BELLSOUTH CORP
Form PREM14A
March 31, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
SCHEDULE 14A
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934 (AMENDMENT NO.)

Filed by the Registrant þ
Filed by a Party other than the Registrant o

Check the appropriate box:

þ **Preliminary Proxy Statement**
o **Confidential, for Use of the Commission Only (as permitted by Rule14a-6(e)(2))**
o **Definitive Proxy Statement**
o **Definitive Additional Materials**
o **Soliciting Material Pursuant to Rule 14a-12**

BELLSOUTH CORPORATION

(Name of Registrant as Specified in its Charter)

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

Payment of Filing Fee (Check the appropriate box):

o No fee required

þ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

Common Shares, par value $1.00 per share, of the Registrant

(2) Aggregate number of securities to which transaction applies:

1,832,380,986-reflects the number of BellSouth common shares estimated to be outstanding immediately prior to the completion of the merger of ABC Consolidation Corp., a wholly-owned subsidiary of AT&T Inc. with and into the Registrant, based on the number of common shares of the Registrant outstanding on March 29, 2006 and the number of options to purchase the Registrant s common shares outstanding as of March 29, 2006.

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

$34.72 pursuant to Rules 0-11(c)(1) and 0-11(a)(4) under the Securities Exchange Act of 1934, the average of the high and low prices per share of the Registrant s common shares reported on the New York Stock Exchange on March 24, 2006.

(4) Proposed maximum aggregate value of transaction:

$63,620,267,834

(5) Total fee paid:

$6,807,369-computed in accordance with Rule 0-11(c)(1) under the Securities Exchange Act of 1934 by multiplying the proposed aggregate value of the transaction by 0.000107.

þ Fee paid previously with preliminary materials:

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

$6,807,369

(2) Form, Schedule or Registration Statement No.:

Form S-4

(3) Filing Party:

AT&T Inc.

(4) Date Filed:

March 31, 2006

The information in this document is not complete and can be changed. AT&T may not issue the securities being offered by use of this document until the registration statement filed with the Securities and Exchange Commission, of which this document is part, is declared effective. This document is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where such offer, solicitation or sale is prohibited.

PRELIMINARY DRAFT, DATED MARCH 31, 2006 SUBJECT TO COMPLETION

PRELIMINARY PROXY STATEMENT AND PROSPECTUS OF AT&T INC.	**PRELIMINARY PROXY STATEMENT OF BELLSOUTH CORPORATION**

l , 2006

Dear Shareholders:

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

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

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

Each company is holding a special meeting of shareholders in order to obtain the shareholder approvals necessary to complete the merger as more fully described in this joint proxy statement/ prospectus. The accompanying joint proxy statement/prospectus provides a detailed description of the proposed merger and the merger consideration. In addition, it provides you with important information regarding these meetings. **We urge you to read the enclosed materials (and any documents incorporated by reference into this joint proxy statement/ prospectus) carefully. Please pay particular attention to the Risk Factors section beginning on page 16.**

We cannot complete the merger unless the shareholders of both of our companies approve proposals related to the merger. **Your vote is very important, regardless of the number of shares you own. Whether or not you expect to attend either special meeting, please vote all proxy cards that you receive as soon as possible to ensure that your shares are represented at the applicable special meeting. If you are a BellSouth shareholder, please note that a failure to vote your shares is the equivalent of a vote against the merger.** Registered and many broker-managed shareholders can vote their shares by using a toll-free telephone number or the Internet. Instructions for using these convenient services are provided on the accompanying proxy card. Of course, you may still vote your shares by marking your votes on the accompanying proxy card, signing and dating it and mailing it in the envelope provided. If you sign and return your proxy card without specifying your choices, it will be understood that you wish to have your shares voted in accordance with your board of directors recommendations. If you are a shareholder of both AT&T and BellSouth, you will receive two separate packages of proxy materials. Please sign, date and return all proxy cards that you receive, whether from AT&T or BellSouth, or vote as either an AT&T or BellSouth shareholder by Internet or telephone.

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

Sincerely,

LOGO	LOGO
Edward E. Whitacre, Jr.	F. Duane Ackerman
Chairman of the Board and Chief Executive Officer	*Chairman of the Board and Chief Executive Officer*
AT&T Inc.	*BellSouth Corporation*

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

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

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REFERENCE TO ADDITIONAL INFORMATION

This joint proxy statement/ prospectus incorporates by reference important business and financial information about AT&T and BellSouth from documents that are not included in or delivered with this joint proxy statement/prospectus. For a listing of the documents incorporated by reference into this joint proxy statement/ prospectus, see Where You Can Find More Information beginning on page 124. This information is available to you without charge upon your written or oral request. You can obtain documents related to AT&T and BellSouth that are incorporated by reference into this joint proxy statement/ prospectus, without charge, from the SEC s Web site (www.sec.gov) or by requesting them in writing or by telephone from the appropriate company.

AT&T Inc.	BellSouth Corporation
175 East Houston	1155 Peachtree Street, N.E., Room 14B06
San Antonio, TX 78205	Atlanta, Georgia 30309
(210) 821-4105	(404) 249-2000
Attn: Stockholder Services	Attn: Investor Relations
www.att.com	**www.bellsouth.com/investor**

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

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

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

ABOUT THIS DOCUMENT

This document, which forms part of a registration statement on Form S-4 filed with the SEC by AT&T (File No. 333-), constitutes a prospectus of AT&T under Section 5 of the Securities Act of 1933, which we refer to as the Securities Act, with respect to the AT&T common shares to be issued to BellSouth shareholders as required by the merger agreement. This document also constitutes a joint proxy statement under Section 14(a) of the Securities Exchange Act of 1934, which we refer to as the Exchange Act. It also constitutes a notice of meeting with respect to the special meeting of AT&T shareholders, at which AT&T s shareholders will be asked to consider and vote upon a proposal to authorize the issuance of AT&T common shares required to be issued to BellSouth shareholders pursuant to the merger agreement, and a notice of meeting with respect to the special meeting of BellSouth shareholders, at which BellSouth s shareholders will be asked to consider and vote upon a proposal to approve the merger agreement.

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AT&T INC.
175 E. Houston
San Antonio, Texas 78205
NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
To be held on l , l , 2006

To AT&T Shareholders:

A special meeting of shareholders of AT&T Inc., a Delaware corporation (AT&T), will be held at l a.m. Central time on l, l , 2006, at l , for the following purposes:

To consider and vote upon a proposal to authorize the issuance of AT&T common shares required to be issued in the merger of ABC Consolidation Corp., a Georgia corporation and a wholly-owned subsidiary of AT&T (Merger Sub), with and into BellSouth Corporation, a Georgia corporation, as contemplated by the Agreement and Plan of Merger, dated as of March 4, 2006, by and among BellSouth, AT&T and Merger Sub, as that agreement may be amended; and

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

Holders of record of AT&T common shares at the close of business on l , 2006, are entitled to vote at the special meeting and any adjournment or postponement of the special meeting. A list of these shareholders will be available for inspection during business hours from l through l , 2006, at 175 E. Houston, San Antonio, Texas, and will also be available at the special meeting.

Your vote is very important. Your proxy is being solicited by the AT&T Board of Directors. The issuance of new shares of AT&T common shares must be authorized by the shareholders of AT&T in order for the merger to be completed.

By Order of the AT&T Board of Directors.

Ann Effinger Meuleman
Vice President and Secretary
AT&T Inc.

l , 2006

IMPORTANT NOTICE

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

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

To BellSouth Shareholders:

A special meeting of shareholders of BellSouth Corporation, a Georgia corporation (BellSouth), will be held at l a.m. Eastern time on l , l , 2006, at l , for the following purposes:

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

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

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

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

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

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

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

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

By Order of the BellSouth Board of Directors.

Rebecca M. Dunn
Senior Vice President Corporate Compliance and Corporate Secretary
BellSouth Corporation
l , 2006

IMPORTANT NOTICE

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

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

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

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QUESTIONS AND ANSWERS

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

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

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

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

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

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

Q2: What will I receive in the merger?

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

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

Participants in BellSouth s direct investment plan, however, will receive fractional shares for their plan shares. These fractional shares will be issued and transferred with the participant s plan account into AT&T s dividend reinvestment plan automatically after completion of the merger.

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

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

A3: BellSouth shareholders will receive merger consideration consisting of a fixed number of 1.325 AT&T common shares for each BellSouth common share they own. Based on the closing price of $27.99 per AT&T common share on the New York Stock Exchange, which we refer to as the NYSE, on March 3, 2006, the last trading day before the public announcement of the merger, the exchange ratio represented approximately $37.09 per BellSouth common share, a 17.9% premium over the closing price of BellSouth common shares on the NYSE on March 3, 2006. Based on the closing price of $l per share of AT&T common shares on the NYSE on l , 2006, the latest practicable date before the printing of this joint proxy statement/ prospectus, the exchange ratio represented approximately $l per BellSouth common share.

Because AT&T will issue a fixed number of AT&T common shares in exchange for each BellSouth common share, the value of the merger consideration that BellSouth shareholders will receive in the merger for each BellSouth common share will depend on the price per AT&T common share at the time the merger is completed. That price will not be known at the time of the meeting and may be less than the current price or the price at the time of the meeting. Former BellSouth shareholders are currently expected to own approximately 38% of the AT&T common shares outstanding immediately after the merger.

Q4: What is required to complete the merger?

A4: We are not required to complete the merger unless a number of conditions are satisfied or waived. These conditions include receipt of shareholder approvals, receipt of the approval of the Federal Communications Commission, which we refer to as the FCC, and other regulatory consents, expiration of the waiting period under the Hart-Scott-Rodino Act, which we refer to as the HSR Act, and receipt of legal opinions that the merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986 which we refer to as the Code. For a more complete summary of the conditions that must be satisfied or waived prior to completion of the merger, see The Merger Agreement Conditions to the Merger beginning on page 86.

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

A5: The AT&T special meeting is scheduled to be held at l, at l, on l. The BellSouth special meeting is scheduled to be held at l, at l, on l .

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

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

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

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

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

Q8: How do I vote?

A8:

If you are entitled to vote at your company s special meeting, you can vote in person by completing a ballot at the special meeting, or you can vote by proxy before the special meeting. Even if you plan to attend your company s special meeting, we encourage you to vote your shares by proxy as soon as possible. After carefully reading and considering the information contained in this joint proxy statement/ prospectus, please submit your proxy by telephone or Internet in accordance with the instructions set forth on the enclosed proxy card, or fill out, sign and date the proxy card, and then mail your signed proxy card in the enclosed envelope as soon as possible so that your shares may be

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voted at your company s special meeting. For detailed information, please see Information About the AT&T Special Meeting How to Vote beginning on page 64 and Information About the BellSouth Special Meeting How to Vote beginning on page 67. **The vote required to approve the merger agreement at the BellSouth special meeting is a majority of the outstanding BellSouth common shares. Accordingly, a BellSouth shareholder s failure to vote his or her BellSouth common shares will have the same effect as a vote of those shares against the proposal to approve the merger agreement.**

Q9: How many votes do I have?

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

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

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

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

Q11: How are my employee plan shares voted?

A11: *For Employees of AT&T:* If you are an AT&T shareholder and participate in certain of AT&T s plans and/or maintain shareholder accounts under more than one name (including minor differences in registration, such as with or without a middle initial), you may receive more than one set of proxy materials. To ensure that all shares are voted, please sign and return every proxy card received or submit a proxy by telephone or through the Internet for each proxy card. The proxy card, or a proxy submitted by telephone or through the Internet, will serve as voting instructions to AT&T proxies and the plan administrator or trustee for any shares held on behalf of a participant under any of these employee benefit plans.

For Employees of BellSouth: If you are a registered shareholder of BellSouth and/or you own BellSouth common shares through a BellSouth employee benefit plan, and the accounts are in the same name, you will receive a proxy card representing your combined directly-owned and plan-owned shares that will serve as voting instructions to the designated BellSouth proxy, if applicable, and also to the trustees of those plans.

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

To allow sufficient time for voting by the trustees of the plans, participants in BellSouth, AT&T or Cingular employee benefit plans must vote their shares no later than l a.m. Eastern time on l , 2006.

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Q12: What constitutes a quorum?

A12: Shareholders who hold at least 40% of the AT&T outstanding common shares as of the close of business on the record date and who are entitled to vote must be present or represented by proxy in order to constitute a quorum to conduct business at the AT&T special meeting under AT&T s corporate by-laws.

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

Q13: What vote is required to approve each proposal?

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

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

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

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

The AT&T board of directors recommends that AT&T shareholders vote **FOR** the proposal to authorize the issuance of AT&T common shares required to be issued pursuant to the merger agreement. See The Merger AT&T s Reasons for the Merger beginning on page 25 and The Merger Recommendation of the AT&T Board of Directors on page 27.

The BellSouth board of directors recommends that BellSouth shareholders vote **FOR** the proposal to approve the merger agreement. See The Merger BellSouth s Reasons for the Merger beginning on page 27 and The Merger Recommendation of the BellSouth Board of Directors on page 31.

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

A15: If your proxy card is signed and returned without specifying your choices, your shares will be voted according to the recommendations of the AT&T or BellSouth board of directors, as the case may be.

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

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

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

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

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

AT&T most recently paid a quarterly dividend on February 1, 2006, in an amount equal to $0.3325 per AT&T common share. BellSouth most recently declared a quarterly dividend of $0.29 per BellSouth common share on February 27, 2006. If the merger had been completed before the record date for that dividend, the 1.325 AT&T common shares that the BellSouth shareholders would have received in the merger for each BellSouth common share would have entitled those shareholders to receive a dividend of $0.4406, a 52% increase over BellSouth s most recently paid quarterly dividend. All future AT&T dividends will remain subject to approval by the AT&T board of directors.

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

A18: Assuming the merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code, a U.S. holder of BellSouth common shares generally will not recognize any gain or loss upon receipt of AT&T common shares solely in exchange for BellSouth common shares in the merger, except with respect to cash received in lieu of a fractional AT&T common share. See The Merger Material United States Federal Income Tax Consequences beginning on page 56.

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

A19: AT&T and BellSouth are working to complete the merger within 12 months after the March 5, 2006 announcement date of the merger. However, the merger is subject to various regulatory approvals and other conditions, and it is possible that factors outside the control of both companies could result in the merger being completed at a later time, or not at all. There may be a substantial amount of time between the respective AT&T and BellSouth special meetings and the completion of the merger. AT&T and BellSouth hope to complete the merger as soon as reasonably practicable.

Q20: What do I need to do now?

A20: Read and consider the information contained in this joint proxy statement/prospectus carefully, and then please vote your shares as soon as possible so that your shares may be represented at your special meeting.

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

A21: No. BellSouth shareholders should keep any share certificates they hold at this time. After the merger is completed, BellSouth shareholders holding share certificates will receive a letter of transmittal and instructions on how to obtain AT&T common shares, together with cash in lieu of fractional AT&T common shares, to which they are entitled in exchange for their BellSouth common shares.

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

Q22: Who can help answer my questions?

A22: If you have questions about the merger, or if you need assistance in submitting your proxy or voting your shares or need additional copies of the joint proxy statement/prospectus or the enclosed proxy card, you should contact l, the proxy solicitation agent for AT&T and BellSouth, at l (toll free) or l (collect). If your shares are held in a stock brokerage account or by a bank or other nominee, you should call your broker, bank or other nominee for additional information.

SUMMARY

This summary highlights selected information about the merger in this joint proxy statement/prospectus and does not contain all of the information that may be important to you. You should carefully read this entire joint proxy statement/prospectus and the other documents to which this joint proxy statement/prospectus refers for a more complete understanding of the matters being considered at the special meetings. See Where You Can Find More Information beginning on page 124. Unless we have stated otherwise, all references in this joint proxy statement/prospectus to AT&T are to AT&T Inc., all references to BellSouth are to BellSouth Corporation, all references to Merger Sub are to ABC Consolidation Corp., all references to Cingular are references to Cingular Wireless LLC, Cingular Wireless Corporation, or both, as the context requires, all references to ATTC are references to AT&T Corp., a subsidiary of AT&T Inc., all references to SBC are to SBC Communications Inc., which was the former name of AT&T Inc., and all references to the merger agreement are to the Agreement and Plan of Merger, dated as of March 4, 2006, by and among BellSouth, AT&T and Merger Sub, a copy of which is attached as Annex A to this joint proxy statement/prospectus.

The Companies (Page 23)

BellSouth. BellSouth Corporation is a Fortune 100 company with annual revenue in 2005 of over $20 billion. BellSouth s core business is wireline communications and its largest customer segment is the retail consumer segment. BellSouth is the leading wireline communications service provider in the southeastern United States, serving substantial portions of the population within Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina and Tennessee. BellSouth also owns a 40% interest in Cingular.

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

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

AT&T. AT&T, formerly known as SBC Communications Inc., was formed as one of several regional holding companies created to hold ATTC s local telephone companies. At formation, SBC primarily operated in five southwestern states. SBC acquired Pacific Telesis Group in 1997, Southern New England Telecommunications Corporation in 1998 and Ameritech Corporation in 1999, thereby expanding SBC s operations as the incumbent local exchange carrier, which we refer to as an ILEC, into a total of 13 states. On November 18, 2005, SBC acquired ATTC to create the current AT&T, one of the world s largest telecommunications providers. In connection with that acquisition, the name of the company was changed from SBC Communications Inc. to AT&T Inc. AT&T also owns 60% of Cingular.

AT&T ranks among the largest providers of telecommunications services in the United States and the world. Through its subsidiaries and affiliates, AT&T provides communications services and products in the U.S. and internationally. AT&T offers services and products to consumers in the U.S. and services and products to businesses and other providers of telecommunications services worldwide. The services and products that AT&T offers vary by market, and include: local exchange services, wireless communications, long-distance services, data/broadband and Internet services, telecommunications equipment, managed networking, and wholesale transport services and directory advertising and publishing. AT&T is also backed by the research and development capabilities of AT&T Labs.

AT&T Inc. is a holding company incorporated under the laws of the State of Delaware in 1983. AT&T s principal executive offices are located at 175 E. Houston, San Antonio, Texas 78205-2233 (telephone number 210-821-4105).

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

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

The Merger (Page 24)

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

Merger Consideration (Page 71)

In the merger, BellSouth s issued and outstanding common shares will be converted into the right to receive 1.325 AT&T common shares, which we refer to as the exchange ratio.

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

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

Participants in BellSouth s direct investment plan will receive fractional AT&T common shares in exchange for BellSouth common shares held through the plan, and will not receive cash in lieu of fractional shares. These fractional shares will be issued and transferred with the participants plan accounts into AT&T s dividend reinvestment plan automatically after completion of the merger.

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

Recommendation of the AT&T Board of Directors (Page 64)

After careful consideration, the AT&T board of directors resolved that the merger agreement and the transactions it contemplates are fair to and in the best interests of AT&T s shareholders and approved the merger agreement. The AT&T board of directors recommends that holders of AT&T common shares vote **FOR** the proposal to authorize the issuance of AT&T common shares required to be issued to BellSouth shareholders pursuant to the merger agreement.

In approving the merger agreement and making its recommendation, the AT&T board of directors consulted with AT&T s senior management and AT&T s financial and legal advisors and considered a number of strategic, financial and other considerations referred to under The Merger AT&T s Reasons for the Merger beginning on page 25.

Recommendation of the BellSouth Board of Directors (Page 67)

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

In reaching its decision to approve and adopt the merger agreement and to recommend that BellSouth shareholders vote to approve the merger agreement, the BellSouth board of directors consulted with BellSouth s management and BellSouth s financial and legal advisors and considered a number of strategic, financial and other considerations referred to under The Merger BellSouth s Reasons for the Merger beginning on page 27.

Opinions of AT&T s Financial Advisors (Page 31)

In connection with the proposed merger, AT&T engaged Lehman Brothers Inc., which we refer to as Lehman Brothers, and Evercore Group Inc., which we refer to as Evercore, to act as its financial advisors. On March 4, 2006, Lehman Brothers rendered its opinion to the AT&T board of directors that, as of such date and based upon and subject to the matters stated in its opinion, from a financial point of view, the exchange ratio in the merger was fair to AT&T. In connection with Evercore s engagement, the AT&T board of directors requested that Evercore render an opinion with respect to the fairness, from a financial point of view, to AT&T, of the exchange ratio. At the meeting of the AT&T board of directors on March 4, 2006, Evercore rendered its oral opinion, which was subsequently confirmed in writing dated March 4, 2006, that, as of such date and based upon and subject to the matters stated in its opinion, the exchange ratio was fair, from a financial point of view, to AT&T. **The full texts of Lehman Brothers and Evercore s written opinions, each dated March 4, 2006, are attached as Annex B and Annex C, respectively, to this joint proxy statement/ prospectus. You are urged to read each of the opinions carefully and in its entirety for a description of the assumptions made, procedures followed, matters considered and limitations on the review undertaken.**

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

Opinions of BellSouth s Financial Advisors (Page 42)

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

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

Treatment of BellSouth Stock Options and Stock-Based Awards (Page 71)

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

Interests of BellSouth Executive Officers and Directors in the Merger (Page 53)

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

Material United States Federal Income Tax Consequences (Page 56)

The merger has been structured to qualify as a reorganization under Section 368(a) of the Code for United States federal income tax purposes. It is a condition to the closing of the merger that AT&T and BellSouth receive opinions from tax counsel, dated the closing date of the merger, to the effect that the merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code. Assuming the merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code, a U.S. holder of BellSouth common shares generally will not recognize any gain or loss upon receipt of AT&T common shares solely in exchange for BellSouth common shares in the merger, except with respect to cash received in lieu of a fractional AT&T common share.

Holders of BellSouth common shares should read The Merger Material United States Federal Income Tax Consequences beginning on page 56 for a more complete discussion of the United States federal income tax consequences of the merger. Holders of BellSouth common shares are urged to consult with their tax advisors regarding the tax consequences of the merger to them, including the effects of United States federal, state and local, foreign and other tax laws.

Procedures for Exchange of BellSouth Common Shares for AT&T Common Shares (Page 71)

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

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

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

Accounting Treatment (Page 58)

The merger will be accounted for as an acquisition by AT&T of BellSouth under the purchase method of accounting according to U.S. generally accepted accounting principles. As the sole owner of Cingular following the merger, AT&T will be required to include Cingular s operating results under Operating Revenues and Operating Expenses on AT&T s consolidated financial statements.

Regulatory Matters Related to the Merger (Page 59)

HSR Act and Antitrust. The merger is subject to the requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, which we refer to as the HSR Act, which prevents us from completing the merger until we furnish required information and materials to the Antitrust Division of the Department of Justice, which we refer to as the DOJ, and the Federal Trade Commission, which we refer to as the FTC, and the applicable waiting period is terminated or expires. On l , 2006, we filed the requisite Pre-Merger Notification and Report Forms under the HSR Act with the DOJ and the FTC.

FCC Approval. Under the Federal Communications Act of 1934, we are required to obtain the approval of the FCC prior to the transfer of control of BellSouth s FCC licenses and other authorizations that will result from the merger. On l , 2006, we filed applications for FCC approval. These applications will be subject to public comment and objections of third parties.

State Regulatory Approvals. BellSouth holds certificates, licenses and service authorizations issued by the state public utility commissions, which we refer to as the state PUCs. We will file applications seeking approval of the merger and/or notices of the merger with PUCs of the states where BellSouth is the ILEC. In addition, because BellSouth holds long distance certificates and authorizations to be a competitive local exchange carrier in the states where BellSouth is not an ILEC, we will file applications seeking approval of the merger with certain of these states. Applications for state PUC approvals are subject to public comment and objections of third parties. In addition to these applications, we also will file notifications of the merger in additional states. In some of these states, the state PUC could initiate proceedings in response to the notification. BellSouth and AT&T filed these state transfer applications and notifications with the state PUCs on l , 2006.

Municipal Franchises. The approval of municipalities where BellSouth holds franchises to provide communications and other services may need to be obtained in connection with the merger.

Foreign and Certain Other Regulatory Matters. BellSouth and AT&T will be required to obtain approval in connection with the merger from governmental competition authorities in certain countries outside the United States.

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

Completion of the Merger (Page 70)

We expect to complete the merger after we receive shareholder approvals at the special meetings of AT&T and BellSouth scheduled to be held on l , 2006 and after we receive all required regulatory approvals. We currently expect to complete the merger within 12 months of the March 5, 2006 announcement of the merger. 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 59.

No Dissenters Rights (Page 60)

Under Georgia law, the holders of BellSouth common shares are not entitled to dissenters rights with respect to the merger.

The Merger Agreement (Page 70)

The merger agreement is described beginning on page 70. The merger agreement also is attached as Annex A to this joint proxy statement/ prospectus. We urge you to read the merger agreement in its entirety because it contains important provisions governing the terms and conditions of the merger.

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Alternative Acquisition Proposals (Page 79)

Under the merger agreement, BellSouth:

- is not permitted to initiate, solicit or knowingly facilitate or encourage any inquiries that could lead to, or the making of, any acquisition proposal for BellSouth; and
- is generally not permitted to engage in any discussions regarding, or provide any non-public information to any person who has made, or proposes to make, an acquisition proposal for BellSouth.

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

- provide non-public information requested by a person who has made an unsolicited bona fide written acquisition proposal for BellSouth, if BellSouth receives from that person an executed confidentiality agreement together with a standstill agreement; or
- engage in discussions with any person who has made an unsolicited bona fide written acquisition proposal;

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

Conditions to Closing (Page 86)

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

- approval of the merger agreement by BellSouth s shareholders;
- approval by AT&T s shareholders of the issuance of AT&T common shares in the merger;
- expiration of the waiting period under the HSR Act;
- receipt of all approvals required from the FCC;
- receipt of all approvals and authorizations required from state PUCs;
- receipt of all other approvals and authorizations which if not obtained would reasonably be likely to result in a regulatory material adverse effect or in an officer or director of AT&T or BellSouth being subject to criminal liability; and
- absence of any law issued or promulgated by a U.S. or U.K. governmental entity after the signing of the merger agreement that prohibits the merger, and the absence of any law issued or promulgated by any other governmental entity that prohibits the merger and which is reasonably likely to result in a regulatory material adverse effect or to subject any officer or director of AT&T or BellSouth to criminal liability.

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

- material accuracy of the representations and warranties of BellSouth;
- material performance by BellSouth of its pre-closing obligations under the merger agreement;
- the governmental consents that have been obtained do not impose any condition that would reasonably be expected to result in a regulatory material adverse effect;
- all FCC consents must have been obtained by a final order;

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- BellSouth has obtained the consent of each person whose consent is required under any material contract in connection with the merger, except as would not reasonably be expected to result in a material adverse effect on BellSouth; and
- AT&T must have received the written opinion of its tax counsel, dated the closing date of the merger, to the effect that the merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code.

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

- material accuracy of the representations and warranties of AT&T;
- material performance by AT&T of its pre-closing obligations under the merger agreement; and
- BellSouth must have received the written opinion of its tax counsel, dated the closing date of the merger, to the effect that the merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code.

Termination of the Merger Agreement (Page 88)

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

- we do not complete the merger by a March 6, 2007 termination date, unless closing conditions relating to governmental consents have not been satisfied by the termination date, in which case either company may extend the termination date one or more times to a date not beyond September 6, 2007;
- BellSouth s shareholders do not approve the merger agreement at the BellSouth special meeting;
- AT&T s shareholders do not approve the issuance of the common shares required to be issued in the merger at the AT&T special meeting; or
- any governmental order is issued that permanently prohibits the completion of the merger, except for certain types of orders.

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

- before AT&T s shareholders approve the issuance of AT&T common shares required to be issued in the merger, AT&T s board of directors withdraws, or qualifies in a manner reasonably likely to be understood to be adverse to BellSouth, its recommendation to issue the shares; or
- before BellSouth s shareholders approve the merger agreement, and after giving AT&T advance notice, the BellSouth board of directors approves and authorizes BellSouth to enter into a binding written agreement for a superior proposal and BellSouth pays a $1.7 billion termination fee to AT&T; or
- AT&T breaches any representation, warranty, covenant or agreement in a way that the related condition to closing would not be satisfied and this breach is not curable by the termination date.

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

- before BellSouth s shareholders approve the merger agreement, BellSouth s board of directors withdraws, or qualifies in a manner reasonably likely to be understood to be adverse to AT&T, its recommendation of the merger;

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before BellSouth s shareholders approve the merger agreement, the BellSouth board of directors approves or recommends to the shareholders of BellSouth, any acquisition proposal other than a merger with AT&T;

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

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

Effect of Termination; Termination Fees (Page 89)

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

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

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

by AT&T because BellSouth willfully or intentionally breached in any material respect its obligations under the merger agreement relating to acquisition proposals and the BellSouth board of directors recommendation of the merger.

BellSouth will also be required to pay a $1.7 billion termination fee to AT&T if, within 12 months of termination, BellSouth completes, executes or publicly announces an agreement in which any person other than AT&T or its affiliates agrees to acquire at least 50% of the outstanding Bellsouth common shares or 50% of the fair market value of BellSouth s consolidated assets, if a third party makes an acquisition proposal for 50% of the outstanding BellSouth common shares or 50% of BellSouth s assets before the merger agreement is terminated and the merger agreement is later terminated:

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

by AT&T because BellSouth s board of directors withdrew, or qualified in a manner reasonably likely to be understood to be adverse to AT&T, its recommendation of the merger before the BellSouth special meeting; or

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

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

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

by AT&T, because BellSouth s board of directors withdrew, or qualified in a manner reasonably likely to be understood to be adverse to AT&T, its recommendation of the merger before the BellSouth special meeting.

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

AT&T will be required to pay BellSouth a $1.7 billion termination fee if AT&T completes, executes or publicly announces an agreement in which any person other than BellSouth or its affiliates agrees to acquire at least 50% of the outstanding AT&T common shares or 50% of the fair market value of AT&T s consolidated assets within 12 months of termination, if a third party makes an acquisition proposal for 50% of the outstanding AT&T common shares or 50% of AT&T s assets before the merger agreement is terminated and the merger agreement is later terminated:

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

by BellSouth because AT&T s board of directors withdrew, or qualified in a manner reasonably likely to be understood to be adverse to BellSouth, its recommendation before the AT&T special meeting.

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

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

by BellSouth, because AT&T s board of directors withdrew, or qualified in a manner reasonably likely to be understood to be adverse to BellSouth, its recommendation before the AT&T special meeting.

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

Recommendation (Page 80)

Under the merger agreement, neither AT&T s nor BellSouth s board of directors may withdraw its recommendation in favor of the issuance of shares or approval of the merger agreement, respectively, or qualify that recommendation in a manner that is reasonably likely to be understood as adverse to the other party, unless the party withdrawing or qualifying its recommendation:

receives a superior proposal; and

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

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SELECTED HISTORICAL FINANCIAL DATA OF AT&T INC.

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

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.

	Year Ended December 31,				
	2005	2004	2003	2002	2001
	($ in millions, except per share data)				
Operating revenues	$ 43,862	$ 40,787	$ 40,498	$ 42,821	$ 45,381
Operating income	6,168	5,901	6,284	8,438	10,296
Income from continuing operations	4,786	4,979	5,859	7,361	6,881
Earnings per common share:					
Income from continuing operations	$ 1.42	$ 1.50	$ 1.77	$ 2.21	$ 2.04
Earnings per common share assuming dilution:					
Income from continuing operations	$ 1.42	$ 1.50	$ 1.76	$ 2.20	$ 2.03
Total assets(1)	$ 145,632	$ 110,265	$ 102,016	$ 95,170	$ 96,416
Long-term debt	26,115	21,231	16,097	18,578	17,153
Dividends declared per common share(2)	$ 1.30	$ 1.26	$ 1.41	$ 1.08	$ 1.025
Book value per common share	$ 14.11	$ 12.27	$ 11.57	$ 10.01	$ 9.82
Debt ratio(3)	35.9%	40.0%	32.0%	39.9%	44.3%
Operating Data:					
Number of employees	189,950	162,700	168,950	175,980	193,420

(1) Certain amounts have been reclassified to record accounts receivable in AT&T s directory segment on a gross basis.

(2) Dividends declared by AT&T s board of directors reflect that, in 2003, the board declared three additional dividends totaling $0.25 per share above AT&T s regular quarterly dividend payout.

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

	Year Ended December 31,				
	2005	2004	2003	2002	2001
	($ in millions)				
Total debt	$ 30,570	$ 26,965	$ 17,976	$ 22,083	$ 26,186

Total equity	54,690	40,504	38,248	33,199	32,919
Total capital (debt plus equity)	85,260	67,469	56,224	55,282	59,105
Debt as a percentage of total capital	35.9%	40.0%	32.0%	39.9%	44.3%

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SELECTED HISTORICAL FINANCIAL DATA OF BELLSOUTH

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

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

	Year Ended December 31,				
	2005	2004	2003	2002	2001
	($ in millions, except per share data)				
Operating revenues	$ 20,547	$ 20,300	$ 20,341	$ 20,207	$ 21,211
Operating income	4,670	5,289	5,557	4,454	5,872
Income from continuing operations	2,913	3,394	3,488	3,475	2,786
Earnings per common share:					
Income from continuing operations	$ 1.60	$ 1.85	$ 1.89	$ 1.86	$ 1.49
Earnings per common share assuming dilution:					
Income from continuing operations	$ 1.59	$ 1.85	$ 1.88	$ 1.85	$ 1.48
Total assets	$ 56,553	$ 59,339	$ 49,622	$ 49,368	$ 51,912
Long-term debt	13,079	15,108	11,489	12,283	15,014
Dividends declared per common share	$ 1.14	$ 1.06	$ 0.92	$ 0.79	$ 0.76
Book value per common share	$ 13.09	$ 12.60	$ 10.77	$ 9.63	$ 9.99
Debt ratio(1)	42.2%	47.2%	43.2%	49.3%	51.8%
Operating Data:					
Number of employees	63,066	62,564	75,743	77,020	87,875

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

	Year Ended December 31,				
	2005	2004	2003	2002	2001
	($ in millions)				
Total debt	$ 17,188	$ 20,583	$ 14,980	$ 17,397	$ 20,125
Total equity	23,534	23,066	19,712	17,906	18,758
Total capital (debt plus equity)	40,722	43,649	34,692	35,303	38,883
Debt as a percentage of total capital	42.2%	47.2%	43.2%	49.3%	51.8%

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

The following table sets forth selected unaudited pro forma condensed combined financial data of AT&T, ATTC, BellSouth and Cingular as of and for the year ended December 31, 2005. The pro forma amounts in the table below are based upon the historical financial statements of AT&T, ATTC, BellSouth and Cingular, adjusted to give effect to the mergers. It has been assumed for purposes of the pro forma financial data provided below that the merger of AT&T and BellSouth and the merger of AT&T and ATTC each was completed on January 1, 2005 for income statement purposes, and that the merger of AT&T and BellSouth was completed on December 31, 2005 for balance sheet purposes. These pro forma amounts have been derived from (a) the audited consolidated financial statements of AT&T contained in its Annual Report on Form 10-K for the fiscal year ended December 31, 2005, which are incorporated by reference in this document, (b) the audited consolidated financial statements of BellSouth contained in its Annual Report on Form 10-K for the year ended December 31, 2005, which are incorporated by reference in this document, (c) the audited consolidated financial statements of Cingular contained in the Annual Reports of AT&T and BellSouth on Form 10-K, and (d) the unaudited books and records of ATTC prior to AT&T s November 18, 2005 acquisition of ATTC, adjusted to reclassify certain ATTC amounts to conform to AT&T presentation.

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

The pro forma financial data in the table below does not include the realization of cost savings from operating efficiencies, revenue synergies or restructuring costs resulting from the merger. You should read this information in conjunction with the separate historical consolidated financial statements and accompanying notes of AT&T, BellSouth and Cingular that are incorporated by reference in this document and the Unaudited Pro Forma Condensed Combined Financial Information as of and for the Year Ended December 31, 2005 beginning on page 92.

		As of and for the year ended December 31, 2005 **Pro Forma Combined** **($ in millions, except per share data)**
Operating revenues	$	117,479
Operating income		11,940
Income from continuing operations		6,940
Income from continuing operations per basic share		1.11
Income from continuing operations per diluted share		1.11
Dividends declared per common share		1.30
Total assets		276,073
Long-term debt		52,659
Debt ratio(1)		34.4%
Total shareholders equity	$	119,781
Operating Data:		
Number of employees		317,000

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

	As of the year ended December 31, 2005 ($ in millions)
Total Debt	$62,748
Total Equity	119,781
Total Capital (debt plus equity)	182,529
Debt as percentage of total capital	34.4%

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UNAUDITED COMPARATIVE PER SHARE DATA FOR THE YEAR ENDED DECEMBER 31, 2005

The following table summarizes unaudited per share information for AT&T and BellSouth on a historical basis, a pro forma combined basis for AT&T, giving effect to the pro forma effects of the merger with BellSouth, and an equivalent pro forma combined basis for BellSouth. It has been assumed for purposes of the pro forma financial information provided below that the mergers were completed on January 1, 2005 for income statement purposes, and on December 31, 2005 for balance sheet purposes. The income per share from continuing operations of AT&T does not reflect any income items of ATTC prior to the November 18, 2005 acquisition of ATTC by AT&T. The following information should be read in conjunction with the audited consolidated financial statements of AT&T and BellSouth as of and for the year ended December 31, 2005, which are incorporated by reference into this document and the Unaudited Pro Forma Condensed Combined Financial Information as of and for the Year Ended December 31, 2005 beginning on page 92. The pro forma information below is presented for illustrative purposes only and is not necessarily indicative of the operating results or financial position that would have occurred if the mergers had been completed as of the beginning of the period presented, nor is it necessarily indicative of the future operating results or financial position of the combined company. The historical book value per share is computed by dividing total shareholders equity by the number of common shares outstanding at the end of the period. The pro forma per share income from continuing operations of the combined company is computed by dividing the pro forma income from continuing operations available to holders of the combined company s common shares by the pro forma weighted average number of shares outstanding over the period. The pro forma combined book value per share is computed by dividing total pro forma shareholders equity by the pro forma number of common shares outstanding at the end of the period. BellSouth equivalent pro forma combined per share amounts are calculated by multiplying the pro forma combined per share amounts by 1.325, the number of shares of AT&T common shares that will be exchanged for each BellSouth common share in the merger.

		Year Ended December 31, 2005
AT&T Historical		
Historical per common share:		
Income per share from continuing operations	$	1.42
Dividends declared per common share		1.30
Book value per share		14.11
BellSouth Historical		
Historical per common share:		
Income per share from continuing operations	$	1.59
Dividends declared per common share		1.14
Book value per share		13.09
Unaudited Pro Forma Combined		
Unaudited pro forma share of AT&T common shares:		
Income per share from continuing operations	$	1.11
Dividends declared per common share		1.30
Book value per share		19.14
Unaudited Pro Forma BellSouth Equivalents(1)		
Unaudited pro forma per AT&T common share:		
Income per share from continuing operations	$	1.47
Dividends declared per common share		1.72
Book value per share		25.36

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

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COMPARATIVE MARKET DATA

AT&T common shares are listed on the NYSE under the symbol T . BellSouth common shares are listed on the NYSE under the symbol BLS . The following table presents closing prices for AT&T and BellSouth common shares on March 3, 2006, the last trading day before the public announcement of the execution of the merger agreement, and l , 2006, the latest practicable trading day before the date of this joint proxy statement/prospectus. You should read the information presented below in conjunction with Comparative Per Share Market Price Data and Dividend Information on page 15.

	AT&T Common Shares	BellSouth Common Shares
March 3, 2006	$ 27.99	$ 31.46
l , 2006	$	$

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

	AT&T Common Shares	BellSouth Equivalent Value
March 3, 2006	$ 27.99	$ 37.09
l , 2006	$	$

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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 sale prices per share reported on the NYSE composite transactions reporting system and the dividends declared on AT&T common shares and on BellSouth common shares.

	AT&T Common Shares			BellSouth Common Shares		
	High	**Low**	**Dividends**	**High**	**Low**	**Dividends**
2004						
First Quarter	$27.73	$ 23.18	$ 0.3125	$ 31.00	$ 26.13	$ 0.25
Second Quarter	25.68	23.50	0.3125	27.94	24.46	0.27
Third Quarter	26.88	22.98	0.3125	27.94	25.08	0.27
Fourth Quarter	27.29	24.55	0.3225	28.96	25.65	0.27
2005						
First Quarter	$25.98	$ 22.99	$ 0.3225	$ 28.12	$ 24.85	$ 0.27
Second Quarter	24.33	22.78	0.3225	27.36	25.38	0.29
Third Quarter	24.97	23.20	0.3225	27.90	25.51	0.29
Fourth Quarter	25.60	21.75	0.3325	28.03	24.32	0.29
2006						
First Quarter (through March 30, 2006)	$28.82	$ 24.24	$ 0.3325	$ 35.50	$ 26.42	$ 0.29

On l , 2006 the latest practicable trading day prior to the date of this joint proxy statement/prospectus, the last sale price per share of AT&T common shares was $ l and the last sale price per share of BellSouth common shares was $ l , in each case on the NYSE composite transactions reporting system.

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

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RISK FACTORS

In addition to the other information included or incorporated by reference into this joint proxy statement/ prospectus, including the matters addressed under the caption Cautionary Statement Concerning Forward-Looking Statements beginning on page 123, you should carefully consider the matters described below in deciding whether, in the case of AT&T shareholders, to vote to approve the proposal to authorize the issuance of AT&T common shares required to be issued pursuant to the merger agreement or, in the case of BellSouth shareholders, to approve the merger agreement.

Risk Factors Relating to the Merger

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

When we complete the merger, BellSouth common shares will be converted into the right to receive 1.325 AT&T common shares. The exchange ratio is fixed and will not be adjusted for changes in the market price of either AT&T common shares or BellSouth common shares. The merger agreement does not provide for any price-based termination right. Accordingly, the market value of the AT&T common shares that BellSouth shareholders will be entitled to receive when we complete the merger will depend on the market value of AT&T common shares at the time that we complete the merger and could vary significantly from the market value on the date of this joint proxy statement/ prospectus or the date of the BellSouth special meeting. The market value of the AT&T common shares will likely continue to fluctuate after the completion of the merger. For example, during the third and fourth calendar quarters of 2005, the market price of AT&T common shares ranged from a low of $21.75 to a high of $25.60, all as reported on the NYSE composite transactions reporting system. See Comparative Per Share Market Price Data and Dividend Information on page 15.

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

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

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

The merger agreement requires us to accept significant conditions from these regulators before either of us may refuse to close the merger on the basis of those regulatory conditions. We can provide no assurance that we will obtain the necessary approvals or that any required divestitures or other conditions will not have a material adverse effect on AT&T following the merger. In addition, we can provide no assurance that these conditions will not result in the abandonment of the merger. See The Merger Regulatory Matters Related to the Merger beginning on page 59 and The Merger Agreement Conditions to the Merger beginning on page 86.

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

In addition to the required regulatory approvals, the merger is subject to a number of other conditions beyond our control that may prevent, delay or otherwise materially adversely affect its completion. We cannot predict whether and when these other conditions will be satisfied. Further, the requirements for obtaining the required clearances and approvals could delay the completion of the merger for a significant period of time or prevent it from occurring. Any delay in completing the merger could cause us not to realize some or all of the synergies that we expect to achieve if the merger is successfully completed within its expected timeframe. See The Merger Agreement Conditions to the Merger beginning on page 86.

The interests of the directors and executive officers of BellSouth in seeing the merger completed may be different than those of BellSouth s other shareholders.

Directors of BellSouth have arrangements or other interests that provide them with interests in the merger that may differ from those of BellSouth s other shareholders. For example, the merger agreement provides that three directors of BellSouth will become directors of AT&T after the merger. While other BellSouth directors will not become directors of AT&T after the merger, in either case, AT&T will indemnify and maintain liability insurance for each of the BellSouth directors services as directors of BellSouth before the merger. In addition, the executive officers of BellSouth have change in control and severance arrangements and other interests that may differ from the interests of BellSouth shareholders. These interests are described under The Merger Interests of BellSouth Executive Officers and Directors in the Merger beginning on page 53.

The merger agreement restricts BellSouth s ability to pursue alternatives to the merger.

The merger agreement contains no shop provisions that, subject to limited exceptions, restrict BellSouth s ability to solicit, facilitate, discuss or commit to competing third-party proposals to acquire all or a significant part of BellSouth. Further, there are only limited exceptions to BellSouth s agreement that the BellSouth board of directors will not withdraw or qualify in a manner that could reasonably be understood as adverse to AT&T or its recommendation of the merger agreement, and AT&T generally has a right to match any competing acquisition proposals that may be made. Although the BellSouth board of directors is permitted to take actions in response to a superior proposal if it determines that doing so is necessary to comply with its fiduciary duties, doing so in specified situations could entitle AT&T to terminate the merger agreement and to be paid by BellSouth a termination fee of $1.7 billion and reimbursement of expenses of up to $120 million (which would be applied to reduce the termination fee, if paid). Also, in some situations where a competing acquisition proposal has been made known to BellSouth or the public and the merger agreement is subsequently terminated, either by AT&T or BellSouth, for failure of BellSouth shareholders to approve the merger agreement at the BellSouth special meeting, BellSouth would be required to reimburse AT&T for its expenses of up to $120 million (the amount paid will reduce any later paid termination fee) and, in addition, the termination fee of $1.7 billion could become payable if BellSouth completes, or enters into an agreement with respect to, an alternative acquisition transaction during the 12 months following the termination. We describe these provisions under The Merger Agreement Covenants and Agreements Acquisition Proposals beginning on page 79, Termination of the Merger Agreement beginning on page 88 and Termination Fees and Expenses beginning on page 89.

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

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

Risk Factors Relating to AT&T Following the Merger

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

The merger involves the integration of AT&T and BellSouth, two companies that have previously operated independently, and Cingular, their joint venture. AT&T and BellSouth entered into the merger agreement with the expectation that, among other things, the merger would combine the two companies local exchange businesses, provide the combined company with access to BellSouth s fiber network and put control of Cingular in one company, all of which is expected to create opportunities to achieve cost savings and revenue synergies, to share technological developments and to achieve other synergistic benefits.

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

The value of AT&T common shares following completion of the merger may be affected by the ability of the combined company to achieve the benefits expected to result from completion of the merger. Achieving the benefits of the merger will depend in part upon meeting the challenges inherent in the successful combination of three business enterprises of the size and scope of AT&T, BellSouth and Cingular and the possible resulting diversion of management attention for an extended period of time. There can be no assurance that we will meet these challenges and that such diversion will not negatively impact the operations of the combined company following the merger. This risk may be heightened due to the fact that AT&T just recently completed the merger of SBC and ATTC, and management attention has been focused and continues to be focused on combining those two business enterprises. See The Merger AT&T s Reasons for the Merger beginning on page 25.

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

AT&T has incurred, and continues to incur, substantial expenses in connection with the integration of the businesses, policies, procedures, operations, technologies and systems of ATTC. At the same time, Cingular has incurred substantial expenses in connection with the integration of AT&T Wireless Services, Inc., which we refer to as AT&T Wireless, which Cingular acquired in October 2004. AT&T expects to incur substantial expenses in connection with the integration of the businesses, policies, procedures, operations, technologies, systems and personnel of BellSouth with those of AT&T. These include certain integration expenses related to AT&T s assumption of 100% ownership of Cingular in connection with the merger.

There are a large number of systems that must be integrated, including management information, purchasing, accounting and finance, sales, billing, payroll and benefits, fixed asset and lease administration systems and regulatory compliance. While AT&T has assumed that a certain level of expenses would be incurred, there are a number of factors beyond its control that could affect the total amount or the timing of all of the expected integration expenses including, among others, constraints arising under U.S. federal or state antitrust laws (such as limitations on sharing of information) that may prevent or hinder AT&T from fully developing integration plans and constraints arising as a result of the regulatory approval process. Moreover, many of the expenses that will be incurred, by their nature, are impracticable to estimate at the present time. These expenses could, particularly in the near term, exceed the savings that AT&T expects to achieve from the elimination of duplicative expenses and the realization of economies of scale and cost savings and revenue synergies related to the integration of the businesses following the completion of the merger. These integration expenses likely will result in AT&T taking significant charges against earnings, both cash and non-cash, primarily from the amortization of intangibles following the completion of the merger. The amount and timing of any such charges are uncertain at present.

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

The indebtedness of AT&T as of l , 2006 was approximately $ l . AT&T s pro forma indebtedness as of l , 2006, after giving effect to the merger and taking into account Cingular s indebtedness to parties other than AT&T and BellSouth, was approximately $ l . As a result of the increase in debt, demands on AT&T s cash resources may increase after the merger. AT&T also expects to repurchase approximately $10 billion of its shares by the end of 2007, the funding of which will increase demands on AT&T s cash resources and potentially increase its debt levels. The increased levels of indebtedness could reduce funds available to AT&T for investment in research and development and capital expenditures or create competitive disadvantages for AT&T compared to other companies with lower debt levels.

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

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

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

Similarly, in connection with the pendency of the merger, some of our and Cingular s customers and strategic partners may delay or defer decisions to use our or Cingular s services. This could negatively impact our and Cingular s revenues, earnings and cash flows, as well as the market prices of AT&T common shares and BellSouth common shares, regardless of whether we are able to complete the merger.

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

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

AT&T s future growth will depend upon its ability to implement its business strategy.

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

AT&T s ability to maintain leading technological capabilities is uncertain.

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

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

The success of AT&T s Project Lightspeed broadband initiative will depend on the timing, extent and cost of deployment, the development of attractive and profitable service offerings and the extent to which regulatory, franchise fees and build-out requirements apply to this initiative.

The trend in telecommunications technology is to shift from the traditional circuit and wire-based technology to Internet Protocol-based technology, which we refer to as IP. IP-based technology can transport voice and data, as well as video, from both wired and wireless networks. IP-based networks also potentially cost less to operate than traditional networks. AT&T s competitors, many of which are newer companies, are deploying this IP-based technology. In order to continue to offer attractive and competitively-priced services, AT&T is deploying a new broadband network to offer IP-based voice, data and video services. Using a new and sophisticated technology on a very large scale entails risks but also presents opportunities to expand service offerings to customers. Should deployment of this network be delayed or costs exceed expected amounts, AT&T s margins would be adversely affected and these effects could be material. Should regulatory requirements be different than AT&T anticipated, deployment could be delayed, perhaps significantly, or limited to only those geographical areas where regulation is not burdensome. In addition, should the delivery of services expected to be deployed on our network be delayed due to technological or regulatory constraints or other reasons, or the cost of providing these services becomes higher than expected, customers may decide to purchase services from competitors which would adversely affect AT&T s revenues and margins, and these effects could be material.

Changes to federal and state regulations and decisions in regulatory proceedings could materially adversely affect AT&T.

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

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

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

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

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

When we complete the merger, holders of BellSouth common shares will become holders of AT&T common shares. The results of operations of AT&T, as well as the trading price of AT&T common shares, after the merger may be affected by factors different from those currently affecting BellSouth s results of operations and the trading price of BellSouth common shares. For a discussion of the businesses of AT&T and BellSouth and of certain factors to consider in connection with those businesses, see the documents incorporated by reference in this joint proxy statement/ prospectus and referred to under Where You Can Find More Information beginning on page 124.

The rights of BellSouth shareholders will change when they become shareholders of AT&T upon completion of the merger.

When we complete the merger, BellSouth shareholders will become AT&T shareholders. There are numerous differences between the rights of a shareholder of BellSouth, a Georgia corporation, and the rights of a shareholder of AT&T, a Delaware corporation. For a detailed discussion of these differences, see Comparison of Shareholder Rights beginning on page 105.

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

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

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

AT&T expects that intense industry competition and market saturation likely will cause the wireless industry s customer growth rate to moderate in comparison with historical growth rates. This competition will continue to put pressure on pricing, margins and customer turnover as the carriers compete for potential customers. The substantial competition Cingular is facing could have a material adverse effect on its ability to achieve revenue and profit growth, and this in turn could hurt AT&T s bottom line.

As a result of the merger, AT&T s ownership of Cingular will increase from 60% to 100% and the proportion of AT&T s business represented by Cingular will increase. As a result, AT&T s exposure to risks that Cingular faces and to the risks associated with operating a wireless telecommunications business will increase.

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

AT&T s pension and postretirement costs have increased in recent years, primarily due to a continued increase in medical and prescription drug costs. Investment returns of AT&T s pension funds depend largely on trends in the U.S. securities markets and the U.S. economy in general. In particular, uncertainty in the U.S. securities markets and U.S. economy could result in investment returns less than those previously assumed and a decline in the value of plan assets used in pension and postretirement calculations, which AT&T will be required to recognize over the next several years under U.S. generally accepted accounting principles. Should the securities markets decline and medical and prescription drug costs continue to increase significantly, AT&T would expect to face increasing annual combined net pension and postretirement costs.

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THE COMPANIES

BellSouth

BellSouth is a Fortune 100 company with annual revenue in 2005 of over $20 billion. BellSouth s core business is wireline communications and its largest customer segment is the retail consumer segment. BellSouth is the leading wireline communications service provider in the southeastern United States, serving substantial portions of the population within Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina and Tennessee. BellSouth owns a 40% interest in Cingular. Through BellSouth Answers^{sm}, residential and small business customers can bundle their local and long distance service with dial up and high speed DSL Internet access, satellite television and Cingular Wireless service. For businesses, BellSouth provides secure, reliable local and long distance voice and data networking solutions. BellSouth also operates one of the largest directory and advertising businesses in the United States. BellSouth s principal executive offices are located at 1155 Peachtree Street, N.E., Atlanta, Georgia 30309-3610 (telephone number 404-249-2000). BellSouth was incorporated in 1983 under the laws of the State of Georgia and became a publicly traded company in December 1983.

AT&T

AT&T is a holding company incorporated under the laws of the State of Delaware in 1983 as a result of the breakup of the Bell System. AT&T s principal executive offices are located at 175 E. Houston, San Antonio, Texas 78205-2233 (telephone number 210-821-4105).

AT&T, formerly known as SBC Communications Inc., was formed as one of several regional holding companies created to hold ATTC s local telephone companies. At formation, SBC primarily operated in five southwestern states. Subsidiaries of SBC merged with Pacific Telesis Group in 1997, Southern New England Telecommunications Corporation in 1998 and Ameritech Corporation in 1999, thereby expanding SBC s operations as the incumbent local exchange carrier (ILEC) into a total of 13 states. On November 18, 2005, one of SBC s subsidiaries merged with ATTC, creating AT&T, one of the world s largest telecommunications providers. In connection with the merger, the name of the company was changed from SBC Communications Inc. to AT&T Inc. AT&T also owns a 60% interest in Cingular.

AT&T ranks among the largest providers of telecommunications services in the United States and the world. Through AT&T s subsidiaries and affiliates, it provides communications services and products in the U.S. and internationally. AT&T offers services and products to consumers in the U.S. and services and products to businesses and other providers of telecommunications services worldwide. The services and products that AT&T offers vary by market, and include: local exchange services, wireless communications, long-distance services, data/broadband and Internet services, telecommunications equipment, managed networking, and wholesale transport services and directory advertising and publishing. AT&T is also backed by the research and development capabilities of AT&T Labs.

Merger Sub

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

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

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THE MERGER

Background of the Merger

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

In 2000, AT&T (then known as SBC) and BellSouth contributed their respective mobile wireless voice and data businesses to their Cingular joint venture. Cingular is 60% owned by AT&T and 40% owned by BellSouth, but control of the joint venture is shared equally. As co-owners of Cingular, AT&T and BellSouth are party to various governance arrangements, including the limited liability company agreement of Cingular Wireless LLC and the shareholders agreement of Cingular Wireless Corporation, and each was a party to the merger agreement between Cingular and AT&T Wireless in February 2004. The existence of Cingular, its increasing importance to each of AT&T and BellSouth, its governance arrangements and Cingular s acquisition of AT&T Wireless in 2004 resulted in senior executives of AT&T and BellSouth working together to maximize the business strength and value of Cingular both on its own and as a complement to the other businesses of AT&T and BellSouth. AT&T and BellSouth also work together on their YellowPages.com joint venture, established in October 2004.

Prior to 2006, representatives of AT&T and BellSouth had last discussed the possibility of a business combination in late 2004 and early 2005, but were unable to agree on a basis to proceed with discussions. In January 2005, AT&T entered into an agreement to acquire ATTC in a transaction that closed in November 2005. During 2005, BellSouth and its Board of Directors considered a wide range of strategic alternatives for BellSouth, including combinations with AT&T or another large telecommunications company and sales or distributions of certain of its businesses, including its interest in Cingular. In addition, BellSouth and its Board of Directors regularly evaluated its prospects as a stand-alone entity with its current businesses.

In early January 2006, AT&T requested one of its financial advisors to meet with Mr. Ackerman to determine if BellSouth was interested in reopening discussions concerning a business combination between AT&T and BellSouth. AT&T s financial advisor and Mr. Ackerman met on January 13 and Mr. Ackerman indicated that he was open to discussing such a transaction. The next day, Mr. Whitacre and Mr. Ackerman met in a previously scheduled meeting and briefly discussed the possibility of combining the two companies. On January 23, 2006, Mr. Ackerman briefed the BellSouth board on his discussions with Mr. Whitacre and discussed with the BellSouth Board a possible transaction with AT&T. Based on these discussions with the BellSouth Board, on January 26, 2006, Mr. Ackerman contacted Mr. Whitacre and indicated that BellSouth was willing to further discuss a transaction. Mr. Whitacre briefed the AT&T Board on the status of these discussions at AT&T s January 27, 2006 Board meeting. The AT&T Board indicated that the company should consider a possible transaction. On February 7, 2006, the BellSouth Board met telephonically and discussed the potential transaction with AT&T. The BellSouth Board conveyed its views on a proposed transaction with AT&T to Mr. Ackerman and approved further discussions with AT&T.

Mr. Whitacre and Mr. Ackerman met on February 10, 2006 to discuss a possible business combination. At that meeting, Mr. Ackerman and Mr. Whitacre discussed a possible transaction whereby AT&T and BellSouth would seek to negotiate a business combination on the basis of an exchange ratio of 1.325 AT&T common shares for each BellSouth common share and that they would commence detailed due diligence and contract negotiations promptly, with the goal of announcing a transaction within a few weeks. On February 13, 2006, Mr. Whitacre contacted Mr. Ackerman to confirm AT&T s interest in proceeding with a business combination on the basis of a 1.325 exchange ratio. Mr. Ackerman discussed these developments with the BellSouth Board at a telephonic meeting on February 14, 2006 and the BellSouth Board requested that Mr. Ackerman continue discussions with AT&T. Later that day, members of the senior managements of AT&T and BellSouth met to discuss how to proceed with entering into a merger agreement and the process for conducting due diligence.

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BellSouth and AT&T entered into a mutual confidentiality agreement on February 16, 2006 and on that date commenced due diligence reviews of each other s businesses based upon non-public information and began to negotiate the terms of the merger agreement. Thereafter and until shortly before the merger agreement was executed on March 4, 2006, AT&T and BellSouth and their respective representatives engaged in due diligence of the other s businesses, discussions regarding their respective businesses, prospects and the synergies and business benefits that could result from the merger as well as the terms and conditions of the merger agreement. Significant areas of negotiation included the scope and degree of reciprocity of representations and warranties and interim operating covenants, the conditions to closing, the terms upon which BellSouth could consider an alternative acquisition proposal and the process for dealing with any such proposal, the amount and triggers for payment of termination fees and various benefit and employee related provisions of the merger agreement.

The AT&T Board held a telephonic meeting on February 20, 2006, and heard reports from management on the status of discussions with BellSouth and discussed the proposed transaction. The BellSouth Board met on February 26 and 27, 2006 and received reports from management on the status of the discussions with AT&T, as well as presentations from management on the preliminary results of its due diligence investigation and from management and BellSouth s financial advisors on the financial effects of the merger. The BellSouth Board also was advised by BellSouth management and outside legal counsel, Fried, Frank, Harris, Shriver & Jacobson LLP, regarding the regulatory approvals that would be necessary to complete the merger and the BellSouth Board s fiduciary obligations in connection with considering and approving the merger agreement. On March 4, 2006, the Boards of Directors of AT&T and BellSouth met separately and each received presentations regarding the results of its management s due diligence investigations, the terms and conditions of the merger agreement and the financial and strategic implications of the merger. At the BellSouth Board of Directors meeting, Goldman Sachs and Citigroup rendered their respective opinions that, as of the date of the meeting and based upon and subject to the factors, assumptions, matters, procedures, limitations and qualifications set forth in such opinions, the exchange ratio to be received by the holders of BellSouth common shares in the merger was fair, from a financial point of view, to such holders. At the AT&T Board of Directors meeting, Lehman Brothers and Evercore rendered their respective opinions that, as of the date of the meeting and based upon and subject to the matters stated in these opinions, from a financial point of view, the exchange ratio in the merger was fair to AT&T. Immediately after the conclusion of the Board of Directors meetings, AT&T, BellSouth and Merger Sub executed and delivered to each other the merger agreement.

AT&T s Reasons for the Merger

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

100% Ownership of Cingular

Ownership of 100% of Cingular will permit AT&T to better integrate Cingular wireless offerings with AT&T s other communication offerings. This is expected to create enhanced marketing opportunities, significant network synergies resulting from combining multiple IP networks into a single IP network, the ability to more rapidly develop and make available advanced products and services and reduced marketing costs (by rebranding Cingular to the AT&T brand).

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

Network Integration

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

The addition of the BellSouth wireline network, which already includes a substantial build-out of fiber optic cable to points near end users, will complement AT&T s existing plans to deploy IPTV to existing wireline service areas and increase the number of potential customers for AT&T s IPTV product.

Financial Impacts

The merger is expected to have a positive impact on AT&T s adjusted earnings per share (meaning AT&T s earnings per share adjusted to exclude all merger integration costs and non-cash expenses for amortization of intangibles) beginning in 2008, taking into account the effects of AT&T s proposed share repurchase, although because of expenses for amortization of intangibles and integration costs, the merger is expected to be dilutive to reported earnings per share for at least several years.

The merger will increase AT&T s investment in the faster growing wireless business, a move that should help facilitate enhanced future revenue growth.

The merger is expected to improve free cash flow (cash from operations minus capital expenditures and dividends) beginning in 2008, and is expected to have a modestly negative effect on net debt to EBITDA coverage ratios, even after taking into account the anticipated approximately $8 billion of 2007 share repurchases.

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

Other Factors Considered by the AT&T Board

The information concerning AT&T s and BellSouth s respective historic businesses and financial results and prospects, including the results of AT&T s due diligence investigation of BellSouth.

AT&T management s assessment that it can, working with BellSouth managers and employees, effectively and efficiently integrate the BellSouth wireline and directories businesses with the similar AT&T businesses.

The opinions of AT&T s financial advisors, Lehman Brothers and Evercore, that, as of March 4, 2006 and subject to the matters stated in their respective opinions, from a financial point of view, the exchange ratio was fair to AT&T.

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

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

Potential Risks Considered by the AT&T Board

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

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

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

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

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

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

Recommendation of the AT&T Board of Directors

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

BellSouth s Reasons for the Merger

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

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

Financial Considerations

The BellSouth Board considered the following financial factors:

- the financial terms of the transaction, including:
  - the fixed exchange ratio of 1.325 AT&T common shares for each BellSouth common share;
  - that the exchange ratio reflected a 20% premium to the BellSouth shareholders based on the historical trading relationship of the securities of the two companies;
  - that based on the closing trading prices of BellSouth common shares and AT&T common shares on the trading day prior to the announcement of the merger, the exchange ratio represented approximately $37.09 per BellSouth common share, a 17.9% percent premium over the closing price of the BellSouth common shares on the NYSE on that day;

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- the expectation that, based on the current annual dividend paid by AT&T and the 1.325 exchange ratio, the annual dividend BellSouth shareholders will receive after the transaction will be 52% greater than the annual dividend currently paid to holders of BellSouth common shares;
- the BellSouth shareholders will hold approximately 38% of the outstanding common shares of the combined company immediately after closing and will have the opportunity to share in the future growth and expected synergies of the combined company, while retaining the flexibility of selling all or a portion of those shares for cash into a very liquid market at any time;

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

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

- synergies with a net present value of an estimated $18 billion expected to result from the transaction, including annual synergies of $2 billion expected beginning in 2008, growing to $3 billion beginning in 2009;
- the multiple sources of the synergies and that 90% of the anticipated synergies are expected to be derived from clearly identified expense and capital reductions; and

the demonstrated ability of AT&T s management to successfully integrate and obtain synergistic benefits from previous acquisitions.

Business Considerations

The BellSouth Board considered the following business factors:

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

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

the simplification of the ownership structure of Cingular Wireless;

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

- greater financial, technical, research and development, network and marketing resources to better serve consumers and large-business customers, and the acceleration of the introduction of new and improved products and services for those customers;
- greater scale, scope and reach to leverage the significant spending required to develop next generation products and services for both business and consumer customers;
- the expectation that the greater scale, scope and reach of the post merger company would make it a more attractive partner for companies with national or international business models;
- the ability to better offer integrated wireless wireline, and broadband products and services over a single IP network, and to strengthen capabilities in business markets through converged services and a single point of contact for wireless and wireline services; and

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

Other Transaction Considerations

The BellSouth Board also considered the following factors:

- the BellSouth Board s judgment, after consultation with BellSouth s management and financial advisors, that an alternative transaction that would provide a greater value to the shareholders of BellSouth was unlikely to be available, while leaving the BellSouth Board with the possibility to consider an alternative transaction;
- the merger agreement permits BellSouth under certain circumstances, to provide non-public information to, and engage in discussions with, any third-party that proposes an alternative transaction and to terminate the merger agreement to accept a superior proposal;
- The BellSouth Board s judgment that the terms of the merger agreement, including the $1.7 billion termination fee, should not preclude a proposal for an alternative transaction involving BellSouth;
- The BellSouth Board s judgment, after consultation with BellSouth s financial advisors, that as a percentage of the merger consideration at the time of the announcement of the transaction, the $1.7 billion termination fee was at the low end of the range of termination fees provided for in recent large acquisition transactions;
- the consideration by the BellSouth Board, after consultation with counsel, of the likelihood that the merger would be approved by the requisite authorities, without the imposition of material conditions that would prevent or materially delay the merger and of the required efforts of the parties to obtain such approvals;
- the expressed intention of AT&T to broadly utilize the services of the management and employees of BellSouth following the merger, and the proposed management arrangements of the combined company under which each executive officer of BellSouth (other than the Chief Executive Officer) will be given the opportunity to become a senior officer of AT&T or a subsidiary of AT&T with a position of significant managerial experience for at least three years following the completion of the merger;
- three BellSouth directors will join the AT&T board of directors following the completion of the merger;
- the following employee benefit arrangements, which the BellSouth Board believed would increase the likelihood of a successful integration and operation of the combined company and are designed to ensure the retention of BellSouth employees in the unlikely event that the merger is not completed:
  - the retention bonus arrangements for management to be implemented in connection with the merger;
  - the broad-based severance plan for BellSouth s management employee base contemplated by the merger agreement;
  - that aggregate pre-closing levels of BellSouth compensation and employee benefits will be maintained for at least twelve months following completion of the merger, excluding equity compensation; and
  - that AT&T agreed to maintain a number of specified benefit plans through the second anniversary of the completion of the merger;
- AT&T s commitment to continue BellSouth s historic levels of charitable contributions and community activities, including the continued funding of charitable activities throughout BellSouth s nine-state region as has previously been provided through the BellSouth Foundation and to continue to support economic development and education in BellSouth s nine-state region;

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AT&T s commitment to maintain the headquarters of Cingular Wireless in Atlanta, Georgia for at least five years following the merger and to keep the Southeast regional telephone company headquarters in Atlanta, Georgia; and

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

Potential Risks

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

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

the difficulties and challenges inherent in completing a merger and integrating the businesses, especially in light of AT&T s 2005 acquisition of ATTC;

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

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

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

the risks of the type and nature described above under Risk Factors beginning on page 16;

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

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

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

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

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

the other circumstances under which BellSouth may be required to pay a termination fee of $1.7 billion to AT&T;

the prohibition in the merger agreement on the ability of the BellSouth Board to withdraw its recommendation of the merger or qualify its recommendation in a manner that could be reasonably understood to be adverse to AT&T, other than in connection with BellSouth s receipt of a proposal to acquire BellSouth that is more favorable to the BellSouth shareholders than the merger;

the circumstances under which AT&T may terminate the merger agreement, including AT&T s right to terminate the merger agreement if the BellSouth Board withdraws its recommendation of the merger or qualifies its recommendation in a manner that could be reasonably understood to be adverse to AT&T;

the circumstances under which BellSouth may be obligated to reimburse AT&T for AT&T s expenses (up to $120 million, in total), including in the event that BellSouth shareholders fail to approve the merger agreement;

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

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

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

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

Recommendation of the BellSouth Board of Directors

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

Opinions of AT&T s Financial Advisors

Lehman Brothers Fairness Opinion

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

The full text of Lehman Brothers written opinion, dated March 4, 2006, is attached as Annex B to this joint proxy statement/ prospectus. AT&T shareholders are encouraged to read Lehman Brothers opinion carefully and in its entirety for a description of the assumptions made, procedures followed, factors considered and limitations upon the review undertaken by Lehman Brothers in rendering its opinion. The following is a summary of Lehman Brothers opinion and the methodology that Lehman Brothers used to render its opinion. This summary is qualified in its entirety by reference to the full text of the opinion.

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

In arriving at its opinion, Lehman Brothers reviewed and analyzed, among other things:

the merger agreement and the specific terms of the merger;

publicly available information concerning AT&T and BellSouth that Lehman Brothers believed to be relevant to its analysis, including each of AT&T s and BellSouth s Annual Reports on Form 10-K for the fiscal year ended December 31, 2005;

financial and operating information with respect to the businesses, operations and prospects of BellSouth furnished to Lehman Brothers by BellSouth and AT&T, including (i) financial projections of BellSouth prepared by BellSouth s management, and (ii) financial projections of BellSouth prepared by AT&T s management;

financial and operating information with respect to the businesses, operations and prospects of AT&T furnished to Lehman Brothers by AT&T, including (i) financial projections of AT&T prepared by AT&T s management, and (ii) the amount and timing of synergies expected by AT&T s management to result from the merger;

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

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

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

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

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

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

the potential pro forma financial impact of AT&T s share repurchase program which was announced contemporaneously with the merger.

In addition, Lehman Brothers had discussions with the managements of AT&T and BellSouth concerning their respective businesses, operations, assets, liabilities, financial conditions and prospects and the potential strategic benefits expected by AT&T s management to result from the merger. Lehman Brothers also undertook such other studies, analyses and investigations as Lehman Brothers deemed appropriate.

In arriving at its opinion, Lehman Brothers assumed and relied upon the accuracy and completeness of the financial and other information used by Lehman Brothers without assuming any responsibility for independent verification of such information. Lehman Brothers further relied upon the assurances of the managements of AT&T and BellSouth that they were not aware of any facts or circumstances that would make such information inaccurate or misleading. With respect to the financial projections of BellSouth prepared by BellSouth s management, upon advice of BellSouth and with the consent of AT&T, Lehman Brothers assumed that such projections were reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of BellSouth as to the future financial performance of BellSouth. With respect to the financial projections of BellSouth prepared by AT&T s management, upon advice of and with the consent of AT&T, Lehman Brothers assumed that such projections were reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of AT&T as to the future financial performance of BellSouth and that those projections are a reasonable basis upon which to evaluate the future financial performance of BellSouth, and Lehman Brothers has primarily relied on those projections in performing its analyses. With respect to the financial projections of AT&T, Lehman Brothers assumed with the consent of AT&T that those projections were reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of AT&T as to the future financial performance of AT&T and that AT&T would perform on a stand-alone basis substantially in accordance with those projections. With respect to the amount and timing of the synergies and the restructuring charges and integration costs estimated by the management of AT&T to result from a combination of the businesses of AT&T and BellSouth, Lehman Brothers assumed with the consent of AT&T that the timing and amount of such synergies, charges and expenses are reasonable and will be realized substantially in accordance with such estimates. In arriving at its opinion, Lehman Brothers did not conduct a physical inspection of the properties or facilities of AT&T or BellSouth and Lehman Brothers did not make or obtain any evaluation or appraisals of the assets or liabilities of AT&T or BellSouth. Lehman Brothers opinion was necessarily based upon market, economic and other conditions as they existed on, and could be evaluated as of, March 4, 2006.

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

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

Lehman Brothers acted as financial advisor to AT&T in connection with the merger and will receive a customary fee for its services, a substantial portion of which is contingent upon completion of the merger. In addition, AT&T has agreed to reimburse Lehman Brothers for reasonable out-of-pocket expenses incurred in connection with the merger and to indemnify Lehman Brothers for certain liabilities that may arise out of its engagement by AT&T and the rendering of Lehman Brothers opinion. Lehman Brothers in the past has rendered investment banking services to AT&T, BellSouth and their affiliates and received, and in the future Lehman Brothers may continue to provide AT&T and its affiliates with investment banking services for which it will receive, customary fees for such services.

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

Evercore Group Inc. Fairness Opinion

Evercore has acted as one of AT&T s financial advisors in connection with the merger. In connection with Evercore s engagement, the AT&T board of directors requested that Evercore render an opinion with respect to the fairness, from a financial point of view, to AT&T, of the exchange ratio. At the meeting of the AT&T board of directors on March 4, 2006, Evercore rendered its oral opinion, which was subsequently confirmed in writing dated March 4, 2006, that, based upon and subject to the matters described in its opinion, the exchange ratio was fair, from a financial point of view, to AT&T.

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

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is qualified in its entirety by reference to the full text of the opinion. Shareholders should read the opinion carefully and in its entirety.

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

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

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

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

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

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

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

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

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

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

considered the potential financial impact of AT&T s contemplated share repurchase program expected to be announced contemporaneously with the transaction;

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

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

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

For purposes of its analyses and opinion, Evercore relied upon and assumed, without assuming any responsibility for independently verifying, the accuracy and completeness of all the financial and other information that was publicly available or was furnished to it by BellSouth or AT&T or otherwise discussed with or reviewed by or for Evercore, and it has not assumed any liability therefor. Evercore further relied upon the assurances of the management of AT&T and BellSouth, respectively, that they are not aware of any facts that would make such information inaccurate or misleading. Evercore has not made nor assumed any responsibility for making any valuation or appraisal of any assets or liabilities of AT&T

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or BellSouth, nor have any such valuations or appraisals been provided to Evercore, nor has Evercore evaluated the solvency of AT&T or BellSouth under any state or federal laws relating to bankruptcy, insolvency or similar matters.

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

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

Evercore has provided financial advisory and investment banking services to AT&T or its predecessors during the past two years and has received customary fees for the rendering of such services. In addition, in the future, Evercore may provide, or seek to provide, financial advice and investment banking services to the combined company. AT&T engaged Evercore to act as a financial advisor based on its qualifications, experience and reputation and its knowledge of the business of AT&T. Evercore is an internationally recognized investment banking firm and is regularly engaged in the valuation of businesses in connection with mergers and acquisitions, leveraged buyouts, competitive biddings, private placements and valuations for corporate and other purposes.

Evercore acted as financial advisor to AT&T with respect to the proposed merger and will receive a customary fee from AT&T for its services, the principal portion of which is contingent upon completion of the merger. In addition, AT&T has agreed to reimburse Evercore s expenses and indemnify Evercore and its members, partners, officers, directors, advisors, representatives, employees, agents, affiliates and controlling persons, if any, against certain liabilities and expenses, including certain liabilities under the federal securities laws, related to or arising out of Evercore s engagement and any related transactions.

Financial Analyses of Lehman Brothers and Evercore

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

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Historical Share Price Analysis

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

Historical Exchange Ratio Analysis

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

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

Equity Research Analysis

Lehman Brothers and Evercore compared selected recent publicly available research analyst price targets, as of March 3, 2006 (the last trading day prior to the delivery of Lehman Brothers and Evercore s respective opinions), from selected firms that published price targets for both AT&T and BellSouth. In performing this analysis, Lehman Brothers and Evercore utilized research analyst price targets from the following firms:

Robert W. Baird

Banc of America Securities LLC

Citigroup Global Markets Inc.

Credit Suisse

Deutsche Bank Securities Inc.

Morgan Stanley

UBS Securities LLC

Wachovia Securities LLC

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

Peer Group Trading Analysis

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

Verizon Communications Inc.

Qwest Communications International Inc.

Sprint Nextel Corporation

As part of their peer group trading analysis, Lehman Brothers and Evercore calculated and analyzed the ratio of current stock price to estimated 2006 earnings per share (commonly referred to as a price/earnings ratio) for AT&T, BellSouth and each member of the peer group. Lehman Brothers and Evercore also calculated and analyzed the ratio of enterprise value to estimated 2006 earnings before interest, taxes, depreciation and amortization, which we refer to as EBITDA, for AT&T, BellSouth and each member of the peer group, which included the applicable proportionate amount of Cingular s EBITDA in the case of AT&T and BellSouth. The enterprise value of each company was obtained by adding its short and long term debt, including a proportional amount of Cingular net debt, to the sum of the market value of its common equity, and the book value of any minority interest, and subtracting its cash and cash equivalents and market value of unconsolidated investments. All of these calculations were performed based on closing prices as of March 3, 2006, the last trading date prior to the delivery of Lehman Brothers and Evercore s respective opinions.

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

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

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

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

Sum of the Parts Analysis

Lehman Brothers and Evercore performed a sum of the parts analysis of BellSouth by valuing each of the individual business segments individually and deriving from there a range of values for BellSouth as a whole. The BellSouth business segments considered were Wireline, Wireless (40% of Cingular) and Directories. Using various methodologies that the AT&T financial advisors deemed appropriate for each

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business segment analyzed, the analysis indicated a range of equity values per BellSouth common share ranging from $32.73 to $39.73.

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

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

Contribution Analysis

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

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

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

Precedent Transaction Analysis

Using publicly available information, Lehman Brothers and Evercore reviewed and compared the multiple of enterprise value to one year forward EBITDA paid in eight acquisitions of companies that Lehman Brothers and Evercore, based on their experience with merger and acquisition transactions, deemed relevant to arriving at their respective opinions. Lehman Brothers and Evercore reviewed the following transactions:

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

The following table presents the results of this analysis:

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

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

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

Premia Paid Analysis

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

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

BellSouth Discounted Cash Flow Analysis

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

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

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

- adding the present value of BellSouth s projected after-tax unlevered free cash flows for fiscal years 2006 through 2015 based on AT&T management estimates to the present value of the terminal value of BellSouth as of December 31, 2015 based on AT&T management estimates;

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

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

Terminal value refers to the value of all future cash flows from an asset at a particular point in time. Lehman Brothers and Evercore estimated a range of terminal values in 2015 based on AT&T

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

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

AT&T Discounted Cash Flow Analysis

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

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

adding the present value of AT&T s projected after-tax unlevered free cash flows for fiscal years 2006 through 2013 based on AT&T management estimates to the present value of the terminal value of AT&T as of December 31, 2013 based on AT&T management estimates; and

adding the present value of AT&T s projected after-tax unlevered free cash flows for fiscal years 2006 through 2010 based on consensus research estimates to the present value of the terminal value of AT&T as of December 31, 2010 based on consensus research estimates.

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

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minus cash including proportional net debt of Cingular) and adding the market value of unconsolidated investments of AT&T, and dividing those amounts by the number of fully diluted shares of AT&T.

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

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

Pro Forma Analysis

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

General

In connection with the review of the merger by AT&T s board of directors, each of Lehman Brothers and Evercore performed a variety of financial and comparative analyses for purposes of rendering its respective opinion. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. In arriving at its respective opinion, each of Lehman Brothers and Evercore considered the results of all of their analyses as a whole. Furthermore, Lehman Brothers and Evercore believe that the summary provided and the analyses described above must be considered as a whole and that selecting any portion of their analyses, without considering all of them, would create an incomplete view of the process underlying their analyses and opinion. In addition, Lehman Brothers and Evercore may have given various factors more or less weight than other factors and may have deemed various assumptions more or less probable than other assumptions, so that the ranges of valuations resulting from any particular analysis described above should not be taken to be Lehman Brothers and Evercore s view of the actual value of AT&T or BellSouth. No limitations were imposed by AT&T on the scope of Lehman Brothers and Evercore s investigations or the procedures followed by Lehman Brothers and Evercore in rendering their opinions.

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

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

Opinions of BellSouth s Financial Advisors

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

Opinion of Citigroup Global Markets Inc.

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

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

In arriving at its opinion, Citigroup:

reviewed the merger agreement;

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

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

timing and achievability thereof) anticipated by the managements of BellSouth and AT&T to result from the merger;

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

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

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

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

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

Citigroup assumed, with BellSouth s consent, that the merger will be completed in accordance with its terms, without waiver, modification or amendment of any term, condition or agreement material to its analysis and that, in the course of obtaining the necessary regulatory or third party approvals, consents and releases for the merger, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on BellSouth, AT&T or the contemplated benefits of the merger material to its analysis. Citigroup also assumed, with BellSouth s consent, that the merger will be treated as a tax-free reorganization for federal income tax purposes. Citigroup s opinion relates only to the relative values of BellSouth and AT&T. Citigroup did not express any opinion as to what the value of the AT&T common shares actually will be when issued pursuant to the merger or the price at which the AT&T common shares will trade at any time. Citigroup neither made nor was it provided with an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of BellSouth or AT&T. In addition, Citigroup did not make any physical inspection of the properties or assets of BellSouth or AT&T.

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

Citigroup acted as financial advisor to BellSouth in connection with the merger. Citigroup will receive a fee of $35 million upon the completion of the merger. BellSouth has also agreed to pay Citigroup a fee of $26.25 million in the event that the merger agreement is terminated or the merger is otherwise not

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completed and BellSouth receives a termination fee from AT&T. In addition, BellSouth has agreed, subject to certain limitations, to reimburse Citigroup for its reasonable travel and other expenses, including attorneys fees and expenses. BellSouth has also agreed to indemnify Citigroup and related parties for certain liabilities that may arise out of the rendering of its opinion, including certain liabilities under the federal securities laws.

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

- financial advisor to BellSouth in the sale of BellSouth Latin America to Telefonica Moviles SA;
- financial advisor to BellSouth and Cingular Wireless LLC in the purchase of AT&T Wireless Services Inc. in October 2004;
- financial advisor to SBC in the sale of its interest in its directories joint venture with RH Donnelly Corp. in September 2004;
- financial advisor to SBC in the sale of its interests in TDC A/ S to TDC A/ S in June 2004;
- financial advisor to Cingular in the sale of Cingular Wireless LLC (Bermuda) to Digicel Ltd. in December 2005;
- financial advisor to Cingular in the sale of certain assets to Alltel Corp. in April 2005;
- financial advisor to Cingular in the sale of certain assets to MetroPCS Inc. in February 2005;
- dealer manager in the $9.5 billion consent solicitation by Cingular in connection with the acquisition of AT&T Wireless in August 2004;
- dealer manager in the offer by ATTC to repurchase $1.5 billion and up to 1.05 billion of its notes in February 2004;
- broker to BellSouth in the repurchase of 6.8 million of its shares in December 2005;
- agent for BellSouth s $3 billion credit facility issued in April 2005, $9 billion credit facility and bridge loan issued in October 2004 and $1.5 billion credit facility issued in April 2004;
- joint lead arranger for ATTC s $500 million credit facility issued in October 2005 and $1 billion credit facility issued in October 2004 and SBC s $12 billion credit facility and bridge loan and $6 billion credit facility issued in September 2004;
- joint bookrunner or co-manager in BellSouth s $2 billion notes offering in November 2004, $3 billion bond offering in September 2004 and $700 million notes offering in June 2004; and
- joint bookrunner or co-manager for SBC s $2 billion notes offering in November 2005, $5 billion bond offering in October 2004 and $1.5 billion notes offering in August 2004.

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

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

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

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

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

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

Set forth below under Financial Analyses of BellSouth s Financial Advisors is a summary of the material financial analyses used by Citigroup in connection with providing its opinion to the board of directors of BellSouth. This summary does not purport to be a complete description of the analyses performed by Citigroup in connection with its opinion and is qualified in its entirety by reference to the written opinion of Citigroup attached as Annex D.

Opinion of Goldman Sachs

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

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

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

the merger agreement;

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

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

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

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

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

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

The Goldman Sachs opinion did not address the underlying business decision of BellSouth to engage in the merger, nor did Goldman Sachs express any opinion as to the prices at which AT&T common shares or BellSouth common shares will trade at any time. Goldman Sachs assumed that all governmental, regulatory or other consents and approvals necessary for the completion of the merger will be obtained without any adverse effect on BellSouth or AT&T or on the expected benefits of the merger in any way meaningful to its analyses. Goldman Sachs opinion was necessarily based on economic, monetary, market and other conditions as in effect on, and the information made available to Goldman Sachs as of, the date of its opinion.

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

The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analyses or of the summary set forth below, without considering the analyses as a whole, could create an incomplete view of the processes underlying Goldman Sachs opinion. In arriving at its fairness determination, Goldman Sachs considered the results of all the analyses and did not attribute any particular weight to any factor or analysis considered by it. Rather, Goldman Sachs made its determination as to fairness on the basis of its experience and

professional judgment after considering the results of all the analyses. No company or transaction used in Goldman Sachs analyses as a comparison is directly comparable to BellSouth or AT&T or the merger.

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

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

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

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

a co-lead manager with respect to the public offering of BellSouth s 4.20%&nb