SBC COMMUNICATIONS INC
Form 424B3
May 23, 2005

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Filed Pursuant to Rule 424(b)(3)
File No. 333-123283

May 20, 2005

Dear AT&T Shareholder:

It is a pleasure to invite you to AT&T s 2005 Annual Meeting of Shareholders, on Thursday, June 30, 2005, beginning at 9:30 a.m. local time, at the Colorado Convention Center in Denver, Colorado.

At the meeting, among other things, you will be asked to adopt the merger agreement that AT&T has entered into with SBC Communications Inc. In the merger, AT&T will merge with a wholly owned subsidiary of SBC and will become a wholly owned subsidiary of SBC. AT&T and SBC believe that the merger will create one of the nation s leading communications companies, with significant national and global reach.

If the merger is completed, AT&T shareholders will receive 0.77942 of a share of SBC common stock for each share of AT&T common stock held immediately prior to the merger. In addition, AT&T will declare a special dividend of $1.30 per share which it intends to pay, assuming the merger will be completed, on the closing date of the merger. Based on the closing price of $23.62 per share of SBC common stock on the New York Stock Exchange on January 28, 2005, the last trading day before the public announcement of the merger, the 0.77942 exchange ratio, taken together with the $1.30 special dividend, represented a total merger consideration of approximately $19.71 per AT&T share. Based on the closing price of $23.73 per share of SBC common stock on the NYSE on May 19, 2005, the latest practicable date before the printing of this document, the total merger consideration was valued at approximately $19.80 per AT&T share. However, the value of the merger consideration that you will receive for each share of AT&T common stock will depend on the price per share of SBC common stock at the time of the merger. That price is impossible to know at this time, 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. Based on the estimated number of shares of AT&T common stock outstanding on the record date for the meeting, SBC expects to issue approximately 624,705,130 shares of SBC common stock to AT&T shareholders in connection with the merger. Immediately after the merger, former AT&T shareholders are currently expected to own approximately 16% of the then-outstanding shares of SBC common stock (without giving effect to shares of SBC common stock held by AT&T shareholders prior to the merger).

After careful consideration, the AT&T board of directors has adopted the merger agreement, declared that the merger and the other transactions contemplated by the merger agreement, including the special dividend, are advisable and recommends that you vote FOR the adoption of the merger agreement.

The accompanying document provides a detailed description of the proposed merger and the merger consideration. In addition, it provides you with important information regarding the AT&T board of directors and its senior management and other proposals that require your vote, as well as information regarding AT&T s corporate governance practices. I urge you to read the enclosed materials carefully. **Please pay particular attention to the Risk Factors beginning on page 20 for a discussion of the risks related to the merger and owning SBC common stock after the merger.**

Your vote is very important. Whether or not you expect to attend the meeting, please vote as soon as possible to ensure that your shares are represented at the meeting. 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 proxy card. Of course, you may still vote your shares by marking your votes on the 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 the directors recommendations.

I look forward to seeing you on June 30, 2005 in Denver.

Sincerely,

David W. Dorman
Chairman of the Board and Chief Executive Officer

AT&T Corp.

AT&T common stock is quoted on the NYSE under the symbol T . SBC common stock is quoted on the NYSE under the symbol SBC .

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 document is dated May 20, 2005 and is expected to be first mailed to AT&T s shareholders on or about May 23, 2005.

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REFERENCE TO ADDITIONAL INFORMATION

This document incorporates important business and financial information about AT&T and SBC from documents that are not included in or delivered with this document. This information is available to you without charge upon your written or oral request. You can obtain documents related to AT&T and SBC that are incorporated by reference in this document, without charge, by requesting them in writing or by telephone from the appropriate company.

AT&T Corp.
One AT&T Way
Bedminster, New Jersey 07921
(908) 532-1680
www.att.com

SBC Communications Inc.
175 East Houston
San Antonio, TX 78205
(210) 821-4105
www.sbc.com

(All website addresses given in this document are for information only and are not intended to be an active link or to incorporate any website information into this document.)

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 document.

In order to receive timely delivery of requested documents in advance of the annual meeting, you should make your request no later than June 15, 2005.

See Where You Can Find More Information beginning on page 157.

ABOUT THIS DOCUMENT

This document, which forms part of a registration statement on Form S-4 filed with the SEC by SBC (File No. 333-123283), constitutes a prospectus of SBC under Section 5 of the Securities Act of 1933, as amended, which is referred to in this document as the Securities Act, with respect to the shares of SBC common stock to be issued to the holders of AT&T common stock in connection with the merger. This document also constitutes a proxy statement under Section 14(a) of the Securities Exchange Act of 1934, as amended, which is referred to in this document as the Exchange Act, and the rules thereunder, and a notice of meeting with respect to AT&T s 2005 Annual Meeting of Shareholders, at which, among other things, the holders of AT&T common stock will consider and vote on the adoption of the merger agreement.

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NOTICE OF ANNUAL MEETING

The 120th Annual Meeting of Shareholders of AT&T Corp. will be held at the Colorado Convention Center, Exhibit Hall F, 700 14th Street, Denver, Colorado, on Thursday, June 30, 2005, at 9:30 a.m. local time, for the following purposes:

to adopt the merger agreement among SBC, AT&T and Merger Sub;

to adjourn the meeting, if necessary, to permit further solicitation of proxies, in the event that there are not sufficient votes at the time of the meeting to adopt the merger agreement;

to elect nine directors;

to ratify the appointment by the Audit Committee of independent auditors to examine AT&T s accounts; and

to conduct any other business, including shareholder proposals, as may properly come before the meeting or any adjournment or postponement of the meeting.

AT&T shareholders at the close of business on May 27, 2005, are entitled to vote their proxies. Only AT&T shareholders with an admission ticket or proof of stock ownership will be admitted to the meeting.

Robert S. Feit
Vice President Law and Secretary
AT&T Corp.

May 20, 2005

YOU CAN VOTE IN ONE OF FOUR WAYS:
(1) Use the toll-free telephone number on your proxy card to vote by phone;
(2) Visit the website noted on your proxy card to vote via the Internet;
(3) Sign, date and return your proxy card in the enclosed envelope to vote by mail; or
(4) Vote in person at the meeting.

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The following are some of the questions that you, as a shareholder of AT&T, 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 document, and this information is qualified in its entirety by the more detailed descriptions and explanations contained elsewhere in this document. We urge you to read this document in its entirety prior to making any decision as to your AT&T common stock.

QUESTIONS AND ANSWERS ABOUT THE AT&T ANNUAL MEETING AND THE MERGER

Q1: Why are these proxy materials being sent to AT&T shareholders?

A1: This document is being provided by, and the enclosed proxy is solicited by and on behalf of, the AT&T board of directors for use at the annual meeting of AT&T shareholders.

Q2: When and where is the AT&T annual meeting?

A2: The AT&T annual meeting is scheduled to be held at 9:30 a.m., local time, on Thursday, June 30, 2005 at the Colorado Convention Center, Exhibit Hall F, 700 14th Street, Denver, Colorado, unless it is postponed or adjourned.

Q3: What is the purpose of the AT&T annual meeting? What am I voting on?

A3: The purpose of the annual meeting is to consider and vote upon:

adoption of the Agreement and Plan of Merger, dated as of January 30, 2005 (referred to in this document as the merger agreement), among SBC, AT&T and Tau Merger Sub Corporation, a newly formed, direct and wholly owned subsidiary of SBC (referred to in this document as Merger Sub) (Proposal 1 on the enclosed proxy card);

adjournment of the meeting, if necessary, to permit further solicitation of proxies in favor of adoption of the merger agreement (Proposal la. on the enclosed proxy card);

election of nine directors (Proposal 2 on the enclosed proxy card);

ratification of the appointment by the Audit Committee of independent auditors (Proposal 3 on the enclosed proxy card); and

action upon such other matters, including shareholder proposals, as may properly come before the meeting (Proposals 4 through 9 on the enclosed proxy card).

Q4: Who is entitled to vote at the AT&T annual meeting?

A4: AT&T shareholders of record at the close of business on May 27, 2005, the record date for the AT&T annual meeting, are entitled to receive notice of and to vote on matters that come before the annual meeting and any adjournments or postponements of the annual 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 annual meeting.

Q5: How do I vote?

A5: After carefully reading and considering the information contained in this document, 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 the annual meeting. For detailed information please see Information about the AT&T Meeting How do I vote? on page 95.

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Q6: How many votes do I have?

A6: Each share of AT&T common stock that you own as of the record date entitles you to one vote. As of close of business on May 18, 2005, there were 801,195,464 outstanding shares of AT&T common stock. As of that date, less than 1% of the outstanding shares of AT&T common stock were held by directors and executive officers of AT&T and their respective affiliates.

Q7: What constitutes a quorum at the AT&T annual meeting?

A7: The presence of the holders of 40 percent of the shares entitled to vote at the AT&T annual meeting constitutes a quorum. 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 annual meeting.

Abstentions and shares voted by a bank or broker holding shares for a beneficial owner are counted as present and entitled to vote for purposes of determining a quorum.

Q8: What vote is required to approve each proposal? What is the effect of not voting?

A8: ***To adopt the merger agreement*:** the affirmative vote of the holders of at least a majority of outstanding shares of AT&T common stock entitled to vote is required to adopt the merger agreement.

Because the affirmative vote required to adopt the merger agreement is based upon the total number of outstanding shares of AT&T common stock, the failure to submit a proxy card (or to submit a proxy by telephone or by Internet or to vote in person at the annual meeting) or the abstention from voting by a shareholder will have the same effect as a vote against adoption of the merger agreement. Brokers holding shares of AT&T common stock 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 will also have the same effect as a vote against the merger.

Adjournment of the meeting, if necessary, to permit further solicitation of proxies: this proposal requires the affirmative vote of the holders of at least a majority of the votes cast. Any AT&T shares not voted (whether by abstention or otherwise) will have no impact on the vote.

Election of directors: the nine nominees who receive the most votes cast by AT&T shareholders present in person at the meeting or represented by proxy will be elected. Any AT&T shares not voted (whether by abstention or otherwise) will have no impact on the vote.

Ratification of Independent Auditors: this proposal requires the affirmative vote of the holders of at least a majority of the votes cast. Any AT&T shares not voted (whether by abstention or otherwise) will have no impact on the vote.

AT&T shareholder proposals: approval of each of the six AT&T shareholder proposals requires the affirmative vote of the holders of at least a majority of the votes cast. Any AT&T shares not voted (whether by abstention or otherwise) will have no impact on the vote.

Q9: What are the recommendations of the AT&T board of directors?

A9: The AT&T board of directors recommends a vote **FOR:**

adoption of the merger agreement;

adjournment of the meeting, if necessary, to permit further solicitation of proxies;

the election of the nine nominees for director; and

the ratification of the appointment of the independent auditors.

The AT&T board of directors recommends a vote **AGAINST** each of the six AT&T shareholder proposals.

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Q10: What if I return my proxy but do not mark it to show how I am voting?

A10: If your proxy card is signed and returned without specifying your choices, your shares will be voted according to the recommendations of the AT&T board of directors.

Q11: Can I change my vote *after* I have submitted a proxy by telephone or Internet or mailed my signed proxy card?

A11: Yes. You can change your vote by revoking your proxy at any time before it is exercised at the AT&T annual meeting. You can revoke your proxy in one of four ways:

- notify AT&T s Corporate Secretary in writing before the annual meeting that you are revoking your proxy;
- submit another proxy with a later date;
- vote again by telephone or the Internet; or
- vote in person at the annual meeting.

Q12: What if other items come up at the annual meeting and I am not there to vote?

A12: When you return a signed and dated proxy card or provide your voting instructions by telephone or the Internet, you give the AT&T proxy committee (the members of which are listed on your proxy card) the discretionary authority to vote on your behalf on any other matter that is properly brought before the annual meeting.

Q13: If I want to attend the annual meeting, what do I do?

A13: You must come to the Colorado Convention Center, Denver, Colorado, at 9:30 a.m., local time, on Thursday, June 30, 2005. For further information please see Information about the AT&T Meeting What do I need to do if I wish to attend the AT&T annual meeting in person? on page 96.

Q14: Who can help answer my additional questions about the merger or the AT&T annual meeting?

A14: If you have questions about the merger or the annual meeting, you should contact:

Morrow & Co., Inc.
445 Park Avenue, 5th Floor
New York, New York 10022
(212) 754-8000
E-mail: att.info@morrowco.com
Telephone: 1-800-206-5881

SUMMARY

This summary highlights selected information about the merger in this document and does not contain all of the information that may be important to you. You should carefully read this entire document and the other documents to which this document refers for a more complete understanding of the matters being considered at the annual meeting. See Where You Can Find More Information beginning on page 157. Unless we have stated otherwise, all references in this document to AT&T are to AT&T Corp., all references to SBC are to SBC Communications Inc., all references to Merger Sub are to Tau Merger Sub Corporation, and all references to the merger agreement are to the Agreement and Plan of Merger, dated as of January 30, 2005, among AT&T, SBC and Merger Sub, a copy of which is attached as Annex A to this document.

The Companies (Page 76)

AT&T. AT&T was incorporated in 1885 under the laws of the State of New York. Its principal executive offices are at One AT&T Way, Bedminster, New Jersey 07921 and its telephone number at that address is 908-221-2000. AT&T maintains an internet website at **www.att.com**.

For more than a century AT&T has been known for quality and reliability in communications. Backed by the research and development capabilities of AT&T Labs, AT&T is a global leader in local, long distance, internet and transaction-based voice and data services. AT&T s primary business segments are AT&T Business Services and AT&T Consumer Services.

AT&T is one of the nation s largest business services communications providers, offering a variety of global communications services to over 2 million customers, including large domestic and multinational businesses, small and medium-sized businesses and government agencies. AT&T operates one of the largest telecommunications networks in the United States and, through its Global Network Services, provides an array of services and customized solutions in 60 countries and 850 cities worldwide.

AT&T is also a provider of domestic and international long distance and transaction based communications services to over 24 million residential stand alone long distance and bundled consumers in the U.S.

SBC. SBC is a holding company incorporated under the laws of the State of Delaware in 1983 and has its principal executive offices at 175 E. Houston, San Antonio, Texas 78205-2233 (telephone number 210-821-4105). SBC maintains an internet website at **www.sbc.com**.

SBC ranks among the largest providers of telecommunications services in the U.S. and the world. Through its subsidiaries and affiliates, it provides communications services and products in the U.S. and has investments in more than 14 countries. It offers its services and products to businesses and consumers, as well as other providers of telecommunications services, including local exchange services, wireless communications, long-distance services, internet services, telecommunications equipment, and directory advertising and publishing.

As a Result of the Merger, AT&T will Become a Wholly Owned Subsidiary of SBC (Page 59)

The merger agreement provides for the merger of Merger Sub, a wholly owned subsidiary of SBC, with and into AT&T. Following completion of the merger, AT&T will continue as the surviving corporation of the merger and will become a wholly owned subsidiary of SBC.

In the Merger You Will Have the Right to Receive 0.77942 of a Share of SBC Common Stock for each Share of AT&T Common Stock that You Hold; In Addition, Assuming the Merger is Completed, AT&T Will Pay a Special Dividend of $1.30 per Share to Holders of AT&T Common Stock (Page 60)

In the merger, each share of AT&T common stock issued and outstanding immediately prior to the effective time of the merger will be converted into the right to receive 0.77942 of a share of SBC common stock, which ratio is referred to in this document as the exchange ratio, together with any cash paid in lieu of a fractional share of SBC common stock.

You will not receive any fractional share of SBC common stock in the merger. Instead, SBC will pay you cash for any fractional share of SBC common stock you otherwise would have been entitled to receive based on the average closing price for a share of SBC common stock as reported on the New York Stock Exchange, which is referred to in this document as the NYSE, composite transactions reporting system for the 20 trading days ending on the fifth trading day prior to the closing date of the merger.

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For example, if you own 100 shares of AT&T common stock, and the average closing price for a share of SBC common stock as reported on the NYSE composite transactions reporting system for the 20 trading days ending on the fifth trading day prior to the closing date of the merger was $25.00, you will receive 77 shares of SBC common stock plus $23.55 in cash (equal to 0.942 multiplied by $25) in lieu of the fractional share of SBC common stock you would otherwise have been entitled to receive.

Immediately after the merger, former AT&T shareholders are expected to own approximately 16% of the outstanding shares of SBC common stock (following the issuance of shares of SBC common stock to the former AT&T shareholders and based on shares outstanding as of December 31, 2004) (without giving effect to shares of SBC common stock held by AT&T shareholders prior to the merger).

In addition, following the date of the adoption of the merger agreement by AT&T shareholders at the annual meeting and prior to the effective time of the merger, AT&T will declare a special dividend of $1.30 per share payable to holders of record of outstanding shares as of a record date for the special dividend that will be set by the AT&T board of directors. Such special dividend will be paid prior to the effective time of the merger, and AT&T has agreed to use its reasonable best efforts to cause the special dividend to be paid on the closing date of the merger. **AT&T does not intend to pay the special dividend unless the merger is to be completed.**

The AT&T Board of Directors Recommends that Holders of AT&T Common Stock Vote to Adopt the Merger Agreement (Page 38)

After careful consideration, the AT&T board of directors declared that the merger and the other transactions contemplated by the merger agreement, including the special dividend, are advisable and adopted the merger agreement. The AT&T board of directors recommends that holders of AT&T common stock vote FOR the adoption of the merger agreement.

The affirmative vote of the holders of at least a majority of the outstanding shares of AT&T common stock entitled to vote on adoption of the merger agreement is required to adopt the merger agreement. No vote of SBC stockholders is required (or will be sought) in connection with the merger.

In adopting the merger agreement and making its declaration and recommendation, the AT&T board of directors consulted with AT&T 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 .

Opinions of AT&T s Financial Advisors (Page 40)

In connection with the proposed merger, AT&T s financial advisors, Credit Suisse First Boston LLC, which is referred to in this document as CSFB, and Morgan Stanley & Co. Incorporated, which is referred to in this document as Morgan Stanley, each have delivered an opinion with respect to the fairness of the exchange ratio or consideration, as applicable, to be received by the holders of AT&T common stock in the merger. CSFB rendered its opinion that, as of January 30, 2005, the exchange ratio was fair, from a financial point of view, to holders of AT&T common stock and Morgan Stanley rendered its opinion that the consideration to be received by holders of AT&T common stock in accordance with the merger agreement was fair from a financial point of view to such holders other than SBC and its affiliates. For purpose of its analyses CSFB assumed that AT&T will declare a $1.30 special cash dividend per share of AT&T common stock payable to the holders of AT&T common stock as of immediately prior to the consummation of the merger. In arriving at its opinion, Morgan Stanley assumed that the special cash dividend was part of the consideration. The full texts of the written opinions of CSFB and Morgan Stanley are attached as Annex B and Annex C, respectively, to this document. You are urged to read each of the opinions carefully and in its entirety for a description of the procedures followed, matters considered and limitations on the review undertaken. The opinions do not constitute a recommendation to any shareholder as to how they should vote or act on any matter relating to the merger.

Treatment of AT&T Stock Options and Stock Based Awards (Page 61)

In the merger, all outstanding AT&T employee stock options under AT&T s stock-based benefit plans and agreements will be converted into options to acquire shares of SBC common stock, with the number of shares of SBC common stock subject to option and the exercise price of the options adjusted to give effect to

the exchange ratio of 0.77942 and an equitable adjustment to take into account the payment of the $1.30 special dividend in respect of each share of AT&T common stock. Any AT&T stock-based awards, other than AT&T stock options, will be similarly converted into stock-based awards based on a number of shares of SBC common stock adjusted to give effect to the exchange ratio of 0.77942 and an equitable adjustment to take into account the payment of the $1.30 special dividend in respect of each share of AT&T common stock.

AT&T s Executive Officers and Directors Have Interests in the Merger that Differ from, or Are in Addition to, Your Interests in the Merger (Page 48)

You should be aware that some of the directors and executive officers of AT&T have interests in the merger that are different from, or are in addition to, the interests of AT&T shareholders. These interests include, but are not limited to, the treatment of equity-based compensation awards held by directors and executive officers of AT&T in the merger, the continued employment of certain executive officers after the merger, severance benefits payable to certain executive officers whose employment is not continued after the merger, the continued positions of certain directors of AT&T as directors of SBC, and the indemnification of former AT&T directors by SBC.

Material United States Federal Income Tax Consequences (Page 53)

The Special Dividend. Individual U.S. holders who meet applicable holding period requirements under the Code for qualified dividends (generally more than 60 days during the 121-day period surrounding the ex-dividend date) will be taxed on the special dividend at a maximum federal income tax rate of 15%. This is based on a legal opinion from Wachtell, Lipton, Rosen & Katz to the effect that the special dividend should qualify as a distribution within the meaning of Section 301 of the Internal Revenue Code of 1986, as amended, which is referred to in this document as the Code.

It is not possible for counsel to reach a definitive conclusion regarding the characterization of the special dividend for United States federal income tax purposes because there are legal authorities that have characterized a pre-merger distribution as additional merger consideration. The authorities that counsel believes are more similar to the facts of this situation respect characterization of a payment that is made in the form of a dividend and not merger consideration as a dividend. Based upon such authorities, Wachtell, Lipton, Rosen & Katz has concluded that the special dividend should constitute a distribution within the meaning of Section 301 of the Code. Assuming counsel s characterization of the special dividend prevails, the special dividend will be treated as a dividend for United States federal income tax purposes to the extent paid out of current or accumulated earnings and profits of AT&T. AT&T expects that the entire amount of the special dividend will be paid out of its current or accumulated earnings and profits.

It is possible that the Internal Revenue Service could disagree with counsel s characterization of the special dividend as a distribution for United States federal income tax purposes and instead treat the special dividend as merger consideration paid by SBC in exchange for a portion of a holder s AT&T common stock. In such case, the United States federal income tax consequences to a holder of AT&T common stock would be the same as those described below under *The Merger Special Dividend Not Paid by AT&T and Merger Consideration Consisting of SBC Common Stock and Cash Paid by SBC.*

If the special dividend is paid by AT&T, it will be paid following the adoption of the merger agreement and prior to the effective time of the merger. AT&T intends to pay the special dividend on the closing date of the merger.

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 SBC will receive opinions from Wachtell, Lipton, Rosen & Katz and Sullivan & Cromwell LLP, respectively, dated as of the closing date of the merger, to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code and that each of SBC, AT&T and Merger Sub will be a party to such reorganization. In addition, in connection with the filing of the registration statement of which this document is a part, AT&T and SBC each will receive a legal opinion to the same effect. Accordingly, the merger will be tax-free to holders of AT&T common stock, except with respect to any cash received, which will be taxed under one of the alternatives described under the next two subheadings.

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The merger agreement provides that, if it is necessary to satisfy the tax opinion closing condition described in the preceding paragraph, the merger will be restructured to include in the per share merger consideration the per share amount of the special dividend. In that event, AT&T will not pay the special dividend. Instead, each share of AT&T common stock issued and outstanding immediately prior to the effective time of the merger will be converted into the right to receive 0.77942 of a share of SBC common stock, plus $1.30 in cash.

Special Dividend Paid by AT&T and Merger Consideration Consisting Solely of SBC Common Stock. If the special dividend is paid by AT&T and the merger is not restructured, a holder of AT&T common stock (i) should be taxed on the cash received as a Special Dividend in the manner described above and (ii) will not recognize any gain or loss upon receipt of SBC common stock solely in exchange for AT&T common stock in the merger, except with respect to cash received in lieu of a fractional share of SBC common stock.

Special Dividend Not Paid by AT&T and Merger Consideration Consisting of SBC Common Stock and Cash Paid by SBC. If (i) in order to allow counsel to issue their opinions regarding qualification of the merger as a reorganization within the meaning of Section 368(a) of the Code the merger is restructured to include as merger consideration the $1.30 to be paid by SBC (and the special dividend is not paid by AT&T), or (ii) counsel s characterization of the special dividend as a distribution within the meaning of Section 301 of the Code does not prevail (and the special dividend paid by AT&T were characterized as additional merger consideration paid by SBC), a holder of AT&T common stock will be required to recognize gain with respect to any cash received. A holder of AT&T common stock whose adjusted tax basis in the AT&T common stock surrendered is less than the sum of the cash and the fair market value, as of the closing date of the merger, of the SBC common stock received will recognize gain in an amount equal to the lesser of (1) the sum of the cash and the fair market value of the SBC common stock received, minus the adjusted tax basis of the AT&T common stock surrendered, and (2) the amount of cash received in the exchange. However, if a holder s adjusted tax basis in the AT&T common stock surrendered in the transaction is greater than the sum of the amount of cash and the fair market value of the SBC common stock received, the holder s loss will not be currently allowed or recognized for United States federal income tax purposes.

Holders should read The Merger Material United States Federal Income Tax Consequences starting on page 53 for a more complete discussion of the United States federal income tax consequences of the special dividend and the merger. Holders are urged to consult with their tax advisors regarding the tax consequences of the special dividend and the merger to them, including the effects of United States federal, state and local, foreign and other tax laws.

Procedures for Exchange of AT&T Common Stock for SBC Common Stock (Page 60)

In most cases, because holders of AT&T common stock hold their stock in the form of uncertificated shares, the exchange agent will issue the shares of SBC common stock to which such holders are entitled against the cancelled shares of AT&T common stock as soon as practicable after the effective time of the merger without any further action on the part of those holders.

However, holders of AT&T share certificates that formerly represented a number of AT&T common shares prior to AT&T s one-for-five reverse stock split, effective November 19, 2002, will be required to surrender those share certificates against issuance of the number of shares of AT&T common stock after giving effect to the stock split, before they will be issued the number of shares of SBC common stock to which they are entitled in the merger. At any time after the effective time of the merger and prior to the surrender of such share certificates, the share certificates will be deemed to represent that number of shares of SBC common stock that the holder is entitled to receive in the merger.

Following the Merger, You Will Be Entitled to Receive the Dividends SBC Pays on the SBC Common Stock (Page 61)

After the merger, when and if declared by SBC s board of directors, you will receive any dividends SBC pays on its common stock. SBC s dividend payment made in the first quarter of 2005 was $0.3225 per share. From January 1, 2004 through January 1, 2005, a stockholder of SBC would have had dividends paid in respect of its shares in an aggregate amount of $1.26 per share.

Accounting Treatment (Page 56)

The merger will be accounted for as an acquisition of AT&T by SBC under the purchase method of accounting of U.S. generally accepted accounting principles.

Regulatory Matters Related to the Merger (Page 57)

HSR Act and Antitrust. The merger is subject to the requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, which is referred to in this document as the HSR Act, which prevents SBC and AT&T from completing the merger until required information and materials are furnished to the Antitrust Division of the Department of Justice, which is referred to in this document as the DOJ, and the Federal Trade Commission, which is referred to in this document as the FTC, and the waiting period is terminated or expires. On February 22, 2005, SBC and AT&T filed the requisite Pre-Merger Notification and Report Forms under the HSR Act with the DOJ and the FTC. On March 24, 2005, the DOJ issued requests for additional information and documentary material to SBC and AT&T. The parties are now in the process of compiling this information and material. As a result, the waiting period applicable to the merger has been extended until 30 calendar days after both parties have certified that they have substantially complied with the requests.

FCC Approval. The Federal Communications Act of 1934, as amended, requires the approval of the Federal Communication Commission, which is referred to in this document as the FCC, prior to any transfer of control of certain types of licenses and other authorizations issued by the FCC. On February 22, 2005, SBC and AT&T filed applications for FCC consent to the transfer of control of AT&T and the AT&T subsidiaries that hold such licenses and authorizations to SBC. Applications for FCC consent are subject to public comment and objections and oppositions of third parties who may interpose objections. Comments on the applications and reply comments have been submitted to the FCC. 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 September 7, 2005 for the applications filed by SBC and AT&T. 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. AT&T and various of its subsidiaries hold certificates, licenses and service authorizations issued by the state public utility commissions, which are referred to in this document as the state PUCs. Approximately 22 state commissions and the District of Columbia commission require formal applications for the transfer of control of these certificates, licenses and authorizations to SBC. Applications for state approvals are subject to public comment and objections and oppositions of third parties who may interpose objections. In addition to these applications, SBC and AT&T will file notifications of the merger in the remaining states. In some of these states, the state PUCs could initiate proceedings in response to the notification. SBC and AT&T filed these state transfer applications and notifications with the state PUCs on February 28, 2005. Certain of these state PUCs have granted their approval as of the date of this document, while the other state PUCs are still reviewing the applications.

Municipal Franchises. The merger may require the approval of municipalities where AT&T holds franchises to provide communications and other services.

Foreign and Certain Other Regulatory Matters. SBC and AT&T will be required to obtain approval for the merger from, or provide notice of the merger to, governmental entities regulating competition and telecommunications businesses or the use of radio spectrum or regulating investment in certain countries outside the United States where AT&T conducts business.

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

SBC and AT&T expect that the merger will be completed in late 2005 or early 2006 (Page 32)

We expect to complete the merger after we receive AT&T shareholder approval at the annual meeting scheduled to be held on June 30, 2005 and after we receive all required regulatory approvals. We currently expect to complete the merger in late 2005 or early 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 57.

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You are not entitled to any Rights of Appraisal if you Dissent from the Merger (Page 58)

Under New York law, the holders of AT&T common stock are not entitled to any rights of appraisal with respect to the merger.

The Merger Agreement (Page 59)

The merger agreement is described beginning on page 59. The merger agreement also is attached as Annex A to this document. We urge you to read the merger agreement in its entirety because it contains important provisions governing the terms and conditions of the merger.

Acquisition Proposals (Page 67)

Subject to specified legal and fiduciary exceptions, the merger agreement provides that neither AT&T nor any of its affiliates will, directly or indirectly:

- initiate, solicit or knowingly encourage or facilitate any inquiries or the making of any proposal or offer, which we refer to as an acquisition proposal, with respect to
  - a merger, reorganization, share exchange, consolidation or similar transaction involving AT&T;
  - any purchase of an equity interest or interests representing, in the aggregate, an amount equal to or greater than a 15% voting or economic interest in AT&T; or
  - any purchase of assets, securities or ownership interests representing an amount equal to or greater than 15% of the consolidated assets of AT&T and its subsidiaries, taken as a whole.
- have any discussions with, or provide any confidential information or data to, or engage in any negotiations with, any person relating to an acquisition proposal, or otherwise knowingly encourage or facilitate any effort or attempt by any person other than SBC and Merger Sub to make or implement an acquisition proposal.

There are Conditions that Must be Satisfied or Waived Before SBC and AT&T are Required to Complete the Merger (Page 71)

SBC, Merger Sub and AT&T are not required to complete the merger unless a number of conditions are satisfied or waived. These conditions include:

- adoption of the merger agreement by holders of a majority of the outstanding shares of AT&T common stock entitled to vote on the matter;
- expiration or early termination of the waiting period applicable to the consummation of the merger under the HSR Act;
- if applicable, approval of the merger and the other transactions contemplated by the merger agreement by the European Commission, or the applicable governmental entity of any member state of the European Union to which the European Commission has referred the review;
- approvals and authorizations required for transfer of AT&T s federal and state communications licenses;
- any applicable governmental approvals in the U.K., Germany, Japan and Canada, plus other govern-mental approvals that, if not obtained, would:
  - reasonably be expected to result in a specified material adverse effect (as defined under The Merger Agreement Covenants and Agreements Reasonable Best Efforts); or
  - provide a reasonable basis to conclude that AT&T, SBC or their respective directors or officers would be subject to the risk of criminal liability;
- absence of any order, injunction or similar action taken by a governmental entity that prohibits the merger, unless it would not reasonably be expected to have a specified material adverse effect or pro-vide a reasonable basis to conclude that AT&T, SBC or their respective directors or officers would be subject to the risk of criminal liability;

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the registration statement of which this document 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 or threatened by the SEC; and

the shares of SBC common stock to be issued in the merger will have been authorized for listing on the NYSE upon official notice of issuance.

In addition, SBC and Merger Sub are not required to complete the merger unless a number of further conditions are satisfied or waived. These conditions include:

Specified representations and warranties of AT&T must be true and correct in all material respects (as of the date of the merger agreement and as of the closing date, except to the extent that they expressly speak as of an earlier date, in which case such representation and warranty must be true and correct as of such earlier date) and the remainder must be true and correct (without giving effect to any materiality or material adverse effect qualifications) unless all the inaccuracies taken together would not have a material adverse effect on AT&T (as defined under The Merger Agreement Representations and Warranties). One of the representations that must be true in all material respects is the representation that there has been no material adverse effect or any event, occurrence, discovery or development which would individually or in the aggregate reasonably be expected to result in a material adverse effect on AT&T since December 31, 2003;

AT&T must have performed in all material respects all obligations required to be performed by it under the merger agreement at or prior to the closing date;

no governmental entity of competent jurisdiction will have instituted any continuing proceeding seeking any order that restrains, enjoins or otherwise prohibits the consummation of the merger or the other transactions contemplated by the merger agreement, and no governmental entity will have instituted any civil, criminal or administrative proceeding which would, in the reasonable judgment of SBC, individually or in the aggregate, be reasonably likely to result in an order reasonably expected to have a specified material adverse effect or provide a reasonable basis to conclude that AT&T, SBC or their respective directors or officers would be subject to the risk of criminal liability;

All governmental consents must have been obtained (subject to certain exceptions). All governmental consents that have been obtained will have been obtained without the imposition of any condition which would reasonably be expected to result in a specified material adverse effect and all required governmental consents obtained from the FCC must have been obtained by a final order;

AT&T must have obtained the consent or approval of each person whose consent or approval will be required under any material contract to which AT&T or any of its subsidiaries is a party in connection with the transactions contemplated by the merger agreement (subject to certain exceptions), except where the failure to obtain such consent or approval, individually or in the aggregate, would not reasonably be expected to result in a material adverse effect; and

SBC must have received the opinion of Sullivan & Cromwell LLP, counsel to SBC, dated the closing date, to the effect that the merger will be treated for United States federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code, and that each of SBC, Merger Sub and AT&T will be a party to that reorganization within the meaning of Section 368(b) of the Code.

In addition, AT&T is not required to complete the merger unless a number of further conditions are satisfied or waived. These conditions include:

Specified representations and warranties of SBC and Merger Sub must be true and correct in all material respects (as of the date of the merger agreement and as of the closing date, except to the extent that they expressly speak as of an earlier date, in which case such representation and warranty must be true and correct as of such earlier date) and the remainder must be true and correct (without giving effect to any materiality or material adverse effect qualifications) unless all the inaccuracies taken together would not have a material adverse effect on SBC;

Each of SBC and Merger Sub must have performed in all material respects all obligations required to be performed by it under the merger agreement at or prior to the closing date; and

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AT&T must have received the opinion of Wachtell, Lipton, Rosen & Katz, counsel to AT&T, dated the closing date, to the effect that the merger will be treated for United States federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code, and that each of SBC, Merger Sub and AT&T will be a party to that reorganization within the meaning of Section 368(b) of the Code.

Under Some Conditions SBC or AT&T May Terminate the Merger Agreement (Page 73)

The merger agreement may be terminated and the merger may be abandoned at any time prior to the effective time of the merger by mutual written consent of AT&T and SBC. Also, either AT&T or SBC may terminate the merger agreement if:

the merger is not consummated by January 31, 2006, unless the closing conditions with respect to certain orders of governmental entities and required governmental consents have not been satisfied by January 31, 2006, in which case SBC or AT&T may extend the termination date one or more times to a date not beyond July 31, 2006, provided that if a required governmental consent has been obtained but is not yet a final order, neither party may terminate the merger agreement prior to the 60th day after receipt of such required governmental consent;

the adoption of the merger agreement by AT&T shareholders was not obtained at the shareholders meeting or at any adjournment or postponement of such meeting; or

any order of a governmental entity permanently restraining, enjoining or otherwise prohibiting the consummation of the merger becomes final and non-appealable, except for any orders the existence of which would not result in the failure of the closing condition described in the fifth bullet point under There are Conditions that Must be Satisfied or Waived Before SBC and AT&T are Required to Complete the Merger above.

The foregoing rights to terminate the merger agreement 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 consummation of the merger.

In addition, the merger agreement may be terminated and the merger may be abandoned prior to the effective time of the merger by the AT&T board of directors if the AT&T board of directors (after complying with its obligations under the merger agreement) authorizes AT&T to enter into a binding written agreement concerning a transaction that constitutes a superior proposal to the merger and AT&T pays the termination fee to SBC or if there has been a breach of any representation, warranty, covenant or agreement made by SBC or Merger Sub that is not curable by the termination date.

Furthermore, the merger agreement may be terminated and the merger may be abandoned prior to the effective time of the merger agreement by SBC s board of directors if:

the board of directors of AT&T has withdrawn, modified or qualified, or has agreed to withdraw, modify or qualify, in fact or in substance, its adoption of the merger agreement or its recommendation of the merger in a manner adverse to SBC;

there has been a breach of any representation, warranty, covenant or agreement made by AT&T that is not curable by the termination date;

by the later of 120 days after the date of the merger agreement or 60 days after effectiveness of the registration statement of which this document forms a part, AT&T s shareholders meeting has not been held, or the vote of AT&T s shareholders has not been taken, unless AT&T has used its reasonable best efforts to convene the shareholders meeting and hold such vote by the later of such dates; or

AT&T knowingly and materially and not inadvertently breaches its obligations under the merger agreement relating to acquisition proposals.

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Under Some Circumstances AT&T Will Be Required to Pay a Termination Fee to SBC if the Merger Agreement is Terminated (Page 74)

AT&T is required to pay SBC a termination fee of $560 million and all documented out-of-pocket expenses incurred by SBC or Merger Sub in connection with the merger (subject to a cap of $40 million), if:

a bona fide acquisition proposal, but substituting 40% for the 15% thresholds described under The Merger Agreement Covenants and Agreements Acquisition Proposals, has been made to AT&T or any of its subsidiaries or its shareholders and such proposal becomes publicly known, or any person publicly announces an intention, whether or not conditional, to make such a proposal with respect to AT&T or any of its subsidiaries, and such proposal or announced intention are not withdrawn at the time of the AT&T shareholders meeting, and

either SBC or AT&T terminates the merger agreement because the adoption of the merger agreement by AT&T shareholders was not obtained at the shareholders meeting or at any adjournment or postponement of such meeting, or

SBC terminates the merger agreement because by the later of 120 days after the date of the merger agreement or 60 days after effectiveness of the registration statement of which this document forms a part, AT&T s shareholders meeting has not been held, or the vote of AT&T s shareholders has not been taken (unless AT&T has used its reasonable best efforts to convene the shareholders meeting and hold the vote by the later of those dates);

Provided that AT&T will not have to pay the termination fee to SBC, but will be obligated to pay all documented out-of-pocket expenses incurred by SBC or Merger Sub in connection with the merger (subject to a cap of $40 million), unless and until:

any person (other than SBC) has acquired, in one or a series of related transactions, within 15 months of the termination, a majority of the voting power of the outstanding securities of AT&T or all or substantially all of AT&T s assets or has entered into an agreement with AT&T for such an acquisition within 15 months of the termination; or

a merger, consolidation or similar business combination has been consummated between AT&T or one of its subsidiaries and an acquiring person (other than SBC) within 15 months of the termination of the merger agreement.

SBC terminates the merger agreement because the board of directors of AT&T has withdrawn, modified or qualified, or has agreed to withdraw, modify or qualify, in fact or in substance, its adoption of the merger agreement or its recommendation of the merger in a manner adverse to SBC and, at the time of the withdrawal, modification or qualification of the adoption of the merger agreement or the recommendation of the merger (or the agreement to do so), a bona fide acquisition proposal described in the first bullet point of this section (or any bona fide indication of interest that is reasonably capable of becoming such a bona fide acquisition proposal) has been made to AT&T or any of its subsidiaries or its shareholders, directly or indirectly through any representatives of AT&T, or any person has publicly announced an intention (whether or not conditional) to make such a bona fide acquisition proposal with respect to AT&T or any of its subsidiaries;

SBC terminates the merger agreement because AT&T knowingly and materially and not inadvertently breaches its obligations under the merger agreement relating to acquisition proposals; or

AT&T terminates the merger agreement because its board of directors authorizes AT&T to enter into a binding written agreement concerning a transaction that constitutes a superior proposal.

Comparison of Stockholder Rights (Page 139)

The conversion of your shares of AT&T common stock into the right to receive shares of SBC common stock in the merger will result in differences between your rights as an AT&T shareholder, which are governed by the New York Business Corporation Law and AT&T s restated certificate of incorporation and by-laws, and your rights as an SBC stockholder, which are governed by the Delaware General Corporation Law and SBC s restated certificate of incorporation and by-laws.

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SELECTED HISTORICAL FINANCIAL DATA OF SBC

The following statements of operations data for each of the three years in the period ended December 31, 2004 and the balance sheet data as of December 31, 2004 and 2003 have been derived from SBC s audited consolidated financial statements contained in its Annual Report on Form 10-K for the fiscal year ended December 31, 2004, which are incorporated into this document by reference. The statements of operations data for the years ended December 31, 2001 and 2000 and the balance sheet data as of December 31, 2002, 2001 and 2000 have been derived from SBC 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, 2005 and 2004 and the balance sheet data as of March 31, 2005 have been derived from SBC 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 in this document and their accompanying notes and management s discussion and analysis of operations and financial condition of SBC contained in such reports.

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004(1)	Year Ended December 31, 2004	2003	2002	2001	2000
	($ in millions, except per share data)						
Operating revenues	$ 10,248	$ 10,012	$ 40,787	$ 40,498	$ 42,821	$ 45,381	$ 50,881
Operating income	1,556	1,516	5,901	6,284	8,438	10,296	10,303
Income from continuing operations	885	1,911	4,979	5,859	7,361	6,881	7,696
Earnings per common share:							
Income from continuing operations	$ 0.27	$ 0.58	$ 1.50	$ 1.77	$ 2.21	$ 2.04	$ 2.27
Earnings per common share assuming dilution:							
Income from continuing operations	$ 0.27	$ 0.58	$ 1.50	$ 1.76	$ 2.20	$ 2.03	$ 2.24
Total assets	$ 106,946	100,483	$ 108,844	$ 100,233	$ 95,170	$ 96,416	$ 98,735
Long-term debt	20,937	15,890	21,231	16,097	18,578	17,153	15,513
Dividends declared per common share(2)	$ 0.3225	$ 0.3125	$ 1.26	$ 1.41	$ 1.08	$ 1.025	$ 1.015
Book value per common share	$ 12.22	$ 11.90	$ 12.27	$ 11.57	$ 10.01	$ 9.82	$ 9.09

Ratio of earnings to fixed charges(3)	4.35	9.27	6.32	6.35	6.20	5.83	6.73
Debt ratio(4)	40.2%	31.3%	40.0%	32.0%	39.9%	44.3%	45.0%
Operating Data:							
Number of Employees	160,880	168,330	162,700	168,950	175,980	193,420	220,090

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(1) Certain amounts have been reclassified to conform to 2005 presentation.

(2) Dividends declared by SBC s board of directors reflect the following: in 2003, includes three additional dividends totaling $0.25 per share above SBC s regular quarterly dividend payout.

(3) The computation of ratio of earnings to fixed charges is included as Exhibit 12 to the registration statement of which this document forms a part.

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

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004	Year Ended December 31, 2004	2003	2002	2001	2000
			($ in millions)				
Total Debt	27,112	17,960	26,965	17,976	22,083	26,186	25,983
Total Equity(a)	40,404	39,397	40,504	38,248	33,199	32,919	31,782
Total Capital (debt plus equity)	67,516	57,357	67,469	56,224	55,282	59,105	57,765
Debt as percentage of total capital	40.2%	31.3%	40.0%	32.0%	39.9%	44.3%	45.0%

(a) Total equity in 2000 includes Corporation-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts of $1,000.

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SELECTED HISTORICAL FINANCIAL DATA OF AT&T

The following results of operations data for each of the three years in the period ended December 31, 2004 and the balance sheet data as of December 31, 2004 and 2003 have been derived from AT&T s audited consolidated financial statements contained in its Annual Report on Form 10-K, as amended, for the fiscal year ended December 31, 2004, which are incorporated into this document by reference. The results of operations data for the years ended December 31, 2001 and 2000 and the balance sheet data as of December 31, 2002, 2001 and 2000 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 results of operations data for each of the three-month periods ended March 31, 2005 and 2004 and the balance sheet data as of March 31, 2005 and 2004 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 in this document and their accompanying notes and management s discussion and analysis of operations and financial condition of AT&T contained in such reports.

	At or For the Three Months Ended March 31,		At or For the Year Ended December 31,				
	2005	**2004**	**2004**	**2003**	**2002**	**2001**	**2000**
	($ in millions, except per share data)						
RESULTS OF OPERATIONS DATA:							
Revenue	$ 7,015	$ 7,990	$ 30,537	$ 34,529	$ 37,827	$ 42,197	$ 46,850
Operating income (loss)	1,070	281	(10,088)	3,657	4,361	7,832	12,793
Income (loss) from continuing operations	529	304	(6,469)	1,863	963	(2,640)	9,532
Income (loss) from Continuing Operations and (Loss) Earnings per Share:							
AT&T Common Stock Group(1)							
Income (loss)	$ 529	$ 304	$ (6,469)	$ 1,863	$ 963	$ 71	$ 8,044
Earnings (loss) per basic share	0.66	0.38	(8.14)	2.37	1.29	(0.91)	11.54
Earnings (loss) per diluted share	0.66	0.38	(8.14)	2.36	1.26	(0.91)	11.01
Cash dividends declared per share	0.2375	0.2375	0.95	0.85	0.75	0.75	3.4875
Liberty Media Group(1)							
(Loss) income						(2,711)	1,488
(Loss) earnings per basic and diluted share						(1.05)	0.58

BALANCE SHEET DATA:							
Property, plant and equipment, net	$ 11,203	$ 23,479	$ 11,509	$ 24,376	$ 25,604	$ 26,803	$ 26,083
Total assets continuing operations	31,696	45,019	32,804	47,988	55,437	62,329	90,293
Total assets	31,696	45,019	32,804	47,988	55,437	165,481	242,802
Long-term debt	7,468	9,572	8,779	13,066	18,812	24,025	13,572
Total debt	9,450	11,887	10,665	14,409	22,574	34,159	42,338
Shareowners equity	7,416	14,096	7,019	13,956	12,312	51,680	103,198
Debt ratio(2)	56.0%	45.7%	60.3%	50.8%	64.7%	86.3%	122.1%
OTHER INFORMATION:							
Number of employees continuing operations(3)	n/a	n/a	47,600	61,600	71,000	77,700	84,800

(1) In connection with the March 9, 1999 merger with Tele-Communications, Inc., AT&T issued separate tracking stock for Liberty Media Group (LMG). LMG was accounted for as an equity investment prior to its split-off from AT&T on August 10, 2001. There were no dividends declared for LMG tracking stock. AT&T Common Stock Group results exclude LMG.

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(2) Debt ratio reflects debt from continuing operations as a percentage of total capital, calculated as follows:

	At March 31,		At December 31,				
	2005	2004	2004	2003	2002	2001	2000
	($ in millions)						
Total debt	$ 9,450	$ 11,887	$ 10,665	$ 14,409	$ 22,574	$ 34,159	$ 42,338
Equity:							
Total shareowners equity	7,416	14,096	7,019	13,956	12,312	51,680	103,198
Less discontinued operations			0	0	0	46,257	76,627
Less LMG			0	0	0	0	34,234
Total equity	7,416	14,096	7,019	13,956	12,312	5,423	(7,663)
Total capital (debt plus equity)	16,866	25,983	17,684	28,365	34,886	39,582	34,675
Debt as percentage of total capital	56.0%	45.7%	60.3%	50.8%	64.7%	86.3%	122.1%

(3) Data provided excludes LMG.

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SELECTED UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL DATA FOR THE QUARTER ENDED MARCH 31, 2005

The following table sets forth selected unaudited pro forma condensed combined financial data of SBC and AT&T as of and for the quarter ended March 31, 2005. The pro forma amounts in the table below are based upon the historical financial statements of SBC and AT&T 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, 2005 for balance sheet purposes. These pro forma amounts have been derived from (a) the unaudited consolidated financial statements of SBC contained in its Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, which are incorporated by reference in this document, and (b) the unaudited consolidated financial statements of AT&T contained in its Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, which are incorporated by reference in 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 SBC 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 SBC and AT&T that are incorporated by reference in this document and the Unaudited Pro Forma Condensed Combined Financial Information for the Quarter Ended March 31, 2005 beginning on page 78.

	As of and for the three-month period ended March 31, 2005 ($ in millions, except per share data) Pro forma Combined
Operating revenues	$ 16,790
Operating income	2,554
Net income	1,394
Net income per basic and diluted share	$ 0.35
Dividends declared per common share	$ 0.3225
Total assets	$ 149,117
Long-term debt	29,565
Debt ratio(1)	40.6%
Total stockholders equity	55,303

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

	2005 ($ in millions)

Total Debt	37,722
Total Equity	55,303
Total Capital (debt plus equity)	93,025
Debt as percentage of total capital	40.6%

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SELECTED UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL DATA FOR THE YEAR ENDED DECEMBER 31, 2004

The following table sets forth selected unaudited pro forma condensed combined financial data of SBC and AT&T as of and for the year ended December 31, 2004. The pro forma amounts in the table below are based upon the historical financial statements of SBC and AT&T 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, 2004 for income statement purposes, and on December 31, 2004 for balance sheet purposes. These pro forma amounts have been derived from (a) the audited consolidated financial statements of SBC contained in its Annual Report on Form 10-K for the fiscal year ended December 31, 2004, which are incorporated by reference in this document, and (b) the audited consolidated financial statements of AT&T contained in its Annual Report on Form 10-K for the year ended December 31, 2004, which are incorporated by reference in 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 SBC 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 SBC and AT&T that are incorporated by reference in this document and the Unaudited Pro Forma Condensed Combined Financial Information for the Year Ended December 31, 2004 beginning on page 85.

	As of and for the year ended December 31, 2004 **($ in millions, except per share data)** **Pro Forma Combined**
Operating revenues	$ 69,485
Operating (loss)	(3,188)
(Loss) from continuing operations	(777)
(Loss) from continuing operations per basic and diluted share	(0.20)
Dividends declared per common share	1.26
Total assets	152,324
Long-term debt	30,968
Debt ratio(1)	41.1%
Total stockholders equity	55,361
Operating Data:	
Number of Employees	210,300

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

2004

	($ in millions)	
Total Debt	$	38,588
Total Equity		55,361
Total Capital (debt plus equity)		93,949
Debt as percentage of total capital		41.1%

UNAUDITED COMPARATIVE PER SHARE DATA
FOR THE QUARTER ENDED MARCH 31, 2005

The following table summarizes unaudited per share information for SBC and AT&T on a historical basis, a pro forma combined basis for SBC and an equivalent pro forma combined basis for AT&T. 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, 2005 for balance sheet purposes. The following information should be read in conjunction with the unaudited consolidated financial statements of SBC and AT&T at and for the three-month period ended March 31, 2005, which are incorporated by reference into this document, and the Unaudited Pro Forma Condensed Combined Financial Information for the Quarter Ended March 31, 2005 beginning on page 78. 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 net income per share of the combined company is computed by dividing the pro forma net income available to holders of the combined company s common stock by the pro forma weighted average number of shares outstanding. 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. AT&T equivalent pro forma combined per share amounts are calculated by multiplying the pro forma combined per share amounts by 0.77942, the fraction of a share of SBC common stock that would be exchanged for each share of AT&T common stock in the merger.

	Three-month Period Ended March 31, 2005
SBC Historical	
Historical per common share:	
Net income per share	$ 0.27
Dividends declared per common share	0.3225
Book value per share	12.22
AT&T Historical	
Historical per common share:	
Net income per share	$ 0.66
Dividends declared per common share	0.2375
Book value per share	9.26
Unaudited Pro Forma Combined	
Unaudited pro forma share of SBC common shares:	
Net income per share	$ 0.35
Dividends declared per common share	0.3225
Book value per share	14.07
Unaudited Pro Forma AT&T Equivalents(1)	
Unaudited pro forma per AT&T common share:	
Net income per share	$ 0.27
Dividends declared per common share	0.2514
Book value per share	10.97

(1) AT&T equivalent per share amounts are calculated by multiplying pro forma per share amounts by the exchange ratio of 0.77942.

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UNAUDITED COMPARATIVE PER SHARE DATA FOR THE YEAR ENDED DECEMBER 31, 2004

The following table summarizes unaudited per share information for SBC and AT&T on a historical basis, a pro forma combined basis for SBC and an equivalent pro forma combined basis for AT&T. It has been assumed for purposes of the pro forma financial information provided below that the merger was completed on January 1, 2004 for income statement purposes, and on December 31, 2004 for balance sheet purposes. The following information should be read in conjunction with the audited consolidated financial statements of SBC and AT&T at and for the year ended December 31, 2004, which are incorporated by reference into this document, and the Unaudited Pro Forma Condensed Combined Financial Information for the Year Ended December 31, 2004 beginning on page 85. 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 loss 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 stock by the pro forma weighted average number of shares outstanding. 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. AT&T equivalent pro forma combined per share amounts are calculated by multiplying the pro forma combined per share amounts by 0.77942, the fraction of a share of SBC common stock that would be exchanged for each share of AT&T common stock in the merger.

		Year Ended December 31, 2004
SBC Historical		
Historical per common share:		
Income per share from continuing operations	$	1.50
Dividends declared per common share		1.26
Book value per share		12.27
AT&T Historical		
Historical per common share:		
(Loss) per share from continuing operations	$	(8.14)
Dividends declared per common share		0.95
Book value per share		8.79
Unaudited Pro Forma Combined		
Unaudited pro forma share of SBC common shares:		
(Loss) per share from continuing operations	$	(0.20)
Dividends declared per common share		1.26
Book value per share		14.11
Unaudited Pro Forma AT&T Equivalents(1)		
Unaudited pro forma per AT&T common share:		
(Loss) per share from continuing operations	$	(0.16)
Dividends declared per common share		0.98
Book value per share		11.00

(1) AT&T equivalent per share amounts are calculated by multiplying pro forma per share amounts by the exchange ratio of 0.77942.

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COMPARATIVE MARKET DATA

The SBC common stock is listed on the NYSE under the symbol SBC , as well as on the Chicago and Pacific stock exchanges and the Swiss Exchange. The SBC common stock also trades on the London Stock Exchange through the SEAQ International Markets facility. The AT&T common stock is listed on the NYSE under the symbol T , as well as on the Boston, Chicago, Cincinnati, Pacific and Philadelphia exchanges in the U.S., and on the Euronext-Paris, the IDR (International Depository Receipt) Exchange in Brussels and the London and Geneva stock exchanges. The following table presents trading information for SBC and AT&T common stock on January 28, 2005, the last trading day before the public announcement of the execution of the merger agreement, and May 19, 2005, the latest practicable trading day before the date of this document. You should read the information presented below in conjunction with Comparative Per Share Market Price Data and Dividend Information on page 19.

	SBC Common Stock			AT&T Common Stock		
	High	**Low**	**Close**	**High**	**Low**	**Close**
January 28, 2005	$ 23.69	$ 23.33	$ 23.62	$ 20.01	$ 19.48	$ 19.71
May 19, 2005	$ 23.79	$ 23.61	$ 23.73	$ 19.06	$ 18.91	$ 19.00

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

	SBC Common Stock			AT&T Equivalent Per Share		
	High	**Low**	**Close**	**High**	**Low**	**Close**
January 28, 2005	$ 23.69	$ 23.33	$ 23.62	$ 18.46	$ 18.18	$ 18.41
May 19, 2005	$ 23.79	$ 23.61	$ 23.73	$ 18.54	$ 18.40	$ 18.50

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COMPARATIVE PER SHARE MARKET PRICE DATA AND DIVIDEND INFORMATION

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

	SBC Common Stock			AT&T Common Stock		
	High	Low	Dividends	High	Low	Dividends
2003						
First Quarter	31.65	18.85	0.3325	27.88	15.75	0.1875
Second Quarter	27.35	19.65	0.3825	21.84	13.45	0.1875
Third Quarter	26.88	21.65	0.3825	23.18	18.80	0.2375
Fourth Quarter	26.15	21.16	0.3125	21.95	18.31	0.2375
2004						
First Quarter	27.73	23.18	0.3125	22.10	18.70	0.2375
Second Quarter	25.68	23.50	0.3125	19.75	14.25	0.2375
Third Quarter	26.88	22.98	0.3125	15.85	13.59	0.2375
Fourth Quarter	27.29	24.55	0.3225	19.87	14.25	0.2375
2005						
First Quarter	25.98	22.99	0.3225	20.00	17.59	0.2375
Second Quarter (through May 19, 2005)	24.33	22.78		19.38	18.36	

On May 19, 2005, the latest practicable trading day prior to the date of this document, the last sale price per share of SBC common stock was $23.73 and the last sale price per share of AT&T common stock was $19.00, in each case on the NYSE composite transactions reporting system.

We urge you to obtain current market quotations for SBC and AT&T common stock before making any decision regarding the merger.

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RISK FACTORS

In addition to the other information included or incorporated by reference into this document, including the matters addressed under the caption Cautionary Statement Concerning Forward-Looking Statements beginning on page 156, and including the matters addressed under the caption Item 1. Business What Special Considerations Should Investors Consider? in AT&T s Annual Report on Form 10-K for the year ended December 31, 2004, which is incorporated by reference into this document, you should carefully consider the matters described below in deciding whether to vote for adoption of the merger agreement.

Risk Factors Relating to the Merger

Because the market price of shares of SBC common stock will fluctuate, you cannot be sure of the market value of the shares of SBC common stock you will receive in the merger.

Upon completion of the merger, each share of AT&T common stock that you hold will be converted into the right to receive 0.77942 of a share of SBC common stock. There will be no adjustment to the exchange ratio for changes in the market price of either shares of AT&T common stock or SBC common stock and the merger agreement does not provide for any price-based termination right. Accordingly, the market value of the shares of SBC common stock that you will be entitled to receive upon completion of the merger will depend on the market value of the shares of SBC common stock at the time of the completion of the merger and could vary significantly from the market value on the date of this document or the date of AT&T s 2005 Annual Meeting of Shareholders. The market value of the shares of SBC common stock you will be entitled to receive in the merger also will continue to fluctuate after the completion of the merger. For example, during the third and fourth calendar quarters of 2004, the sale price of SBC common stock ranged from a low of $22.98 to a high of $27.29, all as reported on the NYSE composite transactions reporting system. See Comparative Per Share Market Price Data and Dividend Information beginning on page 19.

Such variations could be the result of changes in the business, operations or prospects of AT&T, SBC prior to the merger or SBC following the merger, market assessments of the likelihood that the merger will be completed or the timing of the completion of the merger, regulatory considerations, general market and economic conditions and other factors both within and beyond the control of SBC or AT&T. Because the date that the merger is completed will be later than the date of AT&T s 2005 Annual Meeting of Shareholders, at the time of the meeting you will not know the value of the SBC common stock that you will receive upon completion of the merger.

The merger is subject to the receipt of consents and approvals from government entities that may impose conditions that could have an adverse effect on SBC or could cause abandonment of the merger.

Consummation of the merger is conditioned upon the expiration or termination of the applicable waiting period under the HSR Act and the making of certain filings with and notices to, and the receipt of consents, orders and approvals from, various local, state, federal and foreign governmental entities, including the FCC. Certain of these consents, orders and approvals will entail the relevant governmental entity s considering the effect of the merger on competition in various jurisdictions. The terms and conditions of such consents, orders and approvals may require the divestiture of certain assets or operations of SBC following the merger or may impose other conditions.

There can be no assurance that SBC and AT&T will obtain the necessary consents, orders and approvals or that any such required divestitures or other conditions will not have a material adverse effect on the financial condition, business or results of operations of SBC following the merger or cause the abandonment of the merger by SBC and AT&T. SBC and AT&T have not determined how they will respond to conditions, limitations or divestitures that may be sought by governmental entities in connection with any requisite approvals. See The Merger Regulatory Matters Related to the Merger beginning on page 57 and The Merger Agreement Conditions to the Merger beginning on page 71.

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

In addition to the required regulatory clearances and approvals, the merger is subject to a number of other conditions beyond the control of SBC and AT&T that may prevent, delay or otherwise materially adversely affect its completion. We 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 SBC following the merger not to realize some or all of the synergies that SBC expects to achieve if it successfully completes the merger within its expected timeframe and integrates its business with AT&T s business. See The Merger Agreement Conditions to the Merger.

The pendency of the merger could materially adversely affect the future business and operations of SBC and AT&T.

In connection with the pending merger, some customers and strategic partners of each of SBC and AT&T may delay or defer decisions, which could negatively impact revenues, earnings and cash flows of SBC and AT&T, as well as the market prices of shares of SBC common stock and AT&T common stock, regardless of whether the merger is completed. Similarly, current and prospective employees of SBC and AT&T may experience uncertainty about their future roles with SBC following the merger, which may materially adversely affect the ability of each of SBC and AT&T to attract and retain key management, sales, marketing, technical and other personnel. In addition, some rating agencies that provide security ratings on SBC s and AT&T s debts may downgrade their ratings on these debts of one company or both companies in light of the pending merger. A downgrade could materially adversely affect the ability of SBC and AT&T to finance their operations, including increasing the cost of obtaining financing. For information regarding security ratings on AT&T s debt, see AT&T s Annual Reports on Form 10-K for the year ended December 31, 2004, which are incorporated into this document by reference. Finally, if the merger is terminated and AT&T determines to seek another business combination, it cannot assure you that it will be able to negotiate a transaction with another company on terms comparable to the terms of the merger.

Directors of AT&T may have potential conflicts of interest in recommending that you vote in favor of the adoption of the merger agreement.

Directors of AT&T have arrangements or other interests that provide them with interests in the merger that differ from yours. In addition, the merger agreement provides that Mr. Dorman and two other directors of AT&T will become directors of SBC while other directors will not, and in either case SBC will indemnify and maintain liability insurance for each of the AT&T directors services as directors of AT&T prior to the merger. See The Merger Interests of AT&T Executive Officers and Directors in the Merger beginning on page 48.

The merger agreement restricts AT&T s ability to pursue alternatives to the merger.

The merger agreement contains no shop provisions that, subject to limited fiduciary exceptions, restrict AT&T s ability to directly or indirectly initiate, solicit, knowingly encourage or facilitate, discuss or commit to competing third-party proposals to acquire all or a significant part of AT&T. Further, there are only limited exceptions to AT&T s agreement that the AT&T board of directors will not withdraw, modify or qualify in a manner adverse to SBC its adoption of the merger agreement or its recommendation to holders of AT&T common stock that they vote in favor of adopting the merger agreement, or recommend any other acquisition proposal, and SBC generally has a right to match any competing acquisition proposals that may be made. Although the AT&T board of directors is permitted to take these actions if it determines that these actions are necessary to comply with its fiduciary duties, doing so in specified situations could entitle SBC to terminate the merger agreement and to be paid by AT&T a termination fee of $560 million and reimbursement of expenses of up to $40 million. Also, in some situations where a competing acquisition proposal has been made known to AT&T or the public and the merger agreement is subsequently terminated, either by SBC or AT&T, for failure of AT&T shareholders to adopt the merger agreement at the AT&T shareholder meeting or for unexcused failure to hold the AT&T shareholder meeting within certain deadlines, AT&T would be required to reimburse SBC its expenses of up to $40 million and, in addition, the termination fee of $560 million could become payable if AT&T completes, or enters into an agreement with respect to, an alternative acquisition transaction during the 15 months following the termination. See The Merger Agreement Covenants and Agreements Acquisition Proposals , Termination and Termination Fees and Expenses.

SBC required that AT&T agree to these provisions as a condition to SBC s willingness to enter into the merger agreement. However, these provisions could discourage a potential competing acquiror that might have an interest in acquiring all or a significant part of AT&T 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 AT&T than it might otherwise have proposed to pay because of the added expense of the termination fee that may become payable to SBC in certain circumstances.

Risk Factors Relating to SBC Following the Merger

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

The merger involves the integration of two companies that have previously operated independently. SBC and AT&T entered into the merger agreement with the expectation that the merger would combine AT&T s global systems capabilities, business and government customers and Internet protocol business with SBC s local exchange, broadband and wireless solutions and create opportunities to achieve cost savings, revenue synergies, technological development and other synergistic benefits.

The value of SBC common stock following consummation of the merger may be affected by the ability of SBC to achieve the benefits expected to result from consummation of the merger. Achieving the benefits of the merger will depend in part upon meeting the challenges inherent in the successful combination of two business enterprises of the size and scope of SBC and AT&T and the possible resulting diversion of management attention for an extended period of time. There can be no assurance that such challenges will be met and that such diversion will not negatively impact the operations of SBC following the merger.

Delays encountered in the transition process could have a material adverse effect on the revenues, expenses, operating results and financial condition of SBC following the merger. Although SBC and AT&T expect significant benefits, such as increased cost savings, to result from the merger, there can be no assurance that SBC will realize any of these anticipated benefits. See The Merger AT&T s Reasons for the Merger beginning on page 34.

SBC is expected to incur substantial expenses related to the integration of AT&T.

SBC is expected to incur substantial expenses in connection with the integration of the businesses, policies, procedures, operations, technologies and systems of AT&T with those of SBC. 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 SBC 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 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 SBC from fully developing integration plans. 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 SBC 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 SBC taking significant charges against earnings, both cash and non-cash, primarily from the amortization of intangibles and one-time impairments, following the completion of the merger, but the amount and timing of such charges are uncertain at present.

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SBC expects the merger will slow its revenue growth rate in the near term following the merger.

AT&T s revenues have declined over recent years as it has transitioned from a voice long distance business to one with an emphasis on business and data services, and those declines are expected to continue. As a result, SBC expects that the merger will slow its revenue growth rate in the near term following the completion of the merger and the merger will not have an incremental positive contribution to its earnings until 2008, as described in The Merger SBC s Reasons for the Merger Cost Savings and Revenue Synergies beginning on page 32. A slower revenue growth rate may in turn have a negative impact on the share price of the SBC common stock.

Uncertainties associated with the merger may cause a loss of employees.

The success of SBC after the merger will depend in part upon the ability of SBC to retain key AT&T employees as well as SBC employees. Competition for qualified personnel can be very intense. In addition, key employees may depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with SBC following the merger. Accordingly, no assurance can be given that SBC will be able to retain key employees to the same extent that it or AT&T has been able to do so in the past.

Technological innovation is important to SBC 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. We cannot assure you that SBC will be able to attract and retain these employees following the merger. If, following the merger, SBC were unable to attract and maintain technically skilled employees, its competitive position could be materially adversely affected.

SBC 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 result, SBC will compete with not only traditional rivals such as long distance carriers, but also new competitors such as cable companies and satellite companies. 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 SBC, due in part to the absences 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 SBC following the merger and may result in reduced revenues and loss of profits.

SBC s future growth will depend upon its ability to implement its business strategy.

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

SBC s ability to maintain leading technological capabilities is uncertain.

SBC s operating results will depend to a significant extent upon its ability to continue to expand in other communications services and to reduce costs of its existing services. SBC 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 the services and products of SBC to become obsolete. SBC cannot assure you that it and its

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suppliers will be able to keep pace with technological developments. If the new technologies on which SBC intends to focus its research and development investments fail to achieve acceptance in the marketplace, SBC 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 SBC could be the first to obtain proprietary technologies that are perceived by the marketplace as being superior. Furthermore, after substantial research and development costs, one or more of the technologies under development by SBC 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 SBC s telecommunication systems may occur that could materially adversely affect its ability to generate revenue, offer new services and remain competitive.

The combined company s indebtedness following the completion of the merger will be higher than SBC s existing indebtedness.

The indebtedness of SBC as of March 31, 2005 was approximately $27.1 billion. SBC s pro forma indebtedness as of March 31, 2005, giving effect to the merger (as described in Unaudited Pro Forma Condensed Combined Financial Information for the Quarter Ended March 31, 2005 on page 78), would have been approximately $37.7 billion. As a result of the increase in debt, demands on SBC s cash resources will increase after the merger, which could have important effects on an investment in SBC common stock. For example, while the impact of this increased indebtedness will be addressed by the combined cash flows of SBC and AT&T, the increased levels of indebtedness could nonetheless:

- reduce funds available to SBC for investment in research and development and capital expenditures; or
- create competitive disadvantages for SBC compared to other companies with lower debt levels.

Changes to domestic and foreign regulations may materially restrict SBC s ability to obtain requisite regulatory approvals for its operations.

Following the merger, SBC will continue to be subject to various U.S. federal regulations, including substantial regulation by the FCC. FCC rules and regulations are subject to change in response to industry developments, changes in law, new technologies and political considerations. In addition, SBC also will continue to be subject to the regulatory authority of state commissions which have the power to regulate intrastate rates and services, including local, long-distance and network access services, and the national communications authorities of the countries in which it operates.

SBC s business could be materially adversely affected by the adoption of new laws, policies and regulations or changes to existing regulations. The development of new technologies, such as Internet Protocol-based services including VoIP and super high-speed broadband and video, for example, have 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 SBC. In particular, we cannot assure you that SBC will succeed in obtaining all requisite regulatory approvals for its operations without the imposition of restrictions on its business, which could have a detrimental effect on SBC by imposing material additional costs on SBC or by limiting its revenues.

The regulatory regime under which SBC will operate could change to the detriment of SBC.

In the Telecommunications Act of 1996 (Telecom Act), Congress established a pro-competitive, deregulatory national policy framework to bring the benefits of competition and investment in advanced telecommunications facilities and services to all Americans by opening all telecommunications markets to competition and reducing or eliminating burdensome regulation. Since the Telecom Act was passed, the FCC and state regulatory commissions have maintained many of the extensive regulatory requirements applicable to incumbent local exchange companies (ILECs), including SBC s wireline subsidiaries, and imposed significant new regulatory requirements in a purported effort to jump-start a specific definition of competition.

In three successive orders (each of which was subsequently overturned by the federal courts as discussed below), the FCC required SBC to lease parts of its network (unbundled network elements, or UNEs) in a

combined form known as the UNE-P to competitive local exchange carriers (CLECs), including AT&T and MCI Inc. The state PUCs set the wholesale rates that SBC is allowed to charge its competitors for UNEs by utilizing the FCC prescribed Total Element Long Run Incremental Cost (TELRIC) methodology. TELRIC allows the state PUCs to set UNE rates by estimating the forward-looking cost of building and operating a hypothetical network that utilizes the most efficient technology available. While many of the state PUCs in the 13-state area where SBC operates have raised certain UNE rates in the last year, SBC believes that overall UNE rates continue to be below SBC s actual cost of providing services utilizing the existing network. Competitors have used these low rates to target many of SBC s highest revenue customers.

In March 2004, the United States Court of Appeals for the District of Columbia Circuit (D.C. Circuit) overturned significant portions of the FCC s third order on unbundling requirements for SBC s traditional network, including those mandating the availability of the UNE-P. In the same decision, the court upheld the FCC s decision to limit SBC s obligation to provide competitors unbundled access to new broadband elements. Since the D.C. Circuit s March 2004 decision, the FCC has encouraged both ILECs and CLECs to negotiate private commercial agreements regarding access and interconnection to the ILECs networks without regulatory intervention. SBC has signed commercial agreements with several CLECs. SBC expects these contracts will result in a slight incremental increase in its total revenue versus the previously mandated UNE-P rates.

In August 2004, the FCC released interim rules that continue nationwide unbundling of SBC s traditional network through at least the end of February 2005. As a result, certain ILECs asked the D.C. Circuit to enforce its March 2004 order vacating those very same rules. Based upon the FCC s response that it would issue new rules by the end of the year, the D.C. Circuit asked for a report on January 4, 2005.

In December 2004, the FCC adopted a new fourth set of rules for unbundling requirements to comply with the D.C. Circuit s decision, which provide some significant relief from unbundling for mass market customers. In other respects, however, SBC believes that the FCC s revised rules fail to fully comply with the D.C. Circuit s decision; for example, the FCC retained unbundling requirements for many of SBC s high-capacity loop and transport facilities. The revised rules include a one dollar increase in the current rates for existing UNE-P, which would remain in effect through a transition period (12 months from the effective date of the order). Because the FCC did not release its written order containing these revised rules until February 4, 2005, SBC has not yet been able to fully evaluate the impact of these new rules on its financial position or results of operations. However, SBC believes that the FCC s revised rules do not accurately and fully address the concerns raised by the D.C. Circuit in its March 2004 order; therefore, SBC (together with several other parties) filed a petition challenging the revised rules with the D.C. Circuit on February 14, 2005, asking the court to order the FCC to adopt rules that are consistent with the court s decision.

In October 2004, the FCC approved three orders regarding the unbundling rules applicable to broadband. Each of the orders favorably limits SBC s unbundling obligations. The FCC limited SBC s obligation to unbundle fiber facilities to multiple dwelling units, such as apartment buildings. The FCC also limited SBC s unbundling obligations as to fiber facilities deployed in fiber-to-the curb arrangements. Finally, the FCC rejected CLEC arguments that these fiber facilities should be unbundled under another statutory provision. These orders have added some clarity to the applicable rules and enabled SBC to announce its intent to accelerate its planned deployment of an advanced fiber network.

It is unclear how state PUCs will respond to these new FCC rules. SBC s ability to implement the D.C. Circuit s decision and to negotiate private commercial agreements has been constrained because many CLECs are hopeful that some state PUCs nevertheless will attempt to require that all network elements continue to be unbundled under state law. SBC believes that the D.C. Circuit s ruling in March 2004 precludes the states from determining which network elements must be unbundled. Continued unfavorable regulations imposed at the state level could cause SBC to experience additional declines in access line revenues and could reduce its invested capital and employment levels related to those services.

It is difficult to predict the outcome of these proceedings by the FCC, state PUCs and the courts or the FCC s and the state PUCs future rule-making activities. Any adverse decisions by the courts, the FCC or the state PUCs could have a materially adverse effect on the operations of SBC.

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SBC may not be aware of certain foreign government regulations.

Because regulatory schemes vary by country, SBC may be subject to, but presently unaware of, regulations in foreign countries in which SBC or AT&T has assets or otherwise does business. If that were the case, SBC could be subject to sanctions by a foreign government that could materially adversely affect its ability to operate in that country. We cannot assure you that any current regulatory approvals held by SBC or AT&T are, or will remain, sufficient in the view of foreign regulatory authorities, or that any additional necessary approvals will be granted on a timely basis or at all, in all jurisdictions in which SBC wishes to operate following the merger, or that applicable restrictions in those jurisdictions will not be unduly burdensome. The failure to obtain the authorizations necessary to operate internationally could have a material adverse effect on SBC s ability to generate revenue and its overall competitive position following the merger.

Resales of SBC common stock following the merger and additional obligations to issue common stock may cause the market price of that stock to fall.

As of April 29, 2005, SBC had 3,303,115,625 shares of common stock outstanding and approximately 214 million shares subject to outstanding options and other rights to purchase or acquire its shares. SBC currently expects that it will issue a maximum of 624,705,130 shares of SBC common stock in connection with the merger. The issuance of these new shares and the sale of additional shares of SBC common stock that may become eligible for sale in the public market from time to time upon exercise of options, including a substantial number of SBC options that will be replacing existing AT&T options, could have the effect of depressing the market price for SBC common stock.

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

Upon completion of the merger, holders of AT&T common stock will become holders of SBC common stock. SBC s business differs from that of AT&T and, accordingly, the results of operations of SBC, as well as the trading price of SBC common stock, after the merger may be affected by factors different from those currently affecting AT&T s results of operations and the price of AT&T common stock. For a discussion of the businesses of AT&T and SBC and of certain factors to consider in connection with those businesses, see the documents incorporated by reference in this document and referred to under Where You Can Find More Information beginning on page 157.

Cingular could fail to achieve, in the amounts and within the timeframe expected, the capital and expense synergies and other benefits expected from its acquisition of AT&T Wireless.

In October 2004, Cingular Wireless LLC, SBC s wireless joint venture with BellSouth, acquired AT&T Wireless Services, Inc. for approximately $41 billion in cash. SBC and BellSouth funded, by means of an equity contribution to Cingular, a significant portion of the purchase price, and SBC s share, based on its 60% equity ownership of Cingular, was approximately $21.6 billion.

Achieving the anticipated benefits of the Cingular/ AT&T Wireless merger will depend in part upon meeting some of the same challenges that the proposed SBC/ AT&T merger will face. See Risk Factors Relating to SBC Following the Merger SBC may fail to realize the anticipated synergies, cost savings and other benefits expected from the merger, which could adversely affect the value of SBC common stock after the merger. There can be no assurance that such challenges will be met. Delays encountered in the transition process could have a material adverse effect upon the revenues, expenses, operating results and financial condition of the new Cingular. In addition, if the Cingular/ AT&T Wireless merger fails to achieve, in the amount and within the timeframe expected, the capital and expense synergies and other benefits expected, there will be an adverse impact on Cingular s operating results, which will adversely affect the financial results of SBC following the SBC/ AT&T merger.

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Cingular faces substantial competition in all aspect 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 four to five 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 four national (Verizon Wireless, T-Mobile, and Sprint PCS and Nextel Communications (the latter two have recently announced an agreement to merge)) 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.

SBC 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 SBC s bottom line based on its 60% share in Cingular s operating results.

Uncertainty in the U.S. securities markets and adverse medical cost trends could cause SBC s pension and postretirement costs to increase further following the merger.

SBC s pension and postretirement cost have increased in the recent years, primarily due to a continued increase in medical and prescription drug costs. Investment returns of SBC 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 SBC will be required to recognize over the next several years under generally accepted accounting principles. Should the securities markets decline and medical and prescription drug costs continue to increase significantly, SBC would expect to face increasing annual combined net pension and postretirement costs.

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THE MERGER

Background of the Merger

Since the split-off of AT&T Wireless in 2001 and the spin-off of AT&T Broadband in 2002, the AT&T board of directors and AT&T s management have periodically examined AT&T s strategic alternatives and have, on occasion, explored the desirability of a potential business combination of AT&T with a third party, including SBC. These explorations included preliminary discussions with six third parties other than SBC. Discussions with five of these six other parties did not progress beyond the preliminary stages, did not involve the exchange of confidential information about AT&T or such other parties and did not result in any definitive combination proposal or any ongoing expression of serious interest by these five parties. Discussions in 2003 with one of these six parties did involve the exchange of confidential information and included preliminary discussions with respect to price, but did not result in any definitive combination proposal or any ongoing expression of serious interest by this party.

On two separate occasions during 2004, in July and again briefly in November, members of AT&T s senior management and SBC s senior management held discussions concerning a possible combination between the two companies, but on neither occasion did the discussions progress beyond initial exchanges of information and a preliminary exchange of views on contractual issues. SBC indicated a potential willingness on both occasions, as a conceptual matter, to pay a modest premium for AT&T shares in connection with a transaction in which SBC common stock would be the consideration, but did not quantify the potential premium. A precise exchange ratio was never proposed or discussed. In each instance, SBC determined to terminate the discussions, and confidential documents that were shared by the parties were either returned or destroyed. In the first instance, SBC believed that there was too much uncertainty regarding the future regulation of the telecommunications industry given (1) the applications for certiorari then pending in the U.S. Supreme Court seeking review of the FCC s order in the Trienniel Review Order (TRO) proceeding (which had adopted new unbundling rules for access that ILECs, including SBC s wireline subsidiaries, must provide to CLECs), (2) the application from certain ILECs then pending in the U.S. Court of Appeals for the D.C. Circuit for a writ of mandamus to require the FCC to establish permanent rules with respect to unbundled network element platform, or UNE-P, requirements (which also involve access that incumbent local exchange carriers must provide to competitive local exchange carriers) and (3) other FCC rulemaking initiatives with respect to broadband deployment, for SBC to proceed with further discussions with AT&T at that time. SBC therefore determined that its management should focus its attention at that time solely on completing Cingular s acquisition of AT&T Wireless rather than consider additional acquisitions.

Cingular s acquisition of AT&T Wireless closed on October 26, 2004. In addition, by late October substantial regulatory certainty with respect to a number of fundamental matters had been obtained through a series of court and FCC decisions. In particular, the U.S. Supreme Court denied the applications for certiorari seeking review of the FCC s order in the TRO proceeding and the U.S. Court of Appeals decided to delay the issuance of a writ of mandamus until January 2005, so as to allow the FCC time to establish permanent rules with respect to UNE-P prior to its issuance. In late October the FCC also issued a decision clarifying its rules with respect to broadband deployment, thereby adding more certainty with respect to SBC s ability to implement its previously announced Project Lightspeed broadband initiative.

As a result of these events, SBC determined that it faced a watershed point in the development of the telecommunications industry and that it was an appropriate time to consider strategic alternatives. Accordingly, at the SBC board s November meeting, SBC s management discussed various options for the SBC board to consider, including continuing on a path of organic growth as well as the possibility of a horizontal or vertical transaction. The SBC board decided to pursue a possible transaction with AT&T. In late November, following this decision by the SBC board, discussions between SBC and AT&T were reopened briefly. In this instance, SBC terminated the discussions because it determined that, given the wide gap between the parties on a number of contractual issues, including, among others, deal protections, the nature and extent of representations and warranties to be given by each party, the extent of each party s obligation to obtain regulatory approval for the transaction, the definition of material adverse effect and the conditions to closing, it did not believe it would be fruitful to pursue further the possibility of a combination.

In the course of a discussion regarding matters unrelated to a potential merger in mid-January 2005, AT&T s general counsel and SBC s general counsel agreed that it might be productive for AT&T to provide SBC with a revised markup of a proposed merger agreement in an effort to address a number of the contractual issues that had been troublesome to SBC in November 2004. Thereafter, AT&T s attorneys provided such a revised markup to SBC s attorneys. Because both SBC and AT&T continued to believe that a combination could be beneficial to both parties, a new round of discussions was commenced. From January 14 through 17, 2005, AT&T s attorneys and SBC s attorneys discussed non-financial issues, with the emphasis on provisions regarding mutual commitments to complete a transaction, conditions to consummation of the transaction and other contractual issues. At a regularly scheduled meeting on January 19, 2005, the AT&T board of directors received an update on these discussions and reviewed potential strategic alternatives, including the possibilities of pursuing a merger with SBC, pursuing a transaction with another third party and continuing operations as a stand-alone company. The AT&T board authorized further discussions with SBC because the AT&T board believed that a combination with SBC could provide significant operational synergies and other benefits and could give AT&T shareholders an interest in a larger and more diverse company than AT&T as a stand-alone company. While AT&T s management also discussed with the AT&T board the possibility of transactions with other third parties, these other transactions did not appear achievable in the near term based on prior discussions with such parties and/or did not appear, based on internal financial analyses relying on publicly available information, to offer an equivalent level of synergies as compared to the potential transaction with SBC. These conclusions were based on the relative levels of interest expressed by other third parties in the preliminary discussions described above, and the significant level of cost reductions that the AT&T board believed could result from the SBC transaction, as described below under AT&T s Reasons for the Merger.

Thereafter, AT&T s management had further discussions with SBC s management, both with respect to the potential financial terms of a transaction and with respect to contractual issues, including the no-shop provisions, the amount of and triggers for a termination fee, the nature and extent of representations and warranties to be given by each party, the extent of each party s obligation to obtain regulatory approvals for the transaction, the definition of material adverse effect, the restrictions to be imposed on the companies businesses between signing and closing and the conditions to closing. In these discussions, SBC s management continued to indicate SBC s willingness to offer a modest premium to the current price of AT&T s common stock, but without specific quantification. On January 21, 2005, David Dorman, AT&T s Chairman and Chief Executive Officer, met with Edward Whitacre, SBC s Chairman and Chief Executive Officer. In the course of this meeting, Mr. Dorman and Mr. Whitacre had discussions with respect to possible financial terms, including a potential premium to AT&T s market price, which for the first time was quantified as being in a range of 10% to 15% based on the then-current prices of the two companies shares. SBC meant for this range of possible premiums to indicate that SBC was willing to pay a small premium but there was a maximum that SBC was unlikely to exceed. Mr. Whitacre and Mr. Dorman then discussed various possible premiums within the previously suggested range of 10% to 15%. While they did not reach any agreement on financial terms, Mr. Dorman and Mr. Whitacre agreed that they would like to continue discussions between the two companies.

The AT&T board of directors had a telephonic meeting on January 23, 2005, and received an update on the discussions. The AT&T board was informed that there had been progress on the contractual discussions, particularly in negotiating no-shop provisions consistent with the board s fiduciary duties. The AT&T board was also informed that, while there was no agreement on financial terms, it appeared based on Mr. Dorman s discussion with Mr. Whitacre on January 21, 2005 that a premium in the range of 10% to 15% to AT&T s market price could be achieved. The AT&T board authorized the continuation of its management s discussions with SBC s management for the purpose of determining whether an agreement could be reached on acceptable financial terms.

During the week of January 24, 2005, AT&T entered into a new confidentiality agreement with SBC, and AT&T s management continued its discussions with SBC s management. AT&T s management provided SBC with further information with respect to AT&T and SBC s management provided AT&T with additional information about SBC. Meetings and exchanges of documents and other confidential information between the managements of both companies took place, and AT&T s attorneys continued to discuss and negotiate the draft merger agreement with SBC s attorneys. The parties had already agreed to the transaction structure in

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which AT&T would become a wholly owned subsidiary of SBC, which reflected both the fact that SBC would be the acquiring company and the fact this structure could be used to effect a tax-free exchange of shares. The number of SBC shares to be exchanged for each outstanding AT&T share remained to be negotiated by the respective managements of the parties, and was to be based solely on the premium to be paid by SBC for AT&T shares. Once the final exchange ratio was agreed, the resulting percentage of shares of SBC common stock that AT&T shareholders would own immediately following the merger would be determinable.

The two companies attorneys had extensive discussions during this week with respect to deal protection issues. In particular, SBC s attorneys sought to impose the maximum level of restrictions permissible under law on AT&T s ability to have discussions with potential third-party acquirers. AT&T s attorneys insisted that AT&T and its board have the right to consider unsolicited proposals that might be submitted after the agreement with SBC was executed where necessary for AT&T s directors to comply with their fiduciary duties, and to provide information to and negotiate with a third party that made a superior proposal, subject to certain rights of SBC to match any such superior proposal. The two companies attorneys agreed that if Verizon Communications Inc. were to submit an unsolicited proposal to acquire AT&T, in determining whether Verizon had submitted a superior proposal , AT&T would not consider Verizon more likely to obtain the regulatory approvals required to consummate an acquisition of AT&T, or to obtain those approvals more quickly, than would SBC (based on the assumptions that there would have been no material change in the business of Verizon or the information available to AT&T with respect thereto from that which existed as of the date of the merger agreement and that Verizon would not be willing to assume materially greater contractual obligations or risk with respect to obtaining regulatory approvals than SBC would assume in the merger agreement). SBC s attorneys also sought to give SBC the right to terminate the agreement and be paid a termination fee by AT&T in the event that AT&T violated its no-shop covenants. After extensive discussion of this issue, AT&T s attorneys agreed to recommend accepting such a provision, but insisted that it be triggered only if AT&T knowingly and materially and not inadvertently breached these obligations. The parties attorneys also discussed the size of the termination fee, ultimately agreeing on a termination fee that was, in percentage terms, consistent with comparable transactions.

On Wednesday afternoon, January 26, 2005, rumors began to circulate about merger discussions between AT&T and SBC, which were reported in the press the next day. On the evening of January 26, SBC s management proposed what it considered to be final financial terms for the proposed transaction at an exchange ratio of 0.7803 of a share of SBC common stock for each outstanding share of AT&T common stock and a special dividend to AT&T s shareholders of $1.20 per share. Based on the closing market prices of the two companies shares on January 26, 2005, this represented a price per AT&T share of $20.38 and approximately a 10.5% premium to AT&T s share price (and approximately a 12.7% premium based on the closing market prices of the two companies shares on January 21, 2005, the date of Mr. Dorman s meeting with Mr. Whitacre). This exchange ratio and the amount of the cash dividend were selected by SBC s management based on the premium and aggregate cash values that they represented. Due to the press reports about the merger discussions, however, on January 27, 2005, the market price of AT&T s shares began to rise and the market price of SBC s shares began to fall. AT&T s management told SBC s management that AT&T could not agree at that time to SBC s proposed financial terms, and suggested that they have further discussions about the financial terms following the close of market trading on Friday, January 28, 2005.

On Friday, January 28, 2005, SBC s board of directors met to review the status of discussions with AT&T. At this meeting, SBC s management again discussed the strategic rationale for a proposed merger with AT&T, the terms of the then-current draft merger agreement and the financial implications of the transaction. Following that meeting, on Friday evening, SBC s management again told AT&T s management that SBC s final financial proposal was an exchange ratio of 0.7803 and a special dividend of $1.20 per share. Based on the closing market price of SBC s shares that day, this proposal represented a value of approximately $19.63 per share, or an $0.08 per share discount to the closing market price of $19.71 per AT&T share on that day. AT&T s management responded that the financial terms of the transaction should provide AT&T s shareholders with a premium to the AT&T share price based on closing market prices per share on January 28th, but SBC s management reiterated that its proposal was final. Mr. Dorman then called Mr. Whitacre and proposed an exchange ratio of 0.8044 plus $1.20 per share in a special dividend, which would have had a value

of $20.20 per share based on the closing market price of SBC s shares on that day, representing approximately a 2.5% premium to the closing market price of $19.71 per AT&T share. Mr. Whitacre responded that SBC s proposal on the exchange ratio was its final proposal.

Following these conversations, AT&T s senior management consulted with representatives of CSFB and Morgan Stanley, AT&T s financial advisors, on how to respond. Thereafter, AT&T s management told SBC s management that, if the merger agreement could be executed before the opening of the financial markets on Monday, January 31, 2005, AT&T s management would recommend to the AT&T board of directors that it approve a transaction with a value to AT&T s shareholders, based on the January 28, 2005 closing market prices for the two companies shares, equal to AT&T s $19.71 per share closing market price on that day. SBC s management said that it would agree, if $0.10 per share of that value could be shifted from the SBC stock consideration to the special dividend to be paid by AT&T (i.e., increasing the special dividend to $1.30 per share and adjusting the exchange ratio to 0.77942 to produce a total value, based on the January 28, 2005 closing market prices, of $19.71 per AT&T share). Following further discussions, the managements of the two companies agreed to recommend the transaction to their respective boards of directors with an exchange ratio of 0.77942 of an SBC share for each AT&T share and a special cash dividend of $1.30 per AT&T share. While this represented a value of $19.71 per AT&T share based on the closing market price of SBC s shares on January 28, 2005, it represented a value of approximately $20.46 per AT&T share based on the closing market price of SBC shares on Friday, January 21, 2005 (the day on which Mr. Dorman and Mr. Whitacre discussed a potential premium range of 10% to 15%), or approximately a 13.2% premium to the closing market price of $18.08 per AT&T share on that day. The negotiation of these economic terms focused on the exchange ratio and the premium to AT&T s share prices then reflected by the exchange ratio. Based on the exchange ratio that the two companies managements agreed to recommend to their respective boards and the number of outstanding SBC and AT&T shares as of January 27, 2005, AT&T s shareholders would own approximately 16% of the outstanding SBC shares following the merger.

On January 29 and 30, 2005, AT&T s attorneys and SBC s attorneys finalized the proposed merger agreement, including these financial terms.

The AT&T board of directors met on January 30, 2005, and reviewed the proposed transaction. At that meeting, AT&T s management and financial advisors reviewed the terms and financial implications of the transaction and AT&T s financial advisors rendered their respective opinions with respect to the fairness from a financial point of view of the exchange ratio or consideration, as applicable, to be received by the holders of shares of AT&T common stock in the merger, which opinions are summarized under the caption The Merger Opinions of AT&T s Financial Advisors . In addition, AT&T s attorneys reviewed the terms of the proposed merger agreement with the AT&T board, and AT&T s management provided their views and recommendation of the transaction. Following extended discussion and review of the proposed transaction and AT&T s strategic alternatives, the AT&T board of directors, by a vote of nine to one, approved the merger agreement. AT&T s management did not recommend soliciting bids from other third parties, nor did the AT&T board believe such solicitation to be advisable, in light of the relative levels of interest expressed by third parties in prior preliminary discussions described above and the significant risk to the proposed SBC transaction that would be introduced if AT&T were to solicit other bids. AT&T s management and AT&T s board also noted that the terms of the merger agreement would permit AT&T to terminate the merger agreement to accept an unsolicited superior proposal, should one be made prior to the AT&T shareholder vote, subject to payment of a $560 million termination fee and reimbursement of SBC s expenses in an amount up to $40 million.

The corporate development committee of the SBC board of directors met in the early afternoon of January 30, 2005 to consider the proposed transaction. The SBC board of directors met later in the afternoon on the same day and also reviewed the proposed transaction. At each meeting, SBC s management and Lehman Brothers Inc., Evercore Partners Inc. and Rohatyn Associates, LLC, SBC s financial advisors, reviewed the terms and financial implications of the transaction. In addition, SBC s counsel reviewed the terms of the proposed merger agreement. Following extended discussion and review of the proposed transaction, the corporate development committee of the SBC board of directors unanimously determined to recommend to the SBC board of directors that it approve the merger agreement. Thereafter, after further discussion and review of the proposed transaction at the meeting of the SBC board of directors, the members

of the SBC board of directors who were present at the meeting unanimously approved the merger agreement and declared its advisability.

Immediately after the meetings of the boards of directors of SBC and AT&T, SBC, AT&T and Merger Sub executed the merger agreement.

SBC s Reasons for the Merger

At its meeting on January 30, 2005, following detailed presentations by SBC s management and discussions with outside advisors, the members of the SBC board of directors present in person or by telephone at the meeting unanimously approved the merger agreement with AT&T and declared its advisability. In the course of making its decision to approve the merger agreement, the SBC board of directors consulted with SBC s management, as well as its outside legal counsel and its financial advisors. The SBC board of directors considered, among other things, the following material factors at its January 30, 2005 meeting and certain prior meetings referred to above:

Strategic Fit. The SBC board of directors considered that the combination of SBC and AT&T would create one of the nation s leading communications companies with significant national and global reach. The transaction would combine AT&T s global network capabilities, business and government customers and fast-growing Internet protocol (IP)-based business with SBC s strong local exchange, high-speed broadband and nationwide wireless coverage and solutions.

In particular, the SBC board of directors considered that:

- The combined company would enjoy the benefits of AT&T s world-class assets and industry-leading capabilities, including
  - a state-of-the-art nationwide and global communications network;
  - advanced technological capabilities in data and IP-based services;
  - proven sales and service expertise for complex communications solutions; and
  - significant product and service development capabilities in AT&T Labs;
- The merger would combine SBC s broad consumer and business customer base with AT&T s high-end enterprise and government customer base; and
- The combined company would have a strong, diversified set of product and service offerings, including multi-feature integrated communications and business and consumer voice-over-internet (VoIP).

Cost Savings and Revenue Synergies. The SBC board of directors considered that the integration of AT&T into SBC would create substantial potential cost savings and revenue synergies, which were estimated by SBC to yield a present value of more than $15 billion in identified synergies, net of costs to achieve them. SBC s management expected that approximately 85 to 90 percent of the synergies would come from reduced costs in areas such as network operations, headquarters, staff functions, customer account services, information technology and procurement, and that the synergies were expected to result in an increase, based on various assumptions, in annual earnings before interest, taxes, depreciation and amortization of $2 billion or more by 2008.

Almost all of the synergies were expected to come from reduced costs over and above expected cost reductions from SBC s and AT&T s existing stand-alone productivity initiatives. The synergies (excluding integration costs) were expected to be achieved following the merger from the following areas, in the approximate amounts indicated for 2008:

- network operations and IT, as facilities and operations would be consolidated ($900 million to $1 billion);
- sales and support functions of the business services organizations would be combined ($500 million to $600 million);

- duplicate corporate functions would be eliminated ($400 million to $500 million); and

- revenues would be enhanced, as SBC would migrate existing service offerings to new customer segments ($100 million to $200 million).

You should understand that the foregoing statements about estimated potential synergies are forward-looking statements subject to the risks and uncertainties described at Cautionary Statement Concerning Forward-Looking Statements. These estimates of synergies are based on numerous estimates, assumptions and judgments and are subject to significant uncertainties. SBC cannot assure you that any particular amount of synergies will be realized by SBC following the merger or assure you of the time frame in which they will be achieved. See also Risk Factors Risk Factors Relating to SBC Following the Merger SBC may fail to realize the anticipated cost savings, revenues, enhancements and other benefits expected from the merger, which could adversely affect the value of SBC common stock after the merger above.

Technological Strength. The SBC board of directors considered that SBC following the merger would have the resources and skill sets to innovate and more quickly deliver to customers the next generation of advanced, integrated IP-based wireline and wireless communications services. SBC would expect to bring a full range of innovative voice and data services to customers around the world, using AT&T s assets, which include an advanced product portfolio including a broad range of IP-based services, as well as AT&T Labs, a leading communications research organization.

Additional Considerations. In the course of reaching its decision to approve the merger agreement, the SBC board of directors considered the following additional factors as generally supporting its decision:

- the exchange ratio of 0.77942 of a share of SBC common stock for each share of AT&T common stock, the fact that the exchange ratio is fixed, and the resulting percentage ownership interests and voting power that current SBC stockholders would have in SBC following the merger;

- the other financial terms of the transaction, including the special dividend of $1.30 in cash per share of AT&T common stock to be paid in connection with the merger;

- the terms and conditions of the merger agreement, including the conditions to the completion of the merger; the circumstances under which the merger agreement could be terminated and the impact of such a termination; and the potential payment by AT&T of a termination fee of $560 million (plus up to $40 million in expenses);

- historical information concerning SBC s and AT&T s respective businesses, financial condition, results of operations, earnings, technology positions, managements, competitive positions and prospects on a stand-alone basis and forecasted combined basis, which indicated that combining SBC and AT&T would be beneficial to stockholders of the combined company because the combined company would be better positioned to be successful over the long term than either company would be on a stand-alone basis;

- current financial market conditions, including relative valuations of telecommunications companies and credit market considerations, which were generally perceived as favorable in the context of making a sizable acquisition;

- the impact of the merger on the customers of SBC, which was anticipated to be positive because of the broader service offerings that are expected to be available from the combined company;

- the impact of the merger on the employees of SBC, which was generally anticipated to be positive because of the broader opportunities that would be available to the employees in the combined company;

- the regulatory consents required to consummate the merger and the belief of SBC s management that the merger would be approved by the requisite authorities, without the imposition of conditions sufficiently material to preclude the merger, and would otherwise be consummated in accordance with the terms of the merger agreement; and

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the expectation that the merger could be completed within a reasonable time frame.

The SBC board of directors also considered a number of potentially negative factors in its deliberations concerning the merger agreement, including:

the risk that, because the exchange ratio under the merger agreement would not be adjusted for changes in the market price of SBC common stock or AT&T common stock, the per share value of the consideration to be paid to AT&T stockholders on consummation of the merger could be significantly more than the per share value of the consideration immediately prior to the announcement of the proposed merger;

the risk that the merger might not receive all necessary regulatory approvals, or that any governmental authorities could attempt to condition their approval of the merger or of the transfer of licenses or other entitlements on the companies compliance with certain conditions, including the divestiture of assets;

the difficulties and management challenges inherent in completing the merger and integrating the businesses, operations and workforce of AT&T with those of SBC;

the possibility of encountering difficulties in achieving expected cost savings and revenue synergies in the amounts currently estimated or in the time frames currently contemplated by SBC s management;

the risk that AT&T s financial performance may not meet SBC s expectations;

the risk that the merger might not be consummated and the possible adverse implications for customers, investor relations and employee morale under such circumstances; and

the possibility that the effort required to plan for the integration of AT&T into SBC and to complete the regulatory approval process might adversely affect the ability of SBC to meet its existing business performance targets.

The SBC board of directors also reviewed as background materials numerous publicly available third party analyses and newspaper articles regarding the telecommunications industry in general and AT&T s business prospects and financial condition in particular.

The foregoing discussion of the information and factors that the SBC board of directors considered is not intended to be exhaustive, but is meant to include the material factors that the SBC board of directors considered. In view of the complexity and wide variety of factors, both positive and negative, that the SBC board of directors considered, the SBC board of directors did not find it practical to, and did not attempt to, quantify, rank or otherwise assign relative or specific weights or values to any of the factors considered. In addition, individual members of the SBC board of directors may have given different weights to different factors.

In considering the various factors, individual members of the SBC board of directors considered all of these factors as a whole, and concluded that, on balance, the positive factors outweighed the negative factors and that they supported a determination to approve the merger agreement and declare its advisability.

AT&T s Reasons for the Merger

At its meeting on January 30, 2005, the AT&T board of directors, after due consideration and by a vote of nine to one:

declared that the merger and the other transactions contemplated by the merger agreement, including the special dividend, are advisable;

adopted the merger agreement; and

recommended that the holders of AT&T common stock adopt the merger agreement.

In adopting the merger agreement and making these declarations and recommendation, the AT&T board of directors consulted with AT&T senior management and AT&T s financial and legal advisors and considered a number of factors, including those set forth below.

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The AT&T board of directors considered the following factors as generally supporting its decision to enter into the merger agreement:

- its understanding of AT&T s business, operations, financial condition, earnings and prospects on a stand-alone basis, in light of relevant factors, including the recent redefinition of AT&T s business model to move away from actively competing for traditional consumer services to focus on enterprise customers;
- its understanding of SBC s business, operations, financial condition, earnings and prospects on a stand-alone basis and forecasted combined basis; the AT&T board of directors considered that SBC had a solid financial position in the territories in which it was the incumbent local exchange carrier and that it was well positioned in all of its businesses nationwide as a result of the wide range of telecommunications products and services it offers and provides to its customers;
- its understanding of the current and prospective business environment in which AT&T and SBC operate, including international, national and local economic conditions, the competitive and regulatory environment for telecommunications service providers generally, the technological trends in the telecommunications industry, and the likely effect of these factors on the combined company or, in the alternative, on AT&T on a stand-alone basis; the AT&T board of directors considered in particular that the competitive nature of the telecommunications industry made it more likely that AT&T s prospects for growth would be enhanced if its businesses were combined with SBC s to create a more diversified, well capitalized company;
- the anticipated strategic fit between SBC and AT&T, which the AT&T board of directors believed will provide the combined company with significantly greater capabilities than either company has, or could develop, on its own, including:
  - the complementary nature of the combined company s networks, bringing together AT&T s global and national internet protocol (IP)-based networks with SBC s strong local access, broadband access and wireless networks;
  - the complementary nature of AT&T s established, large business customers and SBC s consumer and small business customers;
  - the combined company s highly diversified revenue sources, including local, long distance, wireless, data and directories; and
  - the opportunity to combine AT&T s technological innovation resources, including AT&T Laboratories, with the financial resources of SBC, including its investment grade credit rating, which could allow the combined company to deliver the next generation of advanced, integrated IP-based wireline and wireless communications services more quickly to customers;
- the significant synergies that the AT&T board of directors believed could result from the transaction, including:
  - anticipated cost reductions in the following areas: network operations and information technology, business service organizations and the elimination of duplicate corporate functions; and
  - potential annual revenue synergies, as the combined company rolls out expanded product offerings to new customer segments;
- the financial terms of the transaction, including the relative historical trading prices of AT&T common stock and SBC common stock, the fixed exchange ratio of 0.77942 of a share of SBC common stock for each share of AT&T common stock and the special dividend of $1.30 in cash per share of AT&T common stock to be paid in connection with the merger, in particular, the AT&T board of directors noted that the exchange ratio and special dividend offered a premium to AT&T shareholders based on the trading prices of the companies common stock

prior to market rumors with respect to the merger discussions, and that the stock consideration offered AT&T shareholders the ability to become

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stockholders of SBC and participate in the benefit of the significant synergies that the AT&T board of directors believed could result from the transaction;

the fact that, based on the closing price of SBC common stock on January 28, 2005, the last trading day before the meeting of the AT&T board of directors, the per share merger consideration, together with the special dividend of $1.30 in cash per share to be received in the merger by holders of AT&T common stock was valued at $19.71, the equivalent of the closing price of AT&T common stock on that same date and representing a premium of 6.8% over the closing price of AT&T common stock on January 26, 2005 (the last trading day before rumors of the proposed transaction began to affect the price and trading volumes of AT&T common stock) and premiums of 5.4%, 5.2%, 6.1%, 17.7% and 14.6%, respectively, over the average closing share price during the 10-day, 1-month, 3-month, 6-month and 1-year periods ended January 28, 2005, respectively;

the fact that, based on the closing price of SBC common stock on January 28, 2005, the fixed exchange ratio of 0.77942 of a share of SBC common stock for each share of AT&T common stock, together with the special dividend of $1.30 in cash per share to be received in the merger by holders of AT&T common stock, represented a total effective exchange ratio of 0.834, representing a premium of 11.2% over the closing price of AT&T common stock on January 26, 2005 and premiums of 8.9%, 10.6%, 14.3%, 28.0% and 21.7%, respectively, over the average closing share price during the 10-day, 1-month, 3-month, 6-month and 1-year periods ended January 28, 2005, respectively;

the financial analyses of CSFB and Morgan Stanley, AT&T s financial advisors, and the oral and written opinions dated January 30, 2005 of CSFB that, as of such date and subject to the matters described in its opinion, the exchange ratio was fair, from a financial point of view, to holders of AT&T common stock and the oral and written opinions dated January 30, 2005 of Morgan Stanley that, as of such date and subject to the matters and assumptions stated therein, the consideration to be received by holders of AT&T common stock in accordance with the merger agreement was fair from a financial point of view to such holders other than SBC and its affiliates (each opinion is discussed further below under Opinions of AT&T s Financial Advisors); in considering the foregoing opinions the AT&T board of directors was aware that AT&T has agreed to pay each of CSFB and Morgan Stanley a transaction fee based on 0.1% of the aggregate value of the transaction, which will be determined at closing and which is payable in three installments, one quarter on signing, one quarter on receipt of shareholder approval and the unpaid balance upon closing (each transaction fee is discussed further below under Opinions of AT&T s Financial Advisors);

the expectation that the merger would be accretive to the pro forma earnings per share of SBC by 2008, as discussed below under Opinions of AT&T s Financial Advisors Other Considerations ;

the expectation that, based on the current annual dividends paid by AT&T and SBC, the pro forma dividend per share would represent a 5.8% premium over the current AT&T dividend per share paid to holders of AT&T common stock;

the terms and conditions of the merger agreement, including the nature of the parties representations, warranties, covenants and agreements; in particular, the AT&T board believed, after reviewing the merger agreement with its legal advisors, that the merger agreement offered AT&T reasonable assurances as to the likelihood of consummation of the transaction, did not contain unusual conditions or other provisions, and did not impose unreasonable burdens on AT&T;

the proposed board and management arrangements of the combined company, under which the current Chairman and Chief Executive Officer of AT&T will become President of the combined company and be elected to the SBC board of directors and two other AT&T directors will join an enlarged SBC board of directors, which the

AT&T board of directors believed would help position the combined company with strong and experienced leadership;

the retention bonus arrangements for management to be implemented in connection with the merger, which the AT&T board of directors believed would help assure the continuity of management, the likelihood of a successful integration and the successful operation of the combined company;

- information available to the AT&T board of directors concerning other strategic alternatives as described above under Background of the Merger ;

- the expectation that the merger would qualify as a reorganization for U.S. federal income tax purposes and that, as a result, the exchange of their AT&T common stock for SBC common stock in the merger would be tax-free to holders of AT&T common stock;

- the required regulatory consents and the belief that the merger would be approved by the requisite authorities, without the imposition of conditions sufficiently material to preclude the merger, and would otherwise be completed in accordance with the terms of the merger agreement; and

- the expectation that the merger could be completed by the first half of 2006.

The AT&T board of directors considered the following factors generally weighing against a decision to enter into the merger agreement:

- the difficulties and management challenges inherent in completing a merger and integrating the businesses, operations and workforce of AT&T with those of SBC;

- the risk that the potential benefits of the merger, including the expected synergies, might not be fully achieved;

- the risk that the merger might not be consummated and the possible adverse implications to customers, investor relations and employee morale under such circumstances;

- the risk that, although AT&T has the right under limited conditions to consider and participate in discussions and negotiations with respect to alternative acquisition proposals, the provisions of the merger agreement relating to the potential payment of a termination fee of $560 million (plus up to $40 million in expenses) to SBC may have the effect of discouraging such proposals. See Risk Factors Risks Relating to the Merger The merger agreement restricts AT&T s ability to pursue alternatives to the merger .

The AT&T board of directors also considered that the fixed exchange ratio would not adjust upwards to compensate for declines, or downwards to compensate for increases, in the price of SBC common stock prior to the closing of the merger, and that the terms of the merger agreement did not include termination rights triggered expressly by a decrease in the value of the merger consideration implied by the market price of SBC common stock. The AT&T board of directors determined that this structure was appropriate and the risk acceptable in view of: the AT&T board of directors focus on the relative intrinsic values and financial performance of SBC and AT&T and the percentage of the combined company to be owned by former holders of AT&T common stock; the inclusion in the merger agreement of other structural protections such as the ability to terminate the merger agreement in the event of a material adverse effect on the financial condition, assets, liabilities, business or results of operations of SBC; and AT&T s ability, under the limited circumstances specified in the merger agreement, to consider and participate in discussions and negotiations with respect to alternative acquisition proposals.

The AT&T board of directors also considered the retention and employment arrangements with key AT&T employees and the fact that some of AT&T s executive officers and directors have interests in the merger and have arrangements that are different from, or in addition to, those of AT&T s shareholders generally.

The AT&T board of directors considered all of the foregoing factors as a whole and, on balance, concluded that they supported a favorable determination to approve the merger and declare its advisability.

The foregoing discussion of the information and factors considered by the AT&T board of directors is not exhaustive, but includes all the material factors considered by the AT&T board of directors. In view of the variety of factors considered by the AT&T board of directors in connection with its evaluation of the merger and the complexity of these matters, the AT&T board of directors did not consider it practicable to, and did not attempt to, quantify, rank or otherwise assign relative or specific weight or values to any of these factors. In addition, individual directors may have given different weights to different factors.

One director, Donald F. McHenry, voted not to approve the transaction. Mr. McHenry has advised that he voted not to approve the transaction because he believed that the AT&T board of directors direction to

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management as to negotiation of price of the proposed transaction had not been followed, specifically that management should have communicated with the board more promptly than occurred regarding management s discussions with SBC management during the week of January 23rd. Mr. McHenry has advised, however, now that the transaction has been approved by the AT&T board of directors, and a merger agreement entered into by the parties, and considering the potential consequences to AT&T shareholders of not proceeding with the merger, that he joins the other directors in recommending that shareholders vote to adopt the merger agreement. The AT&T board of directors, other than Mr. McHenry, does not agree that management did not follow a board direction.

Recommendation of the AT&T Board of Directors

After careful consideration, the AT&T board of directors declared that the merger and the other transactions contemplated by the merger agreement, including the special dividend, are advisable and adopted the merger agreement. **THE AT&T BOARD OF DIRECTORS RECOMMENDS THAT THE HOLDERS OF AT&T COMMON STOCK VOTE FOR ADOPTION OF THE MERGER AGREEMENT.**

Certain AT&T Projections

Although AT&T periodically issues guidance concerning its financial performance, AT&T as a matter of course does not publicly disclose detailed forecasts or internal projections as to its future revenues, earnings or financial condition. However, as discussed under Background of the Merger, in the course of their discussions in connection with the merger, AT&T s management provided SBC with certain information with respect to its business which SBC and AT&T believe was not publicly available. Such information included the projections with respect to AT&T set forth below. See Cautionary Statement Regarding Forward-Looking Statements beginning on page 156.

AT&T Projected Summary Financial Overview
($ in billions; except for per share amounts; all projected numbers are approximate)

	2005
Revenue	$ 25.7
EBITDA	5.2
% Margin	20.4%
EBIT	2.7
Net Income	1.3
Earnings Per Share	1.58
Capital Expenditures	1.4
EBITDA less capital expenditures	3.8

Projected reconciliation of EBITDA to net income for the year ending 12/31/2005
($ in billions; all projected numbers are approximate)

EBITDA Margin	20.4%
EBITDA	5.2
Depreciation and amortization	(2.5)
Subtotal Operating Income (EBIT)	2.7
Other net expenses*	(1.4)
Net income	1.3
Margin	4.9%

* Other net expenses include interest expense, other income (expense), and provision for income taxes.

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Projected reconciliation of EBITDA, less capital expenditures to cash provided by operating activities for the year ending 12/31/2005 ($ in billions; all projected numbers are approximate)

EBITDA less capital expenditures	$ 3.8
Add capital expenditures	1.4
EBITDA	5.2
Other cash expenses**	(1.2)
Changes in working capital and other operating assets & liabilities	(0.7)
Cash provided by operating activities	$ 3.3

** Other cash expenses primarily include taxes and interest expense.

Information on EBITDA, related margins and EBITDA less capital expenditures has been provided because these measures are commonly used for evaluation purposes. EBITDA and EBITDA less capital expenditures should be considered in addition to, but not in lieu of, other measures of liquidity, profitability and cash flows reported in accordance with generally accepted accounting principles. Additionally, these measures may not be comparable to similarly captioned measures reported by other companies.

While the projections set forth above were prepared in good faith by AT&T s management, no assurance can be made regarding future events. Therefore, such projections cannot be considered a reliable predictor of future operating results, and this information should not be relied on as such. The information in this section was 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, published guidelines of the SEC regarding forward-looking statements, or U.S. generally accepted accounting principles. This information is not historical fact and should not be relied upon as being necessarily indicative of future results, and readers of this document are cautioned not to place undue reliance on this information.

The prospective financial information (projections or forecasts) of AT&T included in this document has been prepared by, and is the responsibility of, AT&T s management. PricewaterhouseCoopers LLP has neither examined nor compiled the accompanying prospective financial information of AT&T 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 in this document relates to AT&T s historical financial information. It does not extend to the prospective financial information and should not be read to do so.

The estimates and assumptions underlying the projections involve judgments with respect to, among other things, future economic, competitive, regulatory and financial market conditions and future business decisions which 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 AT&T and will be beyond the control of combined company after the merger. In addition, the projections were prepared with a view of AT&T on a stand-alone basis, and without reference to transaction-related costs. 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 prospective financial information. See Cautionary Statement Regarding Forward-Looking Statements beginning on page 156. These projections are not included in this document in order to induce any shareholder to vote in favor of adoption of the merger agreement or to impact any investment decision with respect to shares of AT&T or SBC common stock.

AT&T DOES NOT INTEND 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, AT&T DOES NOT INTEND TO UPDATE OR REVISE THESE PROJECTIONS TO REFLECT CHANGES IN GENERAL ECONOMIC OR INDUSTRY CONDITIONS.

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Opinions of AT&T s Financial Advisors

Credit Suisse First Boston LLC Fairness Opinion

Credit Suisse First Boston LLC has acted as AT&T s financial advisor in connection with the merger. In connection with CSFB s engagement, the AT&T board of directors requested that CSFB render an opinion with respect to the fairness, from a financial point of view, to holders of shares of AT&T common stock, of the exchange ratio. At the meeting of the AT&T board of directors on January 30, 2005, CSFB rendered its oral opinion, which was subsequently confirmed in writing dated as of the same date, that, based upon and subject to the matters described in its opinion, the exchange ratio was fair, from a financial point of view, to the holders of shares of AT&T common stock. For purposes of its analyses CSFB assumed that AT&T will declare a $1.30 special cash dividend per share of AT&T common stock payable to the holders of AT&T common stock as of immediately prior to the consummation of the merger.

The full text of CSFB s opinion, dated January 30, 2005, 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 B to this document and is incorporated herein by reference. The summary of CSFB s fairness opinion set forth in this document is qualified in its entirety by reference to the full text of the opinion. Shareholders should read the opinion carefully and in its entirety. CSFB s opinion is directed to the board of directors of AT&T, addresses only the fairness, from a financial point of view, to holders of AT&T common stock 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. CSFB 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 proposed merger.

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

- reviewed the merger agreement and certain publicly available business and financial information relating to AT&T and SBC;
- reviewed certain other information relating to AT&T and SBC, including financial forecasts for 2005 prepared and provided to CSFB by AT&T, financial forecasts for 2005 through 2007 prepared and provided to CSFB by SBC and certain publicly available research analyst estimates concerning AT&T and SBC;
- met with the managements of AT&T and SBC to discuss the business and prospects of AT&T and SBC, respectively;
- considered certain financial and stock market data of AT&T and SBC, and it compared that data with similar data for other publicly held companies in businesses it deemed similar to those of AT&T and SBC;
- considered, to the extent publicly available, the financial terms of certain other business combinations and other transactions which had been recently effected or announced; and
- considered such other information, financial studies, analyses and investigations and financial, economic and market criteria which it deemed relevant.

In connection with CSFB s review, it did not assume any responsibility for independent verification of any of the information that it reviewed or considered and relied on its being complete and accurate in all material respects. With respect to the financial forecasts of AT&T for 2005 prepared by the management of AT&T, CSFB discussed such forecasts with the management of AT&T, and CSFB was advised by them, and CSFB assumed, that such forecasts represented the best currently available estimates and judgments of the management of AT&T as to the future financial performance of AT&T. With respect to the publicly available research analyst estimates concerning AT&T for 2006 through 2009 that CSFB reviewed and discussed with AT&T, the management of AT&T advised CSFB, and

CSFB assumed, that such estimates represented reasonable estimates and judgments as to the future financial performance of AT&T. With respect to the publicly available research analyst estimates concerning SBC for 2005 through 2007 reviewed by CSFB, CSFB, with the consent of the AT&T board of directors and based upon its own comparison of such estimates to financial forecasts for such years prepared by and discussed with the management of SBC, assumed that such analyst estimates represented reasonable estimates and judgments as to the future financial performance of SBC. With respect to the estimates as to the cost savings and other potential synergies anticipated to result from the merger reviewed and discussed by the managements of AT&T and SBC, CSFB was advised and assumed that such estimates (including the aggregate amount, timing and achievability thereof) represented reasonable estimates and judgments. CSFB assumed, with the consent of the AT&T board of directors, that the merger would be treated as a tax-free reorganization for federal income tax purposes. CSFB also assumed, with the consent of the AT&T board of directors, that, in the course of obtaining any regulatory or third party consents, approvals or agreements in connection with the merger, no delay, limitation, restriction or condition would be imposed that would have an adverse effect on AT&T, SBC or the contemplated benefits of the merger and that the merger would be consummated in accordance with the terms of the merger agreement without waiver, modification or amendment of any material term, condition or agreement thereof. In addition, CSFB was not requested to make, and did not make, an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of AT&T or SBC, nor was CSFB furnished with any such evaluations or appraisals. CSFB s opinion addressed only the fairness, from a financial point of view, to the holders of AT&T common stock of the exchange ratio and did 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. CSFB s opinion was necessarily based upon information made available to it as of January 30, 2005 and financial, economic, market and other conditions as they existed and could be evaluated on such date. CSFB did not express any opinion as to what the value of shares of SBC common stock actually would be when issued to the holders of AT&T common stock pursuant to the merger or the prices at which shares of SBC common stock would trade at any time. CSFB s opinion did not address the relative merits of the merger as compared to alternative transactions or strategies that may have been available to AT&T, nor did it address the underlying business decision of AT&T to proceed with the merger. No other limitations were imposed on CSFB with respect to the investigations made or procedures followed by CSFB in rendering its opinion. Although CSFB evaluated the exchange ratio from a financial point of view, CSFB was not requested to, and it did not, recommend the specific consideration payable in the proposed merger, which consideration was determined between AT&T and SBC.

On January 24, 2003, AT&T engaged CSFB to act as a financial advisor based on its qualifications, experience, reputation and knowledge of the business of AT&T. CSFB is an internationally recognized investment banking firm and is regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions, leveraged buyouts, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. From time to time, CSFB and its affiliates in the past have provided, and in the future may provide, investment banking and other financial services to AT&T and SBC, for which CSFB has received, and would expect to receive, compensation. During the past two years, CSFB has received approximately $20 million in fees from AT&T as compensation for such services. CSFB is a full service securities firm engaged in securities trading and brokerage activities as well as providing investment banking and other financial services. In the ordinary course of business, CSFB and its affiliates may acquire, hold or sell, for their own accounts and the accounts of customers, equity, debt and other securities and financial instruments (including bank loans and other obligations) of AT&T, SBC and any other company that may be involved in the merger, as well as provide investment banking and other financial services to such companies.

The AT&T board of directors considered that CSFB had provided financial services in the past to SBC and its affiliates. However, the AT&T board of directors believed that CSFB s international reputation for expertise in investment banking generally and in telecommunications in particular and its familiarity with AT&T and its businesses made its selection as financial advisor in connection with the proposed transaction advisable notwithstanding these experiences involving SBC and its affiliates.

AT&T has agreed to pay CSFB a transaction fee based on 0.1% of the aggregate value of the transaction, which will be determined at closing. We currently project the transaction fee at approximately $29 million (including a $2.5 million incremental advisory fee). The transaction fee is payable in three installments, one quarter upon signing, one quarter upon receipt of shareholder approval and the unpaid balance upon closing. AT&T has also agreed to reimburse CSFB for its fees and expenses incurred in performing its services. In addition, AT&T has agreed to indemnify CSFB and its affiliates, their respective directors, officers, agents and employees and each person, if any, controlling CSFB or any of its affiliates against certain liabilities and expenses, including certain liabilities under the federal securities laws, related to or arising out of CSFB s engagement and any related transactions.

Morgan Stanley & Co. Incorporated Fairness Opinion

Pursuant to an engagement letter, on January 24, 2003, AT&T retained Morgan Stanley to act as a financial advisor to the board of directors of AT&T in connection with a potential combination. AT&T selected Morgan Stanley to act as its financial advisor based on its qualifications, expertise, reputation and knowledge of the business of AT&T. At the meeting of the AT&T board of directors on January 30, 2005, Morgan Stanley rendered its oral opinion, which was subsequently confirmed in writing as of the same date, that, based upon and subject to the assumptions, qualifications and limitations set forth in its opinion, the merger consideration to be received by the holders of shares of AT&T common stock in accordance with the merger agreement was fair from a financial point of view to such holders other than SBC and its affiliates. In arriving at its opinion, Morgan Stanley assumed that the special cash dividend was part of the merger consideration.

The full text of Morgan Stanley s opinion, dated January 30, 2005, which sets forth, among other things, the assumptions made, procedures followed, matters considered and qualifications and limitations of the reviews undertaken in rendering its opinion, is attached as Annex C to this document. The summary of Morgan Stanley s fairness opinion set forth in this document is qualified in its entirety by reference to the full text of the opinion. You should read the opinion carefully and in its entirety. Morgan Stanley s opinion is directed to the board of directors of AT&T, addresses only the fairness from a financial point of view of the merger consideration to be received by holders of AT&T common stock, other than SBC and its affiliates, in accordance with the merger agreement, and does not address any other aspect of the merger. Morgan Stanley s opinion does not constitute a recommendation to any shareholder of AT&T as to how such shareholder should vote with respect to the proposed merger.

In connection with rendering its opinion, Morgan Stanley, among other things:

reviewed certain publicly available financial statements and other information of AT&T and of SBC;

reviewed certain internal financial statements and other financial and operating data concerning AT&T prepared by the management of AT&T;

discussed the past and current operations and financial condition and the prospects of AT&T with senior executives of AT&T;

reviewed certain financial projections for 2005 prepared by the management of AT&T and reviewed certain public research reports concerning AT&T prepared by certain equity research analysts and discussed with senior executives of AT&T such financial projections and research reports (including the financial projections contained therein) and certain estimates, prepared by the management of AT&T, as to the cost savings and other potential synergies (including the amount, timing and achievability thereof) anticipated to result from the merger;

reviewed certain internal financial statements and other financial and operating data concerning SBC prepared by the management of SBC;

discussed the past and current operations and financial condition and the prospects of SBC with senior executives of SBC;

reviewed certain financial projections for 2005 through 2007 prepared by the management of SBC and reviewed certain public research reports concerning SBC prepared by certain equity research analysts;

reviewed the reported prices and trading activity for AT&T common stock and SBC common stock;

compared the financial performance of AT&T and of SBC and the prices and trading activity of AT&T common stock and SBC common stock with that of certain other comparable publicly-traded companies and their securities;

reviewed the financial terms, to the extent publicly available, of certain comparable acquisition transactions;

discussed with the managements of AT&T and of SBC information regarding certain strategic, financial and operational benefits anticipated to result from the merger;

reviewed the merger agreement and certain related documents; and

performed such other analyses and considered such other factors as Morgan Stanley deemed appropriate.

In arriving at its opinion, Morgan Stanley assumed and relied upon without independent verification the accuracy and completeness of the information reviewed by it for the purposes of its opinion. With respect to the financial projections of AT&T for 2005 and the estimates of cost savings and synergies prepared by the management of AT&T, Morgan Stanley discussed such projections and estimates with the management of AT&T and Morgan Stanley was advised by the management of AT&T, and Morgan Stanley assumed, with the consent of the AT&T board of directors, that such projections represented the best currently available estimates and judgments of the management of AT&T as to the future financial performance of AT&T. With respect to the financial projections concerning AT&T contained in certain publicly available equity analyst research reports (including adjustments thereto) that Morgan Stanley discussed with AT&T, the management of AT&T advised Morgan Stanley, and it assumed, with the consent of the AT&T board of directors, that such projections represented reasonable estimates and judgments as to the future financial performance of AT&T. With respect to publicly available research analyst estimates concerning SBC for 2005 through 2007, based upon Morgan Stanley s comparison of such estimates to financial forecasts of the management of SBC for such years and discussions of such management forecasts with the management of SBC, Morgan Stanley assumed that such analyst estimates represented reasonable estimates and judgments as to the future financial performance of SBC. Morgan Stanley also assumed, with the consent of the AT&T board of directors, without independent verification, that the information regarding certain strategic, financial and operational benefits anticipated to result from the merger represented reasonable estimates and judgments of the managements of AT&T and SBC. Morgan Stanley assumed, with the consent of the AT&T board of directors, that the merger would be consummated in accordance with the terms set forth in the merger agreement without material modification, waiver or delay, including, among other things, that the merger would be treated as a tax-free reorganization pursuant to the Code. In connection with the receipt of all the necessary regulatory or other third party approvals for the merger, Morgan Stanley assumed, with the consent of the AT&T board of directors, that no restrictions would be imposed that would have a material adverse effect on the contemplated benefits expected to be derived in the merger. Morgan Stanley did not make any independent valuation or appraisal of the assets or liabilities of AT&T or SBC nor was Morgan Stanley furnished with any such valuations or appraisals. Morgan Stanley s opinion was necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to it as of, January 30, 2005. Events occurring after such date could materially affect Morgan Stanley s opinion. Morgan Stanley has not undertaken to update, revise, reaffirm or withdraw its opinion or otherwise comment upon events occurring after January 30, 2005. No other limitations were imposed on Morgan Stanley with respect to the investigations made or procedures followed by Morgan Stanley in rendering its opinion.

In arriving at its opinion, Morgan Stanley was not authorized to solicit, and it did not solicit, interest from any party with respect to any acquisition, business combination or other extraordinary transaction involving AT&T. Morgan Stanley s opinion did not address the underlying business decision by AT&T to enter into the merger agreement or the relative merits of the merger compared to other alternatives available to AT&T, or whether such alternatives existed. Morgan Stanley did not recommend any specific merger consideration to AT&T or that any specific merger consideration constituted the only appropriate merger consideration for the merger. In addition, Morgan Stanley s opinion did not in any manner address the prices at which SBC common stock would trade following the consummation of the merger or at any other time.

Morgan Stanley is an internationally recognized investment banking and advisory firm. Morgan Stanley, as part of its investment banking business, is continuously engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate, estate and other purposes. In the ordinary course of its business, Morgan Stanley and its affiliates may from time to time trade in the securities or the indebtedness of AT&T, SBC and their affiliates for its own account, the

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accounts of investment funds and other clients under the management of Morgan Stanley and for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities or indebtedness for any such account. In the past, Morgan Stanley and its affiliates have provided financial advisory and financing services for both AT&T and SBC and have received fees for the rendering of these services. During the past two years, Morgan Stanley has received approximately $10 million in fees from AT&T as compensation for such services. In addition, in the future, Morgan Stanley may provide, or seek to provide, financial advice and financing services to the combined company.

The AT&T board of directors considered that Morgan Stanley had provided financial services in the past to SBC and its affiliates. However, the AT&T board of directors believed that Morgan Stanley s international reputation for expertise in investment banking generally and in telecommunications in particular and its familiarity with AT&T and its businesses made its selection as financial advisor in connection with the proposed transaction advisable notwithstanding these experiences involving SBC and its affiliates.

AT&T has agreed to pay Morgan Stanley a transaction fee based on 0.1% of the aggregate value of the transaction, which will be determined at closing. We currently project the transaction fee at approximately $24 million (which reflects a $2.5 million credit). The transaction fee is payable in three installments, one quarter upon signing, one quarter upon receipt of shareholder approval and the unpaid balance upon closing. AT&T has also agreed to reimburse Morgan Stanley for its fees and expenses incurred in performing its services. In addition, AT&T has agreed to indemnify Morgan Stanley and its affiliates, their respective directors, officers, agents and employees and each person, if any, controlling Morgan Stanley or any of its affiliates against certain liabilities and expenses, including certain liabilities under the federal securities laws, related to or arising out of Morgan Stanley s engagement and any related transactions.

Financial Analyses

In preparing their respective opinions to the AT&T board of directors, CSFB and Morgan Stanley performed a variety of financial and comparative analyses, including those described below. The summary of the analyses of CSFB and Morgan Stanley described below is not a complete description of the analyses underlying their opinions. The preparation of a fairness opinion is a complex 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, therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at their respective opinions, each of CSFB and Morgan Stanley made qualitative judgments as to the significance and relevance of each analysis and factor that it considered. Accordingly, CSFB and Morgan Stanley believe that their analyses must be considered as a whole and that selecting portions of their analyses and factors or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying their analyses and opinions.

In their analyses, CSFB and Morgan Stanley considered industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of AT&T and SBC. No company, transaction or business used in CSFB s and Morgan Stanley s analyses as a comparison is identical to AT&T, SBC or the proposed merger, and an evaluation of the results of those analyses is not entirely mathematical. Rather, the analyses involved complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies, business segments or transactions analyzed. The estimates contained in the analyses of CSFB and Morgan Stanley and the ranges of valuations resulting from any particular analysis 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 the analyses. In addition, analyses relating to the value of businesses or securities do not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, the analyses and estimates of CSFB and Morgan Stanley are inherently subject to substantial uncertainty.

The opinions of CSFB and Morgan Stanley were only one of many factors considered by the AT&T board of directors in its evaluation of the proposed merger and should not be viewed as determinative of the views of the AT&T board of directors or management with respect to the merger, the exchange ratio or the consideration to be received in accordance with the merger agreement.

The following is a summary of the material financial analyses underlying the opinions of CSFB and Morgan Stanley delivered to the AT&T board of directors. The financial analyses summarized below include information presented in tabular format. In order to fully understand CSFB s and Morgan Stanley s financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of CSFB s and Morgan Stanley s financial analyses.

For purposes of their analyses, CSFB and Morgan Stanley converted the stock consideration and the special cash dividend to be paid pursuant to the merger agreement into an implied effective exchange ratio. CSFB and Morgan Stanley calculated this ratio by multiplying $23.62, the closing price of a share of SBC common stock on January 28, 2005, by 0.77942, the exchange ratio, adding $1.30 and dividing the resulting number by $23.62. The implied effective exchange ratio was 0.834x as of January 28, 2005.

Certain of these analyses utilized publicly available research analyst estimates and projections concerning SBC for 2005 through 2007. CSFB and Morgan Stanley assumed, with the consent of the AT&T board of directors, that the publicly available research analyst estimates and projections were reasonable estimates and projections for the purposes of their analyses based, in part, on a comparison of such estimates to the financial forecasts of SBC that they reviewed for such years and discussions of such forecasts with the management of SBC. With respect to the SBC projections concerning 2005, CSFB and Morgan Stanley were provided with copies of such projections by SBC management; with respect to the projections concerning SBC for 2006 and 2007, CSFB and Morgan Stanley were not provided copies of such projections but were provided an opportunity to view such projections.

Discounted Cash Flow Analysis

AT&T. CSFB and Morgan Stanley performed a discounted cash flow analysis (referred to in this document as DCF) with respect to AT&T s estimated future cash flows. The DCF analysis was based on financial forecasts for 2005 prepared and provided by the management of AT&T and certain publicly available analyst estimates and projections (including adjustments thereto) reviewed and discussed with the management of AT&T for 2006 through 2009 and terminal values based on multiples of AT&T s estimated last twelve months earnings before interest, taxes, depreciation and amortization (referred to in this document as EBITDA) for 2009 ranging from 3.5x to 4.5x. In this document, terminal value refers to the value of all future cash flows from a business or asset at a particular point in time. CSFB and Morgan Stanley discounted the unlevered free cash flows and estimated terminal value to a present value using discount rates ranging from 8.0% to 10.0%. CSFB and Morgan Stanley chose the discount rates utilized in this analysis based upon an analysis of the weighted average cost of capital of AT&T and their review of related information of selected large, diversified telecommunications companies. Weighted average cost of capital is a measure of the average expected return on all of a company s securities or loans based on the proportions of those securities or loans in such company s capital structure. Based on their experience with respect to telecommunications companies, their knowledge of the telecommunications industry in general and taking into consideration that the weighted average cost of capital analysis would allow for a wider range of comparable companies for purposes of assessing the range of weighted average costs of capital to use in their analysis, CSFB and Morgan Stanley selected MCI Inc., BellSouth Corporation, Verizon Communications Inc. and SBC as comparable companies. The DCF analysis of AT&T indicated a valuation range for AT&T common stock of $11.09 to $15.13 as compared to AT&T s common stock price as of January 28, 2005 of $19.71.

SBC. CSFB and Morgan Stanley also performed a DCF analysis with respect to SBC s estimated future cash flows based on certain publicly available research analyst estimates and projections concerning SBC for 2005 through 2007, which were assumed, with the consent of the AT&T board of directors, to be reasonable estimates and projections for this purpose based, in part, on a comparison of such estimates to financial forecasts of management of SBC for such years and discussions of such forecasts with the management of SBC, and terminal values based on multiples of SBC s estimated last twelve months EBITDA for 2007 ranging from 5.5x to 6.5x. CSFB and Morgan Stanley discounted the unlevered free cash flows and estimated terminal value to a present value using discount rates ranging from 7.0% to 9.0%. CSFB and Morgan Stanley

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chose the discount rates utilized in this analysis based upon an analysis of the weighted average cost of capital of SBC and their review of related information for selected comparable companies. Based on their experience with respect to telecommunications companies and their knowledge of the telecommunications industry in general, CSFB and Morgan Stanley selected BellSouth Corporation and Verizon Communications Inc. as comparable companies. The DCF analysis of SBC indicated a valuation range for SBC common stock of $22.27 to $28.81 as compared to a closing price per share of SBC common stock on January 28, 2005 of $23.62.

CSFB and Morgan Stanley also considered the range of implied exchange ratios resulting from these analyses, which ranged from 0.385x, based on the lowest value obtained in the DCF analysis of AT&T and the highest value obtained in the DCF analysis of SBC, to 0.679x, based on the highest value obtained in the DCF analysis of AT&T and the lowest value obtained in the DCF analysis of SBC, compared to the implied effective exchange ratio of 0.834x as of January 28, 2005.

In addition, CSFB and Morgan Stanley performed a DCF analysis with respect to the estimated future cash flows of the combined company. This DCF analysis was based on cash flows for AT&T and SBC from 2005 through 2007, terminal value multiples of estimated last twelve months EBITDA for the pro forma combined company for 2007 ranging from 5.0x to 6.0x, discount rates ranging from 7.5% to 9.5% and estimates as to the cost savings and other potential synergies anticipated to result from the merger reviewed and discussed by the managements of AT&T and SBC. The terminal value multiples and discount rates for this analysis were selected based on a review of the multiples and rates used by CSFB and Morgan Stanley for SBC and AT&T and their relative sizes and business mix as parts of the combined company, CSFB and Morgan Stanley s experience with analyzing telecommunications companies and their knowledge of the telecommunications industry in general. This analysis indicated an implied value per share of AT&T common stock of $16.76 to $21.71, excluding anticipated synergies, and $19.15 to $24.63, including anticipated synergies.

Contribution Analysis

CSFB and Morgan Stanley compared the contribution of each of AT&T and SBC, respectively, to the pro forma combined company resulting from the merger based on 2005 financial forecasts for AT&T prepared by AT&T management (adjusted as indicated below) and publicly available equity research estimates and projections (including adjustments thereto) for AT&T for 2006 through 2008 and the publicly available equity research estimates and projections for SBC for 2005 through 2007 described above and certain publicly available equity research estimates and projections for SBC for 2008.

	($ in billions)		AT&T Equity Value Contribution	Implied Exchange Ratio
	AT&T	SBC		
Net Income				
2005E	$ 1.3	$ 4.1	23.7%	1.286x
2006E	1.0	4.6	17.3%	0.866x
2007E	0.7	5.3	12.4%	0.584x
2008E	0.6	5.6	9.9%	0.453x
Cash Flow from Operations				
2005E	$ 4.1*	$ 15.2	21.1%	1.103x
2006E	3.3	15.7	17.4%	0.870x
2007E	3.0	16.0	15.7%	0.768x
2008E	2.7	16.1	14.5%	0.704x

* Excludes $0.8 billion of working capital charges related to severance payments and post-employment benefits.

No cost savings programs or revenue enhancements were considered in this analysis. This analysis indicated an implied exchange ratio ranging from 0.866x, based on the lowest value obtained in the contribution analysis, to 1.286x, based on the highest value obtained in the contribution analysis, with respect to contributions to net income and cash flows from operations for the period 2005 through 2006, and an implied exchange ratio ranging from 0.453x, based on the lowest value obtained in the contribution analysis, to 0.768x, based on the highest value obtained in the contribution analysis, with respect to contributions to net income and cash flows from operations for the period 2007 through 2008, in each case as compared to the implied effective exchange ratio of 0.834x as of January 28, 2005.

Selected Company Analysis

CSFB and Morgan Stanley also compared certain financial and operating information of AT&T and SBC to corresponding information for companies that CSFB and Morgan Stanley deemed similar. CSFB and Morgan Stanley determined that while there was no company that was directly comparable to AT&T based on its industry, financial and operational profile and business mix and the dynamics of its industry, the company most similar for purposes of their comparable company analysis based on those criteria was MCI. For SBC, CSFB and Morgan Stanley used Bell South Corporation and Verizon Communications (referred to in this document as the SBC Peer Group), based on the same criteria.

In the case of AT&T, CSFB and Morgan Stanley reviewed MCI s enterprise value, calculated as equity value, plus net debt and other adjustments, as a multiple of certain publicly available analyst estimates of MCI s calendar year 2005 and 2006 EBITDA and MCI s dividend yield based on MCI s closing stock price as of January 28, 2005 and applied a range of the implied multiples and dividend yields to the corresponding financial data for AT&T based on financial forecasts for AT&T for 2005 prepared and provided by the management of AT&T and certain publicly available analyst estimates and projections (including adjustments thereto) for AT&T for 2006 reviewed and discussed with the management of AT&T. This analysis indicated an implied value per share of AT&T common stock ranging from $9.50 to $20.50.

In the case of SBC, CSFB and Morgan Stanley compared the SBC Peer Group s enterprise values as a multiple of certain publicly available analyst estimates of the SBC Peer Group s calendar year 2005 and 2006 EBITDA and the SBC Peer Group s market prices as a multiple of certain publicly available analyst estimates of the SBC Peer Group s calendar year 2005 and 2006 earnings per share and cash earnings per share (defined as earnings per share plus depreciation and amortization per share), and reviewed the SBC Peer Group s dividend yields based on the SBC Peer Group s closing stock prices as of January 28, 2005 and applied the range of the implied multiples and dividend yields to the corresponding financial data for SBC. This analysis indicated an implied value per share of SBC common stock ranging from $21.00 to $26.00.

CSFB and Morgan Stanley noted that such analyses indicated implied exchange ratios ranging from 0.365x to 0.976x as compared to the implied effective exchange ratio of 0.834x as of January 28, 2005.

CSFB and Morgan Stanley noted that the merger and acquisition transaction environment varies over time because of macroeconomic factors such as interest rate and equity market fluctuations and microeconomic factors such as industry results and growth expectations. CSFB and Morgan Stanley also noted that no company or transaction reviewed was identical to AT&T, SBC or the proposed merger and that, accordingly, these analyses involve complex considerations and judgments concerning differences in financial and operating characteristics of SBC and AT&T and other factors that would affect the acquisition values in the comparable transactions, including the size and demographic and economic characteristics of the markets of each company and the competitive environment in which it operates. Mathematical analyses (such as determining the average or median) is not in itself a meaningful method of using comparable transaction data.

Other Considerations

In the course of preparing their opinions, CSFB and Morgan Stanley also reviewed and considered other information and data, including:

- the potential pro forma effect of the merger on the pro forma combined company s estimated earnings per share in calendar years 2006, 2007 and 2008 both before and after giving effect to potential cost savings and other synergies anticipated to result from the merger developed jointly by SBC and AT&T and compared that data to the estimated earnings per share of AT&T and SBC on a standalone basis. Such analysis indicated that, after giving effect to potential cost savings and other synergies, the merger would be accretive to the pro forma earnings of SBC by 2008;

the implied exchange ratios indicated by the historical trading prices of AT&T common stock and SBC common stock (based upon the daily closing share prices of AT&T common stock to corresponding prices for SBC common stock on January 26, 2005, which was the last trading day before reports of the proposed SBC/ AT&T merger appeared in the popular press, and the 10-day, one-month, three-month, six-month and one-year periods ending January 28, 2005) as compared to the implied effective

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exchange ratio of 0.834x (based on the closing share prices on January 28, 2005) and the implied premium over such implied exchange ratios:

	Historical Exchange Ratio	Implied Premium
January 26, 2005	0.751x	11.2%
10-day average	0.767x	8.9%
One-month average	0.754x	10.6%
Three-month average	0.730x	14.3%
Six-month average	0.652x	28.0%
One-year average	0.686x	21.7%

high, low and median premiums paid in the following transactions with aggregate values greater than $10 billion since January 1, 1999, in which 50% or less of the consideration was in cash and which resulted in holders of the acquired company s common stock owning 25% or less of the pro forma combined company s common stock for the ten-day and six-month periods prior to announcement of the transaction:

			Nominal Premium	
Date Announced	Target	Acquiror	10-Day Average	6-Month Average
12/04	Guidant Corp	Johnson & Johnson	15%	26%
6/04	SouthTrust	Wachovia	23%	26%
7/02	Pharmacia	Pfizer	48%	48%
12/01	Immunex Corp	Amgen Inc	30%	59%
4/01	American General	AIG	25%	28%
3/01	ALZA	Johnson & Johnson	39%	16%
12/00	Quaker Oats Co	PepsiCo Inc	16%	34%
9/00	Associates First Capital	Citigroup	55%	36%
7/00	SDL	JDS Uniphase	61%	64%
1/00	E-Tek Dynamics	JDS Uniphase	59%	33%
9/99	General Instrument	Motorola	7%	21%
1/99	Ascend Communications	Lucent Technologies	34%	40%

Such analysis indicated implied exchange ratios ranging from 0.820x, based on the lowest value obtained in the premium analysis of 7%, to 1.234x, based on the highest value obtained in the premium analysis of 61%, for the 10-day average, and 0.756x, based on the lowest value obtained in the premium analysis of 16%, to 1.609x, based on the highest value obtained in the premium analysis of 64%, for the six-month average, as compared to the implied effective exchange ratio of 0.834x as of January 28, 2005.

selected recent publicly available research analyst price targets from selected firms who published price targets for both AT&T and SBC as of January 28, 2005. In performing this analysis, CSFB and Morgan Stanley utilized research analyst price targets from the following firms:

Lehman Brothers Inc.;

Prudential Financial Inc.;

Deutsche Bank Securities Inc.;

RBC Dain Rauscher Inc.;

CSFB; and

Morgan Stanley.

For each firm, CSFB and Morgan Stanley calculated exchange ratios based on the price targets for AT&T and SBC, respectively. This analysis yielded the following exchange ratios:

	Low	**Median**	**Mean**	**High**
Implied Effective Exchange Ratio	0.510x	0.551x	0.603x	0.821x

CSFB and Morgan Stanley noted that the implied effective exchange ratio was 0.834x as of January 28, 2005.

Interests of AT&T Executive Officers and Directors in the Merger

In considering the recommendation of the AT&T board of directors with respect to the merger agreement, AT&T s shareholders should be aware that some of AT&T s executive officers and directors have interests in the merger and have arrangements that are different from, or in addition to, those of AT&T s shareholders generally. The AT&T board of directors was aware of these interests and considered them, among other matters, in reaching its decisions to declare the merger and the other transactions contemplated by the merger agreement advisable, to adopt the merger agreement and to recommend that AT&T s shareholders vote in favor of approving the merger agreement.

Equity Compensation Awards. The merger agreement provides that upon completion of the merger, each AT&T compensatory option, including those held by executive officers and directors of AT&T, will be converted into an SBC stock option based on the exchange ratio in the merger. In addition, the merger agreement provides that, upon completion of the merger, each restricted stock unit and other stock-based award based upon shares of AT&T common stock, including those held by executive officers and directors of AT&T, will be converted into a restricted stock unit or stock-based award based upon shares of SBC common stock based on the exchange ratio in the merger. In addition, AT&T options and other stock-based awards will be equitably adjusted to take into account the payment of the $1.30 special dividend in respect of each share of AT&T common stock. Upon completion of the merger, each stock option granted on or prior to January 30, 2005 and restricted stock unit granted on or prior to February 3, 2005 will vest in full in accordance with the terms of the original grants. Each stock option granted after January 30, 2005 and restricted stock unit granted after February 3, 2005 will vest upon a termination of employment giving rise to severance benefits under the Senior Officer Separation Plan described below. Upon completion of the merger, each performance share will be paid to executive officers on a pro rata basis in accordance with policies established by the AT&T Compensation and Employee Benefit Committee and as provided in the AT&T 2004 Long Term Incentive Plan. Based on AT&T equity compensation awards held by executive officers and directors of AT&T as of February 3, 2005 and assuming a closing date of December 31, 2005, upon completion of the merger, Mr. James W. Cicconi, General Counsel & Executive Vice President of AT&T, Mr. David W. Dorman, Chairman of Board and CEO of AT&T, Mr. Hossein Eslambolchi, President of AT&T Global Network Technology Services and CTO & CIO of AT&T, Mr. William J. Hannigan, President and COO of AT&T and Mr. Thomas W. Horton, Vice Chairman and CFO of AT&T, the remaining executive officers, as a group, and the remaining directors, as a group, respectively, would vest, as of completion of the merger, in respect of 220,196, 660,589, 176,157, 547,500 and 338,124 and 440,306 and 5,848 shares subject to their stock options and 112,800, 462,700, 211,400, 262,450 and 187,900 and 195,160 and 99,848 shares with respect to their restricted stock units and other stock-based awards. Based on AT&T performance share awards outstanding as of February 3, 2005 and assuming a closing date of December 31, 2005, upon completion of the merger, Messrs. Cicconi, Dorman, Eslambolchi, Hannigan and Horton, and the remaining executive officers, respectively as a group, would be distributed, as of completion of the merger, 74,600, 372,766, 104,667, 243,233 and 143,466 and 194,326 shares of AT&T common stock with respect to their performance share awards.

Senior Officer Separation Plan. AT&T maintains the AT&T Senior Officer Separation Plan pursuant to which each of the executive officers are eligible to receive severance benefits if, during the two-year period following a change in control such as the merger, the participant s employment with AT&T is terminated by AT&T (other than for cause or by reason of the participant s disability) or by the participant for good reason.

Subject to the participant s execution and non-revocation of a release following such a termination, a participant will receive the following:

A severance payment made partially in cash and partially in the form of a special change in control credit to his or her cash balance pension account as set forth in the Management Pension Plan and the Excess Benefit and Compensation Plan (as described below). The cash portion of the severance payment is equal to the difference between (1) three times the sum of (A) the participant s annual base salary and (B) the participant s target bonus as of the year in which the change in control occurs (or if no target bonus has been set forth such year, the year immediately preceding the year in which the change in control occurs) and (2) an amount equal to 90% of the participant s special change in control credit;

a pro rata bonus through the date of termination for the year in which the participant s termination of employment occurs;

certain life insurance and death benefits and medical and dental coverage following the date of termination;

payment of any unvested cash awards/payments;

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a cash payment sufficient to provide financial counseling for two years following the date of termination; and

outplacement services (provided such services begin within one year of termination).

In the event that any amounts payable or benefits provided to a participant become subject to the excise taxes imposed under Section 4999 of the Code, the participant will be entitled to an additional payment such that he or she will be placed in the same after-tax position as if no excise tax had been imposed.

Assuming that the merger is completed on December 31, 2005 and each of the executive officers employment is terminated by AT&T without cause immediately after completion, the amount of severance (based upon current base salaries and target bonus amounts) that would be payable to each of Messrs. Cicconi, Dorman, Eslambolchi, Hannigan and Horton and the remaining executive officers, as a group, is $3,840,000, $10,275,000, $4,050,000, $6,459,750 and $4,676,250 and $11,994,000.

Employment Agreement with David W. Dorman. SBC has entered into an employment agreement, dated as of January 30, 2005, with Mr. Dorman. The agreement provides for a term of employment commencing upon completion of the merger and ending on Mr. Dorman s date of termination of employment. Provided that Mr. Dorman remains Chairman of the Board of Directors and Chief Executive Officer of AT&T through the completion of the merger, Mr. Dorman will serve as SBC s President and as a member of its board of directors during the term of the agreement.

During the term, Mr. Dorman will receive an annual base salary of no less than his annual base salary for 2005 as such amount may be increased prior to completion of the merger. In addition, for each fiscal year ending during the term, Mr. Dorman will be eligible to be awarded an annual bonus in cash on substantially the same terms as peer executives of SBC and its affiliates, which for the fiscal year beginning immediately prior to completion of the merger will be pro rated and at least at the same target percentage of annual base salary as was established by AT&T for 2005. Upon completion of the merger, all of Mr. Dorman s options to purchase shares of AT&T common stock will vest in full, and each option will remain exercisable for the remainder of its full term as provided by its terms. In addition, all other AT&T equity-based or other long or short-term incentive awards held by Mr. Dorman will vest in full or be paid out, as the case may be, and any performance awards will be distributed as provided by their terms. Mr. Dorman also will be eligible to participate on the same terms as peer executives of SBC and its affiliates in all long-term incentive plans of SBC beginning with the first performance period starting after completion of the merger. During the term, Mr. Dorman will be eligible for, and receive benefits under, employee benefit and perquisite arrangements no less favorable than those generally applicable or made available to peer executives of SBC and, during the first six months of the term, those generally applicable or made available to Mr. Dorman prior to completion of the merger.

If, during the first six months of the term, Mr. Dorman s employment is terminated by SBC without cause (as defined in the agreement) or Mr. Dorman resigns for any reason, Mr. Dorman will be entitled to receive:

A pro rata target bonus for the year in which the termination occurs;

An amount equal to the amount Mr. Dorman would have been entitled to receive under any plan, agreement or program of AT&T (other than his AT&T SERP described below) had his employment been terminated without cause immediately after completion of the merger (subject to Mr. Dorman s execution of any release required under any such plan, agreement or program);

Vesting and full term exercisability (as provided by their terms) for all AT&T equity based awards;

Payment of an annuity under his supplemental retirement arrangement equal to 60 percent of his final three-year average total cash compensation with a 50% joint and survivor annuity to Mr. Dorman and his spouse; and

Lifetime medical and dental benefits on the same terms and at the same cost as such benefits would have been provided had Mr. Dorman terminated employment as of immediately before completion of the merger, and Mr. Dorman will be covered under SBC s Executive Health Plan or successor plan.

If, during the first six months of the term, Mr. Dorman s employment is terminated by SBC without cause (as defined in the agreement) or Mr. Dorman resigns for any reason, a consulting agreement entered into between Mr. Dorman and SBC in connection with entering into the employment agreement will become effective. Under the consulting agreement, Mr. Dorman will provide consulting services for a three-year period following his termination as may be reasonably requested by the board of directors of SBC or the Chief Executive Officer of SBC. In consideration for providing such services, Mr. Dorman will be granted

400,000 shares of restricted stock of SBC that will vest in three equal annual installments on the first three anniversaries of the date of grant. If Mr. Dorman s consulting services are terminated during the term of the consulting agreement on account of his death, disability or by SBC other than for cause, the restrictions on the then remaining shares of restricted stock, if any, will immediately lapse. If Mr. Dorman voluntarily terminates the consulting agreement or is terminated by SBC for cause then any unvested shares of restricted stock will be forfeited.

If Mr. Dorman s employment is terminated by SBC for cause or for any reason after the first 6 months of the term, the only compensation and benefits he will receive are (i) his unpaid annual base salary, (ii) the AT&T SERP (if his termination is not for cause) and (iii) any other vested and accrued benefits.

Under the employment agreement, Mr. Dorman is restricted from revealing confidential information of SBC and, during Mr. Dorman s employment and consultancy and, in the event that Mr. Dorman s employment or consultancy is terminated by SBC for cause, for a one-year period after such termination, Mr. Dorman may not solicit for employment any employees of SBC and may not compete with SBC. In the event that any payments to Mr. Dorman are subject to an excise tax under Section 4999 of the Code, Mr. Dorman will be entitled to an additional payment so that he remains in the same after-tax position he would have been in had the excise tax not been imposed, unless the value of the parachute payments to Mr. Dorman is less than 110% of the maximum amount that Mr. Dorman could receive without being subject to the excise tax, in which case Mr. Dorman s parachute payments will be reduced to the maximum amount that Mr. Dorman could receive without being subject to the excise tax.

Retention Program. Pursuant to the terms of the merger agreement, AT&T may establish a retention pool in amount not to exceed $100 million for the benefit of its employees under which each executive officer (other than members of the executive committee) may be allocated a cash retention bonus. Any retention bonus granted to such an executive officer may not exceed three times the executive officer s annual base salary without AT&T s consulting with SBC and obtaining consent. Because the retention program does not prescribe any circumstances in which SBC may or may not grant such waiver, SBC has sole discretion in determining whether to consent to waive the program s limits. In addition, provided SBC consents to the waiver, the retention program does not prescribe any limit on the amount by which a retention bonus may exceed three times the annual base salary of any particular executive. Retention bonuses would be payable to the executive officers on a date established by AT&T which may be no earlier than six months following completion of the merger, subject to the executive officer s continued employment through such date. If, however, the executive officer s employment were to be terminated by AT&T without cause or by the executive officer for good reason prior to the date on which the retention bonus would be payable, the executive officer would be entitled to the retention bonus.

AT&T Management Pension Plan. Under the terms of AT&T s management pension plan, if during the two-year period following a change in control, such as the merger, a participant s employment with AT&T is terminated by AT&T (other than for cause or by reason of the participant s disability) or by the participant for good reason , as of the participant s date of termination of employment, the participant (including an executive officer) will become fully vested in his or her benefit under the plan, any unbridged credited service will be bridged, the participant will be deemed to have completed the minimum period of credited service required for full conversion of the pension under the previous formula to a cash balance formula, he or she will receive a special change in control credit to his cash balance account plus interest from the end of the month in which the change in control occurs, and the participant may elect to receive his pension benefit in a lump sum or the existing annuity forms of benefit in the plan. The special change in control credit is an amount equal to the participant s eligible pay as defined in the Plan for the calendar year immediately preceding the calendar year in which the change in control occurs multiplied by the lesser of five percent for each whole year of the participant s employment through the change in control or 100 percent.

AT&T Excess Benefit and Compensation Plan. Under the terms of AT&T s excess benefit and compensation plan, as of an eligible participant s date of termination following a change in control such as the merger, the participant (including an executive officer) will receive the special change in control credit as described above under the Management Pension Plan based on eligible pay in excess of the applicable limit under Section 401 (a) (17) of the Code and his or her accrued pension benefit will include the special change

in control credit for purposes of determining the participant s benefit under the excess benefit and compensation plan. Benefits under the plan are secured by assets in the AT&T Benefit Protection Trust.

Savings Plans. Under each of the AT&T Long Term Savings Plan for Management Employees, the AT&T Retirement Savings and Profit Sharing Plan and the AT&T of Puerto Rico, Inc. Long Term Savings Plan for Management Employees, if during the two-year period following a change in control, such as the merger, a participant s employment with AT&T is terminated by AT&T (other than for cause or by reason of the participant s death or disability) or by the participant for good reason , the participant, including each executive officer, will become fully vested in any benefits accrued through the date of a change in control such as the merger.

Non-Qualified Pension Plan. Under the AT&T Non-Qualified Pension Plan, each participant, including each executive officer, will become fully vested in any benefits accrued through the date of a change in control such as the merger. Benefits under the plan are secured by assets in the AT&T Benefit Protection Trust.

Executive Life Insurance Benefits. Under the AT&T Senior Officer Separation Plan, a participant in the AT&T Executive Life Insurance Program, including an executive officer, will be entitled to receive a cash payment equal to the sum of (1) the present value of any necessary future life insurance premium payments that are estimated to be sufficient to provide continuation of coverage at the participant s applicable benefit amount under the AT&T Executive Life Insurance Program policy as if the participant had continued in the active employment of AT&T until becoming eligible for postretirement medical benefits, plus (2) a tax adjustment payment, if, during the two-year period following a change in control such as the merger, the participant s employment is terminated by AT&T (other than for cause or by reason of the participant s disability) or by the participant for good reason. In addition, the AT&T Executive Life Insurance Program must remain in effect for at least two years following a change in control such as the merger.

AT&T Executive Deferred Compensation Plan. Upon a change in control such as the merger, individual deferral and benefit agreements with executive officers and individual nonqualified pension agreements with executive officers will be covered under the plan; all plan accounts, individual deferral agreements with executive officers and individual nonqualified pension agreements with executive officers will be secured through the AT&T Benefits Protection Trust; all account balances that are unvested as of the change in control such as the merger will become fully vested as of the change of control and the rate of interest accrual following a change in control may be no less than the rate of accrual immediately prior to the change in control. In connection with the merger, AT&T has reserved the right to distribute account balances to participants in the AT&T Executive Deferred Compensation Plan after giving SBC the opportunity to review and comment upon any amendments effectuating such distributions.

Supplemental Executive Retirement Arrangements. As discussed under The AT&T Annual Meeting Proposals and Information Employment Contracts and Termination of Employment Agreements, AT&T is a party to special individual non-qualified pension arrangements (each, an AT&T SERP) with four executive officers, which provide annual retirement benefits determined as a percentage (based on year of termination) of the executive officer s final three-year average total cash compensation. The AT&T SERP is reduced by other pension benefits payable from AT&T and prior employers. Upon a change in control, such as the merger, each of the executive officers who are party to the individual AT&T SERP will become fully vested in their AT&T SERP benefits to the extent not then vested. In the event that, within two years following a change in control, such as the merger, the executive officer s employment is terminated by AT&T other than for cause or by the executive for good reason, the percentage of the executive officer s final three-year average total cash compensation will be determined as if the executive officer had provided three additional years of service to AT&T. Mr. Dorman s AT&T SERP was modified by his employment agreement with SBC, as discussed above. For the other executive officers, assuming that the merger is completed on December 31, 2005 and the executive officer s employment is terminated by AT&T without cause immediately thereafter, the percentage of final three-year average total cash compensation payable to Messrs. Hannigan, Horton and the other executive officer who is party to the individual AT&T SERP, would be 18%, 14%, and 27.5%, respectively. Benefits under these individual arrangements are secured by assets in the AT&T Benefit Protection Trust.

AT&T Short Term Incentive Plan and AT&T Management Pay Plan. As soon as administratively possible after the occurrence of a change in control such as the merger, pro rata annual bonuses through the

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date on which the change in control occurs will be paid to participants, including executive officers, at the greater of the target award or actual performance through the first date of the month in which the change in control occurs.

AT&T Retiree Welfare Benefits. For purposes of each of the AT&T Post-retirement Welfare Benefits Plan, the AT&T Long-Term Care Plan for Retired Employees and the AT&T Supplementary Life Insurance Plan, if during the two-year period following a change in control, the employment of a management employee, including an executive officer, with AT&T is terminated by AT&T (other than for cause or by reason of the participant s death or disability) or by the participant for good reason , the management employee will become a participant in the plan (1) if the sum of the participant s age and credited service equals 65 years and (2) the participant had at least five years of credited service with AT&T as of December 31, 1999.

AT&T Medical Expense Plan and AT&T Dental Expense Plan for Active Employees. AT&T will pay the cost of continuation of coverage for a period of up to 18 months following the termination of a participant s (including each executive officer s) employment following a change in control such as the merger. Such coverage period for the medical and dental benefits will run concurrently with the applicable COBRA continuation coverage period set forth under Section 4980B of the Code. In addition, AT&T Medical Expense Plan and AT&T Dental Expense Plan may not be amended to eliminate the continuation of coverage.

AT&T Separation Medical Plan. If, at the end of the applicable COBRA continuation coverage period set forth under Section 4980 of the Code, an eligible executive officer is not covered under another group health plan, AT&T will make medical coverage available for the eligible executive officer and his or her dependents under the AT&T Separation Medical Plan on the same basis as for certain former senior managers. Should a participant elect to receive this coverage, the eligible executive officer will be responsible for the same portion of the annual premium for this medical coverage as then-applicable to similarly situated executives covered under the AT&T Separation Medical Plan.

Material United States Federal Income Tax Consequences

The following is a summary of the material United States federal income tax consequences of the special dividend and the merger to U.S. holders of AT&T common stock. The summary is based on the Code, Treasury regulations thereunder and administrative rulings and court decisions in effect as of the date of this document, 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;
- 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 AT&T common stock, the tax treatment of a partner 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 AT&T common stock, such holder should consult its tax advisor.

This discussion only addresses AT&T shareholders that hold their shares of AT&T common stock as a capital asset within the meaning of Section 1221 of the Code. Further, this summary does not address all aspects of U.S. federal income taxation that may be relevant to an AT&T shareholder 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 AT&T common stock 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 AT&T common stock 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 special dividend or the merger under applicable state, local or non-United States laws.

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

The Special Dividend

Pursuant to the terms of the merger agreement, AT&T will pay a special dividend of $1.30 per share of AT&T common stock to holders of record of AT&T common stock as of a record date to be set by the AT&T board of directors, unless, as described below, the merger is restructured to include in the per share merger consideration the per share amount of the special dividend that would otherwise be payable by AT&T.

Individual U.S. holders who meet applicable holding period requirements under the Code for qualified dividends (generally more than 60 days during the 121-day period surrounding the ex-dividend date) will be taxed on the special dividend at a maximum federal income tax rate of 15%. This is based on a legal opinion from Wachtell, Lipton, Rosen & Katz to the effect that the special dividend should qualify as a distribution within the meaning of Section 301 of the Code.

It is not possible for counsel to reach a definitive conclusion regarding the characterization of the special dividend for United States federal income tax purposes because there is a conflict of legal authorities. Some authorities have characterized a pre-merger distribution as additional merger consideration while other authorities have respected the form of such distribution as a dividend. The authorities that counsel believes are more similar to the facts of this situation respect characterization of a payment that is made in the form of a dividend and not merger consideration as a dividend. Based upon such authorities, Wachtell, Lipton, Rosen & Katz has concluded that the special dividend should constitute a distribution within the meaning of Section 301 of the Code.

Assuming counsel s characterization of the special dividend prevails, the special dividend will be treated as a dividend for the United States federal income tax purposes to the extent paid out of current or accumulated earnings and profits of AT&T. AT&T expects that the entire amount of the special dividend will be paid out of its current or accumulated earnings and profits. Holders should consult their tax advisors regarding any alternative characterization of the special dividend, including as consideration received in exchange for their shares of AT&T common stock. In addition, holders that are corporations should consult their tax advisors regarding the potential applicability of the extraordinary dividend provisions of the Code.

It is possible that the Internal Revenue Service could disagree with counsel s characterization of the special dividend as a distribution for United States federal income tax purposes and instead treat the special dividend as merger consideration paid by SBC in exchange for a portion of a holder s AT&T common stock. In such case, a holder of AT&T common stock would be taxed in the same manner as described below under The Merger Merger Consideration Consisting of SBC Common Stock and Cash Paid by SBC.

If the special dividend is paid by AT&T, it will be paid following the adoption of the merger agreement and prior to the effective time of the merger. AT&T intends to pay the special dividend on the closing date of the merger.

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. As described below, it is a condition to the closing of the merger that AT&T and SBC will receive opinions from Wachtell, Lipton, Rosen & Katz and Sullivan & Cromwell LLP, respectively, dated as of the closing date of the merger, to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code and that each of SBC, AT&T and Merger Sub will be a party to such reorganization. The merger agreement provides that, if it is necessary to satisfy the closing condition described in the preceding sentence, the merger will be restructured to include in the per share merger consideration the per share amount of the special dividend. In that event, AT&T will not pay the special dividend. Instead, each share of AT&T common stock issued and outstanding immediately prior to the effective time of the merger will be converted into the right to receive 0.77942 of a share of SBC common stock, plus $1.30 in cash.

In addition, in connection with the filing of the registration statement of which this document is a part, AT&T has received an opinion of Wachtell, Lipton, Rosen & Katz and SBC has received an opinion of Sullivan & Cromwell LLP, each to the effect that the merger will qualify as a reorganization within the

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meaning of Section 368(a) of the Code and that each of SBC, AT&T and Merger Sub will be a party to such reorganization. Each of these opinions is based on representations made by AT&T, SBC and Merger Sub, and on customary factual assumptions. Accordingly, the merger will be tax-free to holders of AT&T common stock, except with respect to any cash received, which will be taxed under one of the alternatives described under the next two subheadings. Specifically, the following material federal income tax consequences will apply:

Merger Consideration Consisting Solely of SBC Common Stock. If the special dividend is paid by AT&T and the merger is not restructured, the material United States federal income consequences of the merger to holders of AT&T common stock will be as follows:

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

the aggregate tax basis of the shares of SBC common stock received in the merger (including any fractional shares deemed received and redeemed as described below) will be equal to the aggregate tax basis in the shares of AT&T common stock surrendered; and

the holding period of the SBC common stock received in the merger (including any fractional shares deemed received and redeemed as described below) will include the holding period of the shares of AT&T common stock surrendered.

Merger Consideration Consisting of SBC Common Stock and Cash Paid by SBC. If (i) in order to allow counsel to issue their opinions regarding qualification of the merger as a reorganization within the meaning of Section 368(a) of the Code, the merger is restructured to include as merger consideration the $1.30 to be paid by SBC (and the special dividend is not paid by AT&T), or (ii) counsel s characterization of the special dividend as a distribution within the meaning of Section 301 of the Code does not prevail (and the special dividend paid by AT&T were characterized as additional merger consideration paid by SBC), the material United States federal income consequences of the merger to holders of AT&T common stock will be as follows:

a holder will not recognize any gain in the merger, except with respect to cash received. If the holder s adjusted tax basis in the AT&T common stock surrendered is less than the sum of the fair market value, as of the closing date of the merger, of the SBC common stock and the amount of cash received by the holder, then the holder will recognize gain in an amount equal to the lesser of (1) the sum of the amount of cash and the fair market value, as of the closing date of the merger, of the SBC common stock received, minus the adjusted tax basis of the AT&T common stock surrendered in exchange therefor, and (2) the amount of cash received by the holder in the exchange. However, if a holder s adjusted tax basis in the AT&T common stock surrendered in the transaction is greater than the sum of the amount of cash and the fair market value of the SBC common stock received, the holder s loss will not be currently allowed or recognized for United States federal income tax purposes. Holders should consult their tax advisors regarding the manner in which cash and SBC common stock should be allocated among different blocks of AT&T common stock. Any recognized gain generally will be long-term capital gain if the holder s holding period with respect to the AT&T common stock surrendered is more than one year at the effective time of the merger. In some cases, if the holder actually or constructively owns SBC common stock other than SBC common stock received as a result of the merger, the recognized gain could be treated as having the effect of the distribution of a dividend under the tests set forth in Section 302 of the Code, in which case such gain would be treated as dividend income. In such cases, holders that are corporations should consult their tax advisors regarding the potential applicability of the extraordinary dividend provisions of the Code.

The aggregate tax basis of SBC common stock received (including any fractional shares deemed received and redeemed as described below) by a holder that exchanges its shares of AT&T common stock for a combination of SBC common stock and cash pursuant to the merger will be equal to the aggregate adjusted tax basis of the shares of AT&T common stock surrendered for SBC common stock

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