T at its sole discretion) upon the completion of the merger. In addition, AT&T has agreed to reimburse Evercore's expenses and indemnify Evercore and its members, partners, officers, directors, advisors, representatives, employees, agents, affiliates and controlling persons, if any, against certain liabilities and expenses, including certain liabilities under the federal securities laws, related to or arising out of Evercore's engagement and any related transactions.

Evercore has in the past rendered investment banking services to AT&T or its predecessors and received an aggregate of approximately \$44 million in fees from AT&T or its predecessors over the past two years. In addition, in the future, Evercore may provide, or seek to provide, financial advice and investment banking services to the combined company for which it may receive compensation.

Financial Analyses of Lehman Brothers and Evercore

The following is a summary of the material financial analyses of Lehman Brothers and Evercore and which underlie the respective opinions of Lehman Brothers and Evercore delivered to the AT&T board of

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directors on March 4, 2006. The analyses were prepared on a joint basis by Lehman Brothers and Evercore. **The financial analyses summarized below include information presented in tabular format. In order to fully understand the financial analyses used by Lehman Brothers and Evercore, the tables must be read together with the text of each summary. Considering any portion of such analyses and of the factors considered, without considering all analyses and factors, could create a misleading or incomplete view of the process underlying Lehman Brothers and Evercore's opinions.**

Historical Share Price Analysis

Lehman Brothers and Evercore considered historical data with regard to the trading prices of the AT&T common shares and the BellSouth common shares for the period from March 3, 2005 to March 3, 2006. During this period, the closing stock price of the AT&T common shares ranged from a low of \$22.10 to a high of \$28.45 per share, and the closing price of the BellSouth common shares ranged from a low of \$24.51 to a high of \$31.88 per share. During this period, the intraday stock price of the AT&T common shares ranged from a low of \$21.75 to a high of \$28.82 per share, and the intraday stock price of the BellSouth common shares ranged from a low of \$24.32 to a high of \$32.40 per share. The foregoing historical share price analysis was provided for background information and perspective with respect to the relative historical share prices of the AT&T common shares and the BellSouth common shares.

Historical Exchange Ratio Analysis

Lehman Brothers and Evercore compared the historical closing per share prices of the AT&T common shares and the BellSouth common shares over different periods during the three years preceding March 4, 2006 in order to determine the implied average exchange ratios that existed during those periods. The 52 week high exchange ratio represents the highest ratio of the closing price of the BellSouth common shares on any particular day during such period to the closing price of the AT&T common shares on the same day. The 52 week low exchange ratio represents the lowest ratio of the closing price of the BellSouth common shares on any particular day during such period to the closing price of the AT&T common shares on the same day. The following table indicates the implied exchange ratio of AT&T common shares for BellSouth common shares for the periods indicated:

	Exchange Ratio
March 3, 2006	1.124x
10 day trading average	1.133x
30 day trading average	1.105x
60 day trading average	1.106x
90 day trading average	1.103x
One year average	1.108x
52 week high (June 3, 2005)	1.156x
52 week low (March 3, 2005)	1.065x
Three year average	1.089x

Equity Research Analysis

Lehman Brothers and Evercore compared selected recent publicly available research analyst price targets, as of March 3, 2006 (the last trading day prior to the delivery of Lehman Brothers and Evercore's respective opinions), from selected firms. Lehman Brothers and Evercore selected the firms listed based on the availability of publicly disclosed price targets for both AT&T and BellSouth. Other firms provided a price target for one but not both companies. In performing this analysis, Lehman Brothers and Evercore utilized research analyst price targets from the following firms:

Robert W. Baird

Banc of America Securities LLC

Citigroup Global Markets Inc.

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Credit Suisse

Deutsche Bank Securities Inc.

Morgan Stanley

UBS Securities LLC

Wachovia Securities LLC

For each firm, Lehman Brothers and Evercore calculated the implied exchange ratios based on the price targets for AT&T and BellSouth, respectively. The analysis yielded implied exchange ratios ranging from 0.93x to 1.23x.

Peer Group Trading Analysis

In order to assess how the public market values shares of similar publicly traded companies, Lehman Brothers and Evercore, based on their experience with companies in the telecommunications industry, reviewed and compared specific financial and operating data relating to AT&T and BellSouth with the following peer companies that Lehman Brothers and Evercore selected because they have certain characteristics that are similar to those of AT&T and BellSouth:

Verizon Communications Inc.

Qwest Communications International Inc.

Sprint Nextel Corporation

As part of their peer group trading analysis, Lehman Brothers and Evercore calculated and analyzed the ratio of current stock price to estimated 2006 earnings per share (commonly referred to as a price/earnings ratio) for AT&T, BellSouth and each member of the peer group. Lehman Brothers and Evercore also calculated and analyzed the ratio of enterprise value to estimated 2006 earnings before interest, taxes, depreciation and amortization, which we refer to as EBITDA, for AT&T, BellSouth and each member of the peer group, which included the applicable proportionate amount of Cingular's EBITDA in the case of AT&T and BellSouth. The enterprise value of each company was obtained by adding its short and long term debt, including a proportional amount of Cingular net debt, to the sum of the market value of its common equity, and the book value of any minority interest, and subtracting its cash and cash equivalents and market value of unconsolidated investments. All of these calculations were performed based on closing prices as of March 3, 2006, the last trading date prior to the delivery of Lehman Brothers' and Evercore's respective opinions.

The analysis of the current price/earnings ratios indicated that, for the selected peer group, the current price/earnings ratios, based on estimated 2006 earnings per share, ranged from 13.8x to 14.4x. This compared to current price/earnings ratios, based on estimated 2006 earnings per share, of 14.0x for AT&T and 13.7x for BellSouth, based on public research estimates.

The analysis of financial multiples indicated that, for the selected peer group, current enterprise value as a multiple of estimated 2006 EBITDA ranged from 5.1x to 6.2x for 2006. This compared to enterprise value as a multiple of estimated 2006 EBITDA of 5.2x for AT&T and 6.0x for BellSouth, based on public research estimates.

Lehman Brothers and Evercore calculated implied exchange ratios based on the peer group trading analysis ranging from 0.93x to 1.27x.

Lehman Brothers and Evercore selected the peer group above because their businesses and operating profiles are reasonably similar to that of AT&T and BellSouth. However, because of the inherent differences between the business, operations and prospects of AT&T and BellSouth and the businesses, operations and prospects of the selected peer group, no company is exactly the same as AT&T or BellSouth. As a result, these analyses are not purely mathematical, but also take into account differences in financial and operating characteristics of the subject companies and other factors that could affect the public trading value of the subject companies to which AT&T and BellSouth are being compared.

Table of Contents***Sum of the Parts Analysis***

Lehman Brothers and Evercore performed a sum of the parts analysis of BellSouth by valuing each of the individual business segments individually and deriving from there a range of values for BellSouth as a whole. The BellSouth business segments considered were Wireline, Wireless (40% of Cingular) and Directories. Using various methodologies that the AT&T financial advisors deemed appropriate for each business segment analyzed, the analysis indicated a range of equity values per BellSouth common share ranging from \$32.73 to \$39.73.

Lehman Brothers and Evercore performed a sum of the parts analysis of AT&T by valuing each of the individual business segments individually and deriving from there a range of values for AT&T as a whole. The AT&T business segments considered were Wireline, Wireless (60% of Cingular) and Directories. Using various methodologies that the AT&T financial advisors deemed appropriate for each business segment analyzed, the analysis indicated a range of equity values per AT&T common share ranging from \$31.94 to \$38.24 per share.

Lehman Brothers and Evercore calculated implied exchange ratios based on the sum of the parts analysis ranging from 0.86x to 1.24x.

Contribution Analysis

Lehman Brothers and Evercore analyzed the respective contributions of AT&T and BellSouth to the estimated calendar years 2006, 2007 and 2008 EBITDA and Net Income of the combined company based on estimates provided by AT&T management, and excluding the effect of expected synergies. This analysis indicated the following relative contributions of AT&T and BellSouth and the following implied exchange ratios:

	Contribution		
	2006E	2007E	2008E
EBITDA			
AT&T	66%	66%	67%
BellSouth	34%	34%	33%
Implied Exchange Ratio	0.98x	0.96x	0.91x
Net Income			
AT&T	64%	65%	67%
BellSouth	36%	35%	33%
Implied Exchange Ratio	1.21x	1.15x	1.06x

Lehman Brothers and Evercore calculated implied exchange ratios based on the contribution analysis ranging from 0.91x to 1.21x.

Precedent Transaction Analysis

Using publicly available information, Lehman Brothers and Evercore reviewed and compared the multiple of enterprise value to one year forward EBITDA paid in eight acquisitions of companies that Lehman Brothers and Evercore, based on their experience with merger and acquisition transactions,

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deemed relevant to arriving at their respective opinions. Lehman Brothers and Evercore reviewed the following transactions:

Date Announced	Acquiror	Target
April 1, 1996	SBC Communications Inc.	PacificTelesis Group
April 22, 1996	Bell Atlantic Corporation	NYNEX Corporation
January 4, 1998	SBC Communications Inc.	Southern New England Telecommunications Corporation
May 10, 1998	SBC Communications Inc.	Ameritech Corporation
July 28, 1998	Bell Atlantic Corporation	GTE Corporation
June 23, 1999	Qwest Communications International Inc.	U S WEST, Inc.
February 17, 2004	Cingular Wireless LLC	AT&T Wireless Services, Inc.
December 15, 2004	Sprint Corporation	Nextel Communications, Inc.

The following table presents the results of this analysis:

	Low	High	Mean
Ratio of Enterprise Value to 12-Month Forward EBITDA	5.5x	9.5x	7.5x

Based on this analysis, Lehman Brothers and Evercore calculated a range of implied exchange ratios based on the precedent transaction analysis ranging from 1.31x to 1.56x by applying a range of 7.0x to 8.0x to 12-month forward EBITDA for BellSouth based on the EBITDA estimates of BellSouth provided by AT&T management.

Lehman Brothers and Evercore selected the precedent transactions on the basis of various factors, including size and similarity of the line of business of the relevant entities. However, no precedent transaction is identical to the merger. As a result, these analyses are not purely mathematical, but also take into account differences in financial and operating characteristics of the subject companies and other factors that could affect the transactions to which the merger is being compared.

Premia Paid Analysis

Lehman Brothers and Evercore reviewed the premia paid in all all-stock transactions valued at greater than \$25 billion during the ten year period preceding March 3, 2006. Lehman Brothers and Evercore calculated the premium per share paid by the acquirer compared to the share price of the target company prevailing (i) one day, (ii) one week and (iii) four weeks prior to the announcement of the transaction, producing mean premia of 25%, 29% and 32%, respectively. This analysis yielded an implied valuation range for the BellSouth common shares of \$39.43 to \$41.61 per share.

Lehman Brothers and Evercore calculated implied exchange ratios based on the premia paid analysis ranging from 1.41x to 1.49x.

BellSouth Discounted Cash Flow Analysis

As part of their analysis, and in order to estimate the present value of the BellSouth common shares, Lehman Brothers and Evercore also prepared discounted cash flow analyses for BellSouth (including its proportional share of Cingular) of after-tax unlevered free cash flows based on AT&T management estimates for fiscal years 2006 through 2015, based on consensus research estimates for fiscal years 2006 through 2010, and based on BellSouth management estimates for fiscal years 2006 through 2008.

A discounted cash flow analysis is a traditional valuation methodology used to derive a valuation of an asset by calculating the present value of estimated future cash flows of the asset. Present value refers to the current value of future cash flows or amounts and is obtained by discounting those future cash flows or amounts by a selected discount

rate.

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Lehman Brothers and Evercore performed discounted cash flow analyses for BellSouth (including its proportional share of Cingular) by:

adding the present value of BellSouth's projected after-tax unlevered free cash flows for fiscal years 2006 through 2015 based on AT&T management estimates to the present value of the terminal value of BellSouth as of December 31, 2015 based on AT&T management estimates;

adding the present value of BellSouth's projected after-tax unlevered free cash flows for fiscal years 2006 through 2010 based on consensus research estimates to the present value of the terminal value as of December 31, 2010 based on consensus research estimates; and

adding the present value of BellSouth's projected after-tax unlevered free cash flows for fiscal years 2006 through 2008 based on BellSouth management estimates to the present value of the terminal value of BellSouth as of December 31, 2008 based on BellSouth management estimates.

Terminal value refers to the value of all future cash flows from an asset at a particular point in time. Lehman Brothers and Evercore estimated a range of terminal values in 2015 based on AT&T management estimates, in 2010 based on consensus research estimates, and in 2008 based on BellSouth management estimates calculated based on selected free cash flow perpetuity growth rates of 1.0% to 2.0% for AT&T management estimates and 1.5% to 2.5% for BellSouth management estimates and consensus research estimates. The perpetuity growth rates utilized in this analysis were chosen by Lehman Brothers and Evercore based on their expertise and experience with the telecommunications industry. Lehman Brothers and Evercore discounted the unlevered free cash flow streams and the estimated terminal value to a present value at a range of discount rates from 7.5% to 8.5%. The discount rates utilized in this analysis were chosen by Lehman Brothers and Evercore based on their expertise and experience with the telecommunications industry and also on an analysis of the weighted average cost of capital of BellSouth and other comparable companies. Lehman Brothers and Evercore calculated per share equity values by first determining a range of enterprise values of BellSouth by adding the present values of the after-tax unlevered free cash flows and terminal values for each EBITDA terminal multiple and discount rate scenario, and then subtracting from the enterprise values the net debt (which is total debt minus cash including proportional net debt of Cingular) of BellSouth, and dividing those amounts by the number of fully diluted shares of BellSouth.

Based on the projections and assumptions set forth above (including the midpoint of the terminal value range), the discounted cash flow analysis of BellSouth yielded an implied valuation range of BellSouth common shares of \$27.84 to \$48.80, excluding the impact of an estimated \$18 billion of net present value of cost savings and revenue synergies estimated by AT&T management to result from the transaction. With the inclusion of estimated synergies, the valuation yielded an implied valuation range of BellSouth common shares of \$38.18 to \$59.15.

AT&T Discounted Cash Flow Analysis

As part of their analysis, and in order to estimate the present value of the AT&T common shares, Lehman Brothers and Evercore prepared discounted cash flow analyses for AT&T (including its proportional share of Cingular) of after-tax unlevered free cash flows for fiscal years 2006 through 2013 based on AT&T management estimates and for fiscal years 2006 through 2010 based on consensus research estimates.

Lehman Brothers and Evercore performed discounted cash flow analyses for AT&T (including its proportional share of Cingular) by:

adding the present value of AT&T's projected after-tax unlevered free cash flows for fiscal years 2006 through 2013 based on AT&T management estimates to the present value of the terminal value of AT&T as of December 31, 2013 based on AT&T management estimates; and

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adding the present value of AT&T's projected after-tax unlevered free cash flows for fiscal years 2006 through 2010 based on consensus research estimates to the present value of the terminal value of AT&T as of December 31, 2010 based on consensus research estimates.

Lehman Brothers and Evercore estimated a range of terminal values in 2013 based on AT&T management estimates and in 2010 based on consensus research estimates calculated based on selected free cash flow perpetuity growth rates of 1.0% to 2.0% for AT&T management estimates and from 1.5% to 2.5% for consensus research estimates. The perpetuity growth rates utilized in this analysis were chosen by Lehman Brothers and Evercore based on their expertise and experience with the telecommunications industry. Lehman Brothers and Evercore discounted the unlevered free cash flow streams and the estimated terminal value to a present value at a range of discount rates from 7.5% to 8.5%. The discount rates utilized in this analysis were chosen by Lehman Brothers and Evercore based on their expertise and experience with the telecommunications industry and also on an analysis of the weighted average cost of capital of AT&T and other comparable companies. Lehman Brothers and Evercore calculated per share equity values by first determining a range of enterprise values of AT&T by adding the present values of the after-tax unlevered free cash flows and terminal values for each EBITDA terminal multiple and discount rate scenario, and then subtracting from the enterprise values the net debt (which is total debt minus cash including proportional net debt of Cingular) and adding the market value of unconsolidated investments of AT&T, and dividing those amounts by the number of fully diluted shares of AT&T.

Based on the projections and assumptions set forth above (including the midpoint of the terminal value range), the discounted cash flow analysis of AT&T yielded an implied valuation range of AT&T common shares of \$29.09 to \$48.84.

Lehman Brothers and Evercore calculated implied exchange ratios based on the discounted cash flow analysis ranging from 0.57x to 1.68x, excluding the impact of an estimated \$18 billion of net present value of cost savings and revenue synergies estimated by AT&T management to result from the transaction. With the inclusion of estimated synergies, the analysis yielded implied exchange ratios ranging from 0.78x to 2.03x.

Pro Forma Analysis

In order to evaluate the estimated ongoing impact of the merger, Lehman Brothers and Evercore analyzed the pro forma earnings effect of the merger from the perspective of AT&T shareholders. For the purposes of this analysis, Lehman Brothers and Evercore assumed (i) a \$37.09 per share price for the BellSouth common shares (the price per share of AT&T common shares multiplied by the exchange ratio), (ii) a \$27.99 per share price for the AT&T common shares (the closing market price per share on March 3, 2006), (iii) a merger structure with 100% stock consideration, (iv) earnings estimates for each company provided by management of AT&T, (v) an estimated \$18 billion of net present value of synergies from the transaction based on the estimates of the management of AT&T, and (vi) the repurchase by AT&T of \$2 billion of the AT&T common shares in 2006 and \$8 billion of the AT&T common shares in 2007. Lehman Brothers and Evercore estimated that, based on the assumptions described above, the pro forma impact of the transaction on the earnings per share of AT&T, excluding the amortization of intangibles and integration costs would be approximately 1% dilutive in 2007, and then approximately 3%, 5% and 5% accretive in 2008, 2009 and 2010, respectively. The estimates that underlie this analysis are subject to substantial uncertainty and, therefore, actual results may be substantially different.

General

In connection with the review of the merger by AT&T's board of directors, each of Lehman Brothers and Evercore performed a variety of financial and comparative analyses for purposes of rendering its respective opinion. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. In arriving at its respective opinion, each of Lehman Brothers and Evercore considered the results of all of their analyses as a whole. Furthermore, Lehman Brothers and Evercore believe that the summary provided and the analyses described above must be

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considered as a whole and that selecting any portion of their analyses, without considering all of them, would create an incomplete view of the process underlying their analyses and opinion. In addition, Lehman Brothers and Evercore may have given various factors more or less weight than other factors and may have deemed various assumptions more or less probable than other assumptions, so that the ranges of valuations resulting from any particular analysis described above should not be taken to be Lehman Brothers' and Evercore's view of the actual value of AT&T or BellSouth. No limitations were imposed by AT&T on the scope of Lehman Brothers' and Evercore's investigations or the procedures followed by Lehman Brothers and Evercore in rendering their opinions.

In performing their analyses, Lehman Brothers and Evercore made numerous assumptions with respect to risks associated with industry performance, general business and economic conditions and other matters, many of which are beyond the control of AT&T or BellSouth. Any estimates contained in these analyses are not necessarily indicative of future results or actual values, which may be significantly more or less favorable than those suggested by such estimates. The analyses performed were prepared solely as part of Lehman Brothers' and Evercore's analysis of the fairness of the exchange ratio from a financial point of view to AT&T and were prepared in connection with the delivery by each of Lehman Brothers and Evercore of their respective opinions, dated March 4, 2006, to AT&T's board of directors.

The terms of the merger were determined through arm's length negotiations between AT&T and BellSouth. Lehman Brothers and Evercore did not recommend any specific exchange ratio or form of consideration to AT&T or that any specific exchange ratio or form of consideration constituted the only appropriate consideration for the merger. Lehman Brothers' and Evercore's respective opinions were provided to AT&T's board of directors to assist it in its consideration of the exchange ratio. Neither Lehman Brothers' nor Evercore's opinion addresses any other aspect of the proposed merger and neither opinion constitutes a recommendation to any shareholder as to how to vote or to take any other action with respect to the merger. Lehman Brothers' and Evercore's opinions were one of the many factors taken into consideration by AT&T's board of directors in making its unanimous determination to approve the merger agreement.

Opinions of BellSouth's Financial Advisors

Descriptions of the fairness opinions of BellSouth's financial advisors in connection with the merger, Citigroup and Goldman Sachs, are set forth below. These descriptions are qualified in their entirety by reference to the full text of the opinions included as Annexes D and E, respectively, to this joint proxy statement/ prospectus. You are urged to read the opinions for a discussion of the assumptions made, procedures followed, matters considered and limitations on the reviews undertaken by Citigroup and Goldman Sachs in rendering their respective opinions.

BellSouth retained two financial advisors because BellSouth believed that each had different experience and could provide the Board of Directors with different perspectives. The number of financial advisors retained was not the subject of negotiation between BellSouth and AT&T.

Opinion of Citigroup Global Markets Inc.

Citigroup rendered its opinion to BellSouth's board of directors that, as of March 4, 2006 and based upon and subject to the considerations and limitations set forth in the opinion, the exchange ratio was fair, from a financial point of view, to the holders of BellSouth common shares.

The full text of the written opinion of Citigroup, dated March 4, 2006, which sets forth assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Annex D to this joint proxy statement/ prospectus and is incorporated herein by reference. Citigroup provided its advisory services and opinion for the information of the board of directors of BellSouth in its evaluation of the merger. Citigroup's opinion was limited solely to the fairness of the exchange ratio. Citigroup's opinion is not intended to be and does not constitute a recommendation to any shareholder as to how such shareholder should vote or act with respect to the proposed merger or any other matter described in this joint proxy statement/ prospectus. Citigroup was not requested to consider, and its opinion does not address, the relative merits of the merger compared to

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any alternative business strategies that might exist for BellSouth or the effect of any other transaction in which BellSouth might engage. The summary of Citigroup's opinion in this joint proxy statement/ prospectus is qualified in its entirety by reference to the full text of the opinion. Holders of BellSouth common shares are urged to read the Citigroup opinion carefully and in its entirety.

In arriving at its opinion, Citigroup:

reviewed the merger agreement;

held discussions with certain senior officers, directors and other representatives and advisors of BellSouth and certain senior officers and other representatives and advisors of AT&T concerning the businesses, operations and prospects of BellSouth and AT&T;

examined certain publicly available business and financial information relating to BellSouth and AT&T as well as certain financial forecasts and other information and data relating to BellSouth and AT&T which were provided to or discussed with Citigroup by the respective managements of BellSouth and AT&T, including adjustments to the forecasts and other information and data relating to AT&T discussed with Citigroup by the management of BellSouth and information relating to the potential strategic implications and operational benefits (including the amount, timing and achievability thereof) anticipated by the managements of BellSouth and AT&T to result from the merger;

reviewed the financial terms of the merger as set forth in the merger agreement in relation to, among other things, current and historical market prices and trading volumes of BellSouth common shares and AT&T common shares, the historical and projected earnings and other operating data of BellSouth and AT&T and the capitalization and financial condition of BellSouth and AT&T;

considered, to the extent publicly available, the financial terms of certain other transactions which Citigroup considered relevant in evaluating the merger and analyzed certain financial, stock market and other publicly available information relating to the businesses of other companies whose operations Citigroup considered relevant in evaluating those of BellSouth and AT&T;

evaluated certain potential pro forma financial effects of the merger on AT&T; and

conducted such other analyses and examinations and considered such other information and financial, economic and market criteria as Citigroup deemed appropriate in arriving at its opinion.

In rendering its opinion, Citigroup assumed and relied, without assuming any responsibility for independent verification, upon the accuracy and completeness of all financial and other information and data publicly available or provided to or otherwise reviewed by or discussed with it and upon the assurances of the managements of BellSouth and AT&T that they are not aware of any relevant information regarding BellSouth or AT&T, as applicable, that had been omitted or remained undisclosed to it. With respect to financial forecasts and other information and data relating to BellSouth and AT&T provided to or discussed with Citigroup by management of BellSouth and AT&T, Citigroup was advised by the respective managements of BellSouth and AT&T that those forecasts and other information and data were reasonably prepared on bases reflecting the best currently available estimates and judgments of the managements of BellSouth and AT&T as to the future financial performance of BellSouth and AT&T, the potential strategic implications and operational benefits anticipated to result from the merger and the other matters covered thereby, and Citigroup assumed, with BellSouth's consent, that the financial results (including the potential strategic implications and operational benefits anticipated to result from the merger) reflected in these forecasts and other information and data will be realized in the amounts and at the times projected.

Citigroup assumed, with BellSouth's consent, that the merger will be completed in accordance with its terms, without waiver, modification or amendment of any term, condition or agreement material to its analysis and that, in

the course of obtaining the necessary regulatory or third party approvals, consents and releases for the merger, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on BellSouth, AT&T or the contemplated benefits of the merger material to its analysis. Citigroup also assumed, with BellSouth's consent, that the merger will be treated as a tax-free

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reorganization for federal income tax purposes. Citigroup's opinion relates only to the relative values of BellSouth and AT&T. Citigroup did not express any opinion as to what the value of the AT&T common shares actually will be when issued pursuant to the merger or the price at which the AT&T common shares will trade at any time. Citigroup neither made nor was it provided with an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of BellSouth or AT&T. In addition, Citigroup did not make any physical inspection of the properties or assets of BellSouth or AT&T.

Citigroup was not requested to, and it did not, solicit third party indications of interest in the possible acquisition of all or a part of BellSouth, nor was it requested to consider, and its opinion does not address, the relative merits of the merger as compared to any alternative business strategies that might exist for BellSouth or the effect of any other transaction in which BellSouth might engage. Citigroup's opinion was necessarily based upon information available to it, and financial, stock market and other conditions and circumstances existing, as of the date of the opinion.

Pursuant to a letter agreement dated March 3, 2006, Citigroup was retained on that date as financial advisor to BellSouth in connection with the merger. Citigroup will receive a fee of \$35 million upon the completion of the merger. BellSouth has also agreed to pay Citigroup a fee of \$26.25 million in the event that the merger agreement is terminated or the merger is otherwise not completed and BellSouth receives a termination fee from AT&T. In addition, BellSouth has agreed, subject to certain limitations, to reimburse Citigroup for its reasonable travel and other expenses, including attorneys' fees and expenses. BellSouth has also agreed to indemnify Citigroup and related parties for certain liabilities that may arise out of the rendering of its opinion, including certain liabilities under the federal securities laws.

Citigroup and its affiliates in the past have provided, and currently provide, services to BellSouth and AT&T unrelated to the merger, for which services Citigroup and such affiliates have received and expect to receive compensation, including, without limitation, having acted as:

financial advisor to BellSouth in the sale of BellSouth Latin America to Telefonica Moviles SA;

financial advisor to BellSouth and Cingular Wireless LLC in the purchase of AT&T Wireless Services Inc. in October 2004;

financial advisor to SBC in the sale of its interest in its directories joint venture with RH Donnelly Corp. in September 2004;

financial advisor to SBC in the sale of its interests in TDC A/ S to TDC A/ S in June 2004;

financial advisor to Cingular in the sale of Cingular Wireless LLC (Bermuda) to Digicel Ltd. in December 2005;

financial advisor to Cingular in the sale of certain assets to Alltel Corp. in April 2005;

financial advisor to Cingular in the sale of certain assets to MetroPCS Inc. in February 2005;

dealer manager in the \$9.5 billion consent solicitation by Cingular in connection with the acquisition of AT&T Wireless in August 2004;

dealer manager in the offer by ATTC to repurchase \$1.5 billion and up to 1.05 billion of its notes in February 2004;

broker to BellSouth in the repurchase of 6.8 million of its shares in December 2005;

agent for BellSouth's \$3 billion credit facility issued in April 2005, \$9 billion credit facility and bridge loan issued in October 2004 and \$1.5 billion credit facility issued in April 2004;

joint lead arranger for ATTC's \$500 million credit facility issued in October 2005 and \$1 billion credit facility issued in October 2004 and SBC's \$12 billion credit facility and bridge loan and \$6 billion credit facility issued in September 2004;

joint bookrunner or co-manager in BellSouth's \$2 billion notes offering in November 2004, \$3 billion bond offering in September 2004 and \$700 million notes offering in June 2004; and

joint bookrunner or co-manager for SBC's \$2 billion notes offering in November 2005, \$5 billion bond offering in October 2004 and \$1.5 billion notes offering in August 2004.

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The aggregate fees received by Citigroup over the past two years for corporate and investment banking services it rendered to BellSouth and its affiliates were approximately \$26.9 million (excluding fees in connection with the merger). The aggregate fees received by Citigroup over the past two years for corporate and investment banking services it rendered to AT&T and its affiliates were approximately \$34.4 million.

In the ordinary course of its business, Citigroup and its affiliates may actively trade or hold the securities of BellSouth and AT&T for its own account or for the account of its customers and, accordingly, may at any time hold a long or short position in these securities. In addition, Citigroup and its affiliates (including Citigroup Inc. and its affiliates) may maintain relationships with BellSouth, AT&T and their respective affiliates.

Citigroup is an internationally recognized investment banking firm engaged in, among other things, the valuation of businesses and their securities in connection with mergers and acquisitions, restructurings, leveraged buyouts, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. BellSouth selected Citigroup to act as its financial advisor in connection with the proposed transaction on the basis of Citigroup's international reputation and Citigroup's familiarity with BellSouth.

The preparation of a fairness opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and is not necessarily susceptible to partial analysis or summary description. The financial analyses described below were conducted by Citigroup in connection with its opinion. Citigroup believes that the analyses and factors described below must be considered as a whole and that selecting portions of such analyses and factors or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of its analyses, could create a misleading or incomplete view of the processes underlying its analyses and opinion. In arriving at its fairness determination, Citigroup considered the results of all of its analyses and did not attribute any particular weight to any factor or analysis considered by it. Rather, Citigroup made its determination as to fairness on the basis of its experience and professional judgment after considering the results of all of its analyses.

No limitations were imposed by BellSouth on the scope of Citigroup's investigation or the procedures to be followed by Citigroup in rendering its opinion. In its analyses, Citigroup made numerous assumptions with respect to BellSouth, AT&T, industry performance, regulatory, general business, economic, market and financial conditions and other matters, many of which are beyond the control of BellSouth and AT&T. Any estimates contained in Citigroup's analyses are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by these analyses. Estimates of values of companies do not purport to be appraisals or necessarily to reflect the prices at which companies may actually be sold. Because these estimates are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective advisors, none of BellSouth, AT&T, Citigroup, their respective affiliates or any other person assumes responsibility if future results are materially different from those estimates.

Citigroup did not recommend any specific exchange ratio to BellSouth or its board of directors or that any specific exchange ratio constituted the only appropriate exchange ratio for the merger. The exchange ratio to be paid in the merger was determined through arms-length negotiations between BellSouth and AT&T and was approved by BellSouth's board of directors.

As described above, Citigroup's opinion to BellSouth's board of directors was one of many factors taken into consideration by BellSouth's board of directors in making its determination to approve and adopt the merger and the merger agreement.

Set forth below under "Financial Analyses of BellSouth's Financial Advisors" is a summary of the material financial analyses used by Citigroup in connection with providing its opinion to the board of directors of BellSouth. This summary does not purport to be a complete description of the analyses

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performed by Citigroup in connection with its opinion and is qualified in its entirety by reference to the written opinion of Citigroup attached as Annex D.

Opinion of Goldman Sachs

Goldman Sachs rendered its opinion to the BellSouth board of directors that, as of March 4, 2006 and based upon and subject to the assumptions, procedures, factors, limitations and qualifications set forth in such opinion, the exchange ratio of 1.325 AT&T common shares to be received for each BellSouth common share pursuant to the merger agreement was fair from a financial point of view to the holders of BellSouth common shares.

The full text of the written opinion of Goldman Sachs, dated March 4, 2006, which sets forth the assumptions made, procedures followed, factors considered and limitations and qualifications of the review undertaken in connection with the opinion, is attached as Annex E to this joint proxy statement/ prospectus and incorporated herein by reference. Goldman Sachs provided its opinion for the information and assistance of the BellSouth board of directors in connection with its consideration of the merger. The Goldman Sachs opinion is not a recommendation as to how any holder of BellSouth common shares should vote with respect to the merger.

In connection with rendering the opinion described above and performing its related financial analyses, Goldman Sachs reviewed, among other things:

the merger agreement;

annual reports to shareholders and Annual Reports on Form 10-K of BellSouth and AT&T for the five years ended December 31, 2005;

certain interim reports to shareholders and Quarterly Reports on Form 10-Q of BellSouth and AT&T;

certain other communications from BellSouth and AT&T to their respective shareholders; and

certain internal financial analyses and forecasts for AT&T prepared by its management, as reviewed and adopted by the management of BellSouth, and certain internal financial analyses and forecasts for BellSouth prepared by its management, which we refer to as the forecasts.

Goldman Sachs also held discussions with members of the senior managements of BellSouth and AT&T regarding their assessment of the strategic rationale for, and the potential benefits of, the merger and the past and current business operations, financial condition and future prospects of their respective companies. In addition, Goldman Sachs reviewed the reported price and trading activity for BellSouth common shares and AT&T common shares, compared certain financial and stock market information for BellSouth and AT&T with similar information for certain other companies the securities of which are publicly traded, reviewed the financial terms of certain recent business combinations in the telecommunications industry specifically, and in other industries generally, and performed such other studies and analyses, and considered such other factors, as Goldman Sachs considered appropriate.

Goldman Sachs relied upon the accuracy and completeness of all of the financial, accounting, legal, tax and other information discussed with or reviewed by it, and assumed such accuracy and completeness for purposes of rendering its opinion. With respect to the forecasts, Goldman Sachs assumed, with the consent of the BellSouth board of directors, that they have been reasonably prepared on a basis reflecting the best currently available estimates and judgments of the respective managements of BellSouth and AT&T. In addition, Goldman Sachs did not make an independent evaluation or appraisal of the assets and liabilities (including any contingent, derivative or off-balance-sheet assets and liabilities) of BellSouth or AT&T or any of their respective subsidiaries, nor was any evaluation or appraisal of the assets or liabilities of BellSouth or AT&T or any of their respective subsidiaries furnished to Goldman Sachs.

The Goldman Sachs opinion did not address the underlying business decision of BellSouth to engage in the merger, nor did Goldman Sachs express any opinion as to the prices at which AT&T common shares or BellSouth common shares will trade at any time. Goldman Sachs assumed that all governmental, regulatory or other consents

and approvals necessary for the completion of the merger will be obtained

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without any adverse effect on BellSouth or AT&T or on the expected benefits of the merger in any way meaningful to its analyses. Goldman Sachs' opinion was necessarily based on economic, monetary, market and other conditions as in effect on, and the information made available to Goldman Sachs as of, the date of its opinion.

Goldman Sachs' advisory services and opinion were provided for the information and assistance of the BellSouth board of directors in connection with its consideration of the merger and its opinion did not constitute a recommendation as to or how any holder of BellSouth common shares should vote with respect to the merger.

The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analyses or of the summary set forth below, without considering the analyses as a whole, could create an incomplete view of the processes underlying Goldman Sachs' opinion. In arriving at its fairness determination, Goldman Sachs considered the results of all the analyses and did not attribute any particular weight to any factor or analysis considered by it. Rather, Goldman Sachs made its determination as to fairness on the basis of its experience and professional judgment after considering the results of all the analyses. No company or transaction used in Goldman Sachs' analyses as a comparison is directly comparable to BellSouth or AT&T or the merger.

Goldman Sachs prepared its analyses for purposes of providing its opinion to BellSouth's board of directors as to the fairness from a financial point of view of the exchange ratio to the holders of BellSouth common shares. These analyses do not purport to be appraisals nor do they necessarily reflect the prices at which businesses or securities actually may be sold. Analyses based upon forecasts of future results are not necessarily indicative of actual future results, which may be significantly more or less favorable than suggested by these analyses. Because these analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective advisors, none of BellSouth, AT&T, Goldman Sachs or any other person assumes responsibility if future results are materially different from those forecast. As described above, Goldman Sachs' opinion to BellSouth's Board was one of many factors taken into consideration by BellSouth's board of directors in making its determination to approve the merger agreement.

Goldman Sachs did not recommend any specific exchange ratio to BellSouth or its Board or that any specific exchange ratio constituted the only appropriate exchange ratio for the merger. The exchange ratio to be paid in the merger was determined through arm's-length negotiations between BellSouth and AT&T and was approved by BellSouth's Board.

Goldman Sachs and its affiliates, as part of their investment banking business, are continually engaged in performing financial analyses with respect to businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and other transactions as well as for estate, corporate and other purposes. Goldman Sachs has acted as financial advisor to BellSouth in connection with, and has participated in certain of the negotiations leading to, the merger. In addition, Goldman Sachs has provided certain investment banking services to BellSouth from time to time, including having acted as:

a joint bookrunner with respect to the public offering of BellSouth's 6.55% Senior Notes due 2034 (aggregate principal amount of \$700,000,000) in June 2004 and 5.20% Senior Notes due 2014 (aggregate principal amount of \$1,500,000,000) in September 2004;

a co-lead manager with respect to the public offering of BellSouth's 4.20% Senior Notes due 2009 (aggregate principal amount of \$1,500,000,000) in September 2004;

a joint bookrunner with respect to the public offering of BellSouth's 4.75% Senior Notes due 2012 (aggregate principal amount of \$800,000,000) in November 2004;

a co-lead manager with respect to the public offering of BellSouth's Floating Rate Notes due 2007 (aggregate principal amount \$500,000,000) and 6.0% Senior Notes due 2034 (aggregate principal amount \$700,000,000) in November 2004; and

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a participant in BellSouth's 364 day, \$9,000,000,000 Bridge Facility to fund BellSouth's equity contribution to Cingular to purchase AT&T Wireless in October 2004.

In addition, Goldman Sachs' commercial bank affiliate is a lender under credit facilities of BellSouth and acted as a counterparty to BellSouth in certain interest rate derivative contracts in December 2003, April 2004 and September 2004.

Goldman Sachs has also provided certain investment banking services to AT&T from time to time, including having acted as:

a participant in AT&T's 364 day, \$12,000,000,000 Bridge Facility to fund AT&T's equity contribution to Cingular to purchase AT&T in October 2004;

a joint bookrunner with respect to the public offering of AT&T's 5.625% Senior Notes due 2016 (aggregate principal amount of \$750,000,000) and 6.45% Senior Notes due 2034 (aggregate principal amount of \$750,000,000) in August 2004;

a co-manager with respect to the public offering of AT&T's 4.125% Senior Notes due 2009 (aggregate principal amount of \$2,250,000,000) and 5.1% Senior Notes due 2014 (aggregate principal amount of \$2,250,000,000) in November 2004;

a financial advisor to AT&T in connection with the acquisition by its subsidiary, Sterling Commerce, Inc., of Yantra Corporation in January 2005;

a senior co-manager with respect to the public offering of AT&T's Floating Rate Notes due 2008 (aggregate principal amount of \$500,000,000) and 5.3% Senior Notes due 2010 (aggregate principal amount of \$1,000,000,000) in November 2005;

a counterparty to AT&T in various block trades of shares held by AT&T in June 2003, October 2003, June 2004, October 2004 and November 2004; and

a joint bookrunner with respect to the public offering of AT&T's Floating Rate Notes due 2008 (aggregate principal amount of \$900,000,000) and 6.8% Notes due 2036 (aggregate principal amount of \$600,000,000) in May 2006.

Goldman Sachs' commercial bank affiliate is also a lender under credit facilities of AT&T and acted as a counterparty to AT&T in various foreign exchange and interest rate derivative contracts in July 2004 and August 2004, respectively.

Goldman Sachs also may provide investment-banking services to BellSouth and AT&T in the future. In connection with the above-described investment banking services Goldman Sachs has received, and may receive, compensation. The aggregate fees received by Goldman Sachs since March 4, 2004 from the investment banking services it rendered to BellSouth and its affiliates were approximately \$2.9 million (excluding fees payable in connection with the merger). The aggregate fees received by Goldman Sachs since March 4, 2004 from the investment banking services it rendered to AT&T and its affiliates were approximately \$29.6 million.

In addition, Mr. Leo F. Mullin, a director of BellSouth, currently provides consultation services as a Senior Advisor on a part-time basis to Goldman Sachs Capital Partners, a private equity fund group in New York, New York which is an affiliate of Goldman Sachs.

Goldman Sachs is a full service securities firm engaged, either directly or through its affiliates, in securities trading, investment management, financial planning and benefits counseling, risk management, hedging, financing and brokerage activities for both companies and individuals. In the ordinary course of these activities, Goldman Sachs and its affiliates may provide services to BellSouth, AT&T and their respective affiliates, may actively trade the debt and equity securities (or related derivative securities) of BellSouth and AT&T for their own account and for the accounts of their customers and may at any time hold long and short positions of such securities.

BellSouth selected Goldman Sachs as one of its financial advisors because it is an internationally recognized investment banking firm that has substantial experience in transactions similar to the merger. Pursuant to a letter agreement dated February 7, 2006, BellSouth engaged Goldman Sachs to act as its

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financial advisor in connection with the contemplated transaction. Pursuant to the terms of the engagement letter, BellSouth has agreed to pay Goldman Sachs a transaction fee of \$35,000,000 upon the completion of the merger. BellSouth has also agreed to pay Goldman Sachs a transaction fee of \$26,250,000 in the event that the merger agreement is terminated or the merger is otherwise not completed and BellSouth receives a termination fee from AT&T. In addition, BellSouth has agreed to reimburse Goldman Sachs for its reasonable expenses, including attorneys' fees and disbursements, provided that such expenses shall not exceed \$500,000 without the prior consent of BellSouth, such consent not to be unreasonably withheld. Finally, BellSouth has agreed to indemnify Goldman Sachs and related persons against various liabilities, including certain liabilities under the federal securities laws.

Financial Analyses of BellSouth's Financial Advisors

A description of the material financial analyses of Citigroup and Goldman Sachs jointly performed in connection with the preparation of their respective fairness opinions is set forth below. The following summary does not, however, purport to be a complete description of all the financial analyses performed by Citigroup and Goldman Sachs in connection with their respective fairness opinions.

The order of the analyses described does not represent relative importance or weight given to those analyses by Citigroup and Goldman Sachs. The summary includes information presented in tabular format. **In order to more fully understand the financial analyses used by Citigroup and Goldman Sachs, the tables must be read together with the full text of each summary. The tables alone are not a complete description of Citigroup's and Goldman Sachs' financial analyses. Set forth above under Opinions of BellSouth's Financial Advisors is a summary of the fairness opinions of Citigroup and Goldman Sachs, including a description of the assumptions made in respect of and limitations on the financial analyses.** Except as otherwise noted, the following quantitative information, to the extent based on market data, is based on market data as it existed on or before March 3, 2006, and is not necessarily indicative of current market conditions.

Historical Exchange Ratio Analysis. Citigroup and Goldman Sachs calculated the implied current exchange ratio at March 3, 2006 and February 23, 2006 in connection with their presentations to the BellSouth board of directors on March 4 and February 26, respectively, by dividing the closing price per BellSouth common share by the closing price per AT&T common share on such date. Citigroup and Goldman Sachs also calculated the historical exchange ratios for the 30 day, 60 day, one year and two year periods, in each case ending February 23, 2006. Citigroup and Goldman Sachs compared these ratios to the exchange ratio in the merger agreement of 1.325x. The following table summarizes the results of this analysis:

	Illustrative Implied Exchange Ratio
March 3, 2006	1.124x
February 23, 2006	1.139x
30 day average	1.097x
60 day average	1.103x
1 year average	1.107x
2 year average	1.089x

Discounted Cash Flow Analysis. Citigroup and Goldman Sachs calculated the estimated present value as of December 31, 2005 of the stand-alone, unlevered, after-tax free cash flows estimated to be generated by the Wireline, Wireless and Directories business segments of each of BellSouth and AT&T, as well as ATTC, on a standalone basis (but giving effect to the synergies and integration costs anticipated by AT&T to result from its acquisition of ATTC in November 2005) over calendar years 2006 through 2008. Forecasted financial information for BellSouth and AT&T for 2006 through 2008 used by Citigroup and Goldman Sachs for purposes of this analysis was based on estimates provided by management of BellSouth and AT&T and publicly available information.

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For BellSouth's Wireline segment, Citigroup and Goldman Sachs calculated a range of estimated terminal values by multiplying the BellSouth Wireline segment's calendar year 2008 EBITDA by selected multiples ranging from 4.75x to 5.25x. The estimated after-tax free cash flows for BellSouth's Wireline segment for calendar years 2006 through 2008 and the terminal values calculated for BellSouth's Wireline segment were then discounted to the present value using discount rates of 7.0% to 8.0%. For BellSouth's 40% interest in Cingular, BellSouth's Wireless business segment, Citigroup and Goldman Sachs calculated a range of estimated terminal values by multiplying Cingular's calendar year 2008 estimated EBITDA by selected multiples ranging from 5.75x to 6.25x. The estimated after-tax free cash flows for Cingular for calendar years 2006 through 2008 and the terminal values calculated for Cingular were then discounted to the present value using discount rates of 8.5% to 9.5% and multiplied by 40%. For BellSouth's Directories segment, Citigroup and Goldman Sachs calculated a range of estimated terminal values by multiplying BellSouth's Directories segment's calendar year 2008 estimated EBITDA by selected multiples ranging from 8.25x to 8.75x. The estimated after-tax free cash flows for BellSouth's Directories segment for calendar years 2006 through 2008 and the terminal values calculated for BellSouth's Directories segment were then discounted to the present value using discount rates of 7.0% to 8.0%.

Citigroup and Goldman Sachs calculated a range of implied equity values for BellSouth by adding together the stand-alone discounted cash flow valuations for each of the business segments described above, reducing the result by the amount of BellSouth's net debt (debt less cash) and 40% of Cingular's net debt as of December 31, 2005 and making certain adjustments for investments, minority interests and option proceeds. Citigroup and Goldman Sachs then divided these implied equity values by the number of BellSouth's shares outstanding on a fully diluted basis to derive a range of illustrative implied values per BellSouth common share of approximately \$30.50 to \$34.95, as compared to a closing price of BellSouth common stock on March 3, 2006 of \$31.46.

For AT&T's Wireline segment, Citigroup and Goldman Sachs calculated a range of estimated terminal values by multiplying AT&T Wireline segment's calendar year 2008 estimated EBITDA by selected multiples ranging from 4.75x to 5.25x. The estimated after-tax free cash flows for AT&T's Wireline segment for calendar years 2006 through 2008 and the terminal values calculated for AT&T's Wireline segment were then discounted to the present value using discount rates of 7.0% to 8.0%. For AT&T's 60% interest in Cingular, AT&T's Wireless business segment, Citigroup and Goldman Sachs calculated a range of estimated terminal values by multiplying Cingular's calendar year 2008 estimated EBITDA by selected multiples ranging from 5.75x to 6.25x. The estimated after-tax free cash flows for Cingular for calendar years 2006 through 2008 and the terminal values calculated for Cingular were then discounted to the present value using discount rates of 8.5% to 9.5% and multiplied by 60%. For AT&T's Directories segment, Citigroup and Goldman Sachs calculated a range of estimated terminal values by multiplying AT&T's Directories segment's calendar year 2008 estimated EBITDA by selected multiples ranging from 8.25x to 8.75x. The estimated after-tax free cash flows for AT&T's Directories segment for calendar years 2006 through 2008 and the terminal values calculated for AT&T's Directories segment were then discounted to the present value using discount rates of 7.0% to 8.0%. For ATTC, Citigroup and Goldman Sachs calculated a range of estimated terminal values by multiplying ATTC's calendar year 2008 estimated EBITDA by selected multiples ranging from 3.75x to 4.25x. The estimated after-tax free cash flows for ATTC for calendar years 2006 through 2008 and the terminal values calculated for ATTC were then discounted to the present value using discount rates of 8.5% to 9.5%.

Citigroup and Goldman Sachs calculated a range of implied equity values for AT&T by adding together the stand-alone discounted cash flow valuations for each of the business segments described above, reducing the result by the amount of AT&T's net debt (debt less cash) and 60% of Cingular's net debt as of December 31, 2005, and making certain adjustments for investments, minority interests and option proceeds. Citigroup and Goldman Sachs then divided these implied equity values by the number of AT&T's common shares outstanding on a fully diluted basis to derive a range of illustrative implied values per AT&T common share of approximately \$28.49 to \$32.43, as compared to a closing price of the AT&T common share on March 3, 2006 of \$27.99.

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Citigroup and Goldman Sachs noted that such analysis indicated implied exchange ratios ranging from 1.071x to 1.078x as compared to the exchange ratio in the merger agreement of 1.325x.

Equity Research Analysis. Citigroup and Goldman Sachs reviewed future price targets for the price per BellSouth common share and AT&T common share in Wall Street research reports published by selected financial analysts. Citigroup and Goldman Sachs noted that the ranges of future price targets published by the selected financial analysts for each of BellSouth and AT&T were \$27.00 to \$35.00 and \$26.00 to \$33.00, respectively. This analysis suggested an exchange ratio of 1.038x to 1.061x as compared to the exchange ratio in the merger agreement of 1.325x.

Public Comparables Analysis. Citigroup and Goldman Sachs reviewed certain financial information for BellSouth, AT&T and the Wireline business segment, Wireless business segment and Directories business segment of each of BellSouth and AT&T and compared it to corresponding financial information, ratios and multiples for the publicly traded companies listed below that Citigroup and Goldman Sachs deemed relevant to the business segment of BellSouth and AT&T indicated:

Wireline:

Alltel Corporation/ VALOR Communications Group, Inc.*

Citizens Communications Company

CenturyTel, Inc.

Cincinnati Bell Inc.

FairPoint Communications Inc.

Iowa Telecommunications Services Inc.

Consolidated Communications Holdings, Inc.

Commonwealth Telephone Enterprises Inc.

Embarq Corporation*

Wireless:

Sprint Nextel Corporation

Alltel Corporation*

Centennial Cellular Operating Co. LLC

Dobson Communications Corporation

Rural Cellular Corporation

SunCom Wireless Inc.

United States Cellular Corporation

Directories:

Yell Group plc*

Yellow Pages Income Fund*

RH Donnelley/Dex Media Inc.*

* Analysis gave pro forma effect to certain announced transactions.

No company utilized in the analysis above is directly comparable to BellSouth, AT&T or any business segment of either company.

Based on information provided by BellSouth's and AT&T's management and information obtained from SEC filings and research estimates, Citigroup and Goldman Sachs calculated for BellSouth, AT&T, the Wireline, Wireless and Directories business segments of each of BellSouth and AT&T and for the other publicly traded companies enterprise value (which is equal to the market value of common equity on a fully diluted basis plus the book value of debt plus minority interests less cash and unconsolidated

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investments) as a multiple of estimated calendar year 2006 EBITDA. Citigroup and Goldman Sachs then applied a range of selected multiples of estimated 2006 EBITDA derived from the comparable companies to corresponding financial data of BellSouth and AT&T in order to derive an implied enterprise value for each business segment of BellSouth and AT&T.

Citigroup and Goldman Sachs calculated a range of implied equity values for BellSouth by adding together the stand-alone valuations for BellSouth Wireline segment, BellSouth's 40% interest in Cingular and BellSouth Directories, reducing the result by the amount of BellSouth's net debt (debt less cash) and 40% of Cingular's net debt as of December 31, 2005 and making certain adjustments for investments, minority interests and option proceeds. Citigroup and Goldman Sachs then divided these implied equity values by the number of BellSouth's shares outstanding on a fully diluted basis to derive a range of illustrative implied values per BellSouth common share of approximately \$28.32 to \$33.49 per share.

Citigroup and Goldman Sachs calculated a range of implied equity values for AT&T by adding together the stand-alone valuations for AT&T's Wireline segment, AT&T's 60% interest in Cingular and AT&T's Directories segment, reducing the result by the amount of AT&T's net debt (debt less cash) and 60% of Cingular's net debt as of December 31, 2005 and making certain adjustments for investments, minority interests and option proceeds. Citigroup and Goldman Sachs then divided these implied equity values by the number of AT&T common shares outstanding on a fully diluted basis to derive a range of illustrative implied values per AT&T common share of approximately \$27.04 to \$32.23 per share.

Citigroup and Goldman Sachs noted that such analyses indicated implied exchange ratios ranging from 1.039x to 1.047x as compared to the exchange ratio in the merger agreement of 1.325x.

Contribution Analysis. Citigroup and Goldman Sachs reviewed certain historical and estimated future operating and financial information, including among other things, revenue, EBITDA, net income, equity value (at market) and enterprise value (at market), for each of BellSouth and AT&T to analyze and compare the relative implied equity contributions (after adjusting for existing indebtedness) of BellSouth and AT&T to the pro forma combined company. The information used by Citigroup and Goldman Sachs in the course of its analysis was based on publicly available financial information and estimates provided by the respective managements of BellSouth and AT&T. These analyses, the order of which does not necessarily reflect their relative significance, indicated the following implied equity contributions (after adjusting for existing indebtedness) by BellSouth and AT&T for the following periods:

	BellSouth's Implied Equity Contribution to Combined Company	AT&T's Implied Equity Contribution to Combined Company
Revenue		
CY 2006E	29%	71%
CY 2008E	30%	70%
EBITDA		
CY 2006E	34%	66%
CY 2008E	34%	66%
Net Income		
CY 2006E	34%	66%
CY 2008E	36%	64%
At Market		
Equity Value	35%	65%
Enterprise Value	36%	64%

Citigroup and Goldman Sachs compared the percentage range of BellSouth's implied equity contribution to the pro forma combined company to the percentage ownership of BellSouth shareholders in the pro forma combined company of 38% calculated based on the exchange ratio in the merger agreement of 1.325x.

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Pro Forma Analysis. Citigroup and Goldman Sachs analyzed the pro forma financial effects of the merger on BellSouth's estimated earnings per share, which we refer to as EPS, and AT&T's estimated EPS using internal financial forecasts for BellSouth prepared by BellSouth management, which we refer to as the BellSouth Management Case, internal financial forecasts for AT&T prepared by AT&T management adjusted to conform AT&T management's view of Cingular to BellSouth management's view of Cingular, which we refer to as the Adjusted AT&T Management Case, and financial forecasts based on Wall Street research, which we refer to as the BellSouth Street Case and AT&T Street Case. For calendar year 2007, Citigroup and Goldman Sachs compared the projected EPS of the BellSouth common shares, on a stand-alone basis, to the projected EPS of the AT&T common shares on a pro forma combined company basis. For each of the calendar years 2007 and 2008, Citigroup and Goldman Sachs compared the projected EPS of the AT&T common shares, on a stand-alone basis, to the projected EPS of the AT&T common shares on a pro forma combined company basis. These analyses excluded the effects of both transaction amortization and one-time integration costs and further assumed that estimated annual synergies would be phased in over a three year period. Based on the BellSouth Management Case and the Adjusted AT&T Management Case and the BellSouth and AT&T Street Cases, the proposed transaction would be accretive to BellSouth's shareholders on an EPS basis in calendar year 2007. Based on the BellSouth Management Case and Adjusted AT&T Management Case, the proposed transaction would be slightly dilutive to AT&T's shareholders on an EPS basis for calendar year 2007 and slightly accretive for calendar year 2008. Based on the BellSouth and AT&T Street Cases, the proposed transaction would be moderately dilutive to AT&T's shareholders on an EPS basis for both calendar year 2007 and calendar year 2008. Assuming 100% of the estimated annual synergies were achieved in 2008, the proposed transaction would be accretive to AT&T's shareholders on an EPS basis in calendar year 2008 based on each of these analyses.

Precedent Transactions Premiums Analysis. Citigroup and Goldman Sachs reviewed certain publicly available information relating to certain selected precedent transactions since 1998 with transaction values in excess of \$20 billion that Citigroup and Goldman Sachs deemed relevant. For each of the selected transactions, Citigroup and Goldman Sachs calculated the percentage premium or discount per share received by the target's shareholders based on the closing price per share of the target's common stock on the day before and the month before the announcement of the transaction and compared it to the premium to be paid to BellSouth shareholders based on the exchange ratio in the merger agreement of 1.325x and the closing stock prices of AT&T and BellSouth on March 3, 2006. The following table summarizes the results of this analysis:

	1 Day	1 Month
Median for Precedent Transactions	15%	21%
BellSouth/ AT&T	16%	29%

Interests of BellSouth's Executive Officers and Directors in the Merger

In considering the recommendation of BellSouth's board of directors with respect to the approval of the merger agreement, BellSouth's shareholders should be aware that BellSouth's executive officers and directors have interests in the merger that are different from, or in addition to, those of the BellSouth shareholders generally. BellSouth's board of directors was aware of these interests and considered them, among other matters, in reaching its decisions to approve and adopt the merger agreement and to recommend that the BellSouth shareholders vote FOR the approval of the merger agreement.

Restricted Stock, Restricted Stock Units and Stock Options

BellSouth's executive officers, including its named executive officers, hold shares of restricted common stock and unvested restricted stock units, all of which were granted under BellSouth's equity compensation plans. In the event that the employment of an executive officer is terminated within two years after completion of the merger, either by AT&T without cause or by the executive officer for good reason (as these terms are defined in the executive officer's severance arrangement described below), under the terms of BellSouth's equity compensation plans and agreements, all of the restricted shares of common stock and unvested restricted stock units then held by the executive officer will

fully vest. In addition,

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certain of BellSouth's executive officers hold unvested options to purchase BellSouth common shares and BellSouth's non-employee directors hold unvested restricted stock units. Under the terms of BellSouth's equity compensation plans, all of these unvested options that are outstanding immediately prior to the completion of the merger will vest and become fully exercisable, and the unvested restricted stock units held by the non-employee directors will vest, upon the completion of the merger.

The following chart sets forth, as of May 31, 2006, the number of unvested stock options, shares of restricted BellSouth common stock and unvested BellSouth restricted stock units held by BellSouth's named executive officers, other executive officers as a group and non-employee directors as a group.

Name and Principal Position	Restricted Stock	Unvested Restricted Stock Units	Unvested Stock Options
F. Duane Ackerman Chairman of the Board and Chief Executive Officer	171,610	123,650	
Mark L. Feidler President and Chief Operating Officer	97,000	49,850	184,400
W. Patrick Shannon Chief Financial Officer	72,900	100,400	30,000
Richard Anderson Vice Chairman and President - Business Markets	63,500	30,850	
Francis A. Dramis, Jr. Chief Information, E-Commerce and Security Officer	76,500	24,200	
Other executive officers as a group (3 individuals)	148,066	43,400	57,100
Non-employee directors as a group (9 individuals)		22,536	

Performance Shares

BellSouth's executive officers, including its named executive officers, hold performance shares, which are cash-based awards denominated in notional BellSouth common shares and are subject to a three-year performance period. Upon the completion of the merger, performance shares will become earned to the extent that the applicable performance criteria have been satisfied through the calendar quarter ending on or immediately preceding the date of completion of the merger. At that time, a pro-rata portion of these earned performance shares (together with accrued dividend equivalents) will be paid to the holders in cash based on the elapsed portion of the applicable performance cycles. The amount of this cash payment per performance share is equal to the average closing price of BellSouth's common shares during the 90-day period ending on the day prior to the date of completion of the merger. The remaining portion of the performance shares will be forfeited. AT&T has agreed that it will make a grant of performance shares under its equity compensation plans to BellSouth personnel in replacement of their BellSouth performance shares that are forfeited solely by reason of the completion of the merger. These replacement AT&T performance shares will have the same value, to the extent practicable, as the forfeited BellSouth performance shares, and the performance periods of the replacement AT&T performance shares will be the same as the performance periods applicable to the forfeited BellSouth performance shares. In addition, these replacement AT&T performance shares will be deemed fully earned upon the holder's termination of employment without cause or for good reason (as these terms are defined for the purpose of the severance pay agreement applicable to the holder) prior to the end of the applicable performance periods. These replacement shares will be paid in cash at the end of the applicable performance periods based on the actual performance results as compared to the applicable performance goals.

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The following chart sets forth, as of May 31, 2006, the total number of performance shares granted to BellSouth's named executive officers and other executive officers as a group for all outstanding performance cycles. The following chart also sets forth the total estimated value that would be payable with respect to these performance shares based upon actual performance results for the applicable performance periods through December 31, 2005 (except for the 2006 grant of performance shares, which has been valued at target performance), and using the 90-day average price of BellSouth common shares as of May 31, 2006 plus the estimated value of dividend equivalents payable for each performance share for the applicable performance period through May 31, 2006.

Name	No. of Performance Shares	Estimated Value of Performance Shares
F. Duane Ackerman	1,045,500	\$ 27,372,934
Mark L. Feidler	351,400	9,639,054
W. Patrick Shannon	202,425	5,368,056
Richard Anderson	259,250	6,849,970
Francis A. Dramis, Jr.	236,300	6,211,589
Other executive officers as a group (3 individuals)	309,300	8,951,996

Executive Severance Agreements

Each of BellSouth's executive officers is a party to an executive severance agreement with BellSouth. Under the terms of these agreements, each executive officer would be eligible to receive the following severance payments and benefits upon a termination of his employment by BellSouth or AT&T without cause or by the executive officer for good reason (as these terms are defined in the executive severance agreements), in each case prior to or within two years following the completion of the merger:

1. a multiple of the sum of (a) the executive officer's base salary in effect immediately before the termination date or in effect immediately before the completion of the merger, whichever is greater, and (b) the executive officer's target bonus for the year of termination or for the year in which the merger occurs, whichever is greater;
2. a pro rata bonus based on the elapsed portion of the calendar year through the date of termination, at the greater of target levels or actual performance through the calendar quarter ending on or immediately preceding the date of termination;
3. full vesting of benefits under the nonqualified deferred compensation plans, supplemental retirement and excess benefit plans, and life insurance plans in which the executive officer participates, which means that the benefits under these plans will be determined as if the executive officer is service pension eligible as defined under these plans as of the date of his termination of employment;
4. outplacement assistance; and
5. accrued base salary and other amounts earned through the date of termination but not paid as of the date of termination.

Each agreement provides for full indemnification of the executive officer for excise taxes, if applicable, on certain payments made to the executive officer as a result of the merger. However, if a reduction of payments to the executive officer of 5% or less, but not more than \$500,000, would cause no excise tax to be payable, payments to the executive officer will be reduced so that no excise tax is payable. In addition, each agreement provides for payment of legal fees and expenses incurred in good faith in the event of a dispute under the executive severance agreement.

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The following chart sets forth, for each named executive officer of BellSouth, the cash severance pay to which he would be entitled upon a qualifying termination of his employment immediately following the completion of the merger. The severance payment is determined by adding items 1 and 2 above for executive officers who are not otherwise retirement eligible. The severance payment for those executive officers who are retirement eligible is determined by item 1 above. The calculation assumes completion of the merger on December 31, 2006. The calculation of the pro rata annual bonus described in Item 2 assumes performance at target levels. For each named executive officer, a multiple of three will be used in calculating such cash severance pay.

For BellSouth's other executive officers, as a group, the chart sets forth the aggregate cash amount that would be due as severance payments upon a qualifying termination of employment within two years following the completion of the merger. This calculation uses the same assumptions described in the previous paragraph.

Name	Estimated Cash Severance Pay
F. Duane Ackerman	\$ 9,213,750
Mark L. Feidler	\$ 5,449,500
W. Patrick Shannon	\$ 3,360,000
Richard Anderson	\$ 3,830,400
Francis A. Dramis, Jr.	\$ 3,696,000
Other executive officers as a group (3 individuals)	\$ 7,058,700

In addition to the foregoing payments and benefits, Messrs. Feidler, Anderson and Dramis would be entitled to enhanced supplemental retirement benefits upon such a termination pursuant to employment agreements to which they and BellSouth are parties. The enhancements would consist of the following: in the case of Mr. Feidler, an additional ten years of credited service; in the case of Mr. Anderson, the application of a more favorable early retirement discount rate; and the case of Mr. Dramis, the application of no discount for early retirement.

Continuation of Benefit Plans

In connection with the entry by BellSouth and AT&T into the merger agreement, AT&T has agreed that it will maintain a number of BellSouth's executive benefit plans for two years following the completion of the merger without amendment adverse to the individuals who participate in them. These plans include BellSouth's supplemental executive retirement plan, certain deferred compensation plans and certain other executive welfare benefits plans. In addition, AT&T has agreed that, for two years following the completion of the merger, it will continue to make contributions to grantor trusts maintained by BellSouth for the purpose of satisfying its obligations under the executive and non-employee director compensation and benefits arrangements covered by the trusts.

Indemnification and Insurance

BellSouth and each of its directors have entered into an indemnity agreement in a form previously approved by the BellSouth shareholders. Under the terms of these agreements, each director is entitled to be indemnified against liabilities and expenses related to his or her capacity as a director of BellSouth, subject to certain exceptions provided for under Georgia law, and is also entitled to the benefits of any directors' and officers' liability insurance policy maintained by BellSouth. Under the terms of the indemnity agreements, upon completion of the merger, BellSouth will be required to secure its obligations under each indemnity agreement with a letter of credit in an amount not less than \$1,000,000.

In addition, the merger agreement provides for director and officer indemnification and insurance. For a description of this provision, see *The Merger Agreement - Covenants and Agreements - Indemnification and Directors and Officers - Insurance*, on page 90.

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Designation as Directors of AT&T

Under the merger agreement, three members of BellSouth's board of directors will join the board of directors of AT&T upon completion of the merger. As of the date of this joint proxy statement/ prospectus, those persons have not been determined.

Agreement with F. Duane Ackerman

AT&T and F. Duane Ackerman, BellSouth's Chairman and Chief Executive Officer, have reached an agreement relating to Mr. Ackerman's services after the completion of the merger. The agreement provides that Mr. Ackerman will remain Chairman and Chief Executive Officer of BellSouth for a transition period of up to 90 days following the completion of the merger, at which point Mr. Ackerman will retire. Mr. Ackerman's salary, bonus, benefits and perquisites will remain the same throughout the employment period following the completion of the merger as they existed immediately prior to the completion of the merger. In addition, Mr. Ackerman will remain entitled to all of the payments and benefits to which he would have been entitled had his employment terminated with good reason immediately following the completion of the merger. These payments include the replacement AT&T performance shares to be granted by AT&T following the completion of the merger, which will be deemed fully earned at the time of Mr. Ackerman's retirement. See "Interests of BellSouth's Executive Officers and Directors in the Merger Performance Shares" above. In addition, AT&T has agreed to provide Mr. Ackerman with office space and secretarial assistance in Atlanta, Georgia for a period of seven years following his retirement.

Offer of Senior Officer Opportunity to Executive Officers of BellSouth

Under the merger agreement, AT&T has agreed to offer each of BellSouth's executive officers, except Mr. Ackerman, the opportunity to become a senior officer of AT&T or one of its subsidiaries immediately after completion of the merger. Each BellSouth executive officer who accepts a position with AT&T or one of its subsidiaries will be offered an employment agreement with at least a three year term and providing the executive with a position of significant managerial responsibility with AT&T or one of its subsidiaries. Under the employment agreement, the executive officer will be entitled to receive during the three year term compensation and benefits no less favorable in the aggregate than the executive's compensation and benefits with BellSouth as of March 4, 2006. Under the merger agreement, AT&T has agreed to negotiate in good faith the employment agreements. AT&T has proposed that, if an executive officer enters into an employment agreement with AT&T, the executive's rights under the employment agreement will be in lieu of his or her rights under any executive severance agreement to which he is a party.

Material United States Federal Income Tax Consequences

The following is a summary of the material United States federal income tax consequences of the merger to U.S. holders of BellSouth common shares. The summary is based on the Internal Revenue Code of 1986, as amended, which we refer to as the Code, Treasury regulations, administrative rulings and court decisions in effect as of the date of this joint proxy statement/ prospectus, all of which are subject to change at any time, possibly with retroactive effect.

For purposes of this discussion, the term "U.S. holder" means:

a citizen or resident of the United States;

a corporation, or other entity taxable as a corporation for United States federal income tax purposes, created or organized under the laws of the United States or any of its political subdivisions;

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a trust if it

is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust, or

has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person; or

an estate that is subject to United States federal income tax on its income regardless of its source.

If a partnership holds BellSouth common shares, the tax treatment of a partner in the partnership generally will depend on the status of the partners and the activities of the partnership. If a U.S. holder is a partner in a partnership holding BellSouth common shares, such holder should consult its tax advisor.

This discussion only addresses United States federal income tax consequences of the merger to U.S. holders of BellSouth common shares that hold their BellSouth common shares as a capital asset within the meaning of Section 1221 of the Code. Further, this summary does not address all aspects of United States federal income taxation that may be relevant to a U.S. holder of BellSouth common shares in light of such holder's particular circumstances or that may be applicable to holders subject to special treatment under United States federal income tax law (including, for example, non-United States persons, financial institutions, dealers in securities, insurance companies, tax-exempt entities, holders who acquired BellSouth common shares pursuant to the exercise of employee stock options or otherwise as compensation, holders subject to the alternative minimum tax provisions of the Code, and holders who hold BellSouth common shares as part of a hedge, straddle, constructive sale or conversion transaction). In addition, no information is provided herein with respect to the tax consequences of the merger under applicable state, local or foreign laws.

HOLDERS OF BELLSOUTH COMMON SHARES ARE URGED TO CONSULT WITH THEIR TAX ADVISORS REGARDING THE TAX CONSEQUENCES OF THE MERGER TO THEM, INCLUDING THE EFFECTS OF UNITED STATES FEDERAL, STATE AND LOCAL, FOREIGN AND OTHER TAX LAWS.

The Merger

The merger has been structured to qualify as a reorganization under Section 368(a) of the Code for United States federal income tax purposes. It is a condition to the closing of the merger that AT&T and BellSouth receive opinions from Sullivan & Cromwell LLP and Fried, Frank, Harris, Shriver & Jacobson LLP, respectively, dated the closing date of the merger, to the effect that the merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code. These opinions will be based on assumptions, representations, warranties and covenants, including those contained in the merger agreement and in tax representation letters, dated as of the merger, to be provided by AT&T and BellSouth. The accuracy of such assumptions, representations and warranties, and compliance with such covenants, could affect the conclusions set forth in such opinions. Although the merger agreement allows each of AT&T and BellSouth to waive its tax opinion closing condition, neither AT&T nor BellSouth currently anticipates it will waive this closing condition. If either AT&T or BellSouth waives this condition and if the tax consequences of the merger will be materially different from those described in the registration statement of which this joint proxy statement/ prospectus forms a part, AT&T and BellSouth will inform you of the decision to waive this condition and will ask you to vote on the merger taking such waiver into consideration.

In addition, AT&T and BellSouth will receive opinions from Sullivan & Cromwell LLP and Fried, Frank, Harris, Shriver & Jacobson LLP, respectively, dated the date the registration statement of which this joint proxy statement/ prospectus forms a part becomes effective, to the effect that the merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code. These opinions will be based on assumptions, representations, warranties and covenants, including those contained in the merger agreement and in tax representation letters, dated the date the registration statement of which this joint proxy statement/ prospectus forms a part becomes effective, to be provided by

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AT&T and BellSouth. The accuracy of such assumptions, representations and warranties, and compliance with such covenants, could affect the conclusions set forth in such opinions.

Accordingly, the merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code. The material United States federal income tax consequences of the merger to U.S. holders of BellSouth common shares are as follows:

a U.S. holder will not recognize any gain or loss upon receipt of AT&T common shares solely in exchange for BellSouth common shares in the merger, except with respect to cash received in lieu of a fractional share of AT&T common shares (as discussed below);

a U.S. holder's aggregate tax basis in the AT&T common shares received in the merger (including any fractional shares deemed received and redeemed as described below) will be equal to the U.S. holder's aggregate tax basis in the BellSouth common shares surrendered; and

a U.S. holder's holding period of the AT&T common shares received in the merger (including any fractional shares deemed received and redeemed as described below) will include the U.S. holder's holding period of the BellSouth common shares surrendered.

Cash in Lieu of Fractional Shares. A U.S. holder of BellSouth common shares who receives cash in lieu of a fractional AT&T common share in the merger generally will be treated as having received such fractional share in the merger and then as having received cash in redemption of such fractional share. Gain or loss generally will be recognized based on the difference between the amount of cash received in lieu of the fractional share and the portion of the U.S. holder's aggregate tax basis in the BellSouth common shares surrendered which is allocable to the fractional share. This gain or loss generally will be long-term capital gain or loss if the holding period for the BellSouth common shares is more than one year at the effective time of the merger. Long-term capital gain of non-corporate U.S. holders generally will be taxed at a maximum U.S. federal income tax rate of 15%. The deductibility of capital losses is subject to limitations.

Ruling. No ruling has been or will be sought from the Internal Revenue Service as to the United States federal income tax consequences of the merger, and the opinions of counsel described above are not binding upon the Internal Revenue Service or any court. Accordingly, there can be no assurances that the Internal Revenue Service will not disagree with or challenge any of the conclusions described herein.

Backup Withholding and Information Reporting. Payments of cash made to a U.S. holder in connection with the merger may be subject to information reporting and backup withholding at a rate of 28%, unless the U.S. holder of BellSouth common shares:

provides a correct taxpayer identification number and any other required information to the exchange agent; or

is a corporation or comes within certain exempt categories and otherwise complies with applicable requirements of the backup withholding rules.

All non-corporate U.S. holders of BellSouth common shares should complete and sign the Substitute Form W-9 that will be included as part of the letter of transmittal to be delivered following completion of the merger. Backup withholding does not constitute an additional tax, but merely an advance payment of tax, which may be refunded to the extent it results in an overpayment of tax if the required information is supplied to the Internal Revenue Service.

Accounting Treatment

The merger will be accounted for as an acquisition of BellSouth by AT&T under the purchase method of accounting of U.S. generally accepted accounting principles. Under the purchase method of accounting, the assets and liabilities of the acquired company are, as of completion of the merger, recorded at their respective fair values and added to those of the reporting public issuer, including an amount for goodwill representing the difference between the purchase price and the fair value of the identifiable net

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assets. Financial statements of AT&T issued after completion of the merger will reflect only the operations of BellSouth after the merger and will not be restated retroactively to reflect the historical financial position or results of operations of BellSouth.

All unaudited pro forma financial information contained in this joint proxy statement/ prospectus has been prepared using the purchase method to account for the merger. The final allocation of the purchase price will be determined after the merger is completed and after completion of an analysis to determine the assigned fair values of BellSouth's tangible and identifiable intangible assets and liabilities. In addition, estimates related to restructuring and merger-related charges are subject to final decisions related to combining BellSouth into AT&T. Accordingly, the final purchase accounting adjustments may be materially different from the unaudited pro forma adjustments. Any decrease in the net fair value of the assets and liabilities of BellSouth as compared to the unaudited pro forma information included in this joint proxy statement/ prospectus will have the effect of increasing the amount of the purchase price allocable to goodwill.

The acquisition of BellSouth also will result in AT&T acquiring BellSouth's ownership interest in Cingular. As sole owner of Cingular, AT&T will be required under U.S. generally accepted accounting principles to include Cingular's operating results under Operating Revenues and Operating Expenses on AT&T's consolidated financial statements. Currently, AT&T and BellSouth share equal control of Cingular and therefore account for Cingular under the equity method of accounting. This means that Cingular's results are currently reflected in the Equity in net income of affiliates line on AT&T's and BellSouth's consolidated financial statements.

Regulatory Matters Related to the Merger***HSR Act and Antitrust***

The merger is subject to the requirements of the HSR Act, and the rules promulgated under the HSR Act by the FTC, which prevent transactions such as the merger from being completed until required information and materials are furnished to the DOJ, and the FTC and the applicable waiting period is terminated or expires. On March 31, 2006, AT&T and BellSouth filed the requisite Pre-Merger Notification and Report Forms under the HSR Act with the DOJ and the FTC. On May 1, 2006, the DOJ issued requests for additional information and documentary material to AT&T and BellSouth. As a result, the waiting period has been extended until after AT&T and BellSouth have complied with this request and the DOJ has completed its review. The parties are now in the process of compiling the additional information and material requested.

The DOJ, the FTC and others may challenge the merger on antitrust grounds either before or after expiration or termination of the waiting period. Accordingly, at any time before or after the completion of the merger, any of the DOJ, the FTC or others could take action under the antitrust laws as it deems necessary or desirable in the public interest, including without limitation seeking to enjoin the completion of the merger or permitting completion subject to regulatory concessions or conditions. We cannot assure you that a challenge to the merger will not be made or that, if a challenge is made, it will not succeed.

FCC Approval

The Communications Act requires the approval of the FCC prior to any transfer of control of certain types of licenses and other authorizations issued by the FCC. For this purpose, the merger will constitute a transfer of control to AT&T of the licenses and other authorizations held by BellSouth and its subsidiaries. On March 31, 2006, AT&T and BellSouth filed an application for FCC consent to the transfer of control of licenses and authorizations held directly by BellSouth and indirectly through its subsidiaries, as well as for transfer of control of Cingular Wireless LLC and its subsidiaries and affiliates. Applications for FCC consent are subject to public comment and objections and oppositions of third parties who may interpose objections. Comments on and petitions to deny the application filed by AT&T and BellSouth are due on June 5, 2006, and reply comments are due on June 20, 2006. The FCC has set for itself a goal of completing action on transfer of control applications within 180 days of public notice of the application,

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which target completion date would be on or around October 16, 2006 for the application filed by AT&T and BellSouth. However, no law or regulation requires the FCC to complete its action by that date, or any date, and the FCC acknowledges that more complex applications may take longer.

State Regulatory Approvals. We are required to make filings to provide notice of the merger or obtain approval of the merger in 32 states, and BellSouth has filed for approval to withdraw its authorizations for telecommunications services in four states and the District of Columbia. The filings were made with the relevant public utilities commissions on March 31, 2006. The commissions may subject our filings to public comments, objections by third parties, or other proceedings. As of June 1, 2006, requirements were complete in several jurisdictions. The remaining jurisdictions were still reviewing our filing.

Cable Television Franchises. BellSouth holds 19 cable television franchises for which the change in control of the operative BellSouth subsidiary pursuant to the merger is subject to local franchising authority approval as directed by the Communications Act. The relevant federal laws generally require action by the local franchising authority within 120 days, but this deadline may be extended under certain circumstances. Most of the filings were made on March 31, 2006.

Foreign and Certain Other Regulatory Matters. As of June 1, 2006, the merger was cleared by the governments of Germany and Norway, and was still being reviewed by the government of the United Kingdom.

The merger may be subject to certain regulatory requirements of other municipal, state, federal and foreign governmental agencies and authorities.

Merger Fees, Costs and Expenses

All expenses incurred in connection with the merger agreement and the transactions contemplated by the merger agreement will be paid by the party incurring those expenses, except in specified circumstances in which reimbursement or sharing of expenses may be required by the merger agreement. The circumstances in which reimbursement of expenses may be required are described under *The Merger Agreement Covenants and Agreements Fees and Expenses* on page 90.

Dissenters Rights

Under the Georgia Business Corporation Code, which we refer to as the GBCC, the holders of BellSouth common shares are not entitled to dissenters rights with respect to the merger. If dissenters rights were applicable, a shareholder who did not vote its shares in favor of the transaction and complied with various notice requirements could demand that the merging company pay to the shareholder in cash the fair value of its shares. In transactions in which shareholders of a merging company are entitled to dissenters rights, a shareholder who does not vote his or her shares in favor of the transaction and complies with various notice requirements may demand that the merging company pay the shareholders in cash the fair value of its shares. If the company and the shareholders cannot agree, the fair value of the shares is determined by a court in an appraisal proceeding. Under Georgia law, the holders of BellSouth common shares are not entitled to dissenters rights with respect to the merger. Therefore, although holders of BellSouth common shares may vote against the merger, they will not have the right under Georgia law to demand from BellSouth in an appraisal proceeding the fair value of their shares. However, a holder of BellSouth common shares who does not wish to be an AT&T shareholder may elect to sell his or her shares at any time in the public market at the value set by the market.

Resale of AT&T Common Shares

In general, AT&T common shares issued to BellSouth shareholders pursuant to the merger agreement will be freely transferable, except for any shares received by persons who may be deemed to be affiliates of the parties under the Securities Act. Affiliates generally include individuals or entities that control, are controlled by, or are under common control with a person. Affiliates may sell their AT&T common shares

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only pursuant to an effective registration statement under the Securities Act covering the resale of those shares, an exemption under Rule 145(d) of the Securities Act or any other applicable exemption under the Securities Act. AT&T's registration statement on Form S-4, of which this joint proxy statement/ prospectus constitutes a part, does not cover the resale of AT&T common shares held by affiliates after the merger.

Repurchase of AT&T Common Shares

Subject to applicable law, AT&T may, at various times as price and market conditions warrant, repurchase AT&T common shares. At the time the proposed merger was announced, AT&T announced that its board of directors had approved an expanded share repurchase authorization of 400 million shares through 2008, replacing AT&T's then-existing share repurchase program. Under this new authorization, AT&T expects to repurchase at least \$10 billion of its common shares by the end of 2007. AT&T expects to repurchase at least \$2 billion of its common shares during 2006, but AT&T may repurchase materially more than \$2 billion of its common shares during 2006, depending on prevailing price and market conditions during that period. This repurchase authorization is intended to approximate the share premium paid to BellSouth shareholders in connection with the merger. The repurchase program is expected to be implemented at least in part in 2006 by repurchases of AT&T common shares pursuant to a plan or plans adopted by AT&T intended to comply with the requirements of Rule 10b5-1(c) under the Exchange Act. Regulation M under the federal securities laws prohibits AT&T from bidding for or repurchasing its common shares during the period commencing with the mailing of this joint proxy statement/ prospectus through the date of BellSouth's special meeting. Accordingly, from the date of the mailing of this joint proxy statement/ prospectus through the date of BellSouth's special meeting, AT&T will not repurchase its common shares pursuant to a plan or otherwise. AT&T anticipates that purchases pursuant to its repurchase program will recommence following the BellSouth special meeting.

New York Stock Exchange Listing; Delisting and Deregistration of BellSouth Common Shares

It is a condition to the merger that the AT&T common shares issuable in the merger be approved for listing on the New York Stock Exchange, subject to official notice of issuance. If the merger is completed, BellSouth common shares will cease to be listed on the New York Stock Exchange and its shares will be deregistered under the Exchange Act.

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LITIGATION RELATING TO THE MERGER

On March 9, 2006, two putative class action lawsuits, entitled *Williams v. BellSouth Corporation, et al.*, Case No. 2006CV113858 (March 9, 2006) and *Jannett v. BellSouth Corporation, et al.*, Case No. 2006CV113861 (March 9, 2006), were filed against BellSouth and its directors in the Superior Court of Georgia, Fulton County. The complaints, which are substantially identical, purport to be brought on behalf of all BellSouth shareholders (excluding the defendants and their affiliates). The complaints allege that BellSouth's directors violated their fiduciary obligations to BellSouth's shareholders in approving the merger agreement. In that connection, the complaints allege that:

the merger consideration is inadequate and unfair in offering a very meager premium and not reflecting the intrinsic value of BellSouth;

the directors failed to properly inform themselves of BellSouth's value or its strategic alternatives because the proposed transaction is not the result of a pre-signing auction or market check process and the merger agreement does not provide a market check mechanism process;

the size of the termination fee, the no-shop and matching rights provisions of the merger agreement, which provides AT&T with information on any third party proposal but not information to a third party on any amended AT&T proposal, are impermissible steps to lock up the deal and will hinder and deter other potential acquirers from seeking to acquire BellSouth on better terms than the proposed merger; and

by agreeing to the merger, the BellSouth directors have served their own interests at the expense of shareholders, including the triggering of change in control agreements.

On April 27, 2006, the Superior Court of Georgia, Fulton County entered an Order Consolidating Cases, which combined the two putative class action lawsuits. On May 8, 2006, plaintiffs filed a consolidated complaint, which incorporated the allegations and claims of the original complaints, and added new claims for breach of fiduciary duty relating to alleged failure to provide material information or the provision of materially misleading information in connection with the preliminary proxy statement filed by BellSouth and AT&T with the Securities and Exchange Commission on March 31, 2006, which we refer to as the preliminary proxy statement. In that connection, the consolidated complaint alleges that the BellSouth directors further breached their fiduciary obligations with respect to the preliminary proxy statement by the following:

failure to provide the shareholders with material information and/or the provision of materially misleading information concerning the value of their BellSouth holdings and the value of the AT&T common shares BellSouth shareholders will receive in the proposed transaction;

failure to provide the shareholders with information regarding the interests of BellSouth's officers and/or directors and senior management in the proposed transaction; and

failure to disclose the financial advisors' potential conflicts of interest.

The consolidated complaint seeks various forms of relief, including injunctive relief that would, if granted, prevent the completion of the merger, unspecified compensatory damages, and attorneys' fees and expenses. At this time, the likely outcome of the cases cannot be predicted, nor can a reasonable estimate of loss, if any, be made.

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INFORMATION ABOUT THE AT&T SPECIAL MEETING

General; Date; Time and Place

This joint proxy statement/ prospectus is furnished in connection with the solicitation of proxies by AT&T's board of directors for use at the AT&T special meeting. The meeting will be held at 3:00 p.m. Central time on Friday, July 21, 2006, at the Charline McCombs Empire Theatre, 226 North St. Mary's Street, San Antonio, Texas, unless it is postponed or adjourned.

Purpose of the AT&T Special Meeting

The purpose of the AT&T special meeting is to consider and vote upon the issuance of approximately 2,400,000,000 AT&T common shares, which will be exchanged for all of the outstanding BellSouth common shares as required by the merger agreement, and any other procedural matters incident to the conduct of the AT&T special meeting.

This joint proxy statement/ prospectus is the document used by AT&T's board of directors to solicit proxies to be used at the AT&T special meeting. Proxies are solicited to give all AT&T shareholders of record an opportunity to vote on the matter to be presented at the AT&T special meeting, even if they cannot attend the AT&T special meeting.

The AT&T special meeting has been called only to consider the proposal to issue AT&T common shares required to be issued to BellSouth shareholders pursuant to the merger agreement. Under AT&T's by-laws, no other matters may be considered at the AT&T special meeting, other than procedural matters incident to the AT&T special meeting. The grant of a proxy will confer discretionary authority on the persons named in the proxy as proxy appointees to vote in accordance with their best judgment on procedural matters incident to the conduct of the AT&T special meeting.

Record Date; Voting Power

The joint proxy statement/ prospectus and the accompanying proxy card are being mailed beginning on or about June 7, 2006, to holders of record of AT&T's common shares at the close of business on June 1, 2006. Each AT&T common share entitles the registered holder thereof to one vote. As of May 31, 2006, there were approximately 3,883,378,517 AT&T common shares outstanding. As of that date, less than 1% of the outstanding AT&T common shares were held by directors and executive officers of AT&T and their respective affiliates.

You are entitled to vote if you were a holder of record of AT&T common shares as of the close of business on June 1, 2006. Your shares may be voted at the meeting only if you are present or represented by a valid proxy.

Required Vote

The proposal to issue AT&T common shares required to be issued to BellSouth shareholders pursuant to the merger agreement will be approved upon the affirmative vote of a majority of the votes cast on the proposal, provided that the total vote cast must represent at least 50% of all of the outstanding AT&T common shares.

The obligation of AT&T and BellSouth to complete the merger is subject, among other things, to the condition that the AT&T shareholders approve the issuance of AT&T common shares required to be issued pursuant to the merger agreement. If AT&T's shareholders fail to approve the issuance of AT&T common shares at the AT&T special meeting, or at an adjournment or postponement thereof, each of AT&T and BellSouth will have the right to terminate the merger agreement. See "The Merger Agreement" "Termination of the Merger Agreement" beginning on page 94.

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Recommendation of AT&T's Board of Directors

The AT&T's board of directors recommends that you vote **FOR** the approval of the issuance of AT&T common shares required to be issued to BellSouth shareholders pursuant to the merger agreement.

Quorum

AT&T shareholders who represent 40% of the AT&T common shares outstanding and who are entitled to vote must be present or represented by proxy in order to constitute a quorum to conduct business at the AT&T special meeting in accordance with AT&T's corporate by-laws. **However, regardless of corporate quorum requirements, under NYSE rules for purposes of the vote on the proposal to authorize the issuance of AT&T common shares required to be issued pursuant to the merger agreement, at least 50% of AT&T's outstanding shares must have been voted.** A list of eligible voters will be available at the AT&T special meeting. Presence may be in person or by proxy. You will be considered part of the quorum if you return a signed and dated proxy card, if you vote by telephone or the Internet, or if you vote in person at the AT&T special meeting.

How to Vote

All shares represented by proxies will be voted by one or more of the persons designated on the enclosed proxy card in accordance with the instructions indicated on the proxy card. If the proxy card is signed and returned without specific directions with respect to the matters to be acted upon, the shares will be voted in accordance with the recommendation of the AT&T Board of Directors. Any shareholder giving a proxy may revoke it at any time before such proxy is voted at the meeting by giving written notice of revocation to the Vice President and Secretary of AT&T, by submitting a later-dated proxy, or by attending the meeting and voting in person. The Chairman of the Board and Chief Executive Officer of AT&T will announce the closing of the polls during the AT&T special meeting. Proxies must be received prior to the closing of the polls in order to be counted.

Instead of submitting a signed proxy card, shareholders may submit their proxies by telephone or through the Internet using the instructions accompanying the proxy card. Telephone and Internet proxies must be used in conjunction with, and will be subject to, the information and terms contained on the proxy card. Similar procedures may also be available to shareholders who hold their shares through a broker, nominee, fiduciary or other custodian.

The proxy card, or a proxy submitted by telephone or through the Internet, will also serve as voting instructions to the plan administrator or trustee for any shares held on behalf of a participant under any of the following employee benefit plans of AT&T: the AT&T Savings Plan, the AT&T Savings and Security Plan, the Old Heritage Advertising & Publishers, Inc. Profit Sharing Plan, the AT&T PAYSOP, the Pacific Telesis Group Employee Stock Ownership Plan, the Tax Reduction Act Stock Ownership Plan sponsored by The Southern New England Telephone Company, the AT&T Long Term Savings Plan for Management Employees, the AT&T Long Term Savings and Security Plan, the AT&T Retirement Savings and Profit Sharing Plan, the AT&T of Puerto Rico, Inc. Long Term Savings Plan for Management Employees, the AT&T of Puerto Rico, Inc. Long Term Savings and Security Plan, the AT&T Employee Stock Ownership Plan, and the Cingular Wireless 401(k) Savings Plan. Shares in each of the foregoing employee benefit plans (except the Old Heritage plan) for which voting instructions are not received, subject to the trustees' fiduciary obligations, will be voted by the trustees in the same proportion as the shares for which voting instructions are received from other participants in each such plan. For shares held in the Old Heritage plan, the trustee has discretionary authority to vote the shares for which no voting instructions are received. **To allow sufficient time for voting by the trustees and/or administrators of the plans, your voting instructions must be received by 5:00 p.m. Eastern time on Tuesday, July 18, 2006.**

In addition, the proxy card or a proxy submitted by telephone or through the Internet will constitute voting instructions to the plan administrator pursuant to The DirectSERVICE Investment Program sponsored and administered by Computershare Trust Company, N.A. (AT&T's transfer agent) for shares held on behalf of plan participants.

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If a shareholder participates in these plans and/or maintains shareholder accounts under more than one name (including minor differences in registration, such as with or without a middle initial), the shareholder may receive more than one set of proxy materials. To ensure that all shares are voted, please sign and return every proxy card received or submit a proxy by telephone or through the Internet for each proxy card.

Only one joint proxy statement/ prospectus is being delivered to multiple shareholders sharing an address, unless AT&T has received contrary instructions from one or more of the shareholders at that address. Shareholders may request a separate copy of the joint proxy statement/ prospectus by writing the transfer agent at: Computershare Trust Company, N.A., P.O. Box 43078, Providence, RI 02940-3078, or by calling (800) 351-7221. Shareholders calling from outside the United States may call (781) 575-4729. Requests will be responded to promptly.

A shareholder may designate a person or persons other than those persons designated on the proxy card to act as the shareholder's proxy by striking out the name(s) appearing on the enclosed proxy card, inserting the name(s) of another person(s) and delivering the signed card to such person(s). The person(s) designated by the shareholder must present the signed proxy card at the meeting in order for the shares to be voted.

Where the shareholder is not the record holder, such as where the shares are held through a broker, nominee, fiduciary or other custodian, the shareholder must provide voting instructions to the record holder of the shares in accordance with the record holder's requirements in order to ensure the shares are properly voted.

To Attend the AT&T Special Meeting

If you plan to attend the meeting in person, please bring the admission ticket (which is attached to the proxy card) to the AT&T special meeting. If you do not have an admission ticket, you will be admitted upon presentation of identification at the door.

Expenses of Solicitation

The cost of soliciting proxies of AT&T shareholders will be borne by AT&T. Officers, agents and employees of AT&T and its subsidiaries and other solicitors retained by AT&T may, by letter, by telephone or in person, make additional requests for the return of proxies and may receive proxies on behalf of AT&T. Brokers, nominees, fiduciaries and other custodians will be requested to forward soliciting material to the beneficial owners of shares and will be reimbursed for their expenses. AT&T has retained D.F. King & Co., Inc. to aid in the solicitation of proxies at a fee of \$20,000, plus expenses. (D.F. King & Co., Inc. will also serve as AT&T's information agent in connection with the merger, for which it will be paid an additional a customary fee.) AT&T and BellSouth have agreed to share equally all costs and expenses incurred in connection with the filing fee for the registration statement on Form S-4 of which this joint proxy statement/ prospectus forms a part, as well as the costs of printing and mailing this joint proxy statement/ prospectus and registration statement on Form S-4.

Questions about Voting Your Shares

If you have questions about the merger, or if you need assistance in submitting your proxy or voting your shares or need additional copies of the joint proxy statement/ prospectus or the enclosed proxy card, you should contact D.F. King & Co., Inc., the proxy solicitation agent for AT&T, by mail at 48 Wall Street, New York, New York 10005, or by telephone at (800) 431-9643 (toll free) or (212) 269-5550 (collect). If your broker holds your shares, you should call your broker for additional information.

Your vote is important. Please sign, date and return your proxy card or submit your proxy and/or voting instructions by telephone or through the Internet promptly.

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INFORMATION ABOUT THE BELLSOUTH SPECIAL MEETING

General; Date; Time and Place

This joint proxy statement/ prospectus is furnished in connection with the solicitation of proxies by BellSouth's board of directors for use at the BellSouth special meeting. The meeting will be held at 11:00 a.m. Eastern time on Friday, July 21, 2006, at the Cobb Galleria Centre in Atlanta, Georgia, unless it is postponed or adjourned.

Purpose of the Special Meeting

The purpose of the BellSouth special meeting is to consider and vote upon a proposal to approve the merger agreement and other procedural matters incident to the conduct of the special meeting.

This joint proxy statement/ prospectus is the document used by BellSouth's board of directors to solicit proxies to be used at the BellSouth special meeting. Proxies are solicited to give all BellSouth shareholders of record an opportunity to vote on the matter to be presented at the BellSouth special meeting, even if they cannot attend the BellSouth special meeting in person.

The board of directors has designated a Proxy Committee, which will vote the shares represented by proxies at the BellSouth special meeting in the manner indicated by the proxies. The members of the Proxy Committee are Rebecca M. Dunn and Marc Gary.

The BellSouth special meeting has been called only to consider the proposal to approve the merger agreement. Under Georgia law, no other matters may be considered at the BellSouth special meeting, except as described in the notice of special meeting accompanying this joint proxy statement/ prospectus. If any procedural matters should be brought before the meeting, the Proxy Committee will vote proxies as to those matters in its discretion.

Record Date; Voting Power

The joint proxy statement/ prospectus and the accompanying proxy card are being mailed beginning on or about June 8, 2006, to holders of record of BellSouth's common shares at the close of business on June 1, 2006. Each BellSouth common share entitles the registered holder thereof to one vote. As of May 31, 2006, there were 1,825,692,542 BellSouth common shares outstanding. This total includes shares issued to certain grantor trusts, which are not considered outstanding for financial reporting purposes. As of that date, less than 1% of the outstanding BellSouth common shares were held by directors and executive officers of BellSouth and their respective affiliates.

You are entitled to vote if you were a holder of record of BellSouth common shares as of the close of business on June 1, 2006. Your shares may be voted at the meeting only if you are present or represented by a valid proxy.

Required Vote

Approval of the merger agreement requires an affirmative vote of a majority of the total number of outstanding BellSouth common shares entitled to vote on approval of the merger agreement. If you do not submit a proxy card (and do not submit a proxy by telephone or by Internet or vote in person at the BellSouth special meeting) or if you abstain from voting, this will have the same effect as a vote against approval of the merger.

If you hold your shares in street or beneficial name, your broker will not have discretionary authority to vote your shares on your behalf in the absence of instructions from you. Therefore, if you do not provide voting instructions to your broker, this will have the same effect as a vote against the merger.

The obligation of AT&T and BellSouth to complete the merger is subject to the condition that BellSouth's shareholders approve the merger agreement. If BellSouth's shareholders fail to approve the merger agreement at the BellSouth special meeting, each of AT&T and BellSouth will have the right to

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terminate the merger agreement. See *The Merger Agreement Termination of the Merger Agreement* beginning on page 94.

Recommendation of BellSouth's Board of Directors

The BellSouth board of directors recommends that you vote **FOR** approval of the merger agreement.

Quorum

Shareholders who held at least 40% of outstanding BellSouth common shares as of the close of business on the record date, June 1, 2006, must be present, either in person or represented by proxy, to constitute a quorum necessary to conduct the BellSouth special meeting. Shares represented by proxies received but marked as abstentions for the proposal to approve the merger agreement and shares represented by proxies received but reflecting broker non-votes, will be counted as present at the meeting for purposes of establishing a quorum.

Regardless of quorum requirements, approval of the merger agreement requires an affirmative vote of holders of a majority of the total number of outstanding BellSouth common shares entitled to vote.

How to Vote

You can vote in person by completing a ballot at the BellSouth special meeting, or you can vote prior to the BellSouth special meeting by proxy. Even if you plan to attend the meeting, we encourage you to vote your shares as soon as possible by proxy. You can vote by proxy using the Internet, by telephone or by mail, as discussed below.

Vote by Internet: You can vote your shares using the Internet. With the enclosed proxy card in hand, go to the Web site indicated on the proxy card and follow the instructions. Internet voting is available twenty-four hours a day, seven days a week until 11:00 p.m. Eastern time on Thursday, July 20, 2006. You will be given the opportunity to confirm that your instructions have been properly recorded. If you vote on the Internet, you do **NOT** need to return your proxy card.

Vote by Telephone: You can vote your shares by telephone if you have a touch-tone telephone. With the enclosed proxy card in hand, call the toll-free telephone number shown on the proxy card and follow the instructions. Telephone voting is available twenty-four hours a day, seven days a week until 11:00 p.m. Eastern time on Thursday, July 20, 2006. Easy-to-follow voice prompts allow you to vote your shares and confirm that your instructions have been properly recorded. If you vote by telephone, you do **NOT** need to return your proxy card.

Vote by Mail: If you prefer to vote by mail, mark the proxy card, date and sign it, and return it in the postage-paid envelope provided. If you sign the proxy card but do not specify how you want your shares to be voted, your shares will be voted by the Proxy Committee in accordance with the directors' recommendation on the proposal. All properly executed proxy cards received before the polls are closed at the BellSouth special meeting, and not revoked or superseded, will be voted at the BellSouth special meeting in accordance with the instructions indicated by those proxy cards.

Employees of BellSouth or Cingular: If you are an employee of BellSouth or Cingular participating in certain employee plans of BellSouth, please refer to the discussion below regarding the deadline for voting your proxy.

Employees of BellSouth: If you are a registered shareholder and/or own BellSouth common shares in the Savings and Security Plan, which we refer to as the SSP, and/or the BellSouth Retirement Savings Plan, which we refer to as the BRSP, and the accounts are registered in the same name, you will receive one proxy card representing your combined shares that will serve as voting instructions to the Proxy Committee, if applicable, and also to the trustees of those plans.

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Employees of Cingular: If you own BellSouth common shares through the Cingular Wireless 401(k) Savings Plan, and you are also a registered BellSouth shareholder with your account in the same name, you will receive one proxy card representing the combined shares that will serve as voting instructions to the Proxy Committee, if applicable, and also to the trustee of that plan.

To allow sufficient time for voting by the trustees of the plans, participants in the BellSouth and Cingular employee plans must provide voting instructions to the trustees no later than 5:00 p.m. Eastern time on Tuesday, July 18, 2006. The trustees will vote plan shares that are not voted by this deadline in the same proportion as the shares that are voted within each plan. Participants in the BellSouth or Cingular employee plans may not vote the shares owned through those plans after that point in time, including at the BellSouth special meeting.

Registered Owners: If your BellSouth common shares are registered directly in your name with BellSouth's transfer agent, Mellon Investor Services LLC, you are considered a registered shareholder with respect to those shares. If this is the case, the proxy materials have been sent or provided directly to you by BellSouth.

Beneficial Owners: If you hold your BellSouth common shares in street or beneficial name (that is, you hold your shares through a broker, bank or other nominee), the proxy materials have been forwarded to you by your brokerage firm, bank or other nominee, or their agent which is considered the shareholder of record with respect to these shares. As the beneficial holder, you have the right to direct your broker, bank or other nominee as to how to vote your shares by using the voting instruction form or proxy card included in the proxy materials, or by voting via telephone or the Internet, but the scope of your rights depends upon the voting processes of the broker, bank or other nominee. Please follow the voting instructions provided by your brokerage firm, bank or other nominee, or their agent carefully.

If you want to assign your proxy to someone other than the Proxy Committee, you should cross out the names of the Proxy Committee members appearing on the proxy card and insert the name(s) of up to two other people. The person(s) you have assigned to represent you must present your signed proxy card and a completed ballot at the BellSouth special meeting to vote your shares.

The grant of a proxy will confer discretionary authority on the persons named in the proxy as proxy appointees to vote in accordance with their best judgment on procedural matters incident to the conduct of the BellSouth special meeting, such as a motion to adjourn in the absence of a quorum or a motion to adjourn for other reasons, including to solicit additional votes in favor of approval of the merger agreement. Proxies which specify a vote against approval of the merger agreement will not be voted in favor of any adjournment of the BellSouth special meeting for the purpose of soliciting additional votes in favor of the approval of the merger agreement.

Householding

Householding is a program, approved by the SEC, which allows the delivery of only one package of shareholder proxy materials if there are multiple BellSouth shareholders who live at the same address. This means that, if your household participates in the householding program, you will receive an envelope containing one set of proxy materials and a separate proxy card for each shareholder account in the household. Please vote all proxy cards enclosed in the package.

To Attend the BellSouth Special Meeting

You do not need to make a reservation to attend the BellSouth special meeting. However, please note that you will need to demonstrate that you are a BellSouth shareholder to be admitted to the meeting. If your shares are registered in your name, an admission card is attached to the enclosed proxy card. Bring the admission card with you to the meeting. If your shares are held in the name of your broker, bank or other nominee, you will need to bring evidence of your ownership of shares, such as your most recent account statement. If you do not have an admission card or proof that you own BellSouth common shares, you may not be admitted to the meeting.

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Attendance at the BellSouth special meeting is limited to BellSouth shareholders, members of their immediate families or their named representatives. BellSouth reserves the right to limit the number of representatives who may attend the meeting.

Expenses of Solicitation

BellSouth will pay the cost of soliciting proxies. BellSouth has retained Morrow & Co., Inc. to solicit proxies by mail, in person or by telephone, at an estimated cost of \$25,000, plus expenses. (Morrow & Co., Inc. will also serve as BellSouth's information agent in connection with the merger for which it will be paid an additional customary fee). In addition, employees of BellSouth may likewise solicit proxies on behalf of BellSouth. AT&T and BellSouth have agreed to share equally all costs and expenses incurred in connection with the filing fee for the registration statement on Form S-4 of which this joint proxy statement/ prospectus forms a part, as well as the costs of printing and mailing this joint proxy statement/ prospectus and registration statement on Form S-4.

Questions about Voting Your Shares

If you have questions about the merger, or if you need assistance in submitting your proxy or voting your shares or need additional copies of the joint proxy statement/ prospectus or the enclosed proxy card, you should contact Morrow & Co., Inc., the proxy solicitation agent for BellSouth, by mail at Attn: BellSouth Administrator, 470 West Avenue 3rd Floor, Stamford, Connecticut 06902, or by telephone at (877) 366-1576 (toll free). If your shares are held in a stock brokerage account or by a banker or other nominee, you should call your broker, bank or other nominee for additional information.

Your vote is important. Please sign, date and return your proxy card or submit your proxy and/or voting instructions by telephone or through the Internet promptly.

Table of Contents**THE MERGER AGREEMENT**

The following is a summary of selected provisions of the merger agreement. While AT&T and BellSouth believe that this description covers the material terms of the merger agreement, it may not contain all of the information that is important to you and is qualified in its entirety by reference to the merger agreement, which is incorporated by reference in its entirety into, and is attached as Annex A to, this joint proxy statement/prospectus. We urge you to read the merger agreement carefully and in its entirety.

The Merger

Upon the terms and subject to the conditions set forth in the merger agreement, Merger Sub will be merged with and into BellSouth, with BellSouth being the surviving corporation in the Merger. As a result of the merger, BellSouth will become a wholly-owned subsidiary of AT&T. The separate corporate existence of BellSouth, with all its rights, privileges, immunities, powers and franchises, will continue unaffected by the merger, except as set forth in the merger agreement.

Closing and Effectiveness of the Merger

The closing of the merger will occur on the first business day after the satisfaction or waiver of all of the closing conditions provided in the merger agreement, except for those conditions that, by their terms, are to be satisfied at the closing (but subject to the satisfaction or waiver of those conditions), or on such other date as AT&T and BellSouth may agree in writing. See *Conditions to the Merger* beginning on page 91.

Shortly after the closing, BellSouth and Merger Sub will file a completed, executed and acknowledged certificate of merger with the Secretary of State of the State of Georgia. At that time, or at such later time as may be agreed by the parties in writing and specified in the certificate of merger, the merger will become effective.

AT&T's Post-Closing Directors and Officers

AT&T's Post-Closing Board of Directors. At the effective time of the merger, AT&T will increase the size of its board of directors to enable it to appoint three members of the board of directors of BellSouth selected by mutual agreement of AT&T and BellSouth as directors of AT&T, to serve as directors until their successors are duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with AT&T's certificate of incorporation and by-laws and applicable law.

Offers to BellSouth Executive Officers. AT&T has agreed to offer each of BellSouth's executive officers (other than Mr. Ackerman) the opportunity to become a senior officer of AT&T or one of its subsidiaries immediately after completion of the merger. Each BellSouth executive officer who accepts a position with AT&T or one of its subsidiaries will be offered an employment agreement with at least a three-year term and providing the executive with a position of significant managerial responsibility with AT&T or one of its subsidiaries. Under the employment agreement, the executive officer will be entitled to receive during the three-year term compensation and benefits no less favorable in the aggregate than the executive's compensation and benefits with BellSouth as of March 4, 2006. AT&T has agreed to negotiate in good faith the employment agreements. AT&T has proposed that, if an executive officer enters into an employment agreement with AT&T, the executive's rights under the employment agreement will be instead of his or her rights under any executive severance agreement to which he or she is a party. Mr. Ackerman has entered into a separate agreement with AT&T, described in *Interests of BellSouth's Executive Officers and Directors in the Merger Agreement with F. Duane Ackerman* on page 62. See *The Merger Interests of BellSouth's Executive Officers and Directors in the Merger Offer of Senior Officer Opportunity to Executive Officers of BellSouth* on page 62.

Table of Contents**Merger Consideration**

Conversion to Common Shares. At the effective time of the merger, each BellSouth common share issued and outstanding immediately prior to the effective time (other than any BellSouth common shares owned by AT&T, BellSouth or any of their respective subsidiaries, which shares are not beneficially owned by third parties) will be converted into the right to be exchanged for and to receive 1.325 AT&T common shares, together with the right, if any, to receive cash in lieu of fractional AT&T common shares. See *Fractional AT&T Common Shares* below.

Cancellation of BellSouth Common Shares. At the effective time of the merger, the BellSouth common shares owned by AT&T, BellSouth or any of their respective subsidiaries, except for shares that are beneficially owned by third parties (which will be converted into the right to be exchanged for and to receive AT&T common shares as described above), will be canceled and retired without payment of any consideration therefor and will cease to exist.

Fractional AT&T Common Shares. Fractional AT&T common shares will not be issued in the merger. Instead, any holder of BellSouth common shares who otherwise would have been entitled to receive a fractional AT&T common share will be entitled to receive an amount in cash, without interest, determined by multiplying (i) the fractional part of the AT&T common share that the BellSouth shareholder would otherwise be entitled to receive, rounded to the nearest one-hundredth of a share by (ii) the average closing price for an AT&T common share as reported in the Wall Street Journal, New York City edition, for the five trading days ending on the trading day immediately prior to the effective time of the merger.

Exchange Procedures. As soon as reasonably practicable after the effective time of the merger, AT&T will cause an exchange agent selected by AT&T to mail transmittal materials reasonably agreed upon by AT&T and BellSouth to each holder of record of BellSouth common shares as of the effective time of the merger, advising such holders of the effectiveness of the merger and the procedure for surrendering their share certificates to the exchange agent.

In addition, AT&T will cause the exchange agent to (i) issue in registered form, as of the effective time, to each holder of uncertificated BellSouth shares that number of whole AT&T common shares that the holder is entitled to receive in respect of each uncertificated BellSouth share and (ii) mail to each such holder materials (to be reasonably agreed by AT&T and BellSouth prior to the effective time of the merger) advising the holder of the effectiveness of the merger and the conversion of their BellSouth shares into AT&T common shares pursuant to the merger and a check in the amount (after giving effect to any required tax withholdings) for any cash payable in lieu of fractional shares in respect of each uncertificated BellSouth share, in each case without any action by holders.

Adjustments to Prevent Dilution. If, between the date of the merger agreement and the effective time of the merger, BellSouth changes the number of issued and outstanding BellSouth common shares or securities convertible or exchangeable into or exercisable for BellSouth common shares, or AT&T changes the number of issued and outstanding AT&T common shares or securities convertible or exchangeable into or exercisable for AT&T common shares, as a result of a distribution, reclassification, stock split (including a reverse stock split), stock dividend or distribution, recapitalization, merger, subdivision, issuer tender or exchange offer, or other similar transaction, then the exchange ratio will be equitably adjusted to eliminate the effects of this event on the number of AT&T common shares into which each BellSouth common share is converted.

Stock Options and Other Stock Awards. At the effective time of the merger, each outstanding option to purchase BellSouth common shares granted under BellSouth's stock-based compensation and benefit plans, whether vested or unvested, will be converted into an option to acquire a number of AT&T common shares (rounded up to the nearest whole number) obtained by multiplying the number of BellSouth common shares subject to the BellSouth stock option immediately prior to the effective time of the merger by the exchange ratio. The exercise price per share (rounded down to the nearest whole cent) will be obtained by dividing the exercise price per BellSouth common share of the BellSouth stock option

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immediately prior to the effective time of the merger by the exchange ratio. Following the effective time of the merger, each BellSouth stock option will continue to be governed by the same terms and conditions as were applicable to the option immediately prior to the effective time of the merger.

At the effective time of the merger, each right of any kind, contingent or accrued, to acquire or receive BellSouth common shares or benefits measured by the value of BellSouth common shares, and each award of any kind consisting of BellSouth common shares that may be held, awarded, outstanding, payable or reserved for issuance under the stock-based compensation and benefit plans of BellSouth, other than outstanding options to purchase BellSouth common shares and outstanding performance shares, will be deemed to be converted into the right to acquire or receive benefits measured by the value of (as the case may be) the number of AT&T common shares obtained by multiplying the number of BellSouth common shares subject to such award immediately prior to the effective time of the merger by the exchange ratio. Each right will otherwise be subject to the terms and conditions applicable to it under the relevant BellSouth compensation or benefit plan.

Representations and Warranties

The merger agreement contains various representations and warranties of BellSouth, Merger Sub and AT&T and Merger Sub.

Mutual Representations of AT&T and BellSouth. The representations and warranties that are made by both AT&T and BellSouth relate generally to:

organization, good standing and qualification;

capital structure;

corporate authority, approval and fairness matters;

governmental filings and absence of violations;

SEC filings and financial statements (including, in the case of AT&T, with respect to filings and financial statements of ATTC prior to the merger of SBC and ATTC);

absence of specified material adverse effect and certain changes;

litigation and liabilities;

employee benefits;

compliance with laws;

takeover statutes;

environmental matters;

tax matters;

labor matters;

intellectual property;

affiliate transactions;

insurance; and

brokers and finders.

Additional Representations of BellSouth. In addition to the representations and warranties described above, BellSouth also provides representations and warranties that relate generally to:

certain contracts; and

its shareholder rights agreement.

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Although both AT&T and BellSouth provide a representation and warranty with respect to several of the same categories, the BellSouth representations and warranties are generally more comprehensive than AT&T's. Certain representations and warranties of AT&T and BellSouth are qualified as to materiality or as to material adverse effect. When used with respect to AT&T or BellSouth, material adverse effect means an effect that would prevent or materially delay or impair the ability of AT&T or BellSouth, as applicable, to complete the merger or a material adverse effect on the financial condition, properties, assets, liabilities, business or results of operations of AT&T or BellSouth, or their subsidiaries, as applicable, including AT&T's or BellSouth's applicable interest in Cingular, YellowPages.com LLC and their respective subsidiaries, taken as a whole, but excluding any effect resulting from or arising in connection with:

changes or conditions generally affecting the United States economy or financial or securities markets, political conditions in the United States or the United States telecommunications industry or any generally recognized business segment of such industry;

changes or conditions resulting from the execution, announcement or performance of the merger agreement; or

changes or conditions resulting from or arising in connection with the financial condition, properties, assets, liabilities, business or results of operations of Cingular, YellowPages.com or any of their respective subsidiaries.

When used with respect to BellSouth, a material adverse effect also excludes an effect resulting from or arising in connection with changes or conditions resulting from any hurricane, earthquake or other natural disasters in the states of Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina and Tennessee, which we refer to as BellSouth's Regions, or generally affecting the telecommunications industry in BellSouth's Region taken as a whole. When used with respect to AT&T, a material adverse effect also excludes an effect resulting from or arising in connection with changes or conditions resulting from any hurricane, earthquake or other natural disasters in any of the states of (i) California and Nevada; (ii) Illinois, Indiana, Michigan, Ohio and Wisconsin; (iii) Kansas, Missouri, Oklahoma, Arkansas and Texas; and (iv) Connecticut, which we refer to collectively as AT&T's regions, or generally affecting the telecommunications industry in any of AT&T's Regions, each taken as a whole.

Covenants and Agreements

Conduct of BellSouth Pending the Merger. The merger agreement provides that the business of BellSouth and its subsidiaries will be conducted in the ordinary and usual course and, to the extent consistent therewith, BellSouth and its subsidiaries will use their reasonable best efforts to preserve its business organization intact and maintain existing relations and goodwill with customers, suppliers, regulators, distributors, creditors, lessors, employees and business associates.

The merger agreement also provides that BellSouth covenants and agrees as to itself and its subsidiaries that, unless AT&T otherwise approves in writing (which approval will not be unreasonably withheld or delayed), subject to certain exceptions:

BellSouth will not:

amend its articles of incorporation or by-laws;

amend, modify or terminate its shareholder rights agreement in any manner adverse to AT&T's rights under the merger agreement or exempt any person other than AT&T from the provisions of that agreement relating to the acquisition of BellSouth common shares;

amend, modify, terminate or waive any provision under any standstill agreement unless an amendment, modification, termination or waiver which is the same in all substantive respects is unconditionally offered to be made with respect to the standstill agreement applicable to AT&T

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(provided that any amendment to the standstill agreement with AT&T need remain in effect only until the termination of the merger agreement);

split, combine, subdivide or reclassify its outstanding shares of capital stock;

declare, set aside or pay any dividend or distribution payable in cash, shares or property in respect of any capital stock, other than regular quarterly cash dividends on the BellSouth common shares in amounts not to exceed \$0.29 per fiscal quarter; or

repurchase, redeem or otherwise acquire or permit any of its subsidiaries to purchase or otherwise acquire any shares of its capital stock or any securities convertible into or exchangeable or exercisable for any of its common shares, except that BellSouth may repurchase its common shares in the ordinary course of business as necessary to effect the issuance of its common shares in respect of outstanding options to purchase BellSouth common shares and other awards under BellSouth's compensation or benefit plans and the issuance of common shares under the BellSouth direct investment plan and otherwise in an amount not to exceed \$500 million in any fiscal quarter;

neither BellSouth nor any of its subsidiaries will merge or consolidate or adopt a plan of liquidation, except for any transactions among wholly-owned subsidiaries of BellSouth and BellSouth, with certain exceptions;

neither BellSouth nor any of its subsidiaries will take any action that would prevent the merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code;

neither BellSouth nor any of its subsidiaries will terminate, establish, adopt, enter into, make any new grants or awards of stock-based compensation or other benefits under, amend or otherwise modify, any compensation and benefit plans or increase the salary, wage, bonus or other compensation of any directors, officers or key employees except for:

grants or awards to directors, officers and employees of BellSouth or its subsidiaries under compensation and benefit plans in existence as of the date of the merger agreement in such amounts and on such terms as are consistent with past practice;

in the normal and usual course of business, which includes normal periodic performance reviews and related BellSouth compensation and benefit plan increases in compensation and employee benefits and the provision of compensation and employee benefits under compensation and benefit plans, consistent with past practice for current, promoted or newly hired officers and employees and the adoption of compensation and benefit plans for employees of new subsidiaries in amounts and on terms consistent with past practice (however, in no event will BellSouth institute a broad based change in compensation or increase or institute any new severance, change in control, termination or deferred compensation benefits); or

actions necessary to satisfy existing contractual obligations under the BellSouth compensation and benefit plans existing as of the date of the merger agreement, provided that in no event will BellSouth or any of its subsidiaries:

take any action to fund or in any other way secure the payment of compensation or benefits, other than certain rabbi trusts in accordance with their terms;

take any action to accelerate the vesting or payment of any compensation or benefits, other than with respect to officers and other employees whose employment terminates prior to the effective time of the merger as required by the terms of a compensation and benefit plan in effect on the date of the merger agreement or in the ordinary course of business consistent with past practice (but in the latter case, excluding officers of

BellSouth who are subject to Section 16 of the Exchange Act);

other than in the ordinary course of business and consistent with past practice, materially change any actuarial or other assumptions used to calculate funding obligations with respect to

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any BellSouth compensation and benefit plan or change the manner in which contributions to these plans are made or the basis on which these contributions are determined, except as may be required by U.S. generally accepted accounting principles or applicable law; or

amend the terms of any outstanding equity-based award, other than with respect to officers and other employees whose employment terminates prior to the effective time as required by the terms of a compensation and benefit plan in effect on the date of the merger agreement or in the ordinary course of business consistent with past practice (but in the latter case, excluding officers of BellSouth who are subject to Exchange Act Section 16);

neither BellSouth nor any of its subsidiaries will incur any indebtedness for borrowed money or guarantee such indebtedness, or issue or sell any debt securities or warrants or other rights to acquire any debt security of BellSouth or any of its subsidiaries, except for indebtedness for borrowed money incurred in the ordinary course of business not to exceed \$1.5 billion in the aggregate, indebtedness for borrowed money in replacement of existing indebtedness for borrowed money, guarantees by BellSouth of indebtedness of its wholly-owned subsidiaries, or interest rate swaps on customary commercial terms consistent with past practice and not to exceed \$750 million of notional debt in the aggregate in addition to notional debt currently under swap or similar agreements;

neither BellSouth nor any of its subsidiaries will make or commit to any capital expenditures other than in the ordinary course of business and in any event not in excess of 110% of the aggregate amount reflected in BellSouth's capital expenditure budget for the year in which such capital expenditures are made;

neither BellSouth nor any of its subsidiaries will transfer, lease, license, sell, mortgage, pledge, place any lien, charge, pledge, security interest, claim or other encumbrance upon or otherwise dispose of any interest of BellSouth or its subsidiaries in Cingular (other than transfers to BellSouth or its wholly-owned subsidiaries), or otherwise transfer, lease, license, sell, mortgage, pledge, place any lien, charge, pledge, security interest, claim or other encumbrance upon or otherwise dispose of any other property or assets (including capital stock of any of BellSouth's subsidiaries) with a fair market value in excess of \$500 million in the aggregate, subject to certain exceptions in the ordinary course of business and consistent with past practice;

neither BellSouth nor any of its subsidiaries will issue, deliver, sell, or encumber shares of the capital stock or any securities convertible into, or any rights, warrants or options to acquire, any such shares except:
any BellSouth common shares issued pursuant to options to purchase BellSouth common shares, and any rights to acquire or receive BellSouth common shares or benefits measured by the value of BellSouth common shares, in each case which are outstanding on the date of the merger agreement under BellSouth stock-based compensation and benefit plans, as well as rights to acquire or receive BellSouth common shares or benefits measured by the value of BellSouth common shares and awards of performance shares granted under the BellSouth stock-based compensation and benefit plans in accordance with the merger agreement and BellSouth common shares issuable pursuant to such rights and awards;

any BellSouth common shares issued pursuant to the BellSouth direct investment plan;

rights to acquire or receive BellSouth common shares or benefits measured by the value of BellSouth common shares or performance shares issued in the ordinary course of business under the BellSouth stock plans (however, no more than 400,000 BellSouth common shares may be issued in the aggregate in respect of such rights and performance shares); and

issuances of capital stock by wholly-owned subsidiaries of BellSouth to BellSouth or any wholly-owned subsidiary of BellSouth;

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neither BellSouth nor any of its subsidiaries will spend in excess of \$1 billion in the aggregate to acquire any business, whether by merger, consolidation, purchase of property or assets or otherwise; provided that neither BellSouth nor any of its subsidiaries will make, or agree to make, any acquisition that would reasonably be likely to prevent or materially delay or impair the merger or BellSouth's ability to complete the transactions contemplated the merger agreement;

neither BellSouth nor any of its subsidiaries will make any change with respect to accounting policies, except as required by changes in U.S. generally accepted accounting principles or by applicable law, or except as BellSouth, based upon the advice of its independent registered public accounting firm, and after consultation with AT&T, determines in good faith is advisable to conform to best accounting practices;

neither BellSouth nor any of its subsidiaries will, except as required by applicable law, make any material tax election or take any material position on any material tax return filed on or after the date of the merger agreement or adopt any material method therefor that is inconsistent with elections made, positions taken or methods used in preparing or filing similar tax returns in prior periods or settle or resolve any material tax controversy;

neither BellSouth nor any of its subsidiaries will enter into any material line of business in any geographic area other than the businesses of BellSouth or any of its subsidiaries in the geographic areas where they are conducted, as of the date of the merger agreement, except as conducted as of the date of the merger agreement, engage in the conduct of any business in any geographic area which would require a license issued or granted by a governmental entity to be obtained by BellSouth or any of its subsidiaries, or file for any license to be issued by a governmental entity outside of the ordinary course of business, if in each case a filing would be required to be made with, or a consent or approval would be required to be obtained from, a government entity prior to the effective time with respect to transfer of the license and the conduct or filing for the license would reasonably be likely to prevent or delay the merger or result in the merger being prevented or delayed;

neither BellSouth nor any of its subsidiaries will make any loans, advances or capital contributions to or investments in any entity or person (other than BellSouth or any direct or indirect wholly-owned subsidiary of BellSouth or Cingular, YellowPages.com LLC or any of their respective subsidiaries) in excess of \$25 million, individually, or \$100 million in the aggregate, other than investments in marketable securities in the ordinary course of business;

neither BellSouth nor any of its subsidiaries will enter into (i) any non-competition contract or other contract that purports to limit in any material respect either the type of business in which BellSouth or its subsidiaries (or, after the effective time of the merger, AT&T and its subsidiaries) may engage or the manner or locations in which any of them may so engage in any business or (ii) any contract requiring BellSouth or its subsidiaries to, in any material respect, deal exclusively with any person or related group of persons;

neither BellSouth nor any of its subsidiaries will settle any litigation or other proceedings before or threatened to be brought before a governmental or regulatory authority, court, agency, commission, body or other legislative, executive or judicial governmental entity for an amount to be paid by BellSouth or any of its subsidiaries (excluding amounts paid or reimbursed by insurance) in excess of \$50 million or, in the case of non-monetary settlements, which would be reasonably likely to have an adverse impact in any material respect on the operations of BellSouth and its subsidiaries taken as a whole; and

neither BellSouth nor any of its subsidiaries will authorize or enter into any agreement to do any of the foregoing.

Conduct of AT&T Pending the Merger. The merger agreement provides that AT&T covenants and agrees as to itself and its subsidiaries that, from and after the date of the merger agreement and prior to the effective time of the merger, the business of AT&T and its subsidiaries will be conducted in the

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ordinary and usual course and, to the extent consistent therewith, AT&T and its subsidiaries will use commercially reasonable efforts to preserve its business organization intact and maintain AT&T's existing relations and goodwill with customers, suppliers, regulators, distributors, creditors, lessors, employees and business associates, in each case unless BellSouth approves in writing (which approval will not be unreasonably withheld or delayed), subject to certain exceptions. Neither AT&T, nor any of its subsidiaries, nor any of their respective directors or officers is required to approve or consent to the taking of any action by Cingular, YellowPages.com LLC or any of their respective subsidiaries. AT&T covenants and agrees as to itself and its subsidiaries that, from and after the date of the merger agreement and prior to the effective time of the merger, unless BellSouth otherwise approves in writing (which approval will not be unreasonably withheld or delayed), subject to certain exceptions:

AT&T will not amend AT&T's certificate of incorporation or by-laws in any manner that would reasonably be likely to prevent or materially delay or impair the merger or the completion of the transactions contemplated by the merger agreement, except that AT&T may amend its certificate of incorporation to increase the authorized number of shares of any class or series of AT&T capital stock;

AT&T will not split, combine, subdivide or reclassify its outstanding shares of AT&T capital stock;

AT&T will not declare, set aside or pay any dividend or distribution payable in cash, shares or property in respect of any capital stock, other than regular quarterly cash dividends on AT&T common shares in amounts not to exceed \$0.3325 per fiscal quarter, as the same may be increased from time to time in a manner consistent with past practice;

AT&T will not repurchase, redeem or otherwise acquire or permit any of AT&T's subsidiaries to purchase or otherwise acquire any shares of its capital stock or any securities convertible into or exchangeable or exercisable for any shares of its capital stock. AT&T may, however, repurchase AT&T common shares in the ordinary course of business in connection with the issuance of AT&T common shares in respect of outstanding options to purchase AT&T common shares or otherwise under each material benefit and compensation plan, contract, policy or arrangement maintained, sponsored or contributed to by AT&T or any of its subsidiaries covering current or former employees of AT&T and its subsidiaries and AT&T may otherwise repurchase AT&T common shares in open market purchases not to exceed \$1 billion per fiscal quarter;

AT&T will not merge or consolidate, or permit any of its subsidiaries to merge or consolidate, with any other person, or adopt a plan of liquidation, with exceptions for transactions otherwise permitted in certain other sections of the merger agreement;

neither AT&T nor any of its subsidiaries will take any action that would prevent the merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code;

neither AT&T nor any of its subsidiaries will incur any indebtedness for borrowed money or guarantee the indebtedness of another person, or issue or sell any debt securities or warrants or other rights to acquire any debt security of AT&T or any of its subsidiaries, except for indebtedness for borrowed money incurred in the ordinary course of business not to exceed \$4 billion in the aggregate, indebtedness for borrowed money in replacement of existing indebtedness for borrowed money and other indebtedness permitted to be incurred under the merger agreement, guarantees by AT&T of indebtedness of its wholly-owned subsidiaries, or interest rate swaps on customary commercial terms consistent with past practice;

neither AT&T nor any of its subsidiaries will make or commit to any capital expenditures in excess of 110% of the aggregate amount reflected in AT&T's capital expenditure budget for the year in which the capital expenditures are made;

neither AT&T nor any of its subsidiaries will transfer, lease, license, sell, mortgage, pledge, place any lien, charge, pledge, security interest, claim or other encumbrance upon or otherwise dispose of any interest of AT&T or its subsidiaries in Cingular (other than transfers to AT&T or its wholly-

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owned subsidiaries), or any other property or assets (including capital stock of any of its subsidiaries), with a fair market value in excess of \$2 billion in the aggregate, except in the latter case for:

dispositions of minority interests and real estate no longer being utilized or needed;

transfers, leases, licenses, sales, mortgages, pledges, liens, or other dispositions in the ordinary course of business, or transfers, leases, licenses, sales, mortgages, pledges, liens, or other dispositions in connection with sale/leaseback transactions;

certain permitted mortgages, pledges and liens to secure indebtedness for borrowed money as described above; or

dispositions of assets in connection with certain transactions otherwise permitted under the merger agreement;

neither AT&T nor any of its subsidiaries will issue, deliver, sell, or encumber shares of its capital stock or any securities convertible into, or any rights, warrants or options to acquire, any such shares (subject to certain exceptions) except:

any AT&T common shares issued pursuant to options and other awards outstanding on the date of the merger agreement under each material benefit and compensation plan, contract, policy or arrangement maintained, sponsored or contributed to by AT&T or any of its subsidiaries covering current or former employees of AT&T and its subsidiaries;

awards or options under the benefit and compensation plans granted in accordance with, and after the date of, the merger agreement and AT&T common shares issuable pursuant to such awards;

any outstanding options to purchase AT&T common shares and other stock payable awards issued in the ordinary course of business under such stock-based compensation and benefit plans. However, outstanding options to purchase AT&T common shares and other awards issued after the date of the merger agreement will not be, or be exercisable, for more than 121,000,000 AT&T common shares in the aggregate; and

issuances of AT&T common shares with an aggregate fair market value not in excess of \$1 billion (as of the date of the commitment to issue) in connection with acquisitions, mergers, consolidations or purchases of property otherwise permitted under the merger agreement;

neither AT&T nor any of its subsidiaries will spend in excess of \$4 billion in the aggregate to acquire any business, whether by merger, consolidation, purchase of property or assets or otherwise, provided that neither AT&T nor any of its subsidiaries will make any acquisition that would, or would reasonably be likely to prevent or materially delay or impair the merger or completion of the transactions contemplated by the merger agreement;

neither AT&T nor any of its subsidiaries will enter into any material line of business other than the current businesses of AT&T and its subsidiaries if entering into such line of business would prevent or materially delay or impair the merger; and

neither AT&T nor any of its subsidiaries will authorize or enter into any agreement to do any of the foregoing.

Acquisition Proposals. The merger agreement provides that neither BellSouth nor any of its subsidiaries nor any of its or its subsidiaries' officers and directors will, and that BellSouth will use its reasonable best efforts to instruct and cause its and its subsidiaries' directors, officers, employees, investment bankers, attorneys, accountants and other advisors or representatives, which we refer to collectively as representatives, not to directly or indirectly:

initiate, solicit, or knowingly facilitate or encourage, any inquiries or the making of any proposal or offer, which we refer to as an acquisition proposal, that constitutes or could reasonably be likely to lead to an acquisition proposal; or

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engage in, continue or otherwise participate in any discussions or negotiations regarding, or provide any non-public information or data to any person other than AT&T and Merger Sub who has made, or proposes to make, or otherwise knowingly facilitate, or encourage an acquisition proposal.

For purposes of the merger agreement, an acquisition proposal means any proposal or offer with respect to a merger, joint venture, partnership, consolidation, dissolution, liquidation, tender offer, recapitalization, reorganization, share exchange, business combination, acquisition, distribution or similar transaction outside the ordinary course of business involving BellSouth or any direct or indirect interest in Cingular or any of BellSouth's significant subsidiaries, as defined in Rule 1-02 of Regulation S-X, with certain limited exceptions.

The merger agreement also provides that the above restrictions would not prevent BellSouth or its board of directors, at any time prior to, but not after, the time the merger agreement is approved by the requisite vote of BellSouth shareholders, from:

providing information in response to a request by a person who has made a bona fide written acquisition proposal that was not initiated, solicited, facilitated or encouraged, in violation of the merger agreement by BellSouth, or by BellSouth's representatives, prior to the time the acquisition proposal was first made after the date of the merger agreement, if BellSouth receives from the person requesting information an executed confidentiality agreement on terms substantially similar to those contained in the non-disclosure agreement between BellSouth and AT&T, dated as of February 16, 2006, together with a customary standstill agreement on terms no more favorable to that other person than the standstill agreement applicable to AT&T. The term of the standstill agreement, however, may be shorter than the time of the standstill applicable to AT&T, but not less than 9 months, and other provisions of the standstill agreement may be more favorable to such person, to the extent customary. In that case, the term and other provisions of the standstill agreement applicable to AT&T will, for so long as the merger agreement is in effect, automatically be reduced to be as favorable to AT&T as the other standstill agreement is to that other person or made more favorable to AT&T; or

engaging in discussions or negotiations with any person who has made a bona fide written acquisition proposal that was not initiated, solicited, facilitated or encouraged, in violation of the merger agreement by BellSouth, or by BellSouth's representatives, prior to the time the acquisition proposal was first made after the date of the merger agreement;

only if, however,

in each case referred to above, the board of directors of BellSouth determines in good faith, after consultation with its financial advisers and legal counsel, that this action is necessary in order for the directors of BellSouth to comply with their fiduciary duties under applicable law; and

in the case referred to in the second bullet point above, if the board of directors of BellSouth has also determined in good faith based on all the information then available and after consultation with its financial advisers and legal counsel that the acquisition proposal either constitutes or is reasonably likely to result in a superior proposal. By superior proposal, we refer to a bona fide acquisition proposal: (i) involving assets of BellSouth or its subsidiaries representing at least 50% of the fair market value of the consolidated assets of BellSouth (including its interest in Cingular and YellowPages.com LLC), or at least 50% of the outstanding BellSouth common shares; (ii) that was not initiated, solicited, facilitated or encouraged in violation of the merger agreement by BellSouth or by BellSouth's representatives prior to the time such acquisition proposal was first made after the date of the merger agreement; and (iii) that the board of directors of BellSouth determines in good faith, after consultation with its financial advisers and legal counsel, is reasonably likely to be completed in accordance with its terms, taking into account all legal, financial and regulatory aspects of the proposal and the person making the proposal, and if completed, would result in a transaction more favorable to BellSouth's shareholders from a financial point of view than the transaction contemplated by the merger agreement, after taking into account

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any revisions to the terms of the transaction contemplated by the merger agreement agreed to by AT&T.

The merger agreement also provides that the board of directors of BellSouth, and each committee of the board of directors will not withhold or withdraw, or qualify or modify in a manner reasonably likely to be understood to be adverse to AT&T (or publicly resolve to withhold or withdraw or so publicly qualify or modify), its recommendation that the holders of BellSouth common shares approve the merger or approve or recommend to the holders of BellSouth common shares any acquisition proposal other than the merger with AT&T. Further, the board of directors of BellSouth, and each committee of the board of directors will not cause or permit BellSouth to enter into any letter of intent, memorandum of understanding, agreement in principle, acquisition agreement, merger agreement or other agreement, except confidentiality agreements described above.

The merger agreement also provides that the board of directors of AT&T, and each committee thereof, will not withhold or withdraw, or qualify or modify in a manner reasonably likely to be understood to be adverse to BellSouth (or publicly resolve to withhold or withdraw or so publicly qualify or modify), its recommendation that the holders of AT&T common shares approve the issuance of AT&T common shares required to be issued to BellSouth shareholders pursuant to the merger agreement or approve or recommend to the holders of AT&T common shares any acquisition proposal other than the merger with BellSouth.

In the circumstances described below, the board of directors of either BellSouth or AT&T is permitted to withhold or withdraw, or qualify or modify its recommendation that the BellSouth shareholders vote to approve the merger agreement, or that the AT&T shareholders vote in favor of the issuance of AT&T common shares required to be issued to the BellSouth shareholders pursuant to the merger agreement, as the case may be. In the case of BellSouth, the board of directors is so permitted until the time at which the merger agreement is approved by the BellSouth shareholders, and in the case of AT&T, the board of directors is so permitted until the issuance of common shares required to be issued to the BellSouth shareholders pursuant to the merger agreement is approved by AT&T s shareholders, and in both cases if but only if:

(i) BellSouth or AT&T has received a superior proposal; (ii) the board of directors of BellSouth or AT&T determines in good faith (after consultation with its financial advisers and outside legal counsel), that, as a result of such superior proposal, such change in the board of directors' recommendation is necessary in order for the directors of BellSouth or AT&T to comply with their fiduciary duties under applicable law; (iii) three business days have elapsed following delivery by BellSouth to AT&T or by AT&T to BellSouth of written notice advising the other party that the board of directors of BellSouth or AT&T intends to make such change in the board of directors' recommendation, specifying the material terms and conditions of the superior proposal and identifying the person making the superior proposal; (iv) BellSouth or AT&T has given the other party the opportunity to propose revisions to the terms of the transactions contemplated by the merger agreement, and BellSouth and its representatives or AT&T and its representatives have, if requested by the other party, negotiated in good faith with the other party and its representatives regarding any revisions to the terms of the transactions contemplated by the merger agreement proposed by the other party and the board of directors of BellSouth or AT&T continues to believe in good faith, as a result of the acquisition proposal, that the change in its recommendation is necessary in order for such directors to comply with their fiduciary duties under applicable law and in light of any revisions to the terms of the transaction contemplated by the merger agreement to which the other party has agreed; and (v) in the case of withholdings, withdrawals, qualifications or modifications by BellSouth, BellSouth has complied with its obligations with respect to acquisition proposals as set forth in the merger agreement in all material respects; or

to approve, or recommend to the shareholders of BellSouth or AT&T, any superior proposal made after the date of the merger agreement, which we refer to as a superior proposal action, if the board of directors of BellSouth or AT&T determines in good faith (after consultation with its financial

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advisers and legal counsel) that this action is necessary in order for the directors of BellSouth or AT&T to comply with their fiduciary duties under applicable law. However, BellSouth's or AT&T's board of directors may not take a superior proposal action unless all of the conditions in the previous bullet point above have been satisfied (substituting the term superior proposal action for the term change in the board of director's recommendation in clauses (ii) and (iii)) and the acquisition proposal continues to be a superior proposal in light of any revisions to the terms of the transaction contemplated by the merger agreement to which the other party has agreed.

The terms acquisition proposal and superior proposal are defined in the merger agreement with respect to BellSouth (as described above), but pursuant to the agreement are made equally applicable to AT&T as the context of the merger agreement may require.

The merger agreement also provides that the above restrictions would not prevent either BellSouth, AT&T or their respective boards of directors from complying with its disclosure obligations under the Exchange Act, with regard to an acquisition proposal. However, if any disclosure has the substantive effect of withholding, withdrawing, qualifying or modifying, the recommendation of the board of directors of either BellSouth or AT&T with respect to the merger in a manner reasonably likely to be understood to be adverse to the other party, the other party will have the right to terminate the merger agreement. See Termination of the Merger Agreement below.

The merger agreement provides that each of AT&T and BellSouth will promptly (and, in any event, within 24 hours) notify the other if any inquiries, proposals or offers with respect to an acquisition proposal with respect to it or its subsidiaries are received by it from any person, any non-public information is requested from AT&T or BellSouth from a person who has made, or proposes to make, an acquisition proposal with respect to AT&T or BellSouth or their respective subsidiaries, or any discussions or negotiation with AT&T or BellSouth are sought to be initiated or continued by a person who has made, or proposes to make, an acquisition proposal with respect to AT&T or BellSouth or their respective subsidiaries, indicating, in connection with this notice, the name of such person and the material terms and conditions of any such acquisition proposal (including, if applicable, copies of any written requests, proposals or offers, including proposed agreements) and thereafter will keep the other informed, on a current basis, of the status and terms of any such acquisition proposal (including any amendments thereto that are of, or are related to, any material term) and the status of any such discussions or negotiations, including any change in AT&T's or BellSouth's intentions as previously notified. The party receiving the acquisition proposal will deliver to the other party a new notice with respect to each acquisition proposal with respect to it or its subsidiaries that has been materially revised or modified and prior to taking any superior proposal action, or changing its recommendation with respect to the merger, as the case may be, with respect to any such materially revised or modified acquisition proposal, a new three-day period will commence. BellSouth has also agreed to provide any information to AT&T that it provides to another person as soon as practicable after it provides such information to such other person if BellSouth has not previously furnished such information to AT&T.

The merger agreement provides that BellSouth must immediately cease and cause to be terminated any existing activities, discussions or negotiations with any person conducted with respect to any acquisition proposal. BellSouth must take the necessary steps to promptly inform any such person of its obligations undertaken with respect to acquisition proposals. BellSouth must promptly request each person that has executed a confidentiality agreement in connection with its consideration of a transaction with BellSouth to return or destroy all confidential information furnished prior to the execution of the merger agreement to or for the benefit of this person by or on behalf of BellSouth or any of its subsidiaries.

Special Meeting of Shareholders. The merger agreement requires BellSouth to convene and hold a shareholders meeting, and to consider and vote upon the approval of the merger agreement, as promptly as practicable after the date the registration statement of which this joint proxy statement/ prospectus forms a part becomes effective. The merger agreement also requires AT&T to convene and hold a meeting to consider and vote upon a proposal to authorize the issuance of AT&T common shares required to be issued to BellSouth shareholders pursuant to the merger agreement as soon as practicable after the date the

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registration statement of which this joint proxy statement/ prospectus forms a part becomes effective. Subject to the conditions described above under Covenants and Agreements Acquisition Proposals , BellSouth s board of directors will recommend in this joint proxy statement/ prospectus and at the BellSouth special meeting that the holders of BellSouth common shares approve the merger agreement and will take all lawful action to solicit such approval; and AT&T s board of directors will recommend in this joint proxy statement/ prospectus and at the AT&T special meeting that AT&T shareholders approve the issuance of the AT&T common shares required to be issued to BellSouth shareholders pursuant to the merger agreement and will take all lawful action to solicit this approval. The parties will cooperate in an effort to hold the BellSouth special meeting and the AT&T special meeting on the same day at the same time.

Reasonable Best Efforts. AT&T and BellSouth will cooperate with each other and use, and will cause their respective subsidiaries (including, for the purposes of reasonable best efforts, Cingular, YellowPages.com LLC and their respective subsidiaries) to use, their respective reasonable best efforts to take or cause to be taken all actions, and do or cause to be done all things, necessary, proper or advisable on its part under the merger agreement and applicable laws to complete and make effective the merger and the other transactions contemplated by the merger agreement as promptly as reasonably practicable, including preparing and filing as promptly as reasonably practicable all documentation to effect all necessary notices, reports and other filings, including by filing all applications required to be filed with the FCC and the notification and required form under the HSR Act, within a specified period (provided, however, that the failure to file within such period does not constitute a breach of the merger agreement), and to obtain as promptly as reasonably practicable all consents, registrations, approvals, permits and authorizations necessary to be obtained from any third party and any governmental or regulatory authority, court, agency, commission, body or other legislative, executive or judicial governmental entity in order to complete the merger or any of the other transactions contemplated by the merger agreement.

Each of AT&T s and BellSouth s obligations include the obligation to use its reasonable best efforts to defend any lawsuits or other legal proceedings, whether judicial or administrative, challenging completion of the merger or the other transactions contemplated by the merger agreement, including seeking to avoid the entry of, or have reversed, terminated or vacated, any stay or other injunctive relief which could prevent or delay the merger or the completion of the transactions contemplated by the merger agreement. Each of AT&T s and BellSouth s obligations also include the obligation to use its reasonable best efforts to avoid or eliminate each impediment to obtaining the required governmental consents so as to enable the closing of the merger to occur if reasonably practicable by the initial termination date of March 6, 2007, or as promptly thereafter as is reasonably practicable.

Neither AT&T nor BellSouth is required to take or refrain from taking, or to cause any of its subsidiaries to take or refrain from taking any action, or to agree or consent to BellSouth, Cingular, YellowPages.com LLC or any of their respective subsidiaries taking any action, or agreeing to any restriction or condition, with respect to any of the businesses, assets or operations of AT&T, BellSouth, Cingular, YellowPages.com LLC or any of their respective subsidiaries, if such action, restriction or condition would take effect prior to the closing of the merger or is not conditioned on the closing occurring, or to take or to refrain from taking any action, to agree to any condition or restriction with respect to any assets or operations of AT&T or BellSouth or their respective subsidiaries (including Cingular, YellowPages.com LLC and their respective subsidiaries), or to cause their respective subsidiaries (including Cingular, YellowPages.com LLC and their respective subsidiaries) to do or agree to do any of the foregoing, if any such action, failure to act, restriction or agreement, individually or in the aggregate, would reasonably be likely to have a material adverse effect on the financial condition, properties, assets, liabilities, business or results of operations of AT&T and its subsidiaries, including Cingular and YellowPages.com LLC and their respective subsidiaries, after the merger, which we refer to as a regulatory material adverse effect.

For these purposes, materiality is determined by referring to the equity market value of AT&T on the date of the merger agreement. For purposes of determining whether a regulatory material adverse effect would reasonably be likely to occur, both the positive and negative effects of any such actions, restrictions and conditions, including any sale, divestiture, licensing, lease or disposition, will be taken into account, and

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any loss of synergies anticipated from the merger as a result of any such actions, restrictions or conditions, including any sale, divestiture, licensing, lease or disposition will not be taken into account.

Notice and Access to Information. Each party has agreed to keep the other apprised of the status of matters relating to completion of the merger, including promptly furnishing the other with copies of certain written communications, notices and proceedings related to the merger. In addition, each of the parties has agreed to provide the other with reasonable access to its and its subsidiaries' properties, books, contracts and records, and to all information concerning its and its subsidiaries' business, properties and personnel as may reasonably be requested, subject to certain exceptions. Further, each party has agreed, upon request, to furnish the other with information concerning itself, its subsidiaries, directors, officers and shareholders, as the case may be, and those other matters as may be reasonably necessary or advisable in connection with the merger and the transactions contemplated by the merger agreement.

Affiliates. BellSouth will, prior to the BellSouth shareholders' meeting convened to vote upon the merger, deliver to AT&T a list identifying all persons who, to the knowledge of BellSouth's executive officers, may be deemed as of the date of the BellSouth shareholders meeting to be affiliates of BellSouth for purposes of Rule 145 under the Securities Act and the list will be updated as necessary to reflect changes from the date that the list is delivered until the BellSouth special meeting. BellSouth will use its reasonable best efforts to cause each person identified on the list to deliver to AT&T, not later than five business days prior to the closing of the merger, a written agreement relating to sales of AT&T common shares in the form attached to the merger agreement.

Stock Exchange Listing and De-listing. AT&T has agreed to use its best efforts to cause the AT&T common shares to be issued in the merger and in respect of outstanding options of BellSouth and other outstanding equity awards under BellSouth stock-based compensation and benefit plans to be approved for listing on the NYSE, subject to official notice of issuance, prior to the closing date of the merger. BellSouth will take all actions necessary to permit BellSouth common shares to be de-listed from the NYSE and de-registered under the Exchange Act as promptly as reasonably practicable following the effective time of the merger.

Publicity. BellSouth and AT&T have agreed to consult with each other prior to issuing any press releases or otherwise making public announcements with respect to the merger and the other transactions contemplated by the merger agreement and prior to making any filings with any third party and/or any governmental entity (including any national securities exchange) with respect thereto, except as may be required by applicable law or by obligations pursuant to any listing agreement with or rules of any national securities exchange, and except any consultation that would not be reasonably practicable as a result of requirements of applicable law.

Employee Benefit Plans. AT&T has agreed that it will cause the surviving corporation to honor all BellSouth compensation and benefit plans in accordance with their terms as in effect immediately before the effective time of the merger, subject to any amendment or termination that may be permitted by the terms of a particular plan and applicable law. AT&T has agreed that from the effective time of the merger and extending until the later of twelve months thereafter or December 31, 2007, it will provide those individuals who were employees of BellSouth and its subsidiaries at the effective time of the merger and are not covered by a collective bargaining agreement, with compensation and employee benefits, excluding equity compensation awards or payments or benefits made by reason of the merger and the other transactions contemplated by the merger agreement, that are no less favorable in the aggregate than provided to those employees immediately before the effective time of the merger. In addition, until the second anniversary of the effective time of the merger, AT&T will and will cause the surviving corporation to continue certain BellSouth compensation and benefit plans without making any change that is adverse to the participants as of the effective time of the merger. See *The Merger - Interests of BellSouth's Executive Officers and Directors in the Merger* beginning on page 58.

AT&T has also agreed to waive pre-existing conditions, exclusions, waiting periods and certain other requirements, provide credit for co-payments and deductibles paid and generally recognize prior service with BellSouth for purposes of AT&T's benefit plans (other than for purposes of benefit accrual under

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defined benefit pension or retirement plans or for new programs for which credit for benefit accrual is not given to similarly situated employees of AT&T).

Fees and Expenses. Whether or not the merger is completed, all costs and expenses incurred in connection with the merger agreement and the merger and the other transactions contemplated by the merger agreement will be paid by the party incurring the expense, except that expenses incurred in connection with the filing fee for the S-4 registration statement of which this prospectus is a part, and printing and mailing the joint prospectus and proxy statement and the S-4 registration statement will be shared equally by AT&T and BellSouth.

Indemnification and Directors and Officers Insurance. AT&T and BellSouth, as the surviving corporation in the merger with Merger Sub, have agreed to indemnify and hold harmless the present and former directors and officers of BellSouth and its subsidiaries for costs, expenses, judgments, fines, losses, claims, damages or liabilities arising out of matters existing or occurring at or prior to the effective time of the merger to the same extent these individuals are indemnified or have the right to advancement of expenses as of the date of the merger agreement by BellSouth pursuant to its articles of incorporation and by-laws and indemnification agreements to the fullest extent permitted by law. AT&T will cause the surviving corporation to maintain directors and officers liability insurance for six years following the effective time of the merger, subject to certain limitations.

Regulatory Compliance. BellSouth and each of its subsidiaries agrees to use its reasonable best efforts to

cure, no later than the effective time of the merger, any material violations and defaults by any of them under any applicable rules and regulations of the FCC;

comply in all material respects with the terms of its FCC licenses and file or cause to be filed with the FCC all reports and other filings to be filed under applicable FCC rules and regulations; and

take all actions, to the extent reasonably requested by AT&T in writing, for each of AT&T and BellSouth to be in compliance upon the completion of the merger with the provisions of Sections 271 and 272 of the Communications Act (including any orders issued by the FCC interpreting or implementing such provisions).

AT&T agrees that, if BellSouth terminates the merger agreement in connection with its board of directors approval of a superior proposal and BellSouth's entry into a binding agreement in respect of that proposal, then AT&T will promptly reimburse BellSouth for any reasonable out-of-pocket expenses incurred by BellSouth following incurrence and delivery of reasonable documents by BellSouth at the direction of AT&T pursuant to the third bullet point above. AT&T and each of its subsidiaries agrees to use its reasonable best efforts to cure, no later than the effective time of the merger, any material violations and defaults by any of them under any applicable FCC rules or regulations, and comply in all material respects with the terms of its FCC licenses and file or cause to be filed with the FCC all reports and other filings to be filed under applicable FCC rules and regulations See Termination of the Merger Agreement and Termination Fees and Expenses below.

Takeover Statute; Rights Agreement. If any takeover statute or regulation becomes applicable to the merger or the other transactions contemplated by the merger agreement, each of AT&T and BellSouth and their respective boards of directors will grant these approvals and take these actions as are necessary so that the transactions may be completed as promptly as practicable on the terms contemplated by the merger agreement or by the merger and otherwise use reasonable best efforts to act to eliminate or minimize the effects of the statute or regulation on the transactions.

BellSouth agrees to take all necessary action with respect to all of the outstanding rights under BellSouth's shareholder rights agreement, so that as a result of entering into the merger agreement or completing the merger or other transactions contemplated by the merger agreement:

neither BellSouth nor AT&T will have any obligations under the rights agreement or rights issued in connection with the rights agreement;

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the holders of the rights will have no rights under the rights or the rights agreement; and

the rights agreement will expire.

On March 8, 2006, BellSouth amended its rights agreement to implement these provisions.

Dividends. BellSouth will coordinate with AT&T the declaration, setting of record dates and payment dates of dividends on BellSouth common shares so that holders of BellSouth common shares do not receive dividends on both BellSouth common shares and AT&T common shares received in the merger in respect of any calendar quarter or fail to receive a dividend on either BellSouth common shares or AT&T common shares received in the merger in respect of any calendar quarter.

Section 16(b). The board of directors of each of BellSouth and AT&T will, prior to the effective time of the merger, take all actions as may be necessary or appropriate pursuant to Exchange Act Rules 16b-3(d) and 16b-3(e) to exempt from Exchange Act Section 16 (i) the disposition of BellSouth common shares and derivative securities (as defined in Exchange Act Rule 16a-1(c)) with respect to BellSouth common shares and (ii) the acquisition of AT&T common shares and derivative securities with respect to AT&T common shares pursuant to the terms of the merger agreement by officers and directors of BellSouth subject to the reporting requirements of Exchange Act Section 16(a) or by employees or directors of BellSouth who may become officers or directors of AT&T subject to the reporting requirements of Exchange Act Section 16(a).

Tax-Free Qualification. Each of BellSouth and AT&T will use its reasonable best efforts to, and to cause each of its subsidiaries to, cause the merger to qualify as a reorganization within the meaning of Section 368(a) of the Code, and obtain written opinions of counsel to the effect that the merger will be treated as a reorganization within the meaning of Section 368(a) of the Code. From and after the effective time of the merger, AT&T will not take any action that is reasonably likely to cause the merger to fail to qualify as a reorganization within the meaning of Section 368(a) of the Code, including any action that is reasonably likely to cause the merger to fail to satisfy the continuity of business enterprise requirement described in Treasury Regulation § 1.368-1(d). If each of the parties receives the required opinions of counsel, each of BellSouth and AT&T will report the merger for U.S. federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code.

Cingular Headquarters. AT&T has agreed to maintain the corporate headquarters of Cingular in Atlanta, Georgia for five years following the effective time of the merger.

BellSouth Corporation Direct Investment Plan. As promptly as reasonably practicable after the date of the merger agreement, BellSouth will cease to allow persons who are not participants in the BellSouth direct investment plan during the five business days prior to the date of the merger agreement into the BellSouth direct investment plan. Effective March 13, 2006, BellSouth suspended new enrollments in the direct investment plan. In addition, from and after the date of the merger agreement, all BellSouth common shares sold under this plan will be acquired by BellSouth in an open market purchase.

Conditions to the Merger

Conditions to Each Party's Obligations to Effect the Merger. The respective obligation of each of AT&T, Merger Sub and BellSouth to complete the merger is conditioned upon the satisfaction or waiver prior to the closing of the merger of each of the following conditions:

the merger agreement will have been duly approved by holders of a majority of the outstanding BellSouth common shares entitled to vote on the matter and the issuance of AT&T common shares required to be issued to the BellSouth shareholders pursuant to the merger agreement will have been duly approved by holders of a majority of the votes cast on the proposal, so long as the total vote cast represents at least 50% of all of the outstanding AT&T common shares;

the AT&T common shares issuable to BellSouth shareholders pursuant to the merger agreement will have been authorized for listing on the NYSE upon official notice of issuance;

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the waiting period applicable to the completion of the merger under the HSR Act will have expired or been earlier terminated;

the waiting period applicable to the EC Merger Regulation will have expired or been earlier terminated;

all approvals and authorizations required to be obtained from the FCC for the completion of the merger will have been obtained;

all approvals and authorizations required to be obtained from any state PUC in order to complete the merger will have been obtained;

all other approvals and authorizations the failure of which to make or obtain would, individually or in the aggregate, reasonably be likely to result in a regulatory material adverse effect or be reasonably likely to result in an officer or director of AT&T or BellSouth being subject to criminal liability will have been made or obtained;

no court in the U.S. or U.S. federal or state legislature, or the applicable competition authorities or courts of the United Kingdom, will have enacted, issued, promulgated, enforced or entered after the date of the merger agreement any law, order, decree or injunction (whether temporary, preliminary or permanent) that is in effect and enjoins or otherwise prohibits completion of the merger, and no other governmental entity will have enacted, issued, promulgated, enforced or entered an order which is, individually or in the aggregate, reasonably likely to result in a regulatory material adverse effect or reasonably likely to subject any officer or director of AT&T or BellSouth to criminal liability; and

the registration statement of which this joint proxy statement/ prospectus forms a part will have been declared effective by the SEC under the Securities Act and no stop order suspending its effectiveness will have been issued by the SEC.

Even though the merger agreement does not indicate that any of these conditions are not waivable, we do not believe we could complete the merger if the conditions described in the first, third, and fifth bullets above were not satisfied.

Conditions to Obligations of AT&T and Merger Sub. The obligations of AT&T and Merger Sub to effect the merger are subject to the satisfaction or waiver by AT&T at or prior to the effective time of the merger of the following conditions, any or all of which can be waived by AT&T and Merger Sub:

the representations and warranties made by BellSouth in the merger agreement relating to the capital stock of BellSouth will be true and correct in all material respects as of the date of the merger agreement and as of the closing date as though made on and as of the closing date (except to the extent the representation and warranty expressly speaks as of an earlier date, in which case that representation and warranty will be true and correct as of such earlier date);

the representations and warranties of BellSouth set forth in the merger agreement that are qualified with respect to material adverse effect will be true and correct as of the date of the merger agreement and as of the closing date and (except to the extent that any such representation and warranty expressly speaks as of a particular date, in which case such representation and warranty will be true and correct as of such earlier date);

the other representations and warranties of BellSouth set forth in the merger agreement will be true and correct as of the date of the merger agreement and as of the closing date (except to the extent that the representation or warranty speaks as of a particular date, in which case that representation or warranty will be true and correct as of that date), unless the failure of the representations and warranties of BellSouth to be so true and correct, without reference to any materiality qualification, individually or in the aggregate, will have had or would reasonably be likely to have a material adverse effect upon BellSouth;

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BellSouth will have performed in all material respects all obligations required to be performed by it under the merger agreement at or prior to the closing;

BellSouth will have obtained the consent or approval of each person whose consent or approval is required in order to complete the transactions contemplated by the merger agreement under any contract to which BellSouth or any of its subsidiaries is a party, except those for which the failure to obtain consent or approval would not, individually or in the aggregate, reasonably be likely to have a material adverse effect upon BellSouth;

AT&T will have received the written opinion of Sullivan & Cromwell LLP, counsel to AT&T, or other counsel reasonably satisfactory to AT&T, dated as of the closing date, to the effect that the Merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code. In rendering this opinion, counsel to AT&T will be entitled to rely upon assumptions, representations, warranties and covenants, including those contained in the merger agreement and in the tax representation letters described in Covenants and Agreements Tax-Free Qualification , above; and

all governmental consents that have been obtained will have been obtained without the imposition of any term, restriction, condition or consequence that would, individually or in the aggregate, reasonably be likely to have or result in a regulatory material adverse effect, and all required governmental consents obtained from the FCC will have been obtained by a final order.

Conditions to Obligations of BellSouth. The obligation of BellSouth to effect the merger is also subject to the satisfaction or waiver by BellSouth at or prior to the effective time of the merger of the following conditions, any or all of which can be waived by BellSouth:

the representations and warranties made by AT&T and Merger Sub in the merger agreement relating to the capital stock of AT&T and Merger Sub will be true and correct in all material respects as of the date of the merger agreement and as of the closing date as though made on and as of the closing date (except to the extent a representation and warranty expressly speaks as of an earlier date, in which case that representation and warranty will be true and correct as of that earlier date);

the representations and warranties of AT&T and Merger Sub set forth in the merger agreement that are qualified with respect to material adverse effect will be true and correct as of the date of the merger agreement and as of the closing date and (except to the extent that a representation and warranty expressly speaks as of a particular date, in which case that representation and warranty will be true and correct as of that earlier date);

the other representations and warranties of AT&T and Merger Sub set forth in the merger agreement will be true and correct as of the date of the merger agreement and as of the closing date (except to the extent that a representation or warranty speaks as of a particular date, in which case that representation or warranty will be so true and correct as of that date), unless the failure of the representations and warranties of AT&T and Merger Sub to be so true and correct, without reference to any materiality qualification, individually or in the aggregate, will not have had or would not reasonably be likely to have a material adverse effect upon AT&T;

Each of AT&T and Merger Sub will have performed in all material respects all obligations required to be performed by it under the merger agreement at or prior to the closing of the merger; and

BellSouth will have received the written opinion of Fried, Frank, Harris, Shriver & Jacobson LLP, counsel to BellSouth, or other counsel reasonably satisfactory to BellSouth, dated as of the closing date, to the effect that the merger will be treated for Federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code. In rendering that opinion, counsel to BellSouth will be entitled to rely upon assumptions, representations, warranties and covenants, including those contained in the merger agreement and in the tax representation letters described in Covenants and Agreements Tax-Free Qualification , above.

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BellSouth does not currently anticipate waiving any of its closing conditions. However, if BellSouth were to waive its tax opinion closing condition and if the tax consequences of the merger will be materially different from those we describe in this joint proxy statement/prospectus, BellSouth will resolicit votes of its shareholders with respect to the merger and ask them to take the waiver into consideration. BellSouth does not, however, intend to resolicit votes of its shareholders in connection with any waiver of any other of its conditions to closing.

Termination of the Merger Agreement

The merger agreement may be terminated and the merger may be abandoned at any time prior to the effective time of the merger, whether before or after the approval by the shareholders of BellSouth or AT&T required in each case for closing, by the board of directors of the terminating party or parties:

by mutual written consent of AT&T and BellSouth;

by either AT&T or BellSouth if:

the merger is not completed by March 6, 2007, unless the closing conditions with respect to certain orders of governmental entities and required governmental consents have not been satisfied by March 6, 2007, in which case the termination date may be extended from time to time by AT&T or BellSouth one or more times to a date not beyond September 6, 2007. However, the right to terminate the merger agreement under these circumstances will not be available to any party that has breached its obligations under the merger agreement in any manner that will have proximately contributed to the occurrence of the failure of a condition to the complete the merger;

the approval of the merger agreement by BellSouth shareholders was not obtained at a BellSouth shareholders meeting duly convened to vote on the matter, or at any adjournment or postponement of the meeting at which a vote on the merger agreement was taken;

the approval of AT&T shareholders necessary for the issuance of AT&T common shares required to be issued to BellSouth shareholders pursuant to the merger agreement was not obtained at an AT&T shareholders meeting duly convened to vote on the matter, or at any adjournment or postponement of the meeting at which a vote on the merger agreement was taken; or

any order of a governmental entity permanently restraining, enjoining or otherwise prohibiting the completion of the merger becomes final and non-appealable, except for any orders the existence of which would not result in the failure of a closing condition, see Conditions to the Merger Conditions to Each Party s Obligations to Effect the Merger on page 91.

by BellSouth if:

prior to the receipt of the approval of the AT&T shareholders of the issuance of AT&T common shares required to be issued to BellSouth shareholders pursuant to the merger agreement, the board of directors of AT&T has withheld or withdrawn, or qualified or modified in a manner reasonably likely to be understood to be adverse to BellSouth, its recommendation with respect to such issuance of shares;

prior to the receipt of the approval of the merger agreement by BellSouth s shareholders, the board of directors of BellSouth approves a superior proposal in accordance with the terms of the merger agreement and authorizes BellSouth to enter into a binding written agreement providing for such superior proposal and, prior to or simultaneous with entering into such agreement pays to AT&T in immediately available funds a \$1.7 billion termination fee, see Termination Fees and Expenses below; or

there has been a breach of any representation, warranty, covenant or agreement made by AT&T or Merger Sub in the merger agreement, or any representation and warranty will have become untrue after the execution of the merger agreement, such that closing conditions to BellSouth s

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obligation to effect the merger would not be satisfied and this breach or failure to be true would not be not curable or, if curable, would not be curable by the termination date (as it may be extended).

by AT&T if:

prior to the receipt of the approval of the merger agreement by BellSouth's shareholders, the board of directors of BellSouth has withheld or withdrawn, or qualified or modified in a manner reasonably likely to be understood to be adverse to AT&T, its recommendation that the BellSouth shareholders approve the merger agreement, or has approved or recommended to the shareholders of BellSouth any acquisition proposal other than AT&T's proposal;

there has been a breach of any representation, warranty, covenant or agreement made by BellSouth in the merger agreement, or any such representation and warranty will have become untrue after the date of the merger agreement, such that closing conditions to AT&T's obligation to effect the merger would not be satisfied and such breach or failure to be true would not be curable or, if curable, would not be curable by the termination date (as it may be extended); or

BellSouth has willfully or intentionally breached in any material respect its obligations under the merger agreement relating to acquisition proposals.

Effect of Termination

If the merger agreement is terminated and the merger is abandoned as described above, the merger agreement will be void and of no effect, with no liability on the part of any party to the merger agreement (or of any of its directors, officers, employees, agents, legal or financial advisors or other representatives) other than for damages resulting from willful or intentional breach of any covenant in the merger agreement or from an obligation to pay, if applicable, the fees and reimbursement of expenses in accordance with certain provisions of the merger agreement.

Termination Fees and Expenses

Termination Fees and Expenses Payable by BellSouth

If the merger agreement is terminated by BellSouth in connection with the acceptance of a superior proposal, BellSouth will pay a termination fee of \$1.7 billion prior to or simultaneously with its entry into a binding written agreement providing for such superior proposal. See Termination of the Merger Agreement above.

If the merger agreement is terminated by AT&T on the basis of a willful or intentional breach by BellSouth in any material respect of its obligations under the merger agreement relating to acquisition proposals, BellSouth will promptly, but in no event later than two days after such termination, pay to AT&T the \$1.7 billion termination fee by wire transfer of same day funds.

If the merger agreement is:

terminated by either party on the basis of the failure of the BellSouth shareholders to approve the merger agreement at the BellSouth special meeting, and between the date of the merger agreement and the vote on the approval of the merger agreement at the BellSouth special meeting, one or more bona fide acquisition proposals involving 50% or more of the outstanding BellSouth common shares, or assets of BellSouth (including its interests in Cingular), representing 50% or more of the fair market value of the consolidated assets of BellSouth (including its interests in Cingular) or otherwise involving a transaction or series of transactions that could reasonably be expected to result in value to holders of BellSouth common shares comparable to or more favorable than the transactions contemplated by the merger agreement, which we refer to as a covered proposal, has been publicly made or any person will have publicly announced an intention (whether or not conditional) to make a covered proposal; or

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terminated by AT&T on the ground that BellSouth's board of directors has withheld, withdrawn, qualified or modified in a manner reasonably likely to be understood to be adverse to AT&T its recommendation that the merger agreement be approved, or terminated by AT&T on the basis of a willful or intentional breach of any representation, warranty, covenant or agreement made by BellSouth in the merger agreement and a covered proposal has been made after the date of the merger agreement; and

within 12 months after the date of a termination, any person (other than AT&T or any of its affiliates or BellSouth and any of its subsidiaries) has acquired, or has entered into an agreement to acquire, by acquisition, merger, consolidation or other business combination transaction or by purchase, sale, assignment, lease, transfer or otherwise, in one transaction or in a series of related transactions, at least 50% of the outstanding BellSouth common shares (or shareholders of BellSouth immediately prior to that transaction cease to hold at least 50% of the BellSouth common shares (or any successor shares) after that transaction) or at least 50% of the fair market value of BellSouth's consolidated assets (including its interests in Cingular) or BellSouth or one or more of its subsidiaries transfers or otherwise disposes of at least 50% of the fair market value of BellSouth's consolidated assets or BellSouth or one or more of its subsidiaries publicly announces its intention to effect any such acquisition, transfer or disposition that, in one transaction or a series of related transactions, includes as the principal part an extraordinary dividend, spin-off, split-off, distribution, reclassification, issuer tender offer or similar transaction and thereafter completes that transaction or a substantially similar transaction (it being understood that a difference in consideration will not be taken into account in determining if the completed transaction is substantially similar);

then, BellSouth will promptly, but in no event later than two days after the completion of that transaction or the time that agreement is entered into, as the case may be, pay AT&T the \$1.7 billion termination fee, by wire transfer of same day funds.

If the merger agreement is terminated by AT&T or BellSouth on the basis of the failure of the BellSouth shareholders to approve the merger agreement, or by AT&T on the basis of a change in the recommendation of the BellSouth board of directors with respect to the merger, then BellSouth will promptly, but in no event later than two days after a request from AT&T, reimburse AT&T for all fees and expenses (up to a maximum of \$120 million) incurred by AT&T and its subsidiaries (plus 60% of all fees and expenses incurred by Cingular and its subsidiaries) in connection with the merger agreement and the transactions contemplated by the merger agreement, this reimbursement amount to be payable by wire transfer of same day funds. If a termination fee is ultimately paid, then any such amounts paid as reimbursement by BellSouth will be deducted.

Termination Fees and Expenses Payable by AT&T

If the merger agreement is terminated:

by either party on the basis of the failure of AT&T's shareholders to approve the issuance of AT&T common shares required to be issued to BellSouth's shareholders pursuant to the merger agreement, or by BellSouth on the ground that AT&T's board of directors has withheld, withdrawn, qualified or modified in a manner reasonably likely to be understood to be adverse to BellSouth its recommendation that the issuance of AT&T common shares to BellSouth shareholders as required pursuant to the merger agreement be approved; and

prior to the AT&T special meeting, but after the date of the merger agreement, a covered proposal (for this purpose, substituting AT&T for BellSouth and AT&T common shares for each reference to BellSouth common shares) other than any acquisition proposal from BellSouth or any of its subsidiaries has been publicly made or any person has publicly announced an intention (whether or not conditional) to make a covered proposal; and

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within 12 months after the date of a termination, any person other than AT&T or any of its subsidiaries or BellSouth and any of its subsidiaries, has acquired, or has entered into an agreement to acquire, by acquisition, merger, consolidation or other business combination transaction or by purchase, sale, assignment, lease, transfer or otherwise, in one transaction or in a series of related transactions, at least 50% of the outstanding AT&T common shares (or shareholders of AT&T immediately prior to the transactions cease to hold at least 50% of the AT&T common shares (or successor shares) after the transaction) or at least 50% of the fair market value of AT&T's consolidated assets (including its interest in Cingular) or AT&T or one or more of its subsidiaries transfers or otherwise disposes of at least 50% of the fair market value of AT&T's consolidated assets or AT&T or one or more of its subsidiaries publicly announces its intention to effect any acquisition, transfer or disposition that, in one or a series of related transactions, includes as the principal part an extraordinary dividend, spin-off, split-off, distribution, reclassification, issuer tender offer or similar transaction and thereafter completes that transaction or a substantially similar transaction (it being understood that a difference in consideration will not be taken into account in determining if the completed transaction is substantially similar), then AT&T will promptly, but in no event later than two days after the completion of that transaction or the time that agreement is entered into, as the case may be, pay BellSouth the \$1.7 billion termination fee, payable by wire transfer of same day funds.

If the merger agreement is terminated by AT&T or BellSouth on the basis of the failure of AT&T's shareholders to approve the issuance of AT&T common shares required to be issued to BellSouth shareholders pursuant to merger agreement, or by BellSouth on the basis of a change in the AT&T board of directors' recommendation with respect to the approval of issuance of these shares, then AT&T will promptly, but in no event later than two days after a request from BellSouth, reimburse BellSouth for all fees and expenses, up to a maximum of \$120 million, incurred by BellSouth and its subsidiaries, plus 40% of all fees and expenses incurred by Cingular and its subsidiaries, in connection with the merger agreement and the transactions contemplated by the merger agreement, this reimbursement amount to be payable by wire transfer of same day funds. If a termination fee is ultimately paid, then any amounts paid as reimbursement by AT&T will be deducted.

Amendment, Extension and Waiver

At any time prior to the effective time of the merger, the parties to the merger agreement may modify or amend the merger agreement by written agreement executed and delivered by duly authorized officers of the respective parties. The conditions to each party's obligations to complete the merger may be waived by such party in whole or in part to the extent permitted by applicable laws.

Specific Performance

AT&T and BellSouth have agreed that, in addition to other remedies available to them at law or in equity, they are entitled to enforce the provisions of the merger agreement by specific performance without first proving the inadequacy of monetary damages as a remedy.

Table of Contents**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION
AS OF AND FOR THE QUARTER ENDED MARCH 31, 2006**

The Unaudited Pro Forma Condensed Combined Financial Statements presented below are derived from the historical consolidated financial statements of AT&T, BellSouth and Cingular. The Unaudited Pro Forma Condensed Combined Financial Statements do not give effect to the consolidation of the YellowPages.com, which we refer to as YPC, a joint venture between AT&T and BellSouth, for which AT&T's and BellSouth's total investment was approximately \$100 million at March 31, 2006. The Unaudited Pro Forma Condensed Combined Financial Statements are prepared using the purchase method of accounting, with AT&T treated as the acquirer and as if the acquisition of BellSouth had been completed on January 1, 2005 for statement of income purposes and March 31, 2006 for balance sheet purposes.

The Unaudited Pro Forma Condensed Combined Financial Statements are based upon the historical financial statements of AT&T, BellSouth and Cingular adjusted to give effect to the BellSouth acquisition. The pro forma amounts have been developed from (a) the unaudited consolidated financial statements of AT&T contained in its Quarterly Report on Form 10-Q for the three-month period ended March 31, 2006, (b) the unaudited consolidated financial statements of BellSouth contained in its Quarterly Report on Form 10-Q for the three-month period ended March 31, 2006, and (c) the unaudited consolidated financial statements of Cingular contained in its Quarterly Report on Form 10-Q for the three-month period ended March 31, 2006.

As of the date of this joint proxy statement/ prospectus, AT&T has not performed the detailed valuation studies necessary to arrive at the required estimates of the fair market value of the BellSouth assets to be acquired and the liabilities to be assumed (which will include the fair value adjustments for BellSouth's 40 percent interest in Cingular) and the related allocations of purchase price, nor has it identified the adjustments necessary, if any, to conform BellSouth and Cingular data to AT&T's accounting policies. As indicated in Note 2 to the Unaudited Pro Forma Condensed Combined Financial Statements, AT&T has made certain adjustments to the historical book values of the assets and liabilities of BellSouth and Cingular to reflect certain preliminary estimates of the fair values necessary to prepare the Unaudited Pro Forma Condensed Combined Financial Statements, with the excess of the purchase price over the historical net assets of BellSouth, as adjusted to reflect estimated fair values, recorded as goodwill. Actual results may differ from these Unaudited Pro Forma Condensed Combined Financial Statements once AT&T has determined the final purchase price for BellSouth and has completed the valuation studies necessary to finalize the required purchase price allocations and identified any necessary conforming accounting changes for BellSouth and Cingular. There can be no assurance that such finalization will not result in material changes.

Additionally, as of the date of this joint proxy statement/ prospectus, AT&T has not completed the final valuations included in the March 31, 2006 AT&T consolidated balance sheet. The values of certain assets and liabilities assumed in the November 18, 2005 acquisition of ATTC are based on preliminary valuations and are subject to adjustment as additional information is obtained. Such additional information includes, but is not limited to: valuations and physical counts of PP&E, valuation of investments and involuntary termination of employees. In valuing acquired assets and assumed liabilities, fair values were based on: future expected discounted cash flows for trade names and customer relationships; current replacement cost for similar capacity and obsolescence for certain fixed assets; comparable market rates for contractual obligations and certain investments, real estate and liabilities, including pension and postretirement benefits; expected settlement amounts for litigation and contingencies, and; as appropriate, discount and growth rates. In accordance with U.S. generally accepted accounting principles, AT&T has 12 months from the closing of the ATTC acquisition to finalize the valuation. Changes to PP&E may result in adjustments to the fair value of certain identifiable intangible assets acquired. When finalized, material adjustments to goodwill may result.

The Unaudited Pro Forma Condensed Combined Financial Statements are provided for illustrative purposes only and do not purport to represent what the actual consolidated results of operations or the

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**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION
AS OF AND FOR THE QUARTER ENDED MARCH 31, 2006 (CONTINUED)**

consolidated financial position of AT&T would have been had the BellSouth acquisition occurred on the dates assumed, nor are they necessarily indicative of future consolidated results of operations or consolidated financial position.

The Unaudited Pro Forma Condensed Combined Financial Statements do not include the realization of future cost savings from operating efficiencies, revenue synergies or other restructuring costs expected to result from the ATTC and BellSouth acquisitions.

The Unaudited Pro Forma Condensed Combined Financial Statements should be read in conjunction with the separate historical consolidated financial statements and accompanying notes of AT&T, BellSouth and Cingular.

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AT&T INC.
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME
For the Quarter Ended March 31, 2006
(\$ in millions, except per share data)

	Historical		Adjustments		Combined
	AT&T	BellSouth	Consolidation of Cingular	Other	
Total Operating Revenues	\$ 15,835	\$ 5,171	\$ 8,980 (a3)	\$ (580)(c1) (339)(d1) (158)(d2)	\$ 28,909
Operating Expenses					
Cost of sales (exclusive of depreciation and amortization shown separately below)	7,128	2,109	3,647 (a3)	(580)(c1) (c2) (339)(d1) (158)(d2) (55)(d3)	11,752
Selling, general and administrative	4,024	931	2,846 (a3)	(c2) (19)(d3)	7,782
Depreciation and amortization	2,492	893	1,680 (a3)	(146)(c4) 408 (a5) 723 (b3)	6,050
Asset impairment and net restructuring and other charges		(8)			(8)
Total Operating Expenses	13,644	3,925	8,173	(166)	25,576
Operating Income	2,191	1,246	807	(911)	3,333
Interest expense	464	279	297 (a3)	(104)(c1) 7 (c3) 17 (d4)	960
Other income (expense) net	430	194	(32)(a3) (354)(a3)	(104)(c1)	134
Income Before Income Taxes	2,157	1,161	124	(935)	2,507
Provision for income taxes	712	377	124 (a3)	(358)(f)	855
Net Income	\$ 1,445	\$ 784	\$	\$ (577)	\$ 1,652
Basic Earnings Per Share:					
Net Income	\$ 0.37	\$ 0.44			\$ 0.26 (e)

Weighted Average Common Shares Outstanding (000,000)	3,882	1,797	6,276
Diluted Earnings Per Share:			
Net Income	\$ 0.37	\$ 0.43	\$ 0.26 (e)
Weighted Average Common Shares Outstanding with Dilution (000,000)	3,902	1,804	6,305

The accompanying notes are an integral part of the Unaudited Pro Forma Condensed Combined Financial Statements.

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AT&T INC.
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
As of March 31, 2006
(\$ in millions, except per share data)

	Historical		Pro Forma		
	AT&T	BellSouth	Adjustments		Combined
			Consolidation of Cingular	Other	
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 1,057	\$ 247	\$ 218(a1)	\$	\$ 1,522
Accounts receivable net	8,647	2,409	3,707(a1)		14,763
Other current assets	4,146	1,448	2,488(a1)		8,082
Total current assets	13,850	4,104	6,413		24,367
Property, Plant and Equipment					
Net	58,367	21,870	21,817(a1)	1,595(b2)	103,649
Goodwill	13,402		22,355(a1)	38,872(b)	66,160
			473(a2)	(8,942)(a4)	
Other Intangibles Net	8,214	1,595	28,050(a1)	10,200(b3)	53,044
				5,300(a5)	
				12,500(a5)	
				(11,220)(a4)	
				(1,595)(b2)	
Investments in Equity Affiliates	2,090	35	1(a1)		2,126
Investments in and Advances to Cingular Wireless	32,316	21,882	(32,316)(a2)		
			(21,882)(a2)		
Other Assets	16,198	8,164	708(a1)	25(b4)	23,905
				(1,190)(b2)	
Total Assets	\$ 144,437	\$ 57,650	\$ 25,619	\$ 45,545	\$ 273,251
LIABILITIES AND STOCKHOLDERS					
EQUITY					
Current Liabilities					
Debt maturing within one year	\$ 5,712	\$ 4,408	\$ 2,193(a1)	\$	\$ 10,637
			(1,676)(a2)		
Other current liabilities	19,043	4,727	7,263(a1)		31,033
Total current liabilities	24,755	9,135	7,780		41,670

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Long-Term Debt	25,829	13,062	19,306(a1)	(144)(a7)	51,384
			(6,717)(a2)	48(b5)	
Other Noncurrent liabilities	38,764	11,368	5,250(a1)	5,477(b4)	59,692
				(1,190)(b2)	
				23(a6)	
Total Noncurrent liabilities	64,593	24,430	17,839	4,214	111,076
Stockholders Equity					
Common shares issued	4,065	2,020		(2,020)(b6)	6,459
				2,394(b1)	
Capital in excess of par value	27,262	7,931		(7,931)(b6)	90,284
				63,022(b1)	
Members capital			45,342(a1)		
			(45,342)(a2)		
Retained earnings (deficit)	29,257	20,612		(20,612)(b6)	29,257
Treasury shares (at cost)	(4,927)	(6,510)		6,510(b6)	(4,927)
Accumulated other comprehensive income	(568)	32	(10)(a1)	(32)(b6)	(568)
			10(a2)		
Total stockholders equity	55,089	24,085		41,331	120,505
Total Liabilities and Stockholders Equity					
	\$ 144,437	\$ 57,650	\$ 25,619	\$ 45,545	\$ 273,251

The accompanying notes are an integral part of the Unaudited Pro Forma Condensed Combined Financial Statements.

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AT&T INC.
NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS
For the Quarter Ended March 31, 2006
(\$ in millions, except per share data)

Note 1. Basis of Presentation

The accompanying Unaudited Pro Forma Condensed Combined Financial Statements present the pro forma consolidated financial position and results of operations of the combined company based upon the historical financial statements of AT&T, BellSouth and Cingular, after giving effect to the BellSouth merger and adjustments described in these footnotes, and are intended to reflect the impact of the pending BellSouth acquisition on AT&T. The Unaudited Pro Forma Condensed Combined Financial Statements do not give effect to the consolidation of the YPC joint venture between AT&T and BellSouth, for which AT&T's and BellSouth's aggregate total investment was approximately \$100 at March 31, 2006. On March 5, 2006, AT&T and BellSouth jointly announced the execution of the merger agreement, pursuant to which AT&T would acquire BellSouth in a transaction in which each BellSouth common share would be converted into and exchanged for 1.325 AT&T common shares. Based on the average closing price of the AT&T common shares for the two days prior to, including, and two days subsequent to the public announcement of the merger (March 5, 2006) of \$27.32, the purchase price would be \$65,416.

AT&T and BellSouth jointly own Cingular, with AT&T holding a 60 percent interest and BellSouth holding a 40 percent interest. Control of Cingular is shared equally by AT&T and BellSouth. AT&T and BellSouth historically each have accounted for Cingular under the equity method of accounting, recording the proportional share of Cingular's income as equity in net income of affiliates on the respective consolidated statements of income and reporting the ownership percentage of Cingular's net assets as Investments in and Advances to Cingular Wireless. After the merger, BellSouth and Cingular will be wholly-owned subsidiaries of AT&T.

The accompanying Unaudited Pro Forma Condensed Combined Financial Statements are presented for illustrative purposes only and do not give effect to any cost savings, revenue synergies or restructuring costs which may result from the integration of AT&T's, BellSouth's and Cingular's operations.

Additionally, the Unaudited Pro Forma Condensed Combined Financial Statements do not include any transaction costs relating to the merger that will be included by AT&T as part of the purchase price (as those amounts are anticipated to be immaterial to the total purchase price). The Unaudited Pro Forma Condensed Combined Balance Sheet reflects the merger as if it was completed on March 31, 2006 and includes AT&T's preliminary valuations of PP&E, intangible assets, employee benefit plans, debt and certain other assets and liabilities acquired in the November 18, 2005 ATTC acquisition. In valuing acquired assets and assumed liabilities, fair values were based on: future expected discounted cash flows for trade names and customer relationships; current replacement cost for similar capacity and obsolescence for certain fixed assets; comparable market rates for contractual obligations and certain investments, real estate and liabilities, including pension and postretirement benefits; expected settlement amounts for litigation and contingencies, and; appropriate discount and growth rates. AT&T has 12 months from the November 2005 closing of the ATTC acquisition to finalize the valuations. Finalization of the valuation and purchase price allocation of the ATTC acquisition could result in material adjustments to the AT&T consolidated balance sheet. The Unaudited Pro Forma Combined Condensed Statement of Income reflects the BellSouth acquisition as if it had been completed on January 1, 2005.

Note 2. Pro Forma Adjustments

(a) The Unaudited Pro Forma Condensed Combined Balance Sheet includes adjustments to reflect the consolidation of Cingular as a wholly-owned subsidiary of AT&T.

(a1) AT&T and BellSouth historically each have accounted for Cingular under the equity method of accounting, reporting the ownership percentage of Cingular's net assets as Investments in and Advances to Cingular Wireless on their respective consolidated balance sheets.

At March 31, 2006, AT&T's total investment in Cingular was \$32,316. The Unaudited Pro Forma Condensed Combined Balance Sheet has been adjusted to remove AT&T's Investment in and

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AT&T INC.
NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS
For the Quarter Ended March 31, 2006 (Continued)

Advances to Cingular Wireless and to record, by category, AT&T's 60 percent ownership of Cingular's assets and liabilities as reported in Cingular's consolidated balance sheet included in their Quarterly Report on Form 10-Q. AT&T's 60 percent ownership of Cingular's assets and liabilities remains at the existing historical book values after the merger.

At March 31, 2006, BellSouth's total investment in Cingular was \$21,882. The Unaudited Pro Forma Condensed Combined Balance Sheet has been adjusted to remove BellSouth's Investment in and Advances to Cingular Wireless and to record, by category, BellSouth's 40 percent ownership of the fair value of Cingular's assets and liabilities as reported in Cingular's consolidated balance sheet included in their Quarterly Report on Form 10-Q, with fair values approximating historical book values as of March 31, 2006, unless otherwise noted in a4 through a7.

(a2) The Unaudited Pro Forma Condensed Combined Balance Sheet has been adjusted to eliminate Cingular's March 31, 2006 Members' Capital, other equity amounts, amounts due to AT&T and BellSouth under the Cingular revolving credit agreement and long-term debt due to AT&T and BellSouth as follows:

Investments in and Advances to Cingular Wireless	
AT&T	\$ 32,316
BellSouth	21,882
Combined investment in Cingular	\$ 54,198
Member investment reflected as goodwill	\$ 473
Cingular revolving credit agreement with parents	1,676
Cingular long-term debt due to parents	6,717
Cingular's unrecognized losses	(10)
Cingular's members capital	45,342
	\$ 54,198