

SBC COMMUNICATIONS INC

Form S-4/A

April 20, 2005

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**As filed with the Securities and Exchange Commission on April 20, 2005**

**Registration No. 333-123283**

**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**AMENDMENT NO. 1**

**to**

**Form S-4**

**REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

**SBC COMMUNICATIONS INC.**

*(Exact name of registrant as specified in its certificate of incorporation)*

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**4813**

*(Primary Standard Industrial  
Classification Code Number)*

**43-1301883**

*(IRS Employer  
Identification Number)*

**175 East Houston  
San Antonio, Texas 78205  
(210) 821-4105**

*(Address, including zip code, and telephone number,  
including area code, of registrant's principal executive offices)*

**Joy Rick  
175 East Houston  
San Antonio, Texas 78205  
(210) 821-4105**

*(Name, address, including zip code, and telephone number,  
including area code, of agent for service)*

***Copies To:***

**Benjamin F. Stapleton,  
Esq.  
John J. O'Brien, Esq.  
Sullivan & Cromwell  
LLP  
125 Broad Street  
New York, New York  
10004  
Tel: (212) 558-4000  
Fax: (212) 558-3588**

**Wayne A. Wirtz, Esq.  
SBC Communications  
Inc.  
175 East Houston  
San Antonio, Texas  
78205  
Tel: (210) 821-4105  
Fax: (210) 351-3467**

**Robert S. Feit, Esq.  
AT&T Corp.  
One AT&T Way  
Bedminster, New Jersey  
07921  
Tel: (908) 221-2000  
Fax: (908) 532-1989**

**Steven A.  
Rosenblum, Esq.  
Stephanie J.  
Seligman, Esq.  
Wachtell, Lipton,  
Rosen & Katz  
51 West 52nd Street  
New York, New York  
10019  
Tel: (212) 403-1000  
Fax: (212) 403-2000**

**Approximate date of commencement of proposed sale of the securities to the public:** As soon as practicable after this registration statement becomes effective and upon completion of the transactions described in the enclosed prospectus.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.   

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.   

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.   

**The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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

**PRELIMINARY DRAFT DATED APRIL 20, 2005 SUBJECT TO COMPLETION**  
**PRELIMINARY PROSPECTUS OF SBC COMMUNICATIONS INC.** **PRELIMINARY PROXY STATEMENT OF AT&T CORP.**  
April [1], 2005

Dear AT&T Shareholder:

It is a pleasure to invite you to AT&T's 2005 Annual Meeting of Shareholders, on [1], 2005, beginning at 9:30 a.m. local time, at [1].

At the meeting, among other things, you will be asked to adopt the merger agreement that AT&T has entered into with SBC Communications Inc. In the merger, AT&T will merge with a wholly owned subsidiary of SBC and will become a wholly owned subsidiary of SBC. AT&T and SBC believe that the merger will create one of the nation's leading communications companies, with significant national and global reach.

If the merger is completed, AT&T shareholders will receive 0.77942 of a share of SBC common stock for each share of AT&T common stock held immediately prior to the merger. In addition, AT&T will declare a special dividend of \$1.30 per share which it intends to pay, assuming the merger will be completed, on the closing date of the merger. Based on the closing price of \$23.62 per share of SBC common stock on the New York Stock Exchange on January 28, 2005, the last trading day before the public announcement of the merger, the 0.77942 exchange ratio, taken together with the \$1.30 special dividend, represented a total merger consideration of approximately \$19.71 per AT&T share. Based on the closing price of \$[1] per share of SBC common stock on the NYSE on April [1], 2005, the latest practicable date before the printing of this document, the total merger consideration was valued at approximately \$[1] per AT&T share. However, the value of the merger consideration that you will receive for each share of AT&T common stock will depend on the price per share of SBC common stock at the time of the merger. That price is impossible to know at this time, will not be known at the time of the meeting and may be less than the current price or the price at the time of the meeting. Based on the estimated number of shares of AT&T common stock outstanding on the record date for the meeting, SBC expects to issue approximately [1] shares of SBC common stock to AT&T shareholders in connection with the merger. Immediately after the merger, former AT&T shareholders are currently expected to own approximately 16% of the then-outstanding shares of SBC common stock (without giving effect to shares of SBC common stock held by AT&T shareholders prior to the merger).

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

The accompanying document provides a detailed description of the proposed merger and the merger consideration. In addition, it provides you with important information regarding the AT&T board of directors and its senior management and other proposals that require your vote, as well as information regarding AT&T's corporate governance practices. I urge you to read the enclosed materials carefully. **Please pay particular attention to the Risk Factors beginning on page 16 for a discussion of the risks related to the merger and owning SBC common stock after the merger.**

**Your vote is very important.** Whether or not you expect to attend the meeting, please vote as soon as possible to ensure that your shares are represented at the meeting. Registered and many broker-managed shareholders can vote their shares by using a toll-free telephone number or the Internet. Instructions for using these convenient services are provided on the proxy card. Of course, you may still vote your shares by marking your votes on the proxy card, signing and dating it and mailing it in the envelope provided. If you sign and return your proxy card without specifying your choices, it will be understood that you wish to have your shares voted in accordance with the directors' recommendations.

I look forward to seeing you on [ 1 ] in [ 1 ].

Sincerely,

**David W. Dorman**

*Chairman of the Board and Chief Executive Officer  
AT&T Corp.*

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

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

**This document is dated [I], 2005 and is expected to be first mailed to AT&T s shareholders on or about [I], 2005.**

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**REFERENCE TO ADDITIONAL INFORMATION**

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

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

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

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

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

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

**See Where You Can Find More Information beginning on page 144.**

**ABOUT THIS DOCUMENT**

This document, which forms part of a registration statement on Form S-4 filed with the SEC by SBC (File No. 333-123283), constitutes a prospectus of SBC under Section 5 of the Securities Act of 1933, as amended, which is referred to in this document as the Securities Act, with respect to the shares of SBC common stock to be issued to the holders of AT&T common stock in connection with the merger. This document also constitutes a proxy statement under Section 14(a) of the Securities Exchange Act of 1934, as amended, which is referred to in this document as the Exchange Act, and the rules thereunder, and a notice of meeting with respect to AT&T's 2005 Annual Meeting of Shareholders, at which, among other things, the holders of AT&T common stock will consider and vote on the adoption of the merger agreement.

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**NOTICE OF ANNUAL MEETING**

The 120th Annual Meeting of Shareholders of AT&T Corp. will be held at the [1], on [1], [1], 2005, at 9:30 a.m. local time, for the following purposes:

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

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

to elect nine directors;

to ratify the appointment by the Audit Committee of independent auditors to examine AT&T's accounts; and

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

AT&T shareholders at the close of business on [1], 2005, are entitled to vote their proxies. Only AT&T shareholders with an admission ticket or proof of stock ownership will be admitted to the meeting.

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

[1], 2005

**YOU CAN VOTE IN ONE OF FOUR WAYS:**

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

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

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

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

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

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

A2: The AT&T annual meeting is scheduled to be held at [I], local time, on [I], 2005 at [I], unless it is postponed or adjourned.

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

A3: The purpose of the annual meeting is to consider and vote upon:  
adoption of the Agreement and Plan of Merger, dated as of January 30, 2005 (referred to in this document as the merger agreement), among SBC, AT&T and Tau Merger Sub Corporation, a newly formed, direct and wholly owned subsidiary of SBC (referred to in this document as Merger Sub) (Proposal 1 on the enclosed proxy card);

adjournment of the meeting, if necessary, to permit further solicitation of proxies in favor of adoption of the merger agreement (Proposal 1.a on the enclosed proxy card);

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

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

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

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

A4: AT&T shareholders of record at the close of business on [I], 2005, the record date for the AT&T annual meeting, are entitled to receive notice of and to vote on matters that come before the annual meeting and any adjournments or postponements of the annual meeting. However, an AT&T shareholder may only vote his or her shares if he or she is present in person or is represented by proxy at the AT&T annual meeting.

**Q5: How do I vote?**

A5: After carefully reading and considering the information contained in this document, please submit your proxy by telephone or Internet in accordance with the instructions set forth in the enclosed proxy card, or fill out, sign and date the proxy card, and then mail your signed proxy card in the enclosed envelope as soon as possible so that your shares may be voted at the annual meeting. For detailed information please see Information about the AT&T Meeting How do I vote? on page 83.

**Q6: How many votes do I have?**

A6: Each share of AT&T common stock that you own as of the record date entitles you to one vote. On the record date, there were [I] outstanding shares of AT&T common stock. On the record date, less than

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1% of the outstanding shares of AT&T common stock were held by directors and executive officers of AT&T and their respective affiliates.

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

A7: The presence of the holders of 40 percent of the shares entitled to vote at the AT&T annual meeting constitutes a quorum. Presence may be in person or by proxy. You will be considered part of the quorum if you return a signed and dated proxy card, if you vote by telephone or the Internet, or if you vote in person at the annual meeting.

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

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

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

**Because the affirmative vote required to adopt the merger agreement is based upon the total number of outstanding shares of AT&T common stock, the failure to submit a proxy card (or to submit a proxy by telephone or by Internet or to vote in person at the annual meeting) or the abstention from voting by a shareholder will have the same effect as a vote against adoption of the merger agreement.** Brokers holding shares of AT&T common stock as nominees will not have discretionary authority to vote those shares in the absence of instructions from the beneficial owners of those shares, so the failure to provide voting instructions to your broker will also have the same effect as a vote against the merger.

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

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

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

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

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

adoption of the merger agreement;

the election of the nine nominees for director; and

the ratification of the appointment of the independent auditors.

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

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

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

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

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

notify AT&T's Corporate Secretary in writing before the annual meeting that you are revoking your proxy;

submit another proxy with a later date;

vote again by telephone or the Internet; or

vote in person at the annual meeting.

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

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

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

A13: You must come to [l], [l], at [l], local time, on [l], 2005. For further information please see Information about the AT&T Meeting What do I need to do if I wish to attend the AT&T annual meeting in person? on page 83.

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

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

Morrow & Co., Inc.

445 Park Avenue, 5th Floor

New York, New York 10022

(212) 754-8000

E-mail: [att.info@morrowco.com](mailto:att.info@morrowco.com)

Telephone: 1-800-206-5881



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**SUMMARY**

*This summary highlights selected information about the merger in this document and does not contain all of the information that may be important to you. You should carefully read this entire document and the other documents to which this document refers for a more complete understanding of the matters being considered at the annual meeting. See *Where You Can Find More Information* beginning on page 144. Unless we have stated otherwise, all references in this document to AT&T are to AT&T Corp., all references to SBC are to SBC Communications Inc., all references to Merger Sub are to Tau Merger Sub Corporation, and all references to the merger agreement are to the Agreement and Plan of Merger, dated as of January 30, 2005, among AT&T, SBC and Merger Sub, a copy of which is attached as Annex A to this document.*

**The Companies** (Page 71)

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

For more than a century AT&T has been known for quality and reliability in communications. Backed by the research and development capabilities of AT&T Labs, AT&T is a global leader in local, long distance, internet and transaction-based voice and data services. AT&T's primary business segments are AT&T Business Services and AT&T Consumer Services.

AT&T is one of the nation's largest business services communications providers, offering a variety of global communications services to over 2 million customers, including large domestic and multinational businesses, small and medium-sized businesses and government agencies. AT&T operates one of the largest telecommunications networks in the United States and, through its Global Network Services, provides an array of services and customized solutions in 60 countries and 850 cities worldwide.

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

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

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

**As a Result of the Merger, AT&T will Become a Wholly Owned Subsidiary of SBC** (Page 54)

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

**In the Merger You Will Have the Right to Receive 0.77942 of a Share of SBC Common Stock for each Share of AT&T Common Stock that You Hold; In Addition, Assuming the Merger is Completed, AT&T Will Pay a Special Dividend of \$1.30 per Share to Holders of AT&T Common Stock** (Page 54)

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

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

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

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

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

**The AT&T Board of Directors Recommends that Holders of AT&T Common Stock Vote to Adopt the Merger Agreement** (Page 33)

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

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

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

**Opinions of AT&T's Financial Advisors** (Page 35)

In connection with the proposed merger, AT&T's financial advisors, Credit Suisse First Boston LLC, which is referred to in this document as CSFB, and Morgan Stanley & Co. Incorporated, which is referred to in this document as Morgan Stanley, each have delivered an opinion with respect to the fairness of the exchange ratio or consideration, as applicable, to be received by the holders of AT&T common stock in the merger. CSFB rendered its opinion that, as of January 30, 2005, the exchange ratio was fair, from a financial point of view, to holders of AT&T common stock and Morgan Stanley rendered its opinion that the consideration to be received by holders of AT&T common stock in accordance with the merger agreement was fair from a financial point of view to such holders other than SBC and its affiliates. For purpose of its analyses CSFB assumed that AT&T will declare a \$1.30 special cash dividend per share of AT&T common stock payable to the holders of AT&T common stock as of immediately prior to the consummation of the merger. In arriving at its opinion, Morgan Stanley assumed that the special cash dividend was part of the consideration. The full texts of the written opinions of CSFB and Morgan Stanley are attached as Annex B and Annex C,

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respectively, to this document. You are urged to read each of the opinions carefully and in its entirety for a description of the procedures followed, matters considered and limitations on the review undertaken. The opinions do not constitute a recommendation to any shareholder as to how they should vote or act on any matter relating to the merger.

**Treatment of AT&T Stock Options and Stock Based Awards (Page 56)**

In the merger, all outstanding AT&T employee stock options under AT&T's stock-based benefit plans and agreements will be converted into options to acquire shares of SBC common stock, with the number of shares of SBC common stock subject to option and the exercise price of the options adjusted to give effect to the exchange ratio of 0.77942 and an equitable adjustment to take into account the payment of the \$1.30 special dividend in respect of each share of AT&T common stock. Any AT&T stock-based awards, other than AT&T stock options, will be similarly converted into stock-based awards based on a number of shares of SBC common stock adjusted to give effect to the exchange ratio of 0.77942 and an equitable adjustment to take into account the payment of the \$1.30 special dividend in respect of each share of AT&T common stock.

**AT&T's Executive Officers and Directors Have Interests in the Merger that Differ from, or Are in Addition to, Your Interests in the Merger (Page 44)**

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

**Material United States Federal Income Tax Consequences (Page 48)**

If the special dividend is paid by AT&T, it will be paid following the adoption of the merger agreement and prior to the effective time of the merger. Based on the advice of its counsel, Wachtell, Lipton, Rosen & Katz, AT&T intends to report the payment of the special dividend as a dividend for United States federal income tax purposes. Generally, individual holders who meet applicable holding period requirements for qualified dividends under the Internal Revenue Code of 1986, as amended, which is referred to in this document as the Code, will be taxed on the special dividend at a maximum federal income tax rate of 15%.

The merger has been structured to qualify as a reorganization under Section 368(a) of the Code for United States federal income tax purposes. It is a condition to the closing of the merger that AT&T and SBC will receive opinions from Wachtell, Lipton, Rosen & Katz and Sullivan & Cromwell LLP, respectively, dated as of the closing date of the merger, to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code and that each of SBC, AT&T and Merger Sub will be a party to such reorganization. In addition, in connection with the filing of the registration statement of which this document is a part, AT&T and SBC each will receive a legal opinion to the same effect.

Accordingly, if the merger is not restructured to include in the per share merger consideration the per share amount of the special dividend that would otherwise be payable, a holder of AT&T common stock will not recognize any gain or loss upon receipt of SBC common stock solely in exchange for AT&T common stock, except with respect to cash received in lieu of a fractional share of SBC common stock.

Alternatively, if the merger is restructured, in order to satisfy the tax opinion conditions of the merger agreement, to include in the per share merger consideration the per share amount of the special dividend that would otherwise be payable, the material United States federal income consequences to holders of AT&T common stock will be as follows. If the holder's adjusted tax basis in the AT&T common stock surrendered is less than the sum of the fair market value, as of the closing date of the merger, of the SBC common stock and the amount of cash received by the holder, then the holder will recognize gain in an amount equal to the lesser

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of (1) the sum of the amount of cash and the fair market value, as of the closing date of the merger, of the SBC common stock received, minus the adjusted tax basis of the AT&T common stock surrendered, and (2) the amount of cash received by the holder in the exchange. However, if a holder's adjusted tax basis in the AT&T common stock surrendered in the transaction is greater than the sum of the amount of cash and the fair market value of the SBC common stock received, the holder's loss will not be currently allowed or recognized for United States federal income tax purposes.

Holders should read *The Merger - Material United States Federal Income Tax Consequences* starting on page 48 for a more complete discussion of the United States federal income tax consequences of the special dividend and the merger. Holders are urged to consult with their tax advisors regarding the tax consequences of the special dividend and the merger to them, including the effects of United States federal, state and local, foreign and other tax laws.

**Procedures for Exchange of AT&T Common Stock for SBC Common Stock (Page 55)**

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

However, holders of AT&T share certificates that formerly represented a number of AT&T common shares prior to AT&T's one-for-five reverse stock split, effective November 19, 2002, will be required to surrender those share certificates against issuance of the number of shares of AT&T common stock after giving effect to the stock split, before they will be issued the number of shares of SBC common stock to which they are entitled in the merger. At any time after the effective time of the merger and prior to the surrender of such share certificates, the share certificates will be deemed to represent that number of shares of SBC common stock that the holder is entitled to receive in the merger.

**Following the Merger, You Will Be Entitled to Receive the Dividends SBC Pays on the SBC Common Stock (Page 56)**

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

**Accounting Treatment (Page 51)**

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

**Regulatory Matters Related to the Merger (Page 52)**

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

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*FCC Approval.* The Federal Communications Act of 1934, as amended, requires the approval of the Federal Communication Commission, which is referred to in this document as the FCC, prior to any transfer of control of certain types of licenses and other authorizations issued by the FCC. On February 22, 2005, SBC and AT&T filed applications for FCC consent to the transfer of control of AT&T and the AT&T subsidiaries that hold such licenses and authorizations to SBC. Applications for FCC consent are subject to public comment and objections and oppositions of third parties who may interpose objections. Comments on the applications are due on April 25, 2005, and reply comments are due on May 10, 2005. The FCC has set for itself a goal of completing action on transfer of control applications within 180 days of public notice of the application, which target completion date would be on or around September 7, 2005 for the applications filed by SBC and AT&T. However, no law or regulation requires the FCC to complete its action by that date, or any date, and the FCC acknowledges that more complex applications may take longer.

*State Regulatory Approvals.* AT&T and various of its subsidiaries hold certificates, licenses and service authorizations issued by the state public utility commissions, which are referred to in this document as the state PUCs. Approximately 22 state commissions and the District of Columbia commission require formal applications for the transfer of control of these certificates, licenses and authorizations to SBC. Applications for state approvals are subject to public comment and objections and oppositions of third parties who may interpose objections. In addition to these applications, SBC and AT&T will file notifications of the merger in the remaining states. In some of these states, the state PUCs could initiate proceedings in response to the notification. SBC and AT&T filed these state transfer applications and notifications with the state PUCs on February 28, 2005. Certain of these state PUCs have granted their approval as of the date of this document, while the other state PUCs are still reviewing the applications.

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

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

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

**SBC and AT&T expect that the merger will be completed in late 2005 or early 2006 (Page 27)**

We expect to complete the merger after we receive AT&T shareholder approval at the annual meeting scheduled to be held on [1], 2005 and after we receive all required regulatory approvals. We currently expect to complete the merger in late 2005 or early 2006. However, it is possible that factors outside our control could require us to complete the merger at a later time or not to complete it at all. See The Merger Regulatory Matters Related to the Merger beginning on page 52.

**You are not entitled to any Rights of Appraisal if you Dissent from the Merger (Page 53)**

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

**The Merger Agreement (Page 54)**

The merger agreement is described beginning on page 54. The merger agreement also is attached as Annex A to this document. We urge you to read the merger agreement in its entirety because it contains important provisions governing the terms and conditions of the merger.

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**Acquisition Proposals (Page 62)**

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

initiate, solicit or knowingly encourage or facilitate any inquiries or the making of any proposal or offer, which we refer to as an acquisition proposal, with respect to

a merger, reorganization, share exchange, consolidation or similar transaction involving AT&T;

any purchase of an equity interest or interests representing, in the aggregate, an amount equal to or greater than a 15% voting or economic interest in AT&T; or

any purchase of assets, securities or ownership interests representing an amount equal to or greater than 15% of the consolidated assets of AT&T and its subsidiaries, taken as a whole.

have any discussions with, or provide any confidential information or data to, or engage in any negotiations with, any person relating to an acquisition proposal, or otherwise knowingly encourage or facilitate any effort or attempt by any person other than SBC and Merger Sub to make or implement an acquisition proposal.

**There are Conditions that Must be Satisfied or Waived Before SBC and AT&T are Required to Complete the Merger (Page 66)**

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

adoption of the merger agreement by holders of a majority of the outstanding shares of AT&T common stock entitled to vote on the matter;

expiration or early termination of the waiting period applicable to the consummation of the merger under the HSR Act;

if applicable, approval of the merger and the other transactions contemplated by the merger agreement by the European Commission, or the applicable governmental entity of any member state of the European Union to which the European Commission has referred the review;

approvals and authorizations required for transfer of AT&T's federal and state communications licenses;

any applicable governmental approvals in the U.K., Germany, Japan and Canada, plus other governmental approvals that, if not obtained, would:

reasonably be expected to result in a specified material adverse effect (as defined under The Merger Agreement - Covenants and Agreements - Reasonable Best Efforts ); or

provide a reasonable basis to conclude that AT&T, SBC or their respective directors or officers would be subject to the risk of criminal liability;

absence of any order, injunction or similar action taken by a governmental entity that prohibits the merger, unless it would not reasonably be expected to have a specified material adverse effect or provide a reasonable basis to conclude that AT&T, SBC or their respective directors or officers would be subject to the risk of criminal liability;

the registration statement of which this document forms a part will have been declared effective by the SEC under the Securities Act and no stop order suspending its effectiveness will have been issued or threatened by the SEC; and

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



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

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

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

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

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

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

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

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

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

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



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

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Merger Sub and AT&T will be a party to that reorganization within the meaning of Section 368(b) of the Code. **Under Some Conditions SBC or AT&T May Terminate the Merger Agreement** (Page 68)

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

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

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

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

The foregoing rights to terminate the merger agreement will not be available to any party that has breached its obligations under the merger agreement in any manner that will have proximately contributed to the occurrence of the failure of a condition to the consummation of the merger.

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

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

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

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

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

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

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**Under Some Circumstances AT&T Will Be Required to Pay a Termination Fee to SBC if the Merger Agreement is Terminated** (Page 69)

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

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

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

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

any person (other than SBC) has acquired, in one or a series of related transactions, within 15 months of the termination, a majority of the voting power of the outstanding securities of AT&T or all or substantially all of AT&T's assets or has entered into an agreement with AT&T for such an acquisition within 15 months of the termination; or

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

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

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

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

**Comparison of Stockholder Rights** (Page 126)

The conversion of your shares of AT&T common stock into the right to receive shares of SBC common stock in the merger will result in differences between your rights as an AT&T shareholder, which are governed by the New York Business Corporation Law and AT&T's restated certificate of incorporation and by-laws, and your rights as an SBC stockholder, which are governed by the Delaware General Corporation Law and SBC's restated certificate of

incorporation and by-laws.

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

The following statements of operations data for each of the three years in the period ended December 31, 2004 and the balance sheet data as of December 31, 2004 and 2003 have been derived from SBC's audited consolidated financial statements contained in its Annual Report on Form 10-K for the fiscal year ended December 31, 2004, which are incorporated into this document by reference. The statements of operations data for the years ended December 31, 2001 and 2000 and the balance sheet data as of December 31, 2002, 2001 and 2000 have been derived from SBC's audited consolidated financial statements for such years, which have not been incorporated into this document by reference.

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

**Year Ended December 31,**

	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
	(\$ in millions, except per share data)				
Operating revenues	\$ 40,787	\$ 40,498	\$ 42,821	\$ 45,381	\$ 50,881
Operating income	5,901	6,284	8,438	10,296	10,303
Income from continuing operations	4,979	5,859	7,361	6,881	7,696
Earnings per common share:					
Income from continuing operations	\$ 1.50	\$ 1.77	\$ 2.21	\$ 2.04	\$ 2.27
Earnings per common share assuming dilution:					
Income from continuing operations	\$ 1.50	\$ 1.76	\$ 2.20	\$ 2.03	\$ 2.24
Total assets	\$ 108,844	\$ 100,233	\$ 95,170	\$ 96,416	\$ 98,735
Long-term debt	21,231	16,097	18,578	17,153	15,513
Dividends declared per common share(1)	\$ 1.26	\$ 1.41	\$ 1.08	\$ 1.025	\$ 1.015
Book value per common share	\$ 12.27	\$ 11.57	\$ 10.01	\$ 9.82	\$ 9.09
Ratio of earnings to fixed charges(2)	6.32	6.35	6.20	5.83	6.73
Debt ratio(3)	40.0%	32.0%	39.9%	44.3%	45.0%
Operating Data:					
Number of Employees	162,700	168,950	175,980	193,420	220,090

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

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

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

	2004	2003	2002	2001	2000
	(\$ in millions)				
Total Debt	26,965	17,976	22,083	26,186	25,983
Total Equity(a)	40,504	38,248	33,199	32,919	31,782
Total Capital (debt plus equity)	67,469	56,224	55,282	59,105	57,765
Debt as percentage of total capital	40.0%	32.0%	39.9%	44.3%	45.0%

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

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

The following results of operations data for each of the three years in the period ended December 31, 2004 and the balance sheet data as of December 31, 2004 and 2003 have been derived from AT&T's audited consolidated financial statements contained in its Annual Report on Form 10-K for the fiscal year ended December 31, 2004, which are incorporated into this document by reference. The results of operations data for the years ended December 31, 2001 and 2000 and the balance sheet data as of December 31, 2002, 2001 and 2000 have been derived from AT&T's audited consolidated financial statements for such years, which have not been incorporated into this document by reference.

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

	2004	2003	2002	2001	2000
(\$ in millions, except per share data)					
<b>RESULTS OF OPERATIONS DATA:</b>					
Revenue	\$ 30,537	\$ 34,529	\$ 37,827	\$ 42,197	\$ 46,850
Operating (loss) income	(10,088)	3,657	4,361	7,832	12,793
(Loss) income from continuing operations	(6,469)	1,863	963	(2,640)	9,532
(Loss) Income from Continuing Operations and (Loss) Earnings per Share:					
AT&T Common Stock Group(1)					
(Loss) income	\$ (6,469)	\$ 1,863	\$ 963	\$ 71	\$ 8,044
(Loss) earnings per basic share	(8.14)	2.37	1.29	(0.91)	11.54
(Loss) earnings per diluted share	(8.14)	2.36	1.26	(0.91)	11.01
Cash dividends declared per share	0.95	0.85	0.75	0.75	3.4875
Liberty Media Group(1)					
(Loss) income				(2,711)	1,488
(Loss) earnings per basic and diluted share				(1.05)	0.58
<b>BALANCE SHEET DATA:</b>					
Property, plant and equipment, net	\$ 11,509	\$ 24,376	\$ 25,604	\$ 26,803	\$ 26,083
Total assets continuing operations	32,804	47,988	55,437	62,329	90,293
Total assets	32,804	47,988	55,437	165,481	242,802
Long-term debt	8,779	13,066	18,812	24,025	13,572
Total debt	10,665	14,409	22,574	34,159	42,338
Shareowners' equity	7,019	13,956	12,312	51,680	103,198
Debt ratio(2)	60.3%	50.8%	64.7%	86.3%	122.1%
<b>OTHER INFORMATION:</b>					
Number of employees continuing operations(3)	47,600	61,600	71,000	77,700	84,800

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

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

	2004	2003	2002	2001	2000
			(\$ in millions)		
Total debt	\$ 10,665	\$ 14,409	\$ 22,574	\$ 34,159	\$ 42,338
Equity:					
Total shareowners' equity	7,019	13,956	12,312	51,680	103,198
Less discontinued operations	0	0	0	46,257	76,627
Less LMG	0	0	0	0	34,234
Total equity	7,019	13,956	12,312	5,423	(7,663)
Total capital (debt plus equity)	17,684	28,365	34,886	39,582	34,675
Debt as percentage of total capital	60.3%	50.8%	64.7%	86.3%	122.1%

(3) Data provided excludes LMG.



**Table of Contents****SELECTED UNAUDITED PRO FORMA  
CONDENSED COMBINED FINANCIAL DATA**

The following table sets forth selected unaudited pro forma condensed combined financial data of SBC and AT&T as of and for the year ended December 31, 2004. The pro forma amounts in the table below are based upon the historical financial statements of SBC and AT&T adjusted to give effect to the merger. It has been assumed for purposes of the pro forma financial data provided that the merger was completed on January 1, 2004 for income statement purposes, and on December 31, 2004 for balance sheet purposes. These pro forma amounts have been derived from (a) the audited consolidated financial statements of SBC contained in its Annual Report on Form 10-K for the fiscal year ended December 31, 2004, which are incorporated by reference in this document, and (b) the audited consolidated financial statements of AT&T contained in its Annual Report on Form 10-K for the year ended December 31, 2004, which are incorporated by reference in this document.

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

The pro forma financial data in the table below does not include the realization of cost savings from operating efficiencies, revenue synergies or restructuring costs resulting from the merger. You should read this information in conjunction with the separate historical consolidated financial statements and accompanying notes of SBC and AT&T that are incorporated by reference in this document and the Unaudited Pro Forma Condensed Combined Financial Information beginning on page 73.

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

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

**2004**

**(\$ in millions)**

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

**Table of Contents****UNAUDITED COMPARATIVE PER SHARE DATA**

The following table summarizes unaudited per share information for SBC and AT&T on a historical basis, a pro forma combined basis for SBC and an equivalent pro forma combined basis for AT&T. It has been assumed, for purposes of the pro forma financial information provided, that the merger was completed on January 1, 2004 for income statement purposes, and on December 31, 2004 for balance sheet purposes. The following information should be read in conjunction with the audited consolidated financial statements of SBC and AT&T at and for the year ended December 31, 2004, which are incorporated by reference into this document, and the Unaudited Pro Forma Condensed Combined Financial Information beginning on page 73. The pro forma information is presented for illustrative purposes only and is not necessarily indicative of the operating results or financial position that would have occurred if the merger had been completed as of the beginning of the period presented, nor is it necessarily indicative of the future operating results or financial position of the combined company. The historical book value per share is computed by dividing total stockholders' equity by the number of common shares outstanding at the end of the period. The pro forma per share loss from continuing operations of the combined company is computed by dividing the pro forma loss from continuing operations available to holders of the combined company's common stock by the pro forma weighted average number of shares outstanding. The pro forma combined book value per share is computed by dividing total pro forma stockholders' equity by the pro forma number of common shares outstanding at the end of the period. AT&T equivalent pro forma combined per share amounts are calculated by multiplying the pro forma combined per share amounts by 0.77942, the fraction of a share of SBC common stock that would be exchanged for each share of AT&T common stock in the merger.

**Year Ended  
December 31,  
2004**

<b>SBC Historical</b>		
Historical per common share:		
Income per share from continuing operations	\$	1.50
Dividends declared per common share		1.26
Book value per share		12.27
<b>AT&amp;T Historical</b>		
Historical per common share:		
(Loss) per share from continuing operations	\$	(8.14)
Dividends declared per common share		0.95
Book value per share		8.79
<b>Unaudited Pro Forma Combined</b>		
Unaudited pro forma share of SBC common shares:		
(Loss) per share from continuing operations	\$	(0.20)
Dividends declared per common share		1.26
Book value per share		14.11
<b>Unaudited Pro Forma AT&amp;T Equivalents(1)</b>		
Unaudited pro forma per AT&T common share:		
(Loss) per share from continuing operations	\$	(0.16)
Dividends declared per common share		0.98
Book value per share		11.00

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



**Table of Contents****COMPARATIVE MARKET DATA**

The SBC common stock is listed on the NYSE under the symbol SBC, as well as on the Chicago and Pacific stock exchanges and the Swiss Exchange. The SBC common stock also trades on the London Stock Exchange through the SEAQ International Markets facility. The AT&T common stock is listed on the NYSE under the symbol T, as well as on the Boston, Chicago, Cincinnati, Pacific and Philadelphia exchanges in the U.S., and on the Euronext-Paris, the IDR (International Depository Receipt) Exchange in Brussels and the London and Geneva stock exchanges. The following table presents trading information for SBC and AT&T common stock on January 28, 2005, the last trading day before the public announcement of the execution of the merger agreement, and [1], 2005, the latest practicable trading day before the date of this document. You should read the information presented below in conjunction with Comparative Per Share Market Price Data and Dividend Information on page 15.

	SBC Common Stock			AT&T Common Stock		
	High	Low	Close	High	Low	Close
January 28, 2005	\$ 23.69	\$ 23.33	\$ 23.62	\$ 20.01	\$ 19.48	\$ 19.71
[day prior to printing]	\$	\$	\$	\$	\$	\$

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

	SBC Common Stock			AT&T Equivalent Per Share		
	High	Low	Close	High	Low	Close
January 28, 2005	\$ 23.69	\$ 23.33	\$ 23.62	\$ 18.46	\$ 18.18	\$ 18.41
[day prior to printing]	\$	\$	\$	\$	\$	\$

**Table of Contents****COMPARATIVE PER SHARE MARKET PRICE DATA AND DIVIDEND INFORMATION**

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

	SBC Common Stock			AT&T Common Stock		
	High	Low	Dividends	High	Low	Dividends
<b>2003</b>						
First Quarter	31.65	18.85	0.3325	27.88	15.75	0.1875
Second Quarter	27.35	19.65	0.3825	21.84	13.45	0.1875
Third Quarter	26.88	21.65	0.3825	23.18	18.80	0.2375
Fourth Quarter	26.15	21.16	0.3125	21.95	18.31	0.2375
<b>2004</b>						
First Quarter	27.73	23.18	0.3125	22.10	18.70	0.2375
Second Quarter	25.68	23.50	0.3125	19.75	14.25	0.2375
Third Quarter	26.88	22.98	0.3125	15.85	13.59	0.2375
Fourth Quarter	27.29	24.55	0.3225	19.87	14.25	0.2375
<b>2005</b>						
First Quarter	25.98	22.99	0.3225	20.00	17.59	0.2375
Second Quarter (through April 18, 2005)	24.33	22.90		19.38	18.41	

On [ 1 ], 2005, the latest practicable trading day prior to the date of this document, the last sale price per share of SBC common stock was \$[ 1 ] and the last sale price per share of AT&T common stock was \$[ 1 ], in each case on the NYSE composite transactions reporting system.

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

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**RISK FACTORS**

*In addition to the other information included or incorporated by reference into this document, including the matters addressed under the caption **Cautionary Statement Concerning Forward-Looking Statements** beginning on page 143, and including the matters addressed under the caption **Item 1. Business What Special Considerations Should Investors Consider?** in AT&T's Annual Report on Form 10-K for the year ended December 31, 2004, which is incorporated by reference into this document, you should carefully consider the matters described below in deciding whether to vote for adoption of the merger agreement.*

**Risk Factors Relating to the Merger**

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

Upon completion of the merger, each share of AT&T common stock that you hold will be converted into the right to receive 0.77942 of a share of SBC common stock. There will be no adjustment to the exchange ratio for changes in the market price of either shares of AT&T common stock or SBC common stock and the merger agreement does not provide for any price-based termination right. Accordingly, the market value of the shares of SBC common stock that you will be entitled to receive upon completion of the merger will depend on the market value of the shares of SBC common stock at the time of the completion of the merger and could vary significantly from the market value on the date of this document or the date of AT&T's 2005 Annual Meeting of Shareholders. The market value of the shares of SBC common stock you will be entitled to receive in the merger also will continue to fluctuate after the completion of the merger. For example, during the third and fourth calendar quarters of 2004, the sale price of SBC common stock ranged from a low of \$22.98 to a high of \$27.29, all as reported on the NYSE composite transactions reporting system. See **Comparative Per Share Market Price Data and Dividend Information** beginning on page 15.

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

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

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

There can be no assurance that SBC and AT&T will obtain the necessary consents, orders and approvals or that any such required divestitures or other conditions will not have a material adverse effect on the financial condition, business or results of operations of SBC following the merger or cause the abandonment of the merger by SBC and AT&T. SBC and AT&T have not determined how they will respond to conditions, limitations or divestitures that may be sought by governmental entities in connection with any requisite approvals. See **The Merger Regulatory Matters Related to the Merger** beginning on page 52 and **The Merger Agreement Conditions to the Merger** beginning on page 66.

**Table of Contents*****Any delay in completing the merger may reduce or eliminate the benefits expected.***

In addition to the required regulatory clearances and approvals, the merger is subject to a number of other conditions beyond the control of SBC and AT&T that may prevent, delay or otherwise materially adversely affect its completion. We cannot predict whether and when these other conditions will be satisfied. Further, the requirements for obtaining the required clearances and approvals could delay the completion of the merger for a significant period of time or prevent it from occurring. Any delay in completing the merger could cause SBC following the merger not to realize some or all of the synergies that SBC expects to achieve if it successfully completes the merger within its expected timeframe and integrates its business with AT&T's business. See The Merger Agreement Conditions to the Merger.

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

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

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

Directors of AT&T have arrangements or other interests that provide them with interests in the merger that differ from yours. In addition, the merger agreement provides that Mr. Dorman and two other directors of AT&T will become directors of SBC while other directors will not, and in either case SBC will indemnify and maintain liability insurance for each of the AT&T directors' services as directors of AT&T prior to the merger. See The Merger Interests of AT&T Executive Officers and Directors in the Merger beginning on page 44.

***The merger agreement restricts AT&T's ability to pursue alternatives to the merger.***

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



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to reimburse SBC its expenses of up to \$40 million and, in addition, the termination fee of \$560 million could become payable if AT&T completes, or enters into an agreement with respect to, an alternative acquisition transaction during the 15 months following the termination. See The Merger Agreement Covenants and Agreements Acquisition Proposals , Termination and Termination Fees and Expenses.

SBC required that AT&T agree to these provisions as a condition to SBC's willingness to enter into the merger agreement. However, these provisions could discourage a potential competing acquiror that might have an interest in acquiring all or a significant part of AT&T from considering or proposing that acquisition, even if it were prepared to pay consideration with a higher per share cash or market value than that proposed to be paid in the merger, or might result in a potential competing acquiror proposing to pay a lower per share price to acquire AT&T than it might otherwise have proposed to pay because of the added expense of the termination fee that may become payable to SBC in certain circumstances.

**Risk Factors Relating to SBC Following the Merger**

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

The merger involves the integration of two companies that have previously operated independently. SBC and AT&T entered into the merger agreement with the expectation that the merger would combine AT&T's global systems capabilities, business and government customers and Internet protocol business with SBC's local exchange, broadband and wireless solutions and create opportunities to achieve cost savings, revenue synergies, technological development and other synergistic benefits.

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

Delays encountered in the transition process could have a material adverse effect on the revenues, expenses, operating results and financial condition of SBC following the merger. Although SBC and AT&T expect significant benefits, such as increased cost savings, to result from the merger, there can be no assurance that SBC will realize any of these anticipated benefits. See The Merger AT&T's Reasons for the Merger beginning on page 30.

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

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

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

AT&T's revenues have declined over recent years as it has transitioned from a voice long distance business to one with an emphasis on business and data services, and those declines are expected to continue. As a result, SBC expects that the merger will slow its revenue growth rate in the near term following the completion of the merger and the merger will not have an incremental positive contribution to its earnings until 2008, as described in "The Merger" SBC's Reasons for the Merger - Cost Savings and Revenue Synergies beginning on page 28. A slower revenue growth rate may in turn have a negative impact on the share price of the SBC common stock.

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

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

Technological innovation is important to SBC's success and depends, to a significant degree, on the work of technically skilled employees. Competition for the services of these types of employees is vigorous. We cannot assure you that SBC will be able to attract and retain these employees following the merger. If, following the merger, SBC were unable to attract and maintain technically skilled employees, its competitive position could be materially adversely affected.

***SBC will continue to face significant competition, which may reduce its market share and lower its profits.***

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

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

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

***SBC's ability to maintain leading technological capabilities is uncertain.***

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

Technology in the telecommunications industry changes rapidly as new technologies are developed, which could cause the services and products of SBC to become obsolete. SBC cannot assure you that it and its

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suppliers will be able to keep pace with technological developments. If the new technologies on which SBC intends to focus its research and development investments fail to achieve acceptance in the marketplace, SBC could suffer a material adverse effect on its future competitive position that could cause a reduction in its revenues and earnings. For example, competitors of SBC could be the first to obtain proprietary technologies that are perceived by the marketplace as being superior. Furthermore, after substantial research and development costs, one or more of the technologies under development by SBC or any of its strategic partners could become obsolete prior to its introduction. In addition, delays in the delivery of components or other unforeseen problems in SBC's telecommunication systems may occur that could materially adversely affect its ability to generate revenue, offer new services and remain competitive.

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

The indebtedness of SBC as of December 31, 2004 was approximately \$27.0 billion. SBC's pro forma indebtedness as of December 31, 2004, giving effect to the merger (as described in Unaudited Pro Forma Condensed Combined Financial Information on page 73), would have been approximately \$38.6 billion. As a result of the increase in debt, demands on SBC's cash resources will increase after the merger, which could have important effects on an investment in SBC common stock. For example, while the impact of this increased indebtedness will be addressed by the combined cash flows of SBC and AT&T, the increased levels of indebtedness could nonetheless:

reduce funds available to SBC for investment in research and development and capital expenditures; or

create competitive disadvantages for SBC compared to other companies with lower debt levels.

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

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

SBC's business could be materially adversely affected by the adoption of new laws, policies and regulations or changes to existing regulations. The development of new technologies, such as Internet Protocol-based services including VoIP and super high-speed broadband and video, for example, have created or potentially could create conflicting regulation between the FCC and various state and local authorities, which may involve lengthy litigation to resolve and may result in outcomes unfavorable to SBC. In particular, we cannot assure you that SBC will succeed in obtaining all requisite regulatory approvals for its operations without the imposition of restrictions on its business, which could have a detrimental effect on SBC by imposing material additional costs on SBC or by limiting its revenues.

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

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

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

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combined form known as the UNE-P to competitive local exchange carriers (CLECs), including AT&T and MCI Inc. The state PUCs set the wholesale rates that SBC is allowed to charge its competitors for UNEs by utilizing the FCC prescribed Total Element Long Run Incremental Cost (TELRIC) methodology. TELRIC allows the state PUCs to set UNE rates by estimating the forward-looking cost of building and operating a hypothetical network that utilizes the most efficient technology available. While many of the state PUCs in the 13-state area where SBC operates have raised certain UNE rates in the last year, SBC believes that overall UNE rates continue to be below SBC's actual cost of providing services utilizing the existing network. Competitors have used these low rates to target many of SBC's highest revenue customers.

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

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

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

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

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

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



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***SBC may not be aware of certain foreign government regulations.***

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

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

As of February 28, 2005, SBC had 3,303,437,610 shares of common stock outstanding and approximately 214 million shares subject to outstanding options and other rights to purchase or acquire its shares. SBC currently expects that it will issue a maximum of [1] shares of SBC common stock in connection with the merger. The issuance of these new shares and the sale of additional shares of SBC common stock that may become eligible for sale in the public market from time to time upon exercise of options, including a substantial number of SBC options that will be replacing existing AT&T options, could have the effect of depressing the market price for SBC common stock.

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

Upon completion of the merger, holders of AT&T common stock will become holders of SBC common stock. SBC's business differs from that of AT&T and, accordingly, the results of operations of SBC, as well as the trading price of SBC common stock, after the merger may be affected by factors different from those currently affecting AT&T's results of operations and the price of AT&T common stock. For a discussion of the businesses of AT&T and SBC and of certain factors to consider in connection with those businesses, see the documents incorporated by reference in this document and referred to under "Where You Can Find More Information" beginning on page 144.

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

In October 2004, Cingular Wireless LLC, SBC's wireless joint venture with BellSouth, acquired AT&T Wireless Services, Inc. for approximately \$41 billion in cash. SBC and BellSouth funded, by means of an equity contribution to Cingular, a significant portion of the purchase price, and SBC's share, based on its 60% equity ownership of Cingular, was approximately \$21.6 billion.

Achieving the anticipated benefits of the Cingular/ AT&T Wireless merger will depend in part upon meeting some of the same challenges that the proposed SBC/ AT&T merger will face. See "Risk Factors Relating to SBC Following the Merger" SBC may fail to realize the anticipated synergies, cost savings and other benefits expected from the merger, which could adversely affect the value of SBC common stock after the merger. There can be no assurance that such challenges will be met. Delays encountered in the transition process could have a material adverse effect upon the revenues, expenses, operating results and financial condition of the new Cingular. In addition, if the Cingular/ AT&T Wireless merger fails to achieve, in the amount and within the timeframe expected, the capital and expense synergies and other benefits expected, there will be an adverse impact on Cingular's operating results, which will adversely affect the financial results of SBC following the SBC/ AT&T merger.

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

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

Cingular's competitors are principally four national (Verizon Wireless, T-Mobile, and Sprint PCS and Nextel Communications (the latter two have recently announced an agreement to merge)) and a larger number of regional providers of cellular, PCS and other wireless communications services. Cingular also competes with resellers and wireline service providers. Moreover, Cingular may experience significant competition from companies that provide similar services using other communications technologies and services. While some of these technologies and services are now operational, others are being developed or may be developed in the future.

SBC expects that intense industry competition and market saturation likely will cause the wireless industry's customer growth rate to moderate in comparison with historical growth rates. This competition will continue to put pressure on pricing, margins and customer turnover as the carriers compete for potential customers. The substantial competition Cingular is facing could have a material adverse effect on its ability to achieve revenue and profit growth, and this in turn could hurt SBC's bottom line based on its 60% share in Cingular's operating results.

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

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

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**THE MERGER**

**Background of the Merger**

Since the split-off of AT&T Wireless in 2001 and the spin-off of AT&T Broadband in 2002, the AT&T board of directors and AT&T's management have periodically examined AT&T's strategic alternatives and have, on occasion, explored the desirability of a potential business combination of AT&T with a third party, including SBC. These explorations included preliminary discussions with third parties other than SBC, but the discussions with other third parties did not result in any definitive combination proposals.

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

Cingular's acquisition of AT&T Wireless closed on October 26, 2004. In addition, by late October substantial regulatory certainty with respect to a number of fundamental matters had been obtained through a series of court and FCC decisions. In particular, the U.S. Supreme Court denied the applications for certiorari seeking review of the FCC's order in the TRO proceeding and the U.S. Court of Appeals decided to delay the issuance of a writ of mandamus until January 2005, so as to allow the FCC time to establish permanent rules with respect to UNE-P prior to its issuance. In late October the FCC also issued a decision clarifying its rules with respect to broadband deployment, thereby adding more certainty with respect to SBC's ability to implement its previously announced Project Lightspeed broadband initiative.

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

In the course of a discussion regarding matters unrelated to a potential merger in mid-January 2005, AT&T's general counsel and SBC's general counsel agreed that it might be productive for AT&T to provide SBC with a revised markup of a proposed merger agreement in an effort to address a number of the contractual issues that had been troublesome to SBC in November 2004. Thereafter, AT&T's attorneys





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provided such a revised markup to SBC's attorneys. Because both SBC and AT&T continued to believe that a combination could be beneficial to both parties, a new round of discussions was commenced. From January 14 through 17, 2005, AT&T's attorneys and SBC's attorneys discussed non-financial issues, with the emphasis on provisions regarding mutual commitments to complete a transaction, conditions to consummation of the transaction and other contractual issues. At a regularly scheduled meeting on January 19, 2005, the AT&T board of directors received an update on these discussions and reviewed potential strategic alternatives, including the possibilities of pursuing a merger with SBC, pursuing a transaction with another third party and continuing operations as a stand-alone company. The AT&T board authorized further discussions with SBC because the AT&T board believed that a combination with SBC could provide significant operational synergies and other benefits and could give AT&T shareholders an interest in a larger and more diverse company than AT&T as a stand-alone company. While AT&T's management also discussed with the AT&T board the possibility of transactions with other third parties, these other transactions did not appear achievable in the near term based on prior discussions with such parties and/or did not appear to offer an equivalent level of synergies as compared to the potential transaction with SBC.

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

The AT&T board of directors had a telephonic meeting on January 23, 2005, and received an update on the discussions. The AT&T board was informed that there had been progress on the contractual discussions, particularly in negotiating no-shop provisions consistent with the board's fiduciary duties. The AT&T board was also informed that, while there was no agreement on financial terms, it appeared based on Mr. Dorman's discussion with Mr. Whitacre on January 21, 2005 that a premium in the range of 10% to 15% to AT&T's market price could be achieved. The AT&T board authorized the continuation of its management's discussions with SBC's management for the purpose of determining whether an agreement could be reached on acceptable financial terms.

During the week of January 24, 2005, AT&T entered into a new confidentiality agreement with SBC, and AT&T's management continued its discussions with SBC's management. AT&T's management provided SBC with further information with respect to AT&T and SBC's management provided AT&T with additional information about SBC. Meetings and exchanges of documents and other confidential information between the managements of both companies took place, and AT&T's attorneys continued to discuss and negotiate the draft merger agreement with SBC's attorneys. The parties had already agreed to the transaction structure in which AT&T would become a wholly owned subsidiary of SBC, which reflected both the fact that SBC would be the acquiring company and the fact this structure could be used to effect a tax-free exchange of shares. The number of SBC shares to be exchanged for each outstanding AT&T share remained to be negotiated by the respective managements of the parties.

The two companies' attorneys had extensive discussions during this week with respect to deal protection issues. In particular, SBC's attorneys sought to impose the maximum level of restrictions permissible under law on AT&T's ability to have discussions with potential third-party acquirers. AT&T's attorneys insisted that AT&T and its board have the right to consider unsolicited proposals that might be submitted after the agreement with SBC was executed where necessary for AT&T's directors to comply with



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

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

On Friday, January 28, 2005, SBC's board of directors met to review the status of discussions with AT&T. At this meeting, SBC's management again discussed the strategic rationale for a proposed merger with AT&T, the terms of the then-current draft merger agreement and the financial implications of the transaction. Following that meeting, on Friday evening, SBC's management again told AT&T's management that SBC's final financial proposal was an exchange ratio of 0.7803 and a special dividend of \$1.20 per share. Based on the closing market price of SBC's shares that day, this proposal represented a value of approximately \$19.63 per share, or an \$0.08 per share discount to the closing market price of \$19.71 per AT&T share on that day. AT&T's management responded that the financial terms of the transaction should provide AT&T's shareholders with a premium to the AT&T share price based on closing market prices per share on January 28th, but SBC's management reiterated that its proposal was final. Mr. Dorman then called Mr. Whitacre and proposed an exchange ratio of 0.8044 plus \$1.20 per share in a special dividend, which would have had a value of \$20.20 per share based on the closing market price of SBC's shares on that day, representing approximately a 2.5% premium to the closing market price of \$19.71 per AT&T share. Mr. Whitacre responded that SBC's proposal on the exchange ratio was its final proposal.

Following these conversations, AT&T's senior management consulted with representatives of CSFB and Morgan Stanley, AT&T's financial advisors, on how to respond. Thereafter, AT&T's management told SBC's management that, if the merger agreement could be executed before the opening of the financial markets on Monday, January 31, 2005, AT&T's management would recommend to the AT&T board of directors that it approve a transaction with a value to AT&T's shareholders, based on the January 28, 2005 closing market prices for the two companies' shares, equal to AT&T's \$19.71 per share closing market price on that day. SBC's management said that it would agree, if \$0.10 per share of that value could be shifted from the SBC stock consideration to the special dividend to be paid by AT&T (i.e., increasing the special dividend to \$1.30).



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per share and adjusting the exchange ratio to 0.77942 to produce a total value, based on the January 28, 2005 closing market prices, of \$19.71 per AT&T share). Following further discussions, the managements of the two companies agreed to recommend the transaction to their respective boards of directors with an exchange ratio of 0.77942 of an SBC share for each AT&T share and a special cash dividend of \$1.30 per AT&T share. While this represented a value of \$19.71 per AT&T share based on the closing market price of SBC's shares on January 28, 2005, it represented a value of approximately \$20.46 per AT&T share based on the closing market price of SBC shares on Friday, January 21, 2005 (the day on which Mr. Dorman and Mr. Whitacre discussed a potential premium range of 10% to 15%), or approximately a 13.2% premium to the closing market price of \$18.08 per AT&T share on that day.

On January 29 and 30, 2005, AT&T's attorneys and SBC's attorneys finalized the proposed merger agreement, including these financial terms.

The AT&T board of directors met on January 30, 2005, and reviewed the proposed transaction. At that meeting, AT&T's management and financial advisors reviewed the terms and financial implications of the transaction and AT&T's financial advisors rendered their respective opinions with respect to the fairness from a financial point of view of the exchange ratio or consideration, as applicable, to be received by the holders of shares of AT&T common stock in the merger, which opinions are summarized under the caption "The Merger - Opinions of AT&T's Financial Advisors". In addition, AT&T's attorneys reviewed the terms of the proposed merger agreement with the AT&T board, and AT&T's management provided their views and recommendation of the transaction. Following extended discussion and review of the proposed transaction and AT&T's strategic alternatives, the AT&T board of directors, by a vote of nine to one, approved the merger agreement.

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

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

**SBC's Reasons for the Merger**

At its meeting on January 30, 2005, following detailed presentations by SBC's management and discussions with outside advisors, the members of the SBC board of directors present in person or by telephone at the meeting unanimously approved the merger agreement with AT&T and declared its advisability. In the course of making its decision to approve the merger agreement, the SBC board of directors consulted with SBC's management, as well as its outside legal counsel and its financial advisors. The SBC board of directors considered, among other things, the following material factors at its January 30, 2005 meeting and certain prior meetings referred to above:

*Strategic Fit.* The SBC board of directors considered that the combination of SBC and AT&T would create one of the nation's leading communications companies with significant national and global reach. The transaction would combine AT&T's global network capabilities, business and government customers and fast-growing Internet protocol (IP)-based business with SBC's strong local exchange, high-speed broadband and nationwide wireless coverage and solutions.

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In particular, the SBC board of directors considered that:

The combined company would enjoy the benefits of AT&T's world-class assets and industry-leading capabilities, including

a state-of-the-art nationwide and global communications network;

advanced technological capabilities in data and IP-based services;

proven sales and service expertise for complex communications solutions; and

significant product and service development capabilities in AT&T Labs;

The merger would combine SBC's broad consumer and business customer base with AT&T's high-end enterprise and government customer base; and

The combined company would have a strong, diversified set of product and service offerings, including multi-feature integrated communications and business and consumer voice-over-internet (VoIP).

*Cost Savings and Revenue Synergies.* The SBC board of directors considered that the integration of AT&T into SBC would create substantial potential cost savings and revenue synergies, which were estimated by SBC to yield a present value of more than \$15 billion in identified synergies, net of costs to achieve them. SBC's management expected that approximately 85 to 90 percent of the synergies would come from reduced costs in areas such as network operations, headquarters, staff functions, customer account services, information technology and procurement, and that the synergies were expected to result in an increase, based on various assumptions, in annual earnings before interest, taxes, depreciation and amortization of \$2 billion or more by 2008.

Almost all of the synergies were expected to come from reduced costs over and above expected cost reductions from SBC's and AT&T's existing stand-alone productivity initiatives. The synergies (excluding integration costs) were expected to be achieved following the merger from the following areas, in the approximate amounts indicated for 2008:

network operations and IT, as facilities and operations would be consolidated (\$900 million to \$1 billion);

sales and support functions of the business services organizations would be combined (\$500 million to \$600 million);

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

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

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

*Technological Strength.* The SBC board of directors considered that SBC following the merger would have the resources and skill sets to innovate and more quickly deliver to customers the next generation of advanced, integrated IP-based wireline and wireless communications services. SBC would expect to bring a full range of innovative voice and data services to customers around the world, using AT&T's assets, which include an advanced product portfolio including a broad range of IP-based services, as well as AT&T Labs, a leading communications research organization.





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

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

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

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

historical information concerning SBC's and AT&T's respective businesses, financial condition, results of operations, earnings, technology positions, managements, competitive positions and prospects on a stand-alone basis and forecasted combined basis, which indicated that combining SBC and AT&T would be beneficial to stockholders of the combined company because the combined company would be better positioned to be successful over the long term than either company would be on a stand-alone basis;

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

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

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

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

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

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

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

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

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

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

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

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

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

The SBC board of directors also reviewed numerous third party analyses and newspaper articles regarding AT&T's business prospects and financial condition.

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

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

**AT&T's Reasons for the Merger**

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

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

adopted the merger agreement; and

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

In adopting the merger agreement and making these declarations and recommendation, the AT&T board of directors consulted with AT&T senior management and AT&T's financial and legal advisors and considered a number of factors, including those set forth below.

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

its understanding of AT&T's business, operations, financial condition, earnings and prospects on a stand-alone basis, in light of relevant factors, including the recent redefinition of AT&T's business model to move away from actively competing for traditional consumer services to focus on enterprise customers;

its understanding of SBC's business, operations, financial condition, earnings and prospects on a stand-alone basis and forecasted combined basis;

its understanding of the current and prospective business environment in which AT&T and SBC operate, including international, national and local economic conditions, the competitive and regulatory environment for telecommunications service providers generally, the technological trends in the telecommunications industry, and the likely effect of these factors on the combined company or, in the alternative, on AT&T on a stand-alone basis;

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the anticipated strategic fit between SBC and AT&T, which the AT&T board of directors believed will provide the combined company with significantly greater capabilities than either company has, or could develop, on its own, including:

the complementary nature of the combined company's networks, bringing together AT&T's global and national internet protocol (IP)-based networks with SBC's strong local access, broadband access and wireless networks;

the complementary nature of AT&T's established, large business customers and SBC's consumer and small business customers;

the combined company's highly diversified revenue sources, including local, long distance, wireless, data and directories; and

the opportunity to combine AT&T's technological innovation resources, including AT&T Laboratories, with the financial resources of SBC, including its investment grade credit rating, which could allow the combined company to deliver the next generation of advanced, integrated IP-based wireline and wireless communications services more quickly to customers;

the significant synergies that the AT&T board of directors believed could result from the transaction, including: anticipated cost reductions in the following areas: network operations and information technology, business service organizations and the elimination of duplicate corporate functions; and

potential annual revenue synergies, as the combined company rolls out expanded product offerings to new customer segments;

the financial terms of the transaction, including the relative historical trading prices of AT&T common stock and SBC common stock, the fixed exchange ratio of 0.77942 of a share of SBC common stock for each share of AT&T common stock and the special dividend of \$1.30 in cash per share of AT&T common stock to be paid in connection with the merger, in particular, the AT&T board of directors noted that the exchange ratio and special dividend offered a premium to AT&T shareholders based on the trading prices of the companies' common stock prior to market rumors with respect to the merger discussions, and that the stock consideration offered AT&T shareholders the ability to become stockholders of SBC and participate in the benefit of the significant synergies that the AT&T board of directors believed could result from the transaction;

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

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

the financial analyses of CSFB and Morgan Stanley, AT&T's financial advisors, and the oral and written opinions dated January 30, 2005 of CSFB that, as of such date and subject to the matters

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described in its opinion, the exchange ratio was fair, from a financial point of view, to holders of AT&T common stock and the oral and written opinions dated January 30, 2005 of Morgan Stanley that, as of such date and subject to the matters and assumptions stated therein, the consideration to be received by holders of AT&T common stock in accordance with the merger agreement was fair from a financial point of view to such holders other than SBC and its affiliates (each opinion is discussed further below under Opinions of AT&T's Financial Advisors );

the expectation that the merger would be accretive to the pro forma earnings per share of SBC by 2008, as discussed below under Opinions of AT&T's Financial Advisors Other Considerations ;

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

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

the proposed board and management arrangements of the combined company, under which the current Chairman and Chief Executive Officer of AT&T will become President of the combined company and be elected to the SBC board of directors and two other AT&T directors will join an enlarged SBC board of directors, which the AT&T board of directors believed would help position the combined company with strong and experienced leadership;

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

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

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

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

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

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

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

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

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

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

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Factors Risks Relating to the Merger The merger agreement restricts AT&T's ability to pursue alternatives to the merger .

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

The AT&T board of directors also considered the retention and employment arrangements with key AT&T employees and the fact that some of AT&T's executive officers and directors have interests in the merger and have arrangements that are different from, or in addition to, those of AT&T's shareholders generally.

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

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

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

**Recommendation of the AT&T Board of Directors**

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

**Certain AT&T Projections**

Although AT&T periodically issues guidance concerning its financial performance, AT&T as a matter of course does not publicly disclose detailed forecasts or internal projections as to its future revenues, earnings or financial condition. However, as discussed under Background of the Merger, in the course of their discussions in connection with the merger, AT&T's management provided SBC with certain information with respect to its business which SBC and AT&T believe was not publicly available. Such information included the projections with respect to AT&T set forth below. See Cautionary Statement Regarding Forward-Looking Statements beginning on page 143.



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

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

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

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

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

**Projected reconciliation of EBITDA, less capital expenditures to cash provided by operating activities**  
**for the year ending 12/31/2005**

**(\$ in billions; all projected numbers are approximate)**

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

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

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

While the projections set forth above were prepared in good faith by AT&T's management, no assurance can be made regarding future events. Therefore, such projections cannot be considered a reliable predictor of future operating results, and this information should not be relied on as such. The information in this section was not prepared with a view toward public disclosure or with a view toward complying with the guidelines

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established by the American Institute of Certified Public Accountants with respect to prospective financial information, published guidelines of the SEC regarding forward-looking statements, or U.S. generally accepted accounting principles. This information is not historical fact and should not be relied upon as being necessarily indicative of future results, and readers of this document are cautioned not to place undue reliance on this information.

The prospective financial information (projections or forecasts) of AT&T included in this document has been prepared by, and is the responsibility of, AT&T's management. PricewaterhouseCoopers LLP has neither examined nor compiled the accompanying prospective financial information of AT&T and, accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect thereto. The PricewaterhouseCoopers LLP report incorporated by reference in this document relates to AT&T's historical financial information. It does not extend to the prospective financial information and should not be read to do so.

The estimates and assumptions underlying the projections involve judgments with respect to, among other things, future economic, competitive, regulatory and financial market conditions and future business decisions which may not be realized and are inherently subject to significant business, economic, competitive and regulatory uncertainties, all of which are difficult to predict and many of which are beyond the control of AT&T and will be beyond the control of combined company after the merger. In addition, the projections were prepared with a view of AT&T on a stand-alone basis, and without reference to transaction-related costs. Accordingly, there can be no assurance that the projected results would be realized or that actual results would not differ materially from those presented in the prospective financial information. See *Cautionary Statement Regarding Forward-Looking Statements* beginning on page 143. These projections are not included in this document in order to induce any shareholder to vote in favor of adoption of the merger agreement or to impact any investment decision with respect to shares of AT&T or SBC common stock.

AT&T DOES NOT INTEND TO UPDATE OR OTHERWISE REVISE THESE PROJECTIONS TO REFLECT CIRCUMSTANCES EXISTING SINCE THEIR PREPARATION OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS EVEN IN THE EVENT THAT ANY OR ALL OF THE UNDERLYING ASSUMPTIONS ARE SHOWN TO BE IN ERROR. FURTHERMORE, AT&T DOES NOT INTEND TO UPDATE OR REVISE THESE PROJECTIONS TO REFLECT CHANGES IN GENERAL ECONOMIC OR INDUSTRY CONDITIONS.

**Opinions of AT&T's Financial Advisors**

***Credit Suisse First Boston LLC Fairness Opinion***

Credit Suisse First Boston LLC has acted as AT&T's financial advisor in connection with the merger. In connection with CSFB's engagement, the AT&T board of directors requested that CSFB render an opinion with respect to the fairness, from a financial point of view, to holders of shares of AT&T common stock, of the exchange ratio. At the meeting of the AT&T board of directors on January 30, 2005, CSFB rendered its oral opinion, which was subsequently confirmed in writing dated as of the same date, that, based upon and subject to the matters described in its opinion, the exchange ratio was fair, from a financial point of view, to the holders of shares of AT&T common stock. For purposes of its analyses CSFB assumed that AT&T will declare a \$1.30 special cash dividend per share of AT&T common stock payable to the holders of AT&T common stock as of immediately prior to the consummation of the merger.

**The full text of CSFB's opinion, dated January 30, 2005, which sets forth, among other things, the procedures followed, matters considered and limitations of the review undertaken in connection with its opinion, is attached as Annex B to this document and is incorporated herein by reference. The summary of CSFB's fairness opinion set forth in this document is qualified in its entirety by reference to the full text of the opinion. Shareholders should read the opinion carefully and in its entirety. CSFB's opinion is directed to the board of directors of AT&T, addresses only the fairness, from a financial point of view, to holders of AT&T common stock of the exchange ratio and does not address any other aspect or implication of the merger or any other agreement, arrangement or understanding entered into in connection with the merger or**

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**otherwise. CSFB's opinion does not constitute a recommendation to any shareholder of AT&T as to how such shareholder should vote or act with respect to any matter relating to the proposed merger.**

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

reviewed the merger agreement and certain publicly available business and financial information relating to AT&T and SBC;

reviewed certain other information relating to AT&T and SBC, including financial forecasts for 2005 prepared and provided to CSFB by AT&T, financial forecasts for 2005 through 2007 prepared and provided to CSFB by SBC and certain publicly available research analyst estimates concerning AT&T and SBC;

met with the managements of AT&T and SBC to discuss the business and prospects of AT&T and SBC, respectively;

considered certain financial and stock market data of AT&T and SBC, and it compared that data with similar data for other publicly held companies in businesses it deemed similar to those of AT&T and SBC;

considered, to the extent publicly available, the financial terms of certain other business combinations and other transactions which had been recently effected or announced; and

considered such other information, financial studies, analyses and investigations and financial, economic and market criteria which it deemed relevant.

In connection with CSFB's review, it did not assume any responsibility for independent verification of any of the information that it reviewed or considered and relied on its being complete and accurate in all material respects. With respect to the financial forecasts of AT&T for 2005 prepared by the management of AT&T, CSFB discussed such forecasts with the management of AT&T, and CSFB was advised by them, and CSFB assumed, that such forecasts represented the best currently available estimates and judgments of the management of AT&T as to the future financial performance of AT&T. With respect to the publicly available research analyst estimates concerning AT&T for 2006 through 2009 that CSFB reviewed and discussed with AT&T, the management of AT&T advised CSFB, and CSFB assumed, that such estimates represented reasonable estimates and judgments as to the future financial performance of AT&T. With respect to the publicly available research analyst estimates concerning SBC for 2005 through 2007 reviewed by CSFB, CSFB, with the consent of the AT&T board of directors and based upon its own comparison of such estimates to financial forecasts for such years prepared by and discussed with the management of SBC, assumed that such analyst estimates represented reasonable estimates and judgments as to the future financial performance of SBC. With respect to the estimates as to the cost savings and other potential synergies anticipated to result from the merger reviewed and discussed by the managements of AT&T and SBC, CSFB was advised and assumed that such estimates (including the aggregate amount, timing and achievability thereof) represented reasonable estimates and judgments. CSFB assumed, with the consent of the AT&T board of directors, that the merger would be treated as a tax-free reorganization for federal income tax purposes. CSFB also assumed, with the consent of the AT&T board of directors, that, in the course of obtaining any regulatory or third party consents, approvals or agreements in connection with the merger, no delay, limitation, restriction or condition would be imposed that would have an adverse effect on AT&T, SBC or the contemplated benefits of the merger and that the merger would be consummated in accordance with the terms of the merger agreement without waiver, modification or amendment of any material term, condition or agreement thereof. In addition, CSFB was not requested to make, and did not make, an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of AT&T or SBC, nor was CSFB furnished with any such evaluations or appraisals. CSFB's opinion addressed only the fairness, from a financial point of view, to the holders of AT&T common stock of the exchange ratio and did not address any other aspect or

implication of the merger or any other agreement, arrangement or understanding entered into in connection with the merger or otherwise. CSFB's opinion was necessarily based upon information made available to it as of January 30, 2005 and financial, economic, market and other conditions as they existed and could be evaluated on such date. CSFB did not express any opinion as to what the value of shares of SBC common stock actually would be when

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issued to the holders of AT&T common stock pursuant to the merger or the prices at which shares of SBC common stock would trade at any time. CSFB's opinion did not address the relative merits of the merger as compared to alternative transactions or strategies that may have been available to AT&T, nor did it address the underlying business decision of AT&T to proceed with the merger. No other limitations were imposed on CSFB with respect to the investigations made or procedures followed by CSFB in rendering its opinion. Although CSFB evaluated the exchange ratio from a financial point of view, CSFB was not requested to, and it did not, recommend the specific consideration payable in the proposed merger, which consideration was determined between AT&T and SBC.

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

AT&T has agreed to pay CSFB a transaction fee based on 0.1% of the aggregate value of the transaction, which will be determined at closing. We currently project the transaction fee at approximately \$29 million (including a \$2.5 million incremental advisory fee). The transaction fee is payable in three installments, one quarter upon signing, one quarter upon receipt of shareholder approval and the unpaid balance upon closing. AT&T has also agreed to reimburse CSFB for its fees and expenses incurred in performing its services. In addition, AT&T has agreed to indemnify CSFB and its affiliates, their respective directors, officers, agents and employees and each person, if any, controlling CSFB or any of its affiliates against certain liabilities and expenses, including certain liabilities under the federal securities laws, related to or arising out of CSFB's engagement and any related transactions.

***Morgan Stanley & Co. Incorporated Fairness Opinion***

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

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



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

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

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

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

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

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

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

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

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

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

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

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

reviewed the merger agreement and certain related documents; and

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

In arriving at its opinion, Morgan Stanley assumed and relied upon without independent verification the accuracy and completeness of the information reviewed by it for the purposes of its opinion. With respect to the financial projections of AT&T for 2005 and the estimates of cost savings and synergies prepared by the management of AT&T, Morgan Stanley discussed such projections and estimates with the management of AT&T and Morgan Stanley was advised by the management of AT&T, and Morgan Stanley assumed, with the consent of the AT&T board of directors, that such projections represented the best currently available estimates and judgments of the management of AT&T as to the future financial performance of AT&T. With respect to the financial projections concerning AT&T contained in certain publicly available equity analyst research reports (including adjustments thereto) that Morgan Stanley discussed with AT&T, the management of AT&T advised Morgan Stanley, and it assumed, with the consent of the AT&T board of directors, that such projections represented reasonable estimates and judgments as to the future



financial performance of AT&T. With respect to publicly available research analyst estimates concerning SBC for 2005 through 2007, based upon Morgan Stanley's comparison of such estimates to financial forecasts of the management of SBC for such years and discussions of such management forecasts with the management of SBC, Morgan Stanley assumed that such analyst estimates represented reasonable estimates and judgments as to the future financial performance of SBC. Morgan Stanley also assumed, with the consent of the AT&T board of directors, without independent verification, that the information regarding certain strategic, financial and operational benefits anticipated to result from the merger represented reasonable estimates and judgments of the managements of

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AT&T and SBC. Morgan Stanley assumed, with the consent of the AT&T board of directors, that the merger would be consummated in accordance with the terms set forth in the merger agreement without material modification, waiver or delay, including, among other things, that the merger would be treated as a tax-free reorganization pursuant to the Code. In connection with the receipt of all the necessary regulatory or other third party approvals for the merger, Morgan Stanley assumed, with the consent of the AT&T board of directors, that no restrictions would be imposed that would have a material adverse effect on the contemplated benefits expected to be derived in the merger. Morgan Stanley did not make any independent valuation or appraisal of the assets or liabilities of AT&T or SBC nor was Morgan Stanley furnished with any such valuations or appraisals. Morgan Stanley's opinion was necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to it as of, January 30, 2005. Events occurring after such date could materially affect Morgan Stanley's opinion. Morgan Stanley has not undertaken to update, revise, reaffirm or withdraw its opinion or otherwise comment upon events occurring after January 30, 2005. No other limitations were imposed on Morgan Stanley with respect to the investigations made or procedures followed by Morgan Stanley in rendering its opinion.

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

Morgan Stanley is an internationally recognized investment banking and advisory firm. Morgan Stanley, as part of its investment banking business, is continuously engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate, estate and other purposes. In the ordinary course of its business, Morgan Stanley and its affiliates may from time to time trade in the securities or the indebtedness of AT&T, SBC and their affiliates for its own account, the accounts of investment funds and other clients under the management of Morgan Stanley and for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities or indebtedness for any such account. In the past, Morgan Stanley and its affiliates have provided financial advisory and financing services for both AT&T and SBC and have received fees for the rendering of these services. During the past two years, Morgan Stanley has received approximately \$10 million in fees from AT&T as compensation for such services. In addition, in the future, Morgan Stanley may provide, or seek to provide, financial advice and financing services to the combined company.

AT&T has agreed to pay Morgan Stanley a transaction fee based on 0.1% of the aggregate value of the transaction, which will be determined at closing. We currently project the transaction fee at approximately \$24 million (which reflects a \$2.5 million credit). The transaction fee is payable in three installments, one quarter upon signing, one quarter upon receipt of shareholder approval and the unpaid balance upon closing. AT&T has also agreed to reimburse Morgan Stanley for its fees and expenses incurred in performing its services. In addition, AT&T has agreed to indemnify Morgan Stanley and its affiliates, their respective directors, officers, agents and employees and each person, if any, controlling Morgan Stanley or any of its affiliates against certain liabilities and expenses, including certain liabilities under the federal securities laws, related to or arising out of Morgan Stanley's engagement and any related transactions.

***Financial Analyses***

In preparing their respective opinions to the AT&T board of directors, CSFB and Morgan Stanley performed a variety of financial and comparative analyses, including those described below. The summary of the analyses of CSFB and Morgan Stanley described below is not a complete description of the analyses underlying their opinions. The preparation of a fairness opinion is a complex process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of



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those methods to the particular circumstances and, therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at their respective opinions, each of CSFB and Morgan Stanley made qualitative judgments as to the significance and relevance of each analysis and factor that it considered. Accordingly, CSFB and Morgan Stanley believe that their analyses must be considered as a whole and that selecting portions of their analyses and factors or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying their analyses and opinions.

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

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

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

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

***Discounted Cash Flow Analysis***

*AT&T.* CSFB and Morgan Stanley performed a discounted cash flow analysis (referred to in this document as DCF) with respect to AT&T's estimated future cash flows. The DCF analysis was based on financial forecasts for 2005 prepared and provided by the management of AT&T and certain publicly available analyst estimates and projections (including adjustments thereto) reviewed and discussed with the management of AT&T for 2006 through 2009 and terminal values based on multiples of AT&T's estimated last twelve months earnings before interest, taxes, depreciation and amortization (referred to in this document as EBITDA) for 2009 ranging from 3.5x to 4.5x. In this document, terminal value refers to the value of all future cash flows from a business or asset at a particular point in time. CSFB and Morgan Stanley discounted the unlevered free cash flows and estimated terminal value to a present value using discount rates ranging from 8.0% to 10.0%. CSFB and Morgan Stanley chose the discount rates utilized in this analysis based upon an analysis of the weighted average cost of capital of AT&T and selected comparable companies. Weighted



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average cost of capital is a measure of the average expected return on all of a company's securities or loans based on the proportions of those securities or loans in such company's capital structure. Based on their experience with respect to telecommunications companies and their knowledge of the telecommunications industry in general, CSFB and Morgan Stanley selected MCI Inc., BellSouth Corporation, Verizon Communications Inc. and SBC as comparable companies. The DCF analysis of AT&T indicated a valuation range for AT&T common stock of \$11.09 to \$15.13 as compared to AT&T's common stock price as of January 28, 2005 of \$19.71.

*SBC.* CSFB and Morgan Stanley also performed a DCF analysis with respect to SBC's estimated future cash flows based on certain publicly available research analyst estimates and projections concerning SBC for 2005 through 2007 and terminal values based on multiples of SBC's estimated last twelve months EBITDA for 2007 ranging from 5.5x to 6.5x. CSFB and Morgan Stanley discounted the unlevered free cash flows and estimated terminal value to a present value using discount rates ranging from 7.0% to 9.0%. CSFB and Morgan Stanley chose the discount rates utilized in this analysis based upon an analysis of the weighted average cost of capital of SBC and selected comparable companies. Based on their experience with respect to telecommunications companies and their knowledge of the telecommunications industry in general, CSFB and Morgan Stanley selected BellSouth Corporation and Verizon Communications Inc. as comparable companies. The DCF analysis of SBC indicated a valuation range for SBC common stock of \$22.27 to \$28.81 as compared to a closing price per share of SBC common stock on January 28, 2005 of \$23.62.

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

In addition, CSFB and Morgan Stanley performed a DCF analysis with respect to the estimated future cash flows of the combined company. This DCF analysis was based on cash flows for AT&T and SBC from 2005 through 2007, terminal value multiples of estimated last twelve months EBITDA for the pro forma combined company for 2007 ranging from 5.0x to 6.0x, discount rates ranging from 7.5% to 9.5% and estimates as to the cost savings and other potential synergies anticipated to result from the merger reviewed and discussed by the managements of AT&T and SBC. The terminal value multiples and discount rates for this analysis were selected based on a review of the multiples and rates used by CSFB and Morgan Stanley for SBC and AT&T and their relative sizes and business mix as parts of the combined company, CSFB and Morgan Stanley's experience with analyzing telecommunications companies and their knowledge of the telecommunications industry in general. This analysis indicated an implied value per share of AT&T common stock of \$16.76 to \$21.71, excluding anticipated synergies, and \$19.15 to \$24.63, including anticipated synergies.

***Contribution Analysis***

CSFB and Morgan Stanley compared the contribution of each of AT&T and SBC, respectively, to the pro forma combined company resulting from the merger based on 2005 financial forecasts for AT&T prepared by AT&T management and publicly available equity research estimates and projections (including adjustments thereto) for AT&T for 2006 through 2008 and certain publicly available equity research estimates and projections for SBC for 2005 through 2008. No cost savings programs or revenue enhancements were considered in this analysis. This analysis indicated an implied exchange ratio ranging from 0.866x, based on the lowest value obtained in the contribution analysis