BELLSOUTH CORP
Form 10-Q
August 02, 2004

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

FORM 10-Q

(Mark One)

|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2004

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-8607

BELLSOUTH CORPORATION
(Exact name of registrant as specified in its charter)

Georgia (State of Incorporation)	58-1533433 (I.R.S. Employer Identification Number)
1155 Peachtree Street, N. E., Atlanta, Georgia (Address of principal executive offices)	30309-3610 (Zip Code)

Registrant's telephone number 404-249-2000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes __X__ No ___

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes __X__ No ___

At July 29, 2004, 1,830,737,118 common shares were outstanding.

Table of Contents

PART I - FINANCIAL INFORMATION

BELLSOUTH CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003 (As Adjusted - Note C)	2004	2003 (As Adjusted - Note C)	2004
Operating Revenues:				
Communications group	$ 4,545	$ 4,562	$ 9,053	$ 9,047

Advertising and publishing	520	507	1,014	986
All other	14	14	26	26
Total Operating Revenues	5,079	5,083	10,093	10,059
Operating Expenses:				
Cost of services and products (excludes depreciation and amortization shown separately below)	1,765	1,789	3,440	3,587
Selling, general, and administrative expenses	989	930	1,908	1,839
Depreciation and amortization	953	914	1,902	1,812
Provisions for restructuring	18	8	138	21
Total Operating Expenses	3,725	3,641	7,388	7,259
Operating income	1,354	1,442	2,705	2,800
Interest expense	233	211	491	426
Net earnings (losses) of equity affiliates	177	151	348	255
Gain on sale of operations	-	-	-	462
Other income (expense), net	121	73	197	137
Income from Continuing Operations Before Income Taxes, Discontinued Operations and Cumulative Effect of Changes in Accounting Principle	1,419	1,455	2,759	3,228
Provision for Income Taxes	511	516	1,001	1,139
Income from Continuing Operations Before Discontinued Operations and Cumulative Effect of Changes in Accounting Principle	908	939	1,758	2,089
Income (Loss) from Discontinued Operations, Net of Tax	43	57	108	506
Income Before Cumulative Effect of Changes in Accounting Principle	951	996	1,866	2,595
Cumulative Effect of Changes in Accounting Principle, Net of Tax	-	-	315	-
Net Income	$ 951	$ 996	$ 2,181	$ 2,595
Weighted-Average Common Shares Outstanding:				
Basic	1,847	1,832	1,853	1,832
Diluted	1,851	1,836	1,856	1,837
Dividends Declared Per Common Share	$ 0.23	$ 0.27	$ 0.44	$ 0.52
Basic Earnings Per Share:				
Income from Continuing Operations Before Discontinued Operations and Cumulative Effect of Changes in Accounting Principle	$ 0.49	$ 0.51	$ 0.95	$ 1.14
Income (Loss) from Discontinued				

Operations, Net of Tax	0.02	0.03	0.06	0.28
Cumulative Effect of Accounting Changes, Net of Tax	-	-	0.17	-
Net Income	$ 0.51	$ 0.54	$ 1.18	$ 1.42
Diluted Earnings Per Share:				
Income from Continuing Operations Before Discontinued Operations and Before Cumulative Effect of Changes in Accounting Principle	$ 0.49	$ 0.51	$ 0.95	$ 1.14
Income (Loss) from Discontinued Operations, Net of Tax	0.02	0.03	0.06	0.28
Cumulative Effect of Accounting Changes, Net of Tax	-	-	0.17	-
Net Income*	$ 0.51	$ 0.54	$ 1.18	$ 1.41

*Net income per share does not sum due to rounding

The accompanying notes are an integral part of these consolidated financial statements.

BELLSOUTH CORPORATION
CONSOLIDATED BALANCE SHEETS
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	December 31, 2003	June 30, 2004
		(unaudited)
ASSETS		
Current Assets:		
Cash and cash equivalents..............	$ 4,556	$ 6,216
Accounts receivable, net of allowance for uncollectibles of $496 and $338........................	2,870	2,436
Material and supplies..................	375	319
Other current assets	1,048	870
Assets of discontinued operations......	--	3,928
Total current assets................	8,849	13,769
Investments and advances..................	8,552	8,638
Property, plant and equipment, net........	23,807	22,104
Deferred charges and other assets.........	5,855	6,033
Goodwill..................................	342	249
Intangible assets, net....................	2,297	1,501
Total assets.......................	$ 49,702	$ 52,294

LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Debt maturing within one year........	$ 3,491	$ 3,262
Accounts payable....................	1,339	883
Other current liabilities...........	3,628	3,301
Liabilities of discontinued operations........................	--	2,469
Total current liabilities	8,458	9,915
Long-term debt	11,489	10,341
Noncurrent liabilities:		
Deferred income taxes................	5,349	6,180
Other noncurrent liabilities.........	4,694	4,342
Total noncurrent liabilities.......	10,043	10,522
Shareholders' equity:		
Common stock, $1 par value (8,650 shares authorized; 1,830 and 1,831 shares outstanding)..........	2,020	2,020
Paid-in capital.....................	7,729	7,748
Retained earnings...................	16,540	18,126
Accumulated other comprehensive income (loss).....................	(585)	(460)
Shares held in trust and treasury....	(5,992)	(5,918)
Total shareholders' equity...	19,712	21,516
Total liabilities and shareholders' equity............	$ 49,702	$ 52,294

The accompanying notes are an integral part of these consolidated financial statements.

BELLSOUTH CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN MILLIONS)
(Unaudited)

	For the Six Months Ended June 30, 2003	2004
Cash Flows from Operating Activities:	As Adjusted - Note C)	
Income from continuing operations before discontinued operations and		

cumulative effect of changes in accounting principles	$ 1,758	$ 2,089
Adjustments to reconcile income to cash provided by operating activities from continuing operations:		
Depreciation and amortization.........	1,902	1,812
Provision for uncollectibles..........	287	195
Net losses (earnings) of equity affiliates.........................	(348)	(255)
Net (gains) losses on sale or impairment of equity securities.....	8	3
Deferred income taxes and investment tax credits.............	506	603
Pension income.......................	(267)	(242)
Pension settlement (gains) losses.....	87	--
Stock-based compensation expense......	60	58
Gain on sale of operations............	--	(462)
Net Change in:		
Accounts receivable and other current assets.....................	63	(124)
Accounts payable and other current liabilities........................	124	84
Deferred charges and other assets.....	131	(77)
Other liabilities and deferred credits............................	(36)	20
Other reconciling items, net.............	12	93
Net cash provided by operating activities from continuing operations	4,287	3,797
Cash Flows from Investing Activities:		
Capital expenditures.....................	(1,265)	(1,366)
Proceeds from sale of operations	--	525
Proceeds from sale of debt and equity securities.............................	26	34
Investments in debt and equity securities.............................	(21)	(416)
Proceeds from repayment of loans and advances...............................	1,899	109
Settlement of derivatives on advances	(352)	(17)
Other investing activities, net...........	(1)	5
Net cash provided by (used in) investing activities from continuing operations	286	(1,126)
Cash Flows from Financing Activities:		
Net borrowings (repayments) of short-term debt........................	(398)	(339)
Proceeds from the issuance of long-term debt	--	696
Repayments of long-term debt.............	(1,556)	(221)
Dividends paid...........................	(759)	(914)
Purchase of treasury shares...............	(322)	(99)
Other financing activities, net...........	22	51
Net cash used in financing activities from continuing		

operations	(3,013)	(826)
Net increase (decrease) in cash and cash equivalents from continuing operations.............................	1,560	1,845
Net increase (decrease) in cash and cash equivalents from discontinued operations.............................	80	(185)
Net increase (decrease) in cash and cash equivalents..............	1,640	1,660
Cash and cash equivalents at beginning of period..............................	2,482	4,556
Cash and cash equivalents at end of period	$ 4,122	$ 6,216

The accompanying notes are an integral part of these consolidated financial statements.

BELLSOUTH CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(IN MILLIONS)
(Unaudited)

	Number of Shares		Amou			
	Common Stock	(a) Shares Held in Trust and Treasury	Common Stock	Paid-in Capital	Retained Earnings	Acc Oth Com hen Inc (Lo
Balance at December 31, 2002	2,020	(160)	$ 2,020	$ 7,546	$ 14,531	$ (
Net Income					2,181	
Other comprehensive income, net of tax						
Foreign currency translation adjustment (b)						
Net unrealized losses on securities						
Net unrealized gains on derivatives (c)						
Total comprehensive income (d)						
Dividends declared					(815)	
Share issuances for employee benefit plans		2		(15)	(42)	
Purchase and sales of treasury stock by grantor trust					(112)	

Purchase of treasury stock		(15)				
Stock-based compensation				67		
Tax benefit related to stock options				22		
ESOP activities and related tax benefit					1	
Balance at June 30, 2003	2,020	(173)	$ 2,020	$ 7,620	$ 15,744	$ (
Balance at December 31, 2003	2,020	(190)	$ 2,020	$ 7,729	$ 16,540	$ (
Net Income					2,595	
Other comprehensive income, net of tax						
Foreign currency translation adjustment(b)						
Net unrealized losses on securities						
Net unrealized gains on derivatives (c)						
Total comprehensive income (d)						
Dividends declared					(946)	
Purchase and sales of treasury stock by grantor trust				2		
Purchase of treasury stock		(4)				
Share issuances for employee benefit plans		5		(61)	(63)	
Stock-based compensation				62		
Tax benefit related to stock options				16		
Balance at June 30, 2004	2,020	(189)	$ 2,020	$ 7,748	$ 18,126	$ (

The accompanying notes are an integral part of these consolidated financial statements.

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)
(Unaudited)

NOTE A - PREPARATION OF INTERIM FINANCIAL STATEMENTS

In this report, BellSouth Corporation and its subsidiaries are referred to as "we" or "BellSouth."

The accompanying unaudited consolidated financial statements have been prepared based upon Securities and Exchange Commission (SEC) rules that permit reduced disclosure for interim periods. In our opinion, these statements include all adjustments necessary for a fair presentation of the results of the interim periods presented. All adjustments are of a normal recurring nature unless otherwise disclosed. Revenues, expenses, assets and liabilities can vary during each quarter of the year. Therefore, the results and trends in these interim financial statements may not be the same as those for the full year. For a more complete discussion of our significant accounting policies and other information, you should read this report in conjunction with the consolidated financial statements included in our latest annual report on Form 10-K, as modified by the current report on Form 8-K dated July 30, 2004.

Certain amounts within the prior year's information have been reclassified to conform to the current year's presentation.

NOTE B - EARNINGS PER SHARE

Basic earnings per share is computed on the weighted-average number of common shares outstanding during each period. Diluted earnings per share is based on the weighted-average number of common shares outstanding plus net incremental shares arising out of employee stock options and benefit plans. The following is a reconciliation of the weighted-average share amounts (in millions) used in calculating earnings per share:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003	2004	2003	2004
Basic common shares outstanding	1,847	1,832	1,853	1,832
Incremental shares from stock options and benefit plans	4	4	3	5
Diluted common shares outstanding	1,851	1,836	1,856	1,837

The earnings amounts used for per-share calculations are the same for both the basic and diluted methods. Outstanding options to purchase 80 million shares for the three months and six months ended June 30, 2004 were not included in the computation of diluted earnings per share because the exercise price of these options was greater than the average market price of the common stock or the effect was anti-dilutive. Outstanding options to purchase 95 million shares for the three months ended June 30, 2003 and 91 million shares for the six months ended June 30, 2003 were also not included in the computation of diluted earnings per share because the exercise price of these options was greater than the average market price of the common stock or the effect was anti-dilutive.

NOTE C - DISCONTINUED OPERATIONS

In March 2004, we signed an agreement with Telefonica Moviles, the wireless affiliate of Telefonica, S.A. (Telefonica), to sell all our interests in our Latin American operations. Cash proceeds at closing are expected to be $4.4 billion. Net cash inflow will be $3.4 billion after consideration of the $1 billion of cash held in these operations that will transfer to Telefonica at closing. Based on the net book value of our investment and the anticipated proceeds, we expect to record an after-tax gain of approximately $1.5 billion at the closing of the transaction. The transaction is subject to governmental approvals and other closing conditions. It is expected to close in stages as closing conditions are satisfied, with the closings expected to occur in the second half of 2004.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," we have classified the results of our Latin American segment as discontinued operations. The presentation of discontinued operations includes revenues and expenses of the Latin American operations as one line item on the income statement. Beginning with the second quarter of 2004, long-lived assets of the Latin America group ceased to be depreciated (amortized) in accordance with SFAS No. 144.

Summary Financial Information

The assets and liabilities of our Latin American operations are aggregated and presented as current assets and current liabilities in the consolidated balance sheet at June 30, 2004. Additional detail related to the assets and liabilities of our discontinued operations follows:

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)
(Unaudited)

NOTE C - DISCONTINUED OPERATIONS (Continued)

At June 30, 2004:	
Current assets (excluding cash of $1,010)	$ 1,383
Property, plant and equipment, net	1,309
Investments and advances	274
Intangible assets, net	930
Other non-current assets	32
Total Assets	$ 3,928
Current liabilities	$ 1,660
Long-term debt	430
Other non-current liabilities	379
Total Liabilities	$ 2,469

Summarized results of operations for the discontinued operations are as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003	2004	2003	2004
Operating revenue	$ 563	$679	$ 1,072	$ 1,356
Operating income	$ 81	$212	$ 110	$ 283
Income before income taxes	$ 54	$109	$ 103	$ 153
Provision (benefit) for income taxes	$ 11	$ 52	$ (5)	$(353)
Net income from discontinued operations	$ 43	$ 57	$ 108	$ 506

Tax over Book Basis Differential

Our tax basis in the Latin America investments exceeds the book basis by approximately $1.7 billion. No US tax benefit was previously recognized on losses generated by the Latin American operations due to the essentially permanent duration of those investments. The agreement with Telefonica provides evidence that the temporary difference will reverse in the foreseeable future and, accordingly, in the first quarter of 2004 we recorded a $424 tax benefit in accordance with SFAS No. 109, "Accounting for Income Taxes." Tax expense of $8 was booked related to additional basis differential created in second quarter 2004 adjusting the year-to-date benefit to $416. In addition, a tax benefit of $184 has been recorded for the year-to-date period directly to equity, related to the cumulative currency translation balance associated with the discontinued operations.

Buyout of Minority Partners

In March and April 2004, we purchased interests and other rights of minority partners in Argentina, Ecuador and Colombia. These purchases bring our ownership interest to 100% in Argentina and Ecuador and to 77.6% in Colombia. The aggregate purchase price of these acquisitions, including payment of minority shareholder loans, was $177. The assignment of the purchase price to the estimated fair values of assets acquired and liabilities assumed resulted in an increase to intangible assets of $55 and an increase to goodwill of $81. In connection with the purchase of our minority partner in Argentina, the consideration paid exceeded the fair value by approximately $33. Accordingly, this amount was recognized as a charge to income/loss from discontinued operations in the second quarter.

Put-Call Arrangements

We own a 78.2% interest in Telcel, our Venezuelan operation. Telcel's other major shareholder holds an indirect 21% interest in Telcel. Under a Stock Purchase Agreement, that shareholder has the right to initiate a process that could require us to purchase (the puts), and we have the right to initiate a process that could require that shareholder to sell (the calls) to us, the shareholder's interest in Telcel. Notice of the initiation of the process with respect to approximately half of that shareholder's interest was to be given in 2000 and notice with respect to the remaining balance was to be given in 2002. If we exercise our call right, we would purchase that shareholder's interest at between 100% and 120% of its appraised fair value. If we are required to purchase the interest (the puts), we would do so at between 80% and 100% of appraised fair value.

In 2000, the shareholder initiated a process for appraising the value of approximately half of its interest in Telcel, but the process was not completed. The shareholder also has sent a letter purporting to exercise the balance of the puts under the Stock Purchase Agreement. We are currently in arbitration with the shareholder over alleged breaches by BellSouth and the shareholder of the Stock Purchase Agreement, including the timing of the valuation and whether the process was properly initiated in 2000. The shareholder is seeking damages and specific performance, and BellSouth is seeking, among other things, unspecified damages and a ruling that it has not breached the Stock Purchase Agreement in any

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)
(Unaudited)

NOTE C - DISCONTINUED OPERATIONS (Continued)

respect. The arbitration also relates to an alleged oral agreement to buy out the shareholder's entire interest in Telcel, which agreement we argue does not exist. Hearings on these matters occurred in January and April 2004. If the arbitration panel rules against BellSouth, it is possible that the appraised fair value of the shareholder's interest in Telcel could be substantially in excess of current value. At this time, the likely outcome of this arbitration cannot be predicted, nor can a reasonable estimate of the amount of loss, if any, be made.

We are the majority shareholder in BellSouth Colombia, a wireless operator in Colombia. We have agreed with our partner to a put and call agreement whereby we can acquire, or could be compelled by our partner to acquire, additional shares of the Colombian operation currently held by our partner for a price equal to the appraised fair value. Under the remaining put/call option, the residual balance of our partner's shares can be called by us or put to us beginning in 2006 until 2009. We cannot predict if either party will exercise its rights under this put/call option provision. Upon completion of the pending acquisition of our Colombian operations by Telefonica Moviles, the shareholders agreement will be assigned to Telefonica and all of our obligations under the shareholders agreement will cease.

Venezuela Currency

We consolidate the operations of Telcel in Venezuela. There are currency restrictions in place in Venezuela that limit our ability to physically convert local currency to US Dollars. Because of the currency controls, we are accumulating significant balances in Bolivars held in local banks. We are utilizing available alternatives in order to convert the currency into US Dollars when possible.

Due to the currency controls, there is no free market currency exchange rate. Therefore, in preparing our consolidated financial statements, we used the exchange rate established by the Venezuelan government of 1,920 Bolivars to the US Dollar to translate the local currency financial statements into our reporting currency, the US Dollar. When the Bolivar resumes trading on the open market, the exchange rate may be different from the rate set by the government. A significant devaluation of the local currency would result in a decline in revenues and, to a lesser extent, operating expenses when reported in the US Dollar. To the extent permissible by regulatory and market conditions, a portion of the effect of a devaluation could be offset by local rate increases. As an example, a devaluation in the Venezuelan currency from the average rate used in our financial statements to 3,000 Bolivars to the US Dollar would equate to a decrease in revenues of approximately $203 for the six months ended June 30, 2004, not taking into consideration any potential impacts from offsetting local rate increases. Such a change in the exchange rate would also result in a reduction in the company's net assets of approximately $192, which would be reported as a reduction in shareholders' equity through the cumulative foreign currency translation adjustment. Because certain expenses are settled in US Dollars, determination of the net income impact of such a devaluation is not practicable.

We are monitoring the situation, but continue to believe it is temporary in nature. Therefore, we have continued to consolidate the financial statements of this operation in accordance with SFAS No. 94, "Consolidation of All Majority-Owned Subsidiaries." In the event the currency restrictions are deemed other-than-temporary, we would cease to consolidate this operation and would reflect the investment using the cost method of accounting.

Colombia Debt Restructure

On March 19, 2004, our Colombian operation completed the refinancing of its senior secured debt. According to the terms of the refinancing, (1) the maturity was extended from 2005 to 2007, (2) on a pro rata basis with our partner, we agreed to provide support in the aggregate amount of $70 for 30 months and (3) we and our partner pledged 100% of the capital stock of the Colombian operations as security for the loan. As of June 30, 2004, BellSouth's consolidated balance sheet reflects the $139 remaining investment in the loan participation agreement and the debt of $477 as assets and liabilities of discontinued operations.

NOTE D - EMPLOYEE BENEFIT PLANS

Substantially all of our employees are covered by noncontributory defined benefit pension plans, as well as postretirement health and life insurance welfare plans ("other benefits").

The following details pension and postretirement benefit costs included in operating expenses (in cost of sales and selling, general and administrative expenses) in the accompanying Consolidated Statements of Income. We account for these costs in accordance with SFAS No. 87, "Employers' Accounting for Pensions" and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." Components of net periodic benefit costs for the three months and six months ended June 30 were as follows:

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)
(Unaudited)

NOTE D - EMPLOYEE BENEFIT PLANS (Continued)

	Pension Benefits		Other Benefits	
	For the Three Months Ended June 30,		For the Three Months Ended June 30,	
	2003	2004	2003	2004
Service cost	$ 45	$ 44	$ 12	$ 12
Interest cost	186	174	120	108
Expected return on plan assets ..	(347)	(329)	(78)	(80)
Amortizations:				
Unrecognized net obligation ...	(1)	--	18	18
Unrecognized prior service cost	(10)	(11)	41	40
Unrecognized (gain) loss.......	(7)	1	27	24
Net periodic benefit cost (income)	(134)	(121)	140	122
Settlements	20	--	--	--
Net periodic benefit cost (income), adjusted....	$ (114)	$ (121)	$140	$122

	Pension Benefits		Other Benefits	
	For the Six Months		For the Six Months	

	Ended June 30,		Ended June 30,	
	2003	2004	2003	2004
Service cost	$ 91	$ 88	$ 25	$ 23
Interest cost	371	348	241	216
Expected return on plan assets ..	(693)	(659)	(156)	(160)
Amortizations:				
Unrecognized net obligation ...	(2)	--	36	43
Unrecognized prior service cost	(20)	(22)	81	93
Unrecognized (gain) loss.......	(14)	3	54	45
Net periodic benefit cost (income) ..	(267)	(242)	281	260
Settlements	89	--	--	--
Net periodic benefit cost (income), adjusted.....	$ (178)	$ (242)	$281	$ 260

In 2003, lump-sum distributions from the pension plans exceeded the settlement threshold equal to the sum of the service cost and interest cost components of net periodic pension cost resulting in a charge to income of $89. Of the $89 in pension settlement charges, $87 was recognized in operating results because a portion of the settlement charges was capitalized in connection with labor related to network construction.

Medicare Prescription Drug Subsidy

In December 2003, the Medicare Prescription Drug Act was signed into law. The Act allows companies that provide certain prescription drug benefits for retirees to receive a federal subsidy beginning in 2006. We accounted for the government subsidy provided for in the Medicare Act in the calculation of our 2003 retiree medical obligation, resulting in a reduction to the liability of $575. We had previously accounted for the subsidy provided under the Act as a plan amendment under SFAS No. 106. Effective January 1, 2004, we changed the method to treat the subsidy as an actuarial gain. The cumulative effect of the change in method was $6. This change did not affect the retiree medical obligation.

Employer Contributions

For the quarter ended June 30, 2004 we made no contributions to our pension plans and anticipate no funding for the remainder of 2004. As of June 30, 2004, we have contributed $253 to fund other benefits (primarily retiree medical) and expect to contribute an additional $120 to $170 of funding for other benefits during the remainder of 2004.

Cash-Balance Pension Plan

In July 2003, a Federal district court in Illinois ruled that the benefit formula used in International Business Machines Corporation's cash balance pension plan violated the age discrimination provisions of ERISA. The IBM decision conflicts with decisions of at least two other district courts, including most recently a June 2004 decision of the federal district court in Maryland in a case involving ARINC, Inc. Proposed regulations validating the cash balance design were recently withdrawn by the Treasury Department while Congress considers legislative action to clarify the legal status of cash balance plans under age discrimination rules. At this time, it is unclear what effect, if any, these decisions or Congressional action may have on our tax-qualified cash balance pension plans or our financial condition.

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)
(Unaudited)

NOTE E - INVESTMENTS AND ADVANCES

Cingular

We own an approximate 40% economic interest in Cingular, a joint venture with SBC Communications. Because we exercise influence over the financial and operating policies of Cingular, we use the equity method of accounting for this investment. The following table presents summarized financial information of Cingular for the periods indicated.

	December 31, 2003	June 30, 2004
Balance Sheet Information:		
Current assets	$ 3,300	$ 2,445
Noncurrent assets	$22,226	$23,608
Current liabilities	$ 3,187	$ 3,089
Noncurrent liabilities	$13,196	$13,241
Minority interest	$ 659	$ 660
Members' capital	$ 8,484	$ 9,063

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003	2004	2003	2004
Income Statement Information:				
Operating revenues	$ 3,874	$ 4,155	$ 7,512	$ 8,097
Operating income	$ 756	$ 680	$ 1,472	$ 1,239
Net income	$ 410	$ 351	$ 829	$ 578

As of June 30, 2004, our book investment exceeded our proportionate share of the net assets of Cingular by $229.

On February 17, 2004, Cingular announced an agreement to acquire AT&T Wireless, which will create the largest wireless carrier in the United States. The acquisition, which is subject to the approvals of federal regulatory authorities and to other customary closing conditions, is expected to be completed in the fourth quarter of 2004.

Sonofon

On February 12, 2004, we closed on a previously announced agreement to sell our interest in Danish wireless provider, Sonofon, for 3.68 billion Danish Kroner to Telenor ASA. We received 3.05 billion Danish Kroner, or $525, for our 46.5% equity stake and 630 million Danish Kroner, or $109, for our shareholder loan and accrued interest, reduced by a settlement of $17 associated with foreign currency swap contracts. As a result of these transactions, we recorded a gain of $462, or $295 net of tax, which included the recognition of cumulative foreign currency translation gains of $13.

NOTE F - DEBT

Issuance

On June 22, 2004, we sold $700 of 30-year, 6.55 percent notes, due June 15, 2034, at a discounted rate of 99.367 percent, resulting in net proceeds of $696. In addition, we incurred debt issuance costs of $6 related to this transaction.

Early Redemption

In June 2004, we announced our intention to redeem $517 of 40-year, 7.375 percent quarterly interest bonds, due August 1, 2039, on August 1, 2004. The redemption price will be 100 percent of the principal amount, but will result in an estimated loss of $16, or $11 net of tax, due to the remaining discount that will be fully expensed. As of June 30, 2004, this debt is classified as current maturities of long-term debt in our balance sheet.

NOTE G - PURCHASE OF TREASURY SHARES

During second quarter 2004, we purchased 3.9 million shares of our common stock for an aggregate cost of $99. There were no purchases in first quarter 2004. For the six months ended June 30, 2003, we purchased 14.8 million shares of our common stock for an aggregate cost of $322. There were no purchases during second quarter 2003, however $67 of first quarter 2003 purchases settled in April 2003.

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)
(Unaudited)

NOTE H - WORKFORCE REDUCTION AND RESTRUCTURING

Based on ongoing challenges in the telecom industry, continued economic pressures, the uncertainty resulting from Federal Communications Commission (FCC) regulatory rulings, as well as productivity improvements, we have made adjustments to our force levels to match lower demand. During the first half of 2004, we initiated a workforce reduction of approximately 1,100 positions, primarily in network operations where the volume of work continues to decline. Charges in earnings have been recognized in accordance with the provisions of SFAS No. 112, "Employers Accounting for Postemployment Benefits" and consisted primarily of cash severance, outplacement and payroll taxes under pre-existing separation pay plans.

The following table summarizes activity associated with the workforce reduction and restructuring liability for the six months ended June 30, 2004:

	Type of Cost		
	Employee Separations	Other Exit Costs	Total
Balance at December 31, 2003	$ 66	$ 6	$ 72
Additions	33	--	33
Deductions	(64)	(5)	(69)
Balance at June 30, 2004	$ 35	$ 1	$ 36

The $33 in additions to the accrual associated with employee separations relates to accruals for estimated payments for the current year workforce reductions.

Deductions to the accrual of $64 consist of $52 in cash severance payments and $12 for adjustment to the accrual due to estimated demographics being different than actual demographics of employees that separated from the Company. Deductions from the accrual for other exit costs consist primarily of changes to prior estimates.

NOTE I - SEGMENT INFORMATION

As a result of the pending sale of our Latin American operations, we now have three reportable operating segments: (1) Communications group; (2) Domestic wireless (representing our 40% interest in Cingular); and (3) Advertising and publishing.

The following table provides information for each operating segment:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003	2004	2003	2004
Communications group				
External revenues	$ 4,545	$ 4,562	$ 9,053	$ 9,097
Intersegment revenues	41	41	109	81
Total segment revenues	4,586	4,603	9,162	9,178
Segment operating income	1,162	1,192	2,412	2,362
Segment net income	679	702	1,388	1,389
Domestic wireless				
Total segment revenues	$ 1,549	$ 1,662	$ 3,004	$ 3,239
Segment operating income	303	272	589	496
Segment net income	104	89	205	148
Advertising and publishing				
External revenues	$ 520	$ 507	$ 1,014	$ 986
Intersegment revenues	5	4	9	7
Total segment revenues	525	511	1,023	993
Segment operating income	252	247	495	486
Segment net income	157	150	306	297

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)
(Unaudited)

NOTE I - SEGMENT INFORMATION (Continued)

RECONCILIATION TO CONSOLIDATED FINANCIAL INFORMATION

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003	2004	2003	2004
Operating revenues				
Total reportable segments	$ 6,660	$ 6,776	$ 13,189	$ 13,410
Cingular proportional consolidation	(1,549)	(1,662)	(3,004)	(3,239)

South Carolina settlement	-	-	-	(50)
Corporate, eliminations and other	(32)	(31)	(92)	(62)
Total consolidated	$ 5,079	$ 5,083	$ 10,093	$ 10,059
Operating income				
Total reportable segments	$ 1,717	$ 1,711	$ 3,496	$ 3,344
Cingular proportional consolidation	(303)	(272)	(589)	(496)
South Carolina settlement	-	-	-	(53)
Restructuring charge	-	(8)	(54)	(21)
Pension settlement loss	(20)	-	(87)	-
Corporate, eliminations and other	(40)	11	(61)	26
Total consolidated	$ 1,354	$ 1,442	$ 2,705	$ 2,800
Net Income				
Total reportable segments	$ 940	$ 941	$ 1,899	$ 1,834
Net gain (loss) on sale of operations	-	-	-	295
South Carolina settlement	-	-	-	(33)
Net losses on sale or impairment of securities	(5)	-	(5)	(4)
Cumulative effect of changes in accounting principle	-	-	315	-
Restructuring charge	-	(6)	(33)	(14)
Pension settlement loss	(12)	-	(53)	-
Discontinued operations	43	57	108	506
Corporate, eliminations and other	(15)	4	(50)	11
Total consolidated	$ 951	$ 996	$ 2,181	$ 2,595

Reconciling items are transactions or events that are included in reported consolidated results but are excluded from segment results due to their nonrecurring or nonoperational nature.

NOTE J - RELATED PARTY TRANSACTIONS

We have made advances to Cingular that totaled $3,812 at June 30, 2004. We also generate revenues from Cingular for the provision of local interconnect, long distance services and sales agency fees from Cingular.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003	2004	2003	2004
Interest income on advances	$ 71	$ 56	$ 141	$ 113
Revenues	$ 103	$ 129	$ 201	$ 246

In addition, we have receivables and payables incurred in the ordinary course of business recorded in our balance sheets as follows:

	December 31, 2003	June 30, 2004

Receivable from Cingular	$ 57	$66
Payable to Cingular	$ 33	$28

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)
(Unaudited)

NOTE K - CONTINGENCIES

GUARANTEES

In most of our sale and divestiture transactions, we indemnify the purchaser for various items including labor and general litigation as well as certain tax matters. Generally, the terms last one to five years for general and specific indemnities and, in some cases, for the statutory review periods for tax matters. The events or circumstances that would require us to perform under the indemnity are transaction and circumstance specific. We regularly evaluate the probability of having to incur costs associated with these indemnities and have accrued for expected losses that are probable. In addition, in the normal course of business, we indemnify counterparties in certain agreements. The nature and terms of these indemnities vary by transaction. Historically, we have not incurred significant costs related to performance under these types of indemnities.

RECIPROCAL COMPENSATION

Following the enactment of the Telecommunications Act of 1996, our telephone company subsidiary, BellSouth Telecommunications, Inc. (BST), and various competitive local exchange carriers (CLECs) entered into interconnection agreements providing for, among other things, the payment of reciprocal compensation for local calls initiated by the customers of one carrier that are completed on the network of the other carrier. These agreements were the subject of litigation before various regulatory commissions. After an FCC ruling in April 2001 prescribing new rates, BellSouth settled its claims with competitors for traffic occurring through mid-June 2001, and entered into agreements that contained the FCC rates for traffic occurring from mid-June 2001 forward. The District of Columbia Circuit Court of Appeals, in the second quarter of 2002, remanded the ruling to the FCC to implement a rate methodology consistent with the Court's opinion. The FCC's previous rules and rates remain in effect while it reconsiders them. If the FCC redefines the rate methodology in a manner that increases the prescribed rates and requires retroactive application, payments to CLECs could be material to our results of operations.

LEGAL PROCEEDINGS

Employment Claim
On April 29, 2002 five African-American employees filed a putative class action lawsuit, captioned Gladys Jenkins et al. v. BellSouth Corporation, against the Company in the United States District Court for the Northern District of Alabama. The complaint alleges that BellSouth discriminated against current and former African-American employees with respect to compensation and promotions in violation of Title VII of the Civil Rights Act of 1964 and 42 USC Section 1981. Plaintiffs purport to bring the claims on behalf of two classes: a class of all African-American hourly workers employed by BellSouth at any time since April 29, 1998, and a class of all African-American salaried workers employed by BellSouth at any time since April 29, 1998 in management positions at or below Job Grade 59/Level C. The plaintiffs are seeking unspecified amounts of back pay, benefits, punitive damages and attorneys' fees and costs, as well as injunctive relief. At this time, the likely outcome of the case cannot be

predicted, nor can a reasonable estimate of the amount of loss, if any, be made.

Securities Claim

From August through October 2002 several individual shareholders filed substantially identical class action lawsuits against BellSouth and three of its senior officers alleging violations of the federal securities laws. The cases have been consolidated in the United States District Court for the Northern District of Georgia and are captioned In re BellSouth Securities Litigation. Pursuant to the provisions of the Private Securities Litigation Reform Act of 1995, the court has appointed a Lead Plaintiff. The Lead Plaintiff filed a Consolidated and Amended Class Action Complaint on or about July 15, 2003 and named four outside directors as additional defendants. The Consolidated and Amended Class Action Complaint alleges that during the period November 7, 2000 through February 19, 2003, the Company (1) overstated the unbilled receivables balance of its advertising and publishing subsidiary; (2) failed to properly implement SAB 101 with regard to its recognition of advertising and publishing revenues; (3) improperly billed CLECs to inflate revenues, (4) failed to take a reserve for refunds that ultimately came due following litigation over late payment charges and (5) failed to properly write down goodwill of its Latin American operations. The plaintiffs are seeking an unspecified amount of damages, as well as attorneys' fees and costs. At this time, the likely outcome of the case cannot be predicted, nor can a reasonable estimate of loss, if any, be made.

In February 2003, a similar complaint was filed in the Superior Court of Fulton County, Georgia on behalf of participants in BellSouth's Direct Investment Plan alleging violations of Section 11 of the Securities Act. Defendants removed this action to federal court pursuant to the provisions of the Securities Litigation Uniform Standards Act of 1998. On or about July 3, 2003, the federal court issued a ruling that the case should be remanded to Fulton County Superior Court. The plaintiffs are seeking an unspecified amount of damages, as well as attorneys' fees and costs. At this time, the likely outcome of the case cannot be predicted, nor can a reasonable estimate of loss, if any, be made.

NOTE K - CONTINGENCIES (Continued)

In September and October 2002 three substantially identical class action lawsuits were filed in the United States District Court for the Northern District of Georgia against BellSouth, its directors, three of its senior officers, and other individuals, alleging violations of the Employee Retirement Income Security Act (ERISA). The cases have been consolidated and on April 21, 2003, a Consolidated Complaint was filed. In January 2004, a fourth ERISA class action lawsuit was filed in the same court. The plaintiffs, who seek to represent a putative class of participants and beneficiaries of BellSouth's 401(k) plans (the "Plans"), allege in the Consolidated Complaint that the company and the individual defendants breached their fiduciary duties in violation of ERISA, by among other things, (1) failing to provide accurate information to the Plans' participants and beneficiaries; (2) failing to ensure that the Plans' assets were invested properly; (3) failing to monitor the Plans' fiduciaries; (4) failing to disregard Plan directives that the defendants knew or should have known were imprudent and (5) failing to avoid conflicts of interest by hiring independent fiduciaries to make investment decisions. The plaintiffs are seeking an unspecified amount of damages, injunctive relief, attorneys' fees and costs. Certain underlying factual allegations regarding

BellSouth's advertising and publishing subsidiary and its Latin American operation are substantially similar to the allegations in the putative securities class action captioned In re BellSouth Securities Litigation, which is described above. At this time, the likely outcome of the cases cannot be predicted, nor can a reasonable estimate of loss, if any, be made.

Antitrust Claims
In December 2002, a consumer class action alleging antitrust violations of Section 1 of the Sherman Antitrust Act was filed against BellSouth, Verizon, SBC and Qwest in Federal Court in the Southern District of New York. The complaint alleged that defendants conspired to restrain competition by "agreeing not to compete with one another and otherwise allocating customers and markets to one another." The plaintiffs are seeking an unspecified amount of treble damages and injunctive relief, as well as attorneys' fees and expenses. In October 2003, the district court dismissed the complaint for failure to state a claim and the case is now on appeal.

OTHER CLAIMS

We are subject to claims arising in the ordinary course of business involving allegations of personal injury, breach of contract, anti-competitive conduct, employment law issues, regulatory matters and other actions. BST is also subject to claims attributable to pre-divestiture events involving environmental liabilities, rates, taxes, contracts and torts. Certain contingent liabilities for pre-divestiture events are shared with AT&T Corp. While complete assurance cannot be given as to the outcome of these claims, we believe that any financial impact would not be material to our results of operations, financial position or cash flows.

NOTE L - SUBSIDIARY FINANCIAL INFORMATION

We have fully and unconditionally guaranteed all of the outstanding debt securities of BST, which is a 100% owned subsidiary of BellSouth. In accordance with SEC rules, BST is no longer subject to the reporting requirements of the Securities Exchange Act of 1934, and we are providing the following unaudited condensed consolidating financial information. BST is listed separately because it has debt securities, registered with the SEC, that we have guaranteed. The BST and Parent columns reflect the application of equity method accounting for investments in their subsidiaries. The Other column represents all other wholly owned subsidiaries excluding BST and BST subsidiaries. The Adjustments column includes the necessary amounts to eliminate the intercompany balances and transactions between BST, Other and Parent and to consolidate wholly owned subsidiaries to reconcile to our consolidated financial information.

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)
(Unaudited)

NOTE L - SUBSIDIARY FINANCIAL INFORMATION (Continued)

Condensed Consolidating Statements of Income

	For the Three Months Ended Ju		
	BST	Other	Parent

Total operating revenues	$ 4,335	$ 1,393	$ --
Total operating expenses	3,705	1,045	15
Operating income (loss)	630	348	(15)
Interest expense	135	14	147
Equity in earnings	287	183	973
Other income (expense), net	(21)	90	52
Income from continuing operations before income taxes, discontinued operations, and cumulative effect of changes in accounting principle	761	607	863
Provision (benefit) for income taxes	178	216	(45)
Income from continuing operations before discontinued operations and cumulative effect of changes in accounting principle	583	391	908
Discontinued operations, net of tax	--	43	43
Cumulative effect of changes in accounting principle, net of tax	--	--	--
Net income (loss)	$ 583	$ 434	$ 951

	For the Three Months Ended Ju		
	BST	Other	Parent
Total operating revenues	$ 4,243	$ 1,599	$ --
Total operating expenses	3,691	1,121	(13)
Operating income	552	478	13
Interest expense	124	4	136
Equity in earnings	275	154	980
Other income (expense), net	5	45	41
Income from continuing operations before income taxes, discontinued operations, and cumulative effect of changes in accounting principle	708	673	898
Provision (benefit) for income taxes	157	241	(41)
Income from continuing operations before discontinued operations and cumulative effect of changes in accounting principle	551	432	939
Discontinued operations, net of tax	--	57	57
Cumulative effect of changes in accounting principle, net of tax	--	--	--
Net income (loss)	$ 551	$ 489	$ 996

For the Six Months Ended Jun

	BST	Other	Parent
Total operating revenues	$ 8,732	$ 2,660	$ --
Total operating expenses	7,444	1,959	36
Operating income (loss)	1,288	701	(36)
Interest expense	281	45	297
Equity in earnings	536	362	1,905
Other income (expense), net	(21)	141	106
Income from continuing operations before income taxes, discontinued operations, and cumulative effect of changes in accounting principle	1,522	1,159	1,678
Provision (benefit) for income taxes	371	404	(80)
Income from continuing operations before discontinued operations and cumulative effect of changes in accounting principle	1,151	755	1,758
Discontinued operations, net of tax	--	108	108
Cumulative effect of changes in accounting principle, net of tax	816	(501)	315
Net income (loss)	$ 1,967	$ 362	$ 2,181

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)
(Unaudited)

NOTE L - SUBSIDIARY FINANCIAL INFORMATION (Continued)

Condensed Consolidating Statements of Income (Continued)

	For the Six Months Ended Jun		
	BST	Other	Parent
Total operating revenues	$ 8,431	$ 3,116	$ --
Total operating expenses	7,334	2,195	(19)
Operating income	1,097	921	19
Interest expense	248	10	275
Equity in earnings	531	257	2,176
Other income (expense), net	4	567	64
Income from continuing operations before income taxes, discontinued operations, and cumulative effect of changes in accounting principle	1,384	1,735	1,984
Provision (benefit) for income taxes	309	628	(105)
Income from continuing operations before	1,075	1,107	2,089

discontinued operations and cumulative effect of changes in accounting principle			
Discontinued operations, net of tax.............	--	506	506
Cumulative effect of changes in accounting principle, net of tax........................	--	--	--
Net income (loss)	$ 1,075	$ 1,613	$ 2,595

Condensed Consolidating Balance Sheets

	December 31, 2003						
	BST	Other	Parent	Adjust-ments	Total	BST	Ot
ASSETS							
Current assets:							
Cash and cash equivalents	$ 5	$ 1,190	$ 3,227	$ 134	$4,556	$ 32	$ 1
Accounts receivable, net	68	1,143	3,204	(1,545)	2,870	73	
Other current assets	393	831	81	118	1,423	450	
Assets of discontinued operations	--	--	--	--	--	--	3
Total current assets	466	3,164	6,512	(1,293)	8,849	555	6
Investments and advances	3,464	7,913	22,609	(25,434)	8,552	3,424	7
Property, plant and equipment, net	21,818	1,947	4	38	23,807	21,458	
Deferred charges and other assets	5,029	287	72	467	5,855	5,158	
Intangible assets, net	1,036	1,460	5	138	2,639	1,002	
Total assets	$31,813	$14,771	$29,202	$(26,084)	$49,702	$31,597	$15
LIABILITIES AND SHAREHOLDERS' EQUITY							
Current liabilities:							
Debt maturing within one year	$ 2,454	$ 920	$ 2,470	$(2,353)	$ 3,491	$2,349	$
Other current liabilities	3,942	1,724	916	(1,615)	4,967	3,958	1
Liabilities of discontinued operations.................	--	--	--	--	--	--	2
Total current liabilities	6,396	2,644	3,386	(3,968)	8,458	6,307	3
Long-term debt	4,970	845	6,301	(627)	11,489	4,360	
Noncurrent liabilities:							

Deferred income taxes	4,408	1,519	(751)	173	5,349	4,872	1
Other noncurrent liabilities .	2,991	1,074	554	75	4,694	2,975	
Total noncurrent liabilities .	7,399	2,593	(197)	248	10,043	7,847	2
Shareholders' equity..........	13,048	8,689	19,712	(21,737)	19,712	13,083	9
Total liabilities and shareholders' equity	$31,813	$14,771	$29,202	$(26,084)	$49,702	$31,597	$15

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)
(Unaudited)

NOTE L - SUBSIDIARY FINANCIAL INFORMATION (Continued)

Condensed Consolidating Cash Flow Statements

	For the Six Months Ended Jun		
	BST	Other	Parent
Cash flows from continuing operations:			
Cash flows from operating activities	$ 3,367	$ 887	$ 2,344
Cash flows from investing activities	(1,365)	(189)	683
Cash flows from financing activities	(2,002)	(722)	(1,430)
Cash flows from discontinued operations	--	80	--
Net (decrease) increase in cash	$ --	$ 56	$ 1,597

	For the Six Months Ended Jun		
	BST	Other	Parent
Cash flows from continuing operations:			
Cash flows from operating activities	$ 3,020	$ 78	$ 1,846
Cash flows from investing activities	(1,329)	188	698

Cash flows from financing activities	(1,664)	(181)	(731)
Cash flows from discontinued operations........	--	(185)	--
Net (decrease) increase in cash	$ 27	$ (100)	$ 1,813

(Dollars in Millions, Except Per Share Amounts and as Otherwise Indicated)

BELLSOUTH CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

For a more complete understanding of our industry, the drivers of our business and our current period results, you should read the following Management's Discussion and Analysis of Financial Condition and Results of Operations in conjunction with our latest annual report on Form 10-K, as amended by the current report on Form 8-K dated July 30, 2004, and our other filings with the SEC.

Overview

We are a Fortune 100 company with annual revenues of over $20 billion. Our core business is wireline communications and our largest customer segment is the retail consumer. We have significant interests in wireless communications through our ownership of approximately 40 percent of Cingular Wireless (Cingular), the nation's second largest wireless company. We also operate one of the largest directory advertising businesses in the United States. The great majority of our revenues are generated based on monthly recurring services.

We operate much of our business in one of the country's strongest regional economies, where the population is increasing, real income growth is outpacing the national average and a diverse mix of businesses require advanced information and communication technology solutions. The Southeast is a net migration region, with positive net migration averaging almost 500 thousand annually. The region's real income is expected to grow 10 to 15 percent faster than the national average in the next five years.

REGULATION AND COMPETITION

The Telecommunications Act of 1996 required local telephone companies to open their existing facilities to use by competitors on "non-discriminatory" terms and prices under what is referred to as an unbundled network element platform, or UNE-P. This requirement has distorted the competitive landscape by allowing competitors to rent access lines at deeply discounted rates that are generally below our historical cost. Utilizing UNE-P, competitors are able to market telephone service and generate reasonable margins with little to no capital investment at risk.

A judicial decision that became effective in mid-June invalidated certain FCC rules that governed the provision of wholesale access to our network by local service competitors. We have begun the process of reforming our contracts with competitors to reflect the court's decision. We also await new rules from the FCC that must reflect the court's decision. In addition, we have offered competitors commercial and tariffed services that would replace the services required by the invalidated rules for longer terms at market-based prices. The development of revised and new contracts with competitors will take at least several months. As a result of these changes in regulatory policy governing local telephone service, AT&T announced it will no longer be competing for residential local and standalone long distance customers. They stated that service will continue for existing residential customers; however, they will no longer be investing to acquire new customers in this segment.

We also have a pending reconsideration request on the architectural requirements related to fiber deployment for broadband before the FCC. In addition, the FCC is reviewing UNE pricing rules, including an evaluation of the total element long run incremental cost (TELRIC) methodology, access charge reform and potential regulation of voice over Internet protocol (VoIP).

ACQUISITIONS AND DISPOSITIONS

On February 17, 2004, Cingular announced an agreement to acquire AT&T Wireless, which will create the largest wireless carrier in the United States. The acquisition, which is subject to the approvals of federal regulatory authorities and to other customary closing conditions, is expected to be completed in the fourth quarter of 2004.

On March 5, 2004, we signed an agreement with Telefonica Moviles, the wireless affiliate of Telefonica, S.A., to sell all our interests in our Latin American operations. The transaction is subject to governmental approvals and other closing conditions. It is expected to close in stages as closing conditions are satisfied, with the closings expected to occur in the second half of 2004.

HIGHLIGHTS AND OUTLOOK

Consolidated revenues for the first half of 2004 were essentially flat compared to the first half of 2003 reflecting top line pressures caused by the loss of 1.6 million retail access lines to UNE-P competitors and technology substitution. Revenue contraction due to line loss and pricing pressures was offset by solid revenue growth in long distance and DSL. Through the first half of the year, we added approximately 1.2 million long distance customers to total 5.1 million at June 30, 2004, while net new DSL subscriber additions of 276,000 brought our total to 1.7 million. Our cost structure is heavily weighted towards labor and depreciation. In the Communications group, we adjust our workforce as market share of access lines shifts. Since the beginning of 2001, we reduced our workforce in this group by 14,600 employees or 20%. In the first half of

2004, we announced that the needs of the business would require additional force reductions of nearly 1,100 employees. Maintaining operating margins going forward will be challenging as competition intensifies and we are forced to achieve continued increases in productivity. While there have been some encouraging developments on the regulatory front, there will be other events (healthcare costs, roll-out of VoIP telephony by cable providers) that will put pressure on margins.

Approximately 45,000 of our employees are represented by the Communications Workers of America (CWA). The largest collective bargaining agreements between the CWA and our subsidiaries are due to expire on August 7, 2004. We are currently in negotiations with the union on new contracts. We can provide no assurance that we will be able to complete new agreements with the union prior to the expiration of the contracts or that we will not be competitively disadvantaged if we are unable to do so. We have put into place contingency plans to maintain all essential service functions in the event of a work stoppage.

Despite the lack of growth in the traditional business, cash flows were strong in the first half of 2004 as we delivered $2.4 billion in operating free cash flow from continuing operations (cash flow from operating activities less capital expenditures). During the quarter, we increased the quarterly cash dividend by eight percent to 27 cents per common share.

Consolidated Results of Operations

Key financial and operating data for the three and six months ended June 30, 2003 and 2004 are set forth below. All references to earnings per share are on a diluted basis. The discussion of consolidated results should be read in conjunction with the more detailed discussion of results by segment directly following this section.

Following generally accepted accounting principles (GAAP), our financial statements reflect results for the Latin American operations as Discontinued Operations. The operational results and other activity, including the tax over book basis gain, associated with the Latin American segment have been presented on one line item in the income statement separate from Continuing Operations.

	For the Three Months Ended June 30, 2003	2004	% Change
Results of operations:			
Total operating revenues	$ 5,079	$5,083	0.1%
Operating expenses			
Cost of services and products	1,765	1,789	1.4%
Selling, general, and administrative expenses	989	930	-6.0%
Depreciation and amortization	953	914	-4.1%
Provision for restructuring	18	8	-55.6%
Total operating expenses	3,725	3,641	-2.3%
Operating income	1,354	1,442	6.5%
Interest expense	233	211	-9.4%
Net (losses) earnings of equity affiliates	177	151	-14.7%
Gain (loss) on sale of operations	-	-	0.0%
Other income (expense), net	121	73	-39.7%
Income from continuing operations before income taxes and cumulative effect of changes in accounting principle, net of tax	1,419	1,455	2.5%
Provision for income taxes	511	516	1.0%

Income from continuing operations before discontinued operations and cumulative effect of changes in accounting principle	908	939	3.4%
Income from discontinued operations, net of tax	43	57	32.6%
Income before cumulative effect of changes in accounting principle	951	996	4.7%
Cumulative effect of changes in accounting principle, net of tax	-	-	0.0%
Net (loss) income	$ 951	$ 996	4.7%

* Not meaningful

(Dollars in Millions, Except Per Share Amounts and as Otherwise Indicated)

Operating Revenues

Consolidated revenues were essentially flat during the second quarter and the year-to-date periods in 2004 compared to the corresponding periods in 2003. Communications group revenues increased $17 in the second quarter but were down slightly in the year-to-date period. Year-to-date 2004 revenues reflect the impact of a $50 customer refund accrual recorded during the first quarter 2004 associated with a settlement agreement with the South Carolina Consumer Advocate. Absent the accrual, revenues would have increased $46. Growth in both periods reflect the impact of revenue declines associated with competitive line losses and related pricing pressures offset by growth in DSL and long distance. Beyond our traditional wireline business, Advertising and publishing group revenues were down $28 in the year-to-date period compared to the corresponding period in 2003 impacted by a reduction in print revenues due to lower overall spending by our advertisers.

Operating Expenses

The $84 decline in operating expenses in the second quarter of 2004 as compared to the second quarter 2003 is primarily attributable to reductions in uncollectible expense, access fees paid to other carriers and lower depreciation and amortization expense attributable to the declines in capital expenditures partially offset by increases in the costs of goods for the provision of long distance services associated with the growth in subscribers, higher labor costs and advertising costs. These expenses are discussed in greater detail in our Communications group segment results section.

Year-to-date operating expenses declined $129 as compared to the prior year. In addition to the factors affecting the second quarter comparison, the year-to-date 2004 comparison is favorably impacted by $117 in restructuring charges taken in the prior year.

Interest Expense

Interest expense decreased $22 for the second quarter and $65 for the year-to-date period compared to the same periods in the prior year. Interest expense related to interest-bearing debt was down $19 for the second quarter and down $38 in the year-to-date period, compared to the same periods in the prior year, reflecting lower average debt balances caused by scheduled maturities and early redemptions in 2003. The remaining variances relate to interest accruals on other liabilities and contingencies.

Net earnings (losses) of equity affiliates

	For the Three Months Ended June 30, 2003	2004	Change	For the Si[x Months] Ended Ju[ne 30,] 2003
Cingular	$ 166	$ 141	$ (25)	$ 331
Other equity investees	11	10	(1)	17
Total	$ 177	$ 151	$ (26)	$ 348

Earnings from Cingular in the 2004 periods were lower compared to the same periods in 2003 primarily due to significant growth in customers and the costs related to that growth.

Gain (loss) on sale of operations

The gain on sale of operations in 2004 relates to the sale of our interest in Danish wireless provider, Sonofon, for 3.68 billion Danish Kroner to Telenor ASA. We received 3.05 billion Danish Kroner, or $525, for our 46.5% equity stake and 630 million Danish Kroner, or $109, for our shareholder loan and accrued interest, reduced by a settlement of $17 associated with foreign currency swap contracts. As a result of these transactions, we recorded a gain of $462, or $295 net of tax, which included the recognition of cumulative foreign currency translation gains of $13.

Other income (expense), net

	For the Three Months Ended June 30, 2003	2004	Change	For the Six Ended Ju 2003
Interest Income	$ 90	$ 70	$ (20)	$ 174
Foreign currency transaction gains (losses)	25	-	(25)	29
Other, net	6	3	(3)	(6)
Total Other Income (Expense), net	$ 121	$ 73	$ (48)	$ 197

The decrease in interest income reflects a lower rate on our advance to Cingular and to a lesser extent the loss of income on an advance to Dutch telecommunications provider Royal KPN N.V. (KPN) due to early repayment in 2003. Foreign currency transaction gains in 2003 relate primarily to the advance to KPN.

(Dollars in Millions, Except Per Share Amounts and as Otherwise Indicated)

Provision for income taxes

The provision for income taxes increased $5 in the second quarter of 2004 as compared to the second quarter of 2003 while the effective tax rate declined to 35.5% from 36.0% in the second quarter of 2003. The provision increased $138 in the year-to-date period in 2004 compared to the corresponding period in 2003. The effective tax rate decreased to 35.3% in the year-to-date period in 2004 from 36.3% in the year-to-date period in 2003. The lower effective tax rates in 2004 were impacted by a favorable permanent difference for the Medicare Part D subsidy and a true up of taxes payable associated with divested operations.

Income (loss) from discontinued operations, net of tax

Income from discontinued operations, net of tax, increased $14 in the second quarter of 2004 compared to the same period in 2003 primarily due to improved operating income in 2004. The improvement in operating income was primarily due to the cessation of depreciation and amortization expense in the second quarter 2004 for the assets of the discontinued operations as required by GAAP as well as strong revenue growth in the region. In addition, income from discontinued operations in the second quarter of 2003 included a $73 loss, net of tax, on the sale of Brazil. Partially offsetting these improvements were foreign exchange losses of $34 in second quarter 2004 compared to foreign exchange gains of $73 in second quarter 2003. In addition, second quarter 2004 included a loss of $33 related to the purchase of additional ownership share in Argentina.

Income from discontinued operations, net of tax, increased $398 in the year-to-date-period 2004 compared to the same period in 2003 primarily due to a $416 tax benefit recorded in 2004 related to excess tax basis over book basis in our Latin America investments. No US tax benefit has previously been recognized on losses generated by the Latin American operations due to the essentially permanent duration of those investments. The sale agreement with Telefonica provides evidence that the temporary difference will reverse in the foreseeable future and, accordingly, we recorded a $416 tax benefit in accordance with SFAS No. 109. Excluding this tax adjustment, income from discontinued operations, net of tax, would have been flat.

From an operational perspective, these operations experienced strong growth in both customers and revenue. Operating revenue in the Latin America operations for the year-to-date period in 2004 increased $284 or 26.5% over year-to-date 2003 due to strong growth in customers and traffic throughout the portfolio. End-of-period customers increased 29% and total billed minutes of use increased 34% compared to last year. Operating income in the Latin American operations also increased due to the strength in business volumes as well as the cessation of depreciation and amortization expense in second quarter 2004.

Cumulative effect of changes in accounting principle

Asset Retirement Obligations

Effective January 1, 2003, we adopted SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143). In connection with the adoption of this standard, we recorded the cumulative effect of accounting change that increased 2003 net income by $816.

Revenue Recognition for Publishing Revenues

Effective January 1, 2003, we changed our method for recognizing revenues and expenses related to our directory publishing business from the publication and delivery method to the deferral method. The cumulative effect of the change in accounting method is reflected in the income statement as a decrease to 2003 net income of $501.

Results by Segment

Our reportable segments reflect strategic business units that offer similar products and services and/or serve similar customers. We have three reportable operating segments:

- Communications group;
- Domestic wireless; and
- Advertising and publishing.

Management evaluates the performance of each business unit based on net income, exclusive of internal charges for use of intellectual property and adjustments for unusual items that may arise. Unusual items are transactions or events that are included in reported consolidated results but are excluded from segment results due to their nonrecurring or nonoperational nature. In addition, when changes in our business affect the comparability of current versus historical results, we will adjust historical operating information to reflect the current business structure. See Note I for a reconciliation of segment results to the unaudited consolidated financial information.

(Dollars in Millions, Except Per Share Amounts and as Otherwise Indicated)

The following discussion highlights our performance in the context of these segments. For a more complete understanding of our industry, the drivers of our business, and our current period results, you should read this discussion in conjunction with our consolidated financial statements, including the related notes.

Communications Group

The Communications group includes our core domestic businesses including: all domestic wireline voice, data, broadband, e-commerce, long distance, Internet services and advanced voice features. The group provides these services to an array of customers, including residential, business and wholesale.

During the first half of 2004, the Communications group continued to emphasize interLATA long distance and FastAccess(R) DSL, encouraging customers to purchase packages containing multiple telecommunications services. We also continued to experience the loss of retail access lines due to competition and technology substitution, and we expect these trends to continue during the remainder of 2004.

	For the Three Months Ended June 30, 2003	2004	% Change	Fo
Segment operating revenues:				
Voice	$3,171	$3,153	-0.6%	$
Data	1,065	1,116	4.8%	
Other	350	334	-4.6%	
Total segment operating revenues	4,586	4,603	0.4%	
Segment operating expenses:				

Cost of services and products	1,712	1,730	1.1%	
Selling, general, and administrative expenses	768	778	1.3%	
Depreciation and amortization	944	903	-4.3%	
Total segment operating expenses	3,424	3,411	-0.4%	
Segment operating income	1,162	1,192	2.6%	
Segment net income	$ 679	$ 702	3.4%	$
Segment net income including unusual items	$ 656	$ 697	6.3%	$
Key Indicators (000s except where noted)				
Switched access lines(1):				
Residential retail:				
Primary				1
Additional				
Total Retail Residence				1
Residential wholesale:				
Resale				
UNE-P				
Total Wholesale Residence				
Total Residence				1
Business retail				
Business wholesale				
Resale				
UNE-P				
Total Wholesale Business				
Other Retail/Wholesale Lines (primarily public)				
Total Switched Access Lines (2)				2
ISDN line equivalents				
Residence				
Business				
Total ISDN Adjusted Access lines in Service				2
DSL customers				
Long distance customers				
Access minutes of use (millions)	23,053	22,753	-1.3%	4
Capital expenditures	$ 665	$ 713	7.2%	$

(1) Prior period operating data are often revised at later dates to reflect updated information. The above information reflects the latest data available for the periods indicated.
(2) In the first quarter 2004, we augmented our presentation of access lines

from only an ISDN adjusted method to also disclosing an actual reported basis. The ISDN adjusted amounts are also provided in the table above for comparison purposes to peer companies.

(Dollars in Millions, Except Per Share Amounts and as Otherwise Indicated)

Segment operating revenues

Voice

Voice revenues decreased $18 in the second quarter and decreased $12 year-to-date when compared to the same periods in 2003 driven primarily by continued access line loss offset by the growth in interLATA long distance. Total switched access lines declined 832,000 or 3.7% for the year-to-date period with retail line losses being partially offset by increases in wholesale lines. The access line decline was the result of continued share loss and technology substitution.

Wholesale lines, which consist primarily of unbundled network element - platform (UNE-P) lines, totaled over 3 million at June 30, 2004, up 780,000 lines year over year. The vast majority of the quarterly UNE-P additions were residential. When lines over which we provide retail services are converted to UNE-P, we lose revenue and margin. On average, the revenue from our provision of UNE-P does not permit us to recover the fully allocated costs we incur to provide it. To mitigate this loss, we are actively seeking reform of the pricing rules that regulators use to set UNE-P prices. We also continue to actively market our own retail services and bundles.

In efforts to combat share loss, we continue to grow our package services. BellSouth AnswersSM is our signature residential package that combines wireline, wireless and Internet services. The package combines the Complete Choice calling plan of local service and multiple convenience calling features with BellSouth Long Distance, BellSouth FastAccess(R)DSL or dial-up Internet, and Cingular Wireless services. In April 2004, we began adding DIRECTV(R) digital satellite television service to the BellSouth AnswersSM bundles through our web channel to enhance the effectiveness of our bundle. We ended the quarter with more than 3.7 million residential packages, representing a 31% penetration of our retail primary line residence base. Over 80% of Answers customers have long distance in their package and over 40% have either DSL or dial-up Internet.

Long distance voice revenue increased $147 in the second quarter and $320 year-to-date when compared to the same periods in 2003, driven primarily by growth in interLATA and wireless long distance. InterLATA revenues increased $157 in the second quarter and $323 year-to-date when compared to the same periods in 2003. Substantial interLATA growth reflects continued large market share gains driven by marketing efforts and unlimited minute offers. At June 30, 2004, we had 5.1 million long distance customers, a penetration rate of 39% of primary residential access lines and 48% of mass-market small business accounts. We also continued to grow our long distance offerings in complex business. We recorded $49 in complex long distance revenue in the second quarter of 2004 compared to $13 in the same quarter of 2003. Revenue from wholesale long distance services provided to Cingular increased $13 for the second quarter and $25 year-to-date when compared to the same periods in 2003. This increase was caused by higher volumes associated with the proliferation of wireless package plans that include long distance.

Switched access revenues are down in the second quarter and year-to-date when compared to the same periods in 2003 due to volume and rate decreases. Switched access rates were lower due to effects of the CALLs program, an FCC access reform initiative. The decline in rates, however, is substantially offset by higher subscriber line charges which are also included in voice revenues. Switched access MOUs decreased 1.3% compared to the second quarter of 2003. The decrease is due to the impact of access line loss and the continuing shift of wholesale lines from resale to UNE-P and alternative communications services, primarily wireless and e-mail.

Data

Data revenues increased $51 in the second quarter and $53 year-to-date when compared to the same period in 2003. Data revenues were driven by strong growth from the sale of FastAccess(R) DSL service partially offset by decreases in revenue from other data products. Combined wholesale and retail DSL revenues were up $68 in the second quarter and $125 year-to-date when compared to the same periods in 2003 due primarily to a larger customer base. As of June 30, 2004, we had over 1.7 million DSL customers, an increase of over 500 thousand customers compared to June 30, 2003.

Retail data services grew 12.7% in the second quarter and grew 13.0% year-to-date when compared to the corresponding periods in 2003 driven primarily by the growth from the sale of FastAccess(R) DSL service. During the second quarter of 2004 we added 126 thousand net retail customers and, on a year-to-date basis, we added 283 thousand net retail customers. We offer three broadband speeds to meet the varying needs of our mass market customers. The original version - BellSouth FastAccess(R) DSL Ultra- runs at speeds of up to 1.5 megabits. Since mid-2003, we have offered a lower speed version - BellSouth FastAccess(R) DSL Lite - running at speeds up to 256 kilobits. DSL Lite accounted for about one-third of second quarter 2004 gross additions. In April 2004, we began offering Fast Access DSL Xtreme, delivering download speeds of up to 3.0 megabits and upload speeds of up to 384 kilobits. We believe our broadband offers are among the most competitively priced in our markets. Retail customer additions were offset somewhat by wholesale disconnects as we continue to see a shift in customer mix to retail. Revenue from other retail data products was flat for both the quarter and year-to-date periods.

Revenues from the sale of wholesale data transport services to other communications providers, including long distance companies and CLECs, declined 2.9% in the second quarter and declined 7.3% year-to-date when compared to the same

(Dollars in Millions, Except Per Share Amounts and as Otherwise Indicated)

periods in 2003, primarily due to the lingering impacts of soft enterprise demand and continued network consolidation by large inter-exchange carriers.

Other

Other communications revenue decreased $16 in the second quarter and decreased $25 year-to-date when compared to the same periods in 2003 primarily due to the phase-out of our payphone business.

Segment operating expenses

Cost of services and products

Cost of services and products of $1,730 in second quarter and $3,475 year-to-date increased $18 and $138, respectively, from the same periods in 2003. Cost of services increase for second quarter was impacted by increases of $45 in costs of goods for the provision of long distance services; increases in salary and wages of $6 impacted by pay increases and a change in employee mix slightly offset by lower average workforce, offset by decreases of $34 in access fees due to volume declines, settlements and significant reductions of customer name dipping (CNAM). Cost of services increase year-to-date was impacted by increases of $115 in costs of goods for the provision of long distance services; increases of $35 in contract services related to network planning projects and equipment installations; increases in labor costs of $32 impacted by salary increases, and a change in employee mix slightly offset by lower average workforce, and decreases of $51 in access fees due to volume declines, settlements and significant reductions of CNAM.

Selling, general, and administrative expenses

Selling, general, and administrative expenses of $778 in second quarter and $1,550 year-to-date increased $10 and $18, respectively, from the same periods in 2003. The second quarter increase reflects an additional $34 in corporate affiliate billings, an increase of $24 in salary and wage expense driven by incentive awards and pay increases partially offset by lower headcount, and increased advertising expense of $20 in response to consumer competitive campaigns. The increases were substantially offset by the decrease in the provision for uncollectibles of $39 driven by continued improvement in our collection process, a $20 reserve adjustment and improved economic conditions. The year-to-date increase reflects an increase of $45 in salary and wage expense driven by incentive awards and pay increases partially offset by lower headcount, an increase in advertising expense of $14 in response to consumer competitive campaigns and to a lesser extent increased corporate affiliate billings. These increases were substantially offset by the decrease in the provision for uncollectibles of $61 driven by the reasons impacting the quarter periods described above, and a decrease in rent, fees, and sales commissions.

Depreciation and amortization

Depreciation and amortization expense decreased $41 during second quarter and $90 year-to-date when compared to the same periods in 2003. The primary driver of the year-over-year decline in depreciation expense relates to lower depreciation rates under the group life method of depreciation. The lower depreciation rates were precipitated primarily by the reductions in capital expenditures over the past several years. Amortization expense increased due to higher levels of capitalized software.

Unusual items excluded from segment net income

Unusual items that were excluded from this segment's net income consisted of the following: for second quarter, unusual items of $(5) for severance costs; for year-to-date 2004, unusual items of $(47) for the South Carolina regulatory settlement and severance; for second quarter 2003, unusual items of $(23) related to severance costs, pension settlement losses, and costs associated with the early extinguishment of debt; for year-to-date 2003, special items of $719 for the cumulative effect of change in accounting principle related to the adoption of FAS 143 offset by restructuring charges and costs associated with the early extinguishment of debt.

Domestic Wireless

We own an approximate 40% economic interest in Cingular, a joint venture with SBC Communications. Because we exercise influence over the financial and operating policies of Cingular, we use the equity method of accounting for this investment. Under the equity method of accounting, we record our proportionate share of Cingular's earnings in our consolidated statements of income. These earnings are included in the caption "Net earnings (losses) of equity affiliates." For management purposes, we evaluate our Domestic wireless segment based on our proportionate share of Cingular's results. Accordingly, results for our Domestic wireless segment reflect the proportional consolidation of approximately 40% of Cingular's results.

(Dollars in Millions, Except Per Share Amounts and as Otherwise Indicated)

Data revenue played an increasingly important role in revenue composition in 2003 and early 2004, and those impacts are expected to continue to increase through the remainder of 2004. Further, competition continues to be intense, with up to six competitors in most of the significant domestic wireless markets. Cingular's pending acquisition of AT&T Wireless, which is expected to close in the fourth quarter of 2004, will significantly impact the results of our wireless segment effective with the closing.

	For the Three Months Ended June 30, 2003	2004	% Change
Segment operating revenues:			
Service revenues	$1,447	$1,521	5.1%
Equipment revenues	102	141	38.2%
Total segment operating revenues	1,549	1,662	7.3%
Segment operating expenses:			
Cost of services and products	536	579	8.0%
Selling, general, and administrative expenses	507	585	15.4%
Depreciation and amortization	203	226	11.3%
Total segment operating expenses	1,246	1,390	11.6%
Segment operating income	303	272	-10.2%
Segment net income	$ 104	$ 89	-14.4%
Segment net income including unusual items	$ 104	$ 89	-14.4%
Key Indicators:			
Cellular/PCS Customers (000s)			
Wireless service average monthly revenue per customer - Cellular/PCS	$ 53.12	$50.32	-5.3%
Capital Expenditures	$ 267	$ 313	17.2%

Segment operating revenues

Cingular's cellular/PCS customers at June 30, 2004 increased 11% compared to June 30, 2003. Net cellular/PCS additions in the second quarter of 2004 decreased 21% compared to second quarter of 2003 and increased 35% in the year-to-date period 2004 as compared to 2003. During the second quarter 2004, Cingular's postpaid and reseller customer bases increased compared to prior year. Postpaid gross additions were 78% of all gross additions for the second quarter of 2004 and were 74% of all gross additions for the year-to-date period 2004.

The cellular/PCS churn rate was 2.7% in both the second quarter of 2004 and the year-to-date period 2004 compared with a 2.5% churn rate in the second quarter of 2003 and 2.6% in the year-to-date period 2003. To date, wireless local number portability has not materially impacted Cingular's customer churn rate.

Segment operating revenues grew $113 during the second quarter of 2004 and $235 in the year-to-date period as compared to the same periods in 2003. Service revenues increased $74 in the second quarter of 2003 and $140 in the year-to-date period, driven by the increase in the average subscriber base for both periods offset by lower average revenue per user (ARPU) for both periods. ARPU for cellular/PCS customers declined $2.80 in both the second quarter and year-to-date periods when compared to the corresponding period in the prior year. The decrease in ARPU is related to several items including the increase in customers on FamilyTalk(R) plans and the success of the RollOver Minutes program. Additionally, ARPU decreased due to reductions in revenues from roaming when compared to the second quarter of 2003 and to the year-to-date period 2003, reflecting a reduction in roaming rates with major roaming partners to support all-inclusive rate plans. Also, outcollect roaming revenue dropped as other carriers continue to build out and/or better utilize their own networks. Partially offsetting these decreases were increases in service revenue including an increase in Universal Service Fund (USF) regulatory fees and a 60% increase in data revenues from the second quarter of 2003 and a 45% increase in data revenues from the year-to-date period 2003, reflective of higher penetration and usage of SMS short messaging data services with Cingular's cellular/PCS customers as well as revenue increases related to its Mobitex data network.

Equipment revenues increased $39 in the second quarter of 2004 and $95 in the year-to-date period 2004 compared to the same periods in 2003 due to higher unit sales. Handset sales were impacted by postpaid/prepaid customer gross additions during the quarter and year-to-date periods and increased upgrade activity as a result of Cingular's GSM conversions and a move towards higher functionality handsets for the year-to-date period.

(Dollars in Millions, Except Per Share Amounts and as Otherwise Indicated)

Segment operating expenses

Cost of services and products

Cost of services and products increased $43 during the second quarter of 2004 and $140 during the year-to-date period 2004 compared to the same 2003 periods. Cingular's expense growth was driven by customer gross additions during the quarter and year-to-date periods, and by upgrade activity and by increased expenses related to USF/regulatory fees for the year-to-date period. Additionally, a 29.7% second quarter increase and a 31.1% year-to-date increase in system minutes of use on the network and associated network system expansion costs resulted in higher quarter-over-quarter and higher year-to-date over year-to-date expenses.

Selling, general, and administrative expenses

Selling, general, and administrative expenses increased $78 in the second quarter of 2004 and increased $139 year-to-date 2004 when compared to the same periods in 2003, due to higher commissions expense as a result of higher gross additions, increased advertising and promotion costs, increased uncollectibles expense and higher customer service as a result of customer retention and other service improvement initiatives.

Depreciation and amortization

Depreciation and amortization increased $23 in the second quarter of 2004 and increased $49 in the year-to-date period 2004 when compared to the same periods in 2003. The increase in depreciation expense of $23 for the second quarter of 2004 and $49 for the year-to-date period 2004 was attributable to higher levels of gross property, plant and equipment, including Cingular's GSM network overlay. Amortization expense was flat compared to the same periods in 2003.

Unusual items excluded from segment net income

There were no unusual items that were excluded from this segment's net income.

Advertising and Publishing

Our Advertising and publishing segment is comprised of companies in the U.S. that publish, print, sell advertising in and perform related services concerning alphabetical and classified telephone directories and electronic media offerings.

While revenue growth for the first half of 2004 continued to reflect a decline, stronger demand in advertising has helped increase contract sales for directories sold during 2004. Although the improving demand should result in higher advertising spending, we expect continued competitive pressure to impact volumes and pricing.

	For the Three Months Ended June 30, 2003	2004	% Change	For En 200
Segment operating revenues	$525	$ 511	-2.7%	$1,02
Segment operating expenses:				
Cost of services and products	82	90	9.8%	16
Selling, general, and administrative expenses	184	167	-9.2%	35
Depreciation and amortization	7	7	0.0%	1
	---	---		--
Total segment operating expenses	273	264	-3.3%	52
Segment operating income	252	247	-2.0%	49
Segment net income	$157	$ 150	-4.5%	$30
Segment net income (loss) including unusual items	$156	$150	-3.8%	$ (19
Capital expenditures	$ 5	$ 6	20.0%	$ 1

Segment operating revenues

Segment operating revenues decreased $14 from second quarter 2003 to second quarter 2004, and decreased $30 on a year-to-date basis. The decreases include a reduction in print revenues, partially offset by an increase in electronic media revenues. Sales agency commission revenues were flat quarter-over-quarter but decreased slightly for the year-to-date period 2004 compared to the year-to-date period 2003 as the result of a discontinued line of business. The print revenue decline between periods was primarily driven by the amortization of revenues from directories issued in the latter half of 2003. The decline in revenues from 2003 directories was attributable to the lingering effects of weak economic conditions in 2003 that affected the directory advertising environment, and the continued impact of online and offline media competition. Revenues from directories issued in the first half of 2004 were flat when compared to their 2003 issues,

(Dollars in Millions, Except Per Share Amounts and as Otherwise Indicated)

attributable to the factors discussed previously. Based on recent directory sales volumes, revenues from directories to be issued in the second half of 2004 are expected to show positive growth over their previous issues.

Segment operating expenses

Cost of services and products increased $8 from second quarter 2003 to second quarter 2004 and $10 on a year-to-date basis. These increases primarily reflect the impact of increased distribution volumes. Selling, general, and administrative expenses decreased $17 quarter-over-quarter and $31 year-over-year. Uncollectible expense drove this reduction, decreasing $10 for the quarter and $31 for the year-to-date period. The decrease reflects the impact of improved collection performance between periods. Variable costs associated with selling also decreased as the result of the reduction in revenues. Partially offsetting these decreases was increased spending for advertising in response to a more competitive environment. Depreciation and amortization expenses were flat between periods.

Unusual items excluded from segment net income

Unusual items that were excluded from this segment's net income consisted of the following: in second quarter 2003, special items of $(1) related to severance costs and pension settlement losses; in year-to-date 2003, special items of $(505) included the cumulative effect of change in accounting principle and severance and pension costs.

Liquidity and Financial Condition

Net cash provided by (used for):

	For the Six Months Ended June 30, 2003	2004	Change	
Continuing Operations				
Operating activities.....	$4,287	$3,797	$(490)	-11.4%
Investing activities.....	$286	$(1,126)	$(1,412)	*
Financing activities.....	$(3,013)	$(826)	$2,187	72.6%
Discontinued Operations	$80	$(185)	$(265)	*

*Not meaningful.

CONTINUING OPERATIONS

Net cash provided by operating activities

Cash generated by operations decreased $490 during the first half of 2004 compared to the prior year due primarily to higher income tax payments in 2004, a previously accrued payment of approximately $81 to MCI WorldComm related to its bankruptcy settlement, and lower operating margins before depreciation and amortization in the Communications Group. Operating income excluding depreciation and amortization in the Communications group decreased $140 in the first half of 2004 compared to the same period in 2003.

Net cash used for investing activities

Capital expenditures

Capital expenditures consist primarily of (a) gross additions to property, plant and equipment having an estimated service life of one year or more, plus incidental costs of preparing the asset for its intended use, and (b) gross additions to capitalized software. Our capital expenditures of $1,366 during the first half of 2004 and $1,265 during the first half of 2003 were incurred to support our wireline network, to promote the introduction of new products and services and to increase operating efficiency and productivity. The increase in capital expenditures compared to the prior period relates primarily to the timing of capital projects and related expenditures as we expect spending in 2004 to be comparable to 2003.

Other investing activities

During the first half of 2004 we received $525 for the sale of our investment in Sonofon and $109 for the repayment of our shareholder loan and accrued interest, reduced by a settlement of $17 associated with currency swap contracts. In addition, activity related to purchases and sales of debt and equity securities resulted in a net cash outlay of $382.

During the first half of 2003, we received $1,450 in net proceeds resulting from an early repayment by KPN of the entire outstanding balance of the loan we had extended to them and the settlement of related currency swaps. In addition, we sold our entire interest in two real estate partnerships for net proceeds of $26. In conjunction with the sale, we received proceeds of $97 for the repayment of loans we had extended to the partnerships. We also purchased equity securities for a net expenditure of $21.

(Dollars in Millions, Except Per Share Amounts and as Otherwise Indicated)

Net cash used for financing activities

During the first half of 2004 we utilized cash from operations to reduce short-term borrowings by $339. We also issued $700 of new long-term debt to take advantage of favorable interest rates. The proceeds were used to refinance $200 in maturing debt during the second quarter and will be used to refinance $500 of callable debt in the third quarter. In addition, we paid dividends of 50 cents per share totaling $914 and purchased 3.9 million shares of our common stock for an aggregate of $99.

During the first half of 2003 we reduced short-term borrowings by $398 and long-term borrowings by $1,556. In addition, we paid dividends of 41 cents per share totaling $759 and purchased 14.8 million shares of our common stock for an aggregate cost of $322.

DISCONTINUED OPERATIONS

In the first half of 2004, cash and cash equivalents decreased $185 primarily due to $177 in expenditures related to the purchase of interests and other rights of minority partners in Argentina, Colombia and Ecuador. In addition, capital expenditures were $137 and distributions to minority partners were $55. Year-to-date operating cash flow from discontinued operations of $224 was driven by strong operational results.

In the first half of 2003, cash and cash equivalents increased $80 primarily due to operating cash flow from discontinued operations of $139. In addition, investing cash flows included proceeds of $35 from the sale of Colombian securities and $20 related to the sale of an equity investment in Brazil. Partially offsetting these cash inflows were capital expenditures of $95.

ANTICIPATED SOURCES AND USES OF FUNDS

Cash flows from operations are our primary source of cash for funding existing operations, capital expenditures, debt interest and principal payments, and dividend payments to shareholders. Should the need arise, however, we believe we are well positioned to raise capital in the public debt markets. At June 30, 2004, our consolidated cash balance was $6,216, which includes approximately $1 billion related to our Latin American Discontinued Operations. At June 30, 2004, our corporate debt rating was A1 from Moody's Investor Service and A+ from Standard and Poor's. Our short-term credit rating at June 30, 2004 was P-1 from Moody's and A-1 from Standard and Poor's. Moody's and Standard & Poor's have placed our long-term and short-term ratings on negative credit watch due to the pending acquisition by Cingular of AT&T Wireless. Our authorized commercial paper program as of June 30, 2004 was $8.0 billion, with $1.1 billion outstanding. We believe that we have ready access to the commercial paper market in the event funding in excess of our operating cash flows is needed. We have a syndicated line of credit in the amount of $1.5 billion in case we are unable to access the commercial paper market. We do not have any balances outstanding under the line of credit. We also have a registration statement on file with the SEC under which $1.6 billion of long-term debt securities could be issued. In addition, we filed a new shelf registration with the SEC on July 30, 2004 for $6.95 billion of debt securities. This registration statement is not yet effective. Our sources of funds -- primarily from operations and, to the extent necessary, from readily available external financing arrangements -- are sufficient to meet all current obligations on a timely basis. We believe that these sources of funds will be sufficient to meet the operating needs of our business for at least the next twelve months.

The Communications group and Advertising and publishing group generate substantially all of our consolidated cash provided by operating activities. These segments generate sufficient cash flow to fund operating, investing and financing needs and dividend excess cash to BellSouth for corporate uses. The Domestic Wireless segment, which consists entirely of our equity investment in Cingular, typically has not relied on BellSouth for funding. Beginning on August 1, 2004, any cash needs not satisfied through Cingular's own operations will be borrowed from BellSouth and SBC, on a pro rata basis. In addition, we are committed to funding our pro rata share of Cingular's acquisition of AT&T Wireless as described in the following paragraph. In July 2004, Cingular's Board of Directors approved the termination of its bank credit facilities and its intention to cease issuing commercial paper and long-term debt.

As previously disclosed, on February 17, 2004, Cingular announced an agreement to acquire AT&T Wireless, which will create the largest wireless carrier in the United States. We have committed to funding our proportionate share of the all cash deal. Our funding requirement will be approximately $16 billion. Funding will be achieved through a mix of existing cash on hand, cash generated from operations prior to closing the transaction and asset sales. We plan to access the public debt markets for the remainder. We currently anticipate our likely external funding needs for this transaction to be in the $5 to $6 billion range. However, due to the timing of the closing of the sale of our Latin American operations and the timing of accessibility to cash held by AT&T Wireless, our borrowings in the short term may exceed this range.

In March 2004, we signed an agreement with Telefonica Moviles, the wireless affiliate of Telefonica, S.A. to sell all our interests in our Latin American operations. Cash proceeds at closing are expected to be $4.4 billion. Net cash inflow will be $3.4 billion after consideration of the $1 billion of cash held in these operations that will transfer to Telefonica at closing. The transaction is subject to governmental approvals and other closing conditions. It is expected to close in

(Dollars in Millions, Except Per Share Amounts and as Otherwise Indicated)

stages as closing conditions are satisfied, with the final closing expected to occur in the second half of 2004. These net proceeds will be used to fund a portion of the AT&T Wireless transaction described above, and are reflected in our external borrowing estimate of the $5 to $6 billion range previously noted.

Debt Instruments

On March 19, 2004, our Colombian operation completed the refinancing of its senior secured debt. According to the terms of the refinancing, (1) the maturity was extended from 2005 to 2007, (2) on a pro rata basis with our partner, we agreed to provide support in the aggregate amount of $70 for 30 months and (3) we and our partner pledged 100% of the capital stock of the Colombian operations as security for the loan. As of June 30, 2004, BellSouth's consolidated balance sheet reflects the $139 remaining investment in the loan participation agreement and the debt of $477 as assets and liabilities of discontinued operations.

Market Risk

For a complete discussion of our market risks, you should refer to the caption "Quantitative and Qualitative Disclosure About Market Risk" in our 2003 annual report on Form 10-K, as modified by the current report on Form 8-K dated July 30, 2004, and our other filings with the SEC. Our primary exposure to market risks relates to unfavorable movements in interest rates and foreign currency exchange rates. We do not anticipate any significant changes in our objectives and strategies with respect to managing such exposures.

In order to limit our risk from fluctuations in interest rates, we enter into interest rate swap agreements to exchange fixed and variable rate interest payment obligations without the exchange of the underlying principal amounts. In first quarter 2004, we entered into an additional interest rate swap, bringing the total notional value of our fair value hedges to $600. We did not enter into any additional cash flow hedges.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

---

Other than as set forth below, there are no material changes with respect to off-balance sheet arrangements and aggregate contractual obligations as presented in our 2003 Annual Report on Form 10-K, as modified by the current report on Form 8-K dated July 30, 2004, and our other filings with the SEC.

Sales and other transaction taxes generally are required to be collected by the vendor from the purchaser and remitted to the appropriate taxing authority. In some instances, however, it is not clear whether the tax applies to a particular transaction. When, as a purchaser, BellSouth wants to take the position that a tax does not apply to a given transaction, it will request that the vendor not bill the tax to BellSouth. As a condition of not billing the tax, vendors sometimes request, and BellSouth generally agrees, to indemnify and hold the vendor harmless in the event that the taxing authority asserts a claim against the vendor for the tax. We believe any amounts subject to these types of indemnification would not have a material impact on our results of operations, financial position or cash flows.

Venezuelan put-call provision

We own a 78.2% interest in Telcel, our Venezuelan operation. Telcel's other major shareholder holds an indirect 21% interest in Telcel. Under a Stock Purchase Agreement, that shareholder has the right to initiate a process that could require us to purchase (the puts), and we have the right to initiate a process that could require that shareholder to sell (the calls) to us, the shareholder's interest in Telcel. Notice of the initiation of the process with respect to approximately half of that shareholder's interest was to be given in 2000 and notice with respect to the remaining balance was to be given in 2002. If we exercise our call right, we would purchase that shareholder's interest at between 100% and 120% of its appraised fair value. If we are required to purchase the interest (the puts), we would do so at between 80% and 100% of appraised fair value.

In 2000, the shareholder initiated a process for appraising the value of approximately half of its interest in Telcel, but the process was not completed. The shareholder also has sent a letter purporting to exercise the balance of the puts under the Stock Purchase Agreement. We are currently in arbitration with the shareholder over alleged breaches by BellSouth and the shareholder of the Stock Purchase Agreement, including the timing of the valuation and whether the process was properly initiated in 2000. The shareholder is seeking damages and specific performance, and BellSouth is seeking, among other things, unspecified damages and a ruling that it has not breached the Stock Purchase Agreement in any respect. The arbitration also relates to an alleged oral agreement to buy out the shareholder's entire interest in Telcel, which agreement we argue does not exist. Hearings on these matters occurred in January and April 2004. If the arbitration panel rules against BellSouth, it is possible that the appraised fair value of the shareholder's interest in Telcel could be substantially in excess of current value. At this time, the likely outcome of this arbitration cannot be predicted, nor can a reasonable estimate of the amount of loss, if any, be made.

(Dollars in Millions, Except Per Share Amounts and as Otherwise Indicated)

Colombian Put-Call

We are the majority shareholder in BellSouth Colombia, a wireless operator in Colombia. We have agreed with our partner to a put and call agreement whereby we can acquire, or could be compelled by our partner to acquire, additional shares of the Colombian operation currently held by our partner for a price equal to the appraised fair value. Under the remaining put/call option, the residual balance of our partner's shares can be called by us or put to us beginning in 2006 until 2009. We cannot predict if either party will exercise its rights under this put/call option provision. Upon completion of the pending acquisition of our Colombian operations by Telefonica Moviles, the shareholders agreement will be assigned to Telefonica and all of our obligations under the shareholders agreement will cease.

Operating Environment

Domestic Economic Trends

Real gross domestic product (GDP) grew at an average annual rate of 4.5 percent in the first quarter of 2004, the third consecutive quarter of strong growth. Business fixed investment spending, residential construction, government purchases, personal consumption, and exports all contributed to the broad -based growth. Nonagricultural employment increased by 1.25 million in the first half of the year. Sustained expansion is expected in the second half of the year.

On average, the economy of the nine-state region tends to closely track the US economy. Employment in the region near mid-year was 1.1 percent higher than in the same period a year ago. A gain of 1.6 percent is anticipated for all of 2004. Residential construction activity has been very strong in the region as in the nation. Housing starts are on pace to exceed 2003's level of 533 thousand.

Other Matters in the Domestic Business

In April 2004, MCI (formerly known as WorldCom) emerged from bankruptcy. As a result, in the second quarter 2004, we made a net payment to MCI of approximately $81 related to our previously accrued and disclosed settlement.

Legal Matters

We are involved in numerous legal proceedings associated with state and federal regulatory matters. While complete assurance cannot be given as to the outcome of these matters, we believe that any financial impact would not be material, individually or in the aggregate, to our results of operations, financial position or cash flows. See Note K to our consolidated interim financial statements.

Item 3. Qualitative and Quantitative Disclosures About Market Risk

See the caption labeled "Market Risk" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management's control objectives. We also have investments in certain unconsolidated entities. As we do not control or manage these entities, our disclosure controls and procedures with respect to such entities are necessarily more limited than those we maintain with respect to our consolidated subsidiaries.

The Company's management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls can prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. There are inherent limitations in all control systems, including the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of one or more persons. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and, while our disclosure controls and procedures are designed to be effective under circumstances where they should reasonably be expected to operate effectively, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations

(Dollars in Millions, Except Per Share Amounts and as Otherwise Indicated)

in any control system, misstatements due to error or fraud may occur and not be detected.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer along with the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15(b) and 15d-15(b). Based upon the foregoing, the Chief Executive Officer along with the Chief Financial Officer concluded that our disclosure controls and procedures are effective at providing reasonable assurance that all material information relating to BellSouth (including consolidated subsidiaries) required to be included in our Exchange Act reports is reported in a timely manner. In addition, based on such evaluation we have identified no change in our internal control over financial reporting that occurred during the fiscal quarter covered by this report that has materially affected or is reasonably likely to materially affect, our internal control over financial reporting.

Cautionary Language Concerning Forward-Looking Statements

In addition to historical information, this document contains forward-looking statements regarding events, financial trends and critical accounting policies that may affect our future operating results, financial position and cash flows. These statements are based on our assumptions and estimates and are subject to risks and uncertainties. For these statements, we claim the protection of the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995.

There are possible developments that could cause our actual results to differ materially from those forecast or implied in the forward-looking statements. You are cautioned not to place undue reliance on these forward- looking statements, which are current only as of the date of this filing. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

While the below list of cautionary statements is not exhaustive, some factors, in addition to those contained throughout this document, that could affect future operating results, financial position and cash flows and could cause actual results to differ materially from those expressed in the forward-looking statements are:

- a change in economic conditions in domestic or international markets where we operate or have material investments which could affect demand for our services;

- changes in US or foreign laws or regulations, or in their interpretations, which could result in the loss, or reduction in value, of our licenses, concessions or markets, or in an increase in competition, compliance costs or capital expenditures;

- continued pressures on the telecommunications industry from a financial, competitive and regulatory perspective;

- the intensity of competitive activity and its resulting impact on pricing strategies and new product offerings;

- changes in the federal and state regulations governing the terms on which we offer wholesale services to our competitors;

- continued successful penetration of the interLATA long distance market;

- consolidation in the wireline and wireless industries in which we operate;

- higher than anticipated start-up costs or significant up-front investments associated with new business initiatives;

- the outcome of pending litigation;

- unanticipated higher capital spending from, or delays in, the deployment of new technologies;

- the impact of terrorist attacks on our business;

- the impact and the success of the wireless joint venture with SBC Communications, known as Cingular Wireless, including marketing and product development efforts, technological change, financial capacity and closing and integration of the pending acquisition of AT&T Wireless;

- Cingular Wireless' failure to realize, in the amounts and within the timeframe contemplated, the capital and expense synergies and other financial benefits expected from its proposed acquisition of AT&T Wireless as a result of technical, logistical, regulatory and other factors;

- the unwillingness of banks or other lenders to lend to our international operations or to restructure existing debt, particularly in Latin America; and

- continued deterioration in foreign currencies relative to the US Dollar in foreign countries in which we operate, particularly in Latin America.

PART II -- OTHER INFORMATION

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

The following table contains information about our purchases of our equity securities during April, May and June 2004.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan	Approximate Dollar Value that May Yet Be Purchased Under the Plan (2)
April 1-30, 2004	--	--	--	--
May 1-31, 2004	3,887,200	25.37	--	--
June 1-30, 2004	12,943	25.03	--	--
Total	3,900,143	25.37	--	--

(1) Includes 12,943 shares purchased from employees to pay taxes related to the vesting of restricted shares, at an average of $25.03, and 3,887,200 shares purchased from the external markets, at an average of $25.37. Excludes shares purchased from employees to pay taxes related to the exercise of stock options.

(2) Our publicly announced stock repurchase program expired pursuant to its terms on December 31, 2003.

Item 4. Submission of Matters to a Vote of Security Holders

Our annual meeting of shareholders was held on April 26, 2004. The voting results were as follows:

Number of Shares Outstanding as of Record Date: 1,869,138,851
Number of Shares Present: 1,569,137,733
Percent of Shares Present: 83.95%

Proposal Number 1:
Election of Directors

	For	Withheld
James H. Blanchard	1,502,820,251	66,317,482
Armando M. Codina	1,505,653,931	63,483,802
Leo F. Mullin	1,526,162,636	42,975,097

The terms of the following directors continued after the meeting:

F. Duane Ackerman
Reuben V. Anderson
J. Hyatt Brown
Kathleen F. Feldstein
James P. Kelly
Robin B. Smith
William S. Stavropoulos

Proposal Number 2:
Ratification of Independent Accountants

For	Against	Abstain
1,508,001,380	46,296,422	14,839,931

Proposal Number 3:
Approve Amendment to Elect Directors Annually

For	Against	Abstain

1,516,533,760	35,545,381	17,058,592

Proposal Number 4:
Approving the Stock and Incentive Compensation Plan

For	Against	Abstain	Broker Non-Votes
1,145,161,997	164,793,102	10,412,841	248,769,793

Proposal Number 5:
Shareholder Proposal re: Executive Compensation

For	Against	Abstain	Broker Non-Votes
169,008,940	1,115,827,061	35,531,939	248,769,793

Proposal Number 6:
Shareholder Proposal re: CEO Compensation

For	Against	Abstain	Broker Non-Votes
161,662,194	1,144,716,218	13,989,528	248,769,793

Proposal Number 7:
Shareholder Proposal re: Disclosure of Political Contributions

For	Against	Abstain	Broker Non-Votes
185,716,780	1,048,126,005	86,525,155	248,769,793

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit Number	
4a	No instrument which defines the rights of holders of our long- and intermediate-term debt is filed herewith pursuant to Regulation S-K, Item 601(b)(4)(iii)(A). Pursuant to this regulation, we agree to furnish a copy of any such instrument to the SEC upon request.
10v-3	BellSouth Corporation Stock and Incentive Compensation Plan as amended June 28, 2004.
10pp	Revolving Credit Agreement by and Among BellSouth Corporation, SBC Communications Inc. and Cingular Wireless LLC, dated as of August 1, 2004.
11	Computation of Earnings Per Common Share.
12	Computation of Ratio of Earnings to Fixed Charges.

31a	Section 302 certification of F. Duane Ackerman.
31b	Section 302 certification of Ronald M. Dykes.
32	Statement Required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K:

Date of Event	Subject
April 7, 2004	Announcing changes to composition of Board of Directors and committees of our Board of Directors.
April 22, 2004	Press release announcing financial results for first quarter of 2004.
June 22, 2004	Announcing issuance and sale of $700 million aggregate principal amount of 6.55% Notes due 2034, and filing certain related documents as exhibits.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BELLSOUTH CORPORATION

By /s/ W. Patrick Shannon

W. PATRICK SHANNON
Vice President - Finance
(Principal Accounting Officer)

July 30, 2004

EXHIBIT INDEX

Exhibit Number	
4a	No instrument which defines the rights of holders of our long- and intermediate-term debt is filed herewith pursuant to Regulation S-K, Item 601(b)(4)(iii)(A). Pursuant to this regulation, we agree to furnish a copy of any such instrument to the SEC upon request.
10v-3	BellSouth Corporation Stock and Incentive Compensation Plan as amended June 28, 2004.
10pp	Revolving Credit Agreement by and Among BellSouth Corporation, SBC Communications Inc. and Cingular Wireless LLC, dated as of August 1, 2004.
11	Computation of Earnings Per Common Share.
12	Computation of Ratio of Earnings to Fixed Charges.
31a	Section 302 certification of F. Duane Ackerman.

31b	Section 302 certification of Ronald M. Dykes.
32	Statement Required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.