

BELLSOUTH CORP
Form 11-K
June 12, 2002
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 11-K

Annual Report Pursuant to Section 15(d) of the
Securities Exchange Act of 1934

For the fiscal year ended December 31, 2001

or

Transition Report Pursuant to Section 15(d) of the
Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number
1-8607

BellSouth Retirement Savings Plan

BellSouth Corporation

1155 Peachtree Street, N.E.
Atlanta, Georgia 30309-3610

Table of Contents

BELLSOUTH RETIREMENT SAVINGS PLAN

Table of Contents

| | <u>Page</u> |
|--|-------------|
| <u>Report of Independent Accountants</u> | 2 |
| <u>Statement of Net Assets Available for Benefits, With Fund Information as of December 31, 2001</u> | 3 |
| <u>Statement of Net Assets Available for Benefits, With Fund Information as of December 31, 2000</u> | 5 |
| <u>Statement of Changes in Net Assets Available for Benefits, With Fund Information for the Year ended December 31, 2001</u> | 7 |
| <u>Statement of Changes in Net Assets Available for Benefits, With Fund Information for the Year ended December 31, 2000</u> | 9 |
| <u>Statement of Changes in Net Assets Available for Benefits, With Fund Information for the Year ended December 31, 1999</u> | 11 |
| <u>Notes to Financial Statements</u> | 13 |
| <u>Signature Page</u> | 25 |
| <u>Exhibit 23 - Consent of Independent Accountants</u> | 26 |

Table of Contents

REPORT OF INDEPENDENT ACCOUNTANTS

To the Participants and Plan Administrator of
the BellSouth Retirement Savings Plan:

In our opinion, the accompanying statements of net assets available for benefits and the related statements of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of the BellSouth Retirement Savings Plan (the Plan) at December 31, 2001 and 2000, and the changes in net assets available for benefits for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Fund Information in the statements of net assets available for benefits and the statements of changes in net assets available for benefits is presented for purposes of additional analysis rather than to present the net assets available for benefits and changes in net assets available for benefits of each fund. The Fund Information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ PricewaterhouseCoopers LLP
Atlanta, Georgia

June 10, 2002

Table of Contents

| BELLSOUTH RETIRE | | | | | | |
|--|-------------------------------------|-----------------------------------|-------------------------------------|--|---|--------------------------|
| STATEMENT OF NET ASSETS AVAILABLE | | | | | | |
| | | | | | | December |
| | | | | | | (In Tho |
| | BellSouth Stock Fund | Indexed Stock Fund | Interest Income Fund | Vanguard Growth Index-Institutional | Fidelity Growth & Income Portfolio | Balanced Fund |
| ASSETS | | | | | | |
| Share of Trust net assets | \$ 1,429,184 | \$ 892,264 | \$ 1,032,964 | \$ 196,806 | \$ 162,620 | \$ 98,608 |
| Investment in BellSouth Retirement Savings Employee Stock Ownership Plan Trust: | | | | | | |
| Shares of BellSouth common stock allocated to participants | | | | | | |
| Shares of BellSouth common stock held for future allocation | | | | | | |
| Temporary cash investments | | | | | | |
| Total Investments | 1,429,184 | 892,264 | 1,032,964 | 196,806 | 162,620 | 98,608 |
| Contributions receivable | 2,242 | 1,530 | 1,230 | 776 | 676 | 234 |
| Fund, BellSouth Savings and Security Plan and other transfers receivable net | | | 291 | | | 15 |
| Total Assets | 1,431,426 | 893,794 | 1,034,485 | 197,582 | 163,296 | 98,857 |
| LIABILITIES | | | | | | |
| Distributions payable | 556 | 280 | 727 | 80 | 38 | 6 |
| Fund, BellSouth Savings and Security Plan and other transfers payable net | 596 | 171 | | 771 | 5 | |
| Notes payable | | | | | | |
| Total Liabilities | 1,152 | 451 | 727 | 851 | 43 | 6 |
| Net Assets Available for Benefits | \$ 1,430,274 | \$ 893,343 | \$ 1,033,758 | \$ 196,731 | \$ 163,253 | \$ 98,851 |

The accompanying notes are an integ

Table of Contents

MENT SAVINGS PLAN

FOR BENEFITS, WITH FUND INFORMATION

31, 2001
usands)

| Bond Fund | T. Rowe Price Mid-Cap Growth | DFA U.S. Small Cap Value II Fund | Personal Choice Retirement Account | DFA International Value II Fund | DFA U.S. Large Cap Value II Fund | Participant Loans | Other | Employee Stock Ownership Plan | | Total |
|-----------|------------------------------|----------------------------------|------------------------------------|---------------------------------|----------------------------------|-------------------|-----------|-------------------------------|-------------|--------------|
| | | | | | | | | Allocated | Unallocated | |
| \$151,232 | \$ 150,034 | \$ 108,078 | \$ 84,053 | \$ 31,029 | \$ 48,197 | \$ 68,374 | \$ 20,589 | \$ | \$ | \$ 4,474,032 |
| | | | | | | | | 1,141,934 | | 1,141,934 |
| | | | | | | | | | 282,044 | 282,044 |
| | | | | | | | | 167 | 12,576 | 12,743 |
| 151,232 | 150,034 | 108,078 | 84,053 | 31,029 | 48,197 | 68,374 | 20,589 | 1,142,101 | 294,620 | 5,910,753 |
| 395 | 551 | 346 | | 106 | 267 | | | | | 8,353 |
| 276 | | 214 | 1,385 | 35 | 64 | 1,334 | | | | 3,614 |
| 151,903 | 150,585 | 108,638 | 85,438 | 31,170 | 48,528 | 69,708 | 20,589 | 1,142,101 | 294,620 | 5,922,720 |
| 71 | 49 | 36 | | 23 | 6 | 51 | | 440 | | 2,363 |
| | 151 | | | | | | 20,589 | | | 22,283 |
| | | | | | | | | | 146,763 | 146,763 |
| 71 | 200 | 36 | | 23 | 6 | 51 | 20,589 | 440 | 146,763 | 171,409 |
| \$151,832 | \$ 150,385 | \$ 108,602 | \$ 85,438 | \$ 31,147 | \$ 48,522 | \$ 69,657 | \$ | \$ 1,141,661 | \$ 147,857 | \$ 5,751,311 |

ral part of these financial statements.

Table of Contents

| BELLSOUTH RETIRE | | | | | | |
|--|---------------------|---------------------|-------------------|----------------------|---------------------|-------------------|
| STATEMENT OF NET ASSETS AVAILABLE | | | | | | |
| | | | | | | December |
| | | | | | | (In Tho |
| | BellSouth | Indexed | Interest | Vanguard | Fidelity | Balanced |
| | Stock | Stock | Income | Growth | Growth | Fund |
| | Fund | Fund | Fund | Index- | & Income | Fund |
| | Fund | Fund | Fund | Institutional | Portfolio | Fund |
| ASSETS | | | | | | |
| Share of Trust net assets | \$ 1,559,490 | \$ 1,102,940 | \$ 940,836 | \$ 260,329 | \$ 180,106 | \$ 104,327 |
| Investment in BellSouth Retirement Savings Employee Stock Ownership Plan Trust: | | | | | | |
| Shares of BellSouth common stock allocated to participants | | | | | | |
| Shares of BellSouth common stock held for future allocation | | | | | | |
| Temporary cash investments | | | | | | |
| Total Investments | 1,559,490 | 1,102,940 | 940,836 | 260,329 | 180,106 | 104,327 |
| Contributions receivable | 1,818 | 1,420 | 822 | 838 | 568 | 403 |
| Fund, BellSouth Savings and Security Plan and other transfers receivable net | | | 1,993 | | | 6 |
| Total Assets | 1,561,308 | 1,104,360 | 943,651 | 261,167 | 180,674 | 104,736 |
| LIABILITIES | | | | | | |
| Distributions payable | 1,353 | 1,135 | 1,109 | 35 | 17 | 106 |
| Fund, BellSouth Savings and Security Plan and other transfers payable net | 474 | 422 | | 764 | 72 | |
| Notes payable | | | | | | |
| Total Liabilities | 1,827 | 1,557 | 1,109 | 799 | 89 | 106 |
| Net Assets Available for Benefits | \$ 1,559,481 | \$ 1,102,803 | \$ 942,542 | \$ 260,368 | \$ 180,585 | \$ 104,630 |

The accompanying notes are an integ

Table of Contents

MENT SAVINGS PLAN

FOR BENEFITS, WITH FUND INFORMATION

31, 2000
usands)

| Bond Fund | T. Rowe Price Mid-Cap Growth | DFA U.S. Small Cap Value II Fund | Personal Choice Retirement Account | DFA International Value II Fund | DFA U.S. Large Cap Value II Fund | Participant Loans | Other | Employee Stock Ownership Plan | | Total |
|------------|------------------------------|----------------------------------|------------------------------------|---------------------------------|----------------------------------|-------------------|-----------|-------------------------------|-------------|--------------|
| | | | | | | | | Allocated | Unallocated | |
| \$ 101,672 | \$ 156,369 | \$ 70,023 | \$ 99,053 | \$ 38,750 | \$ 28,632 | \$ 68,799 | \$ 14,862 | \$ | \$ | \$ 4,726,188 |
| | | | | | | | | 1,155,338 | | 1,155,338 |
| | | | | | | | | | 446,931 | 446,931 |
| | | | | | | | | 536 | 13,420 | 13,956 |
| 101,672 | 156,369 | 70,023 | 99,053 | 38,750 | 28,632 | 68,799 | 14,862 | 1,155,874 | 460,351 | 6,342,413 |
| 124 | 489 | 165 | | 98 | 127 | | | | | 6,872 |
| | | 22 | 539 | | 5 | 1,461 | | 3,484 | | 7,510 |
| 101,796 | 156,858 | 70,210 | 99,592 | 38,848 | 28,764 | 70,260 | 14,862 | 1,159,358 | 460,351 | 6,356,795 |
| | | | | | | | | | | |
| 38 | 36 | 22 | | | 13 | 51 | | 353 | | 4,268 |
| 9 | 39 | | | 85 | | | 14,862 | | | 16,727 |
| | | | | | | | | | 208,784 | 208,784 |
| 47 | 75 | 22 | | 85 | 13 | 51 | 14,862 | 353 | 208,784 | 229,779 |
| \$ 101,749 | \$ 156,783 | \$ 70,188 | \$ 99,592 | \$ 38,763 | \$ 28,751 | \$ 70,209 | \$ | \$ 1,159,005 | \$ 251,567 | \$ 6,127,016 |

ral part of these financial statements.

Table of Contents

| BELLSOUTH RETIRE | | | | | | | |
|---|-------------------------------------|-----------------------------------|-------------------------------------|---|---|--------------------------|----------------------|
| STATEMENT OF CHANGES | | | | | | | |
| FOR BENEFITS, WITH | | | | | | | |
| Year Ended Dec | | | | | | | |
| (In Tho | | | | | | | |
| | BellSouth Stock Fund | Indexed Stock Fund | Interest Income Fund | Vanguard Growth Index- Institutional | Fidelity Growth & Income Portfolio | Balanced Fund | Bond Fund |
| Net Assets Available for Benefits, December 31, 2000 | \$ 1,559,481 | \$ 1,102,803 | \$ 942,542 | \$ 260,368 | \$ 180,585 | \$ 104,630 | \$ 101,749 |
| Employee contributions | 47,606 | 41,245 | 45,634 | 22,396 | 16,720 | 6,266 | 8,426 |
| Transfer of participants balances net | (4,564) | (57,669) | 81,850 | (38,839) | (4,400) | (1,877) | 41,477 |
| Supplemental contributions | | | | | | | |
| Allocation of shares to participants | | | | | | | |
| Transfer for loan repayment | | | | | | | |
| Total Contributions, Allocations and Transfers | 43,042 | (16,424) | 127,484 | (16,443) | 12,320 | 4,389 | 49,903 |
| Share of Trust investment activities | (68,158) | (127,636) | 58,208 | (32,864) | (17,319) | (2,922) | 10,254 |
| Total | (25,116) | (144,060) | 185,692 | (49,307) | (4,999) | 1,467 | 60,157 |
| Less: Distributions to participants | 104,091 | 65,400 | 94,476 | 14,330 | 12,333 | 7,246 | 10,074 |
| Interest on notes payable | | | | | | | |
| Net Assets Available for Benefits, December 31, 2001 | \$ 1,430,274 | \$ 893,343 | \$ 1,033,758 | \$ 196,731 | \$ 163,253 | \$ 98,851 | \$ 151,832 |

The accompanying notes are an integ

Table of Contents**MENT SAVINGS PLAN****IN NET ASSETS AVAILABLE
FUND INFORMATION**December 31, 2001
(in thousands)

| T. Rowe Price Mid-Cap Growth | DFA U.S. Small Cap Value II Fund | Personal Choice Retirement Account | DFA International Value II Fund | DFA U.S. Large Cap Value II Fund | Participant Loans | Other | Employee Stock Ownership Plan | | Total |
|---------------------------------------|---|---|--|---|----------------------|-------|----------------------------------|---------------------|--------------|
| | | | | | | | Allocated | Unallocated | |
| \$ 156,783 | \$ 70,188 | \$ 99,592 | \$ 38,763 | \$ 28,751 | \$ 70,209 | \$ | \$ 1,159,005 | \$ 251,567 | \$ 6,127,016 |
| 14,630 | 6,693 | | 3,223 | 4,619 | | | | | 217,458 |
| (8,354) | 22,182 | 10,922 | (2,109) | 17,234 | (123) | 358 | (22,208) | | 33,880 |
| | | | | | | | | 53,375 | 53,375 |
| | | | | | | | 140,704 (18,106) | (140,704) 18,106 | |
| 6,276 | 28,875 | 10,922 | 1,114 | 21,853 | (123) | 358 | 100,390 | (69,223) | 304,713 |
| (2,233) | 16,159 | (25,076) | (5,604) | 712 | 5,696 | (358) | (58,767) | (16,831) | (266,739) |
| 4,043 | 45,034 | (14,154) | (4,490) | 22,565 | 5,573 | | 41,623 | (86,054) | 37,974 |
| 10,441 | 6,620 | | 3,126 | 2,794 | 6,125 | | 58,967 | | 396,023 |
| | | | | | | | | 17,656 | 17,656 |
| \$ 150,385 | \$ 108,602 | \$ 85,438 | \$ 31,147 | \$ 48,522 | \$ 69,657 | \$ | \$ 1,141,661 | \$ 147,857 | \$ 5,751,311 |

ral part of these financial statements.

Table of Contents

| | BELLSOUTH RETIRE | | | | | | |
|---|-----------------------------|----------------|-----------------|----------------------|---------------------|-----------------|-------------|
| | STATEMENT OF CHANGES | | | | | | |
| | FOR BENEFITS, WITH | | | | | | |
| | Year Ended Dec | | | | | | |
| | (In Tho | | | | | | |
| | BellSouth | Indexed | Interest | Vanguard | Fidelity | Balanced | Bond |
| | Stock | Stock | Income | Growth | Growth | Fund | Fund |
| | Fund | Fund | Fund | Index- | & Income | Fund | Fund |
| | Fund | Fund | Fund | Institutional | Portfolio | Fund | Fund |
| Net Assets Available for Benefits, December 31, 1999 | \$ 2,044,151 | \$ 1,250,563 | \$ 942,677 | \$ 251,465 | \$ 191,741 | \$ 113,420 | \$ 97,592 |
| Employee contributions | 55,561 | 46,626 | 42,046 | 25,372 | 16,772 | 7,615 | 3,807 |
| Transfer of participants' balances net | (235,693) | 9,117 | 45,389 | 78,930 | (6,633) | (11,252) | (1,392) |
| Supplemental contributions | | | | | | | |
| Allocation of shares to participants | | | | | | | |
| Transfer for loan repayment | | | | | | | |
| Total Contributions, Allocations and Transfers | (180,132) | 55,743 | 87,435 | 104,302 | 10,139 | (3,637) | 2,415 |
| Share of Trust investment activities | (140,385) | (104,914) | 49,094 | (69,159) | (4,001) | 3,528 | 9,535 |
| Total | (320,517) | (49,171) | 136,529 | 35,143 | 6,138 | (109) | 11,950 |
| Less: Distributions to participants | 164,153 | 98,589 | 136,664 | 26,240 | 17,294 | 8,681 | 7,793 |
| Interest on notes payable | | | | | | | |
| Net Assets Available for Benefits, December 31, 2000 | \$ 1,559,481 | \$ 1,102,803 | \$ 942,542 | \$ 260,368 | \$ 180,585 | \$ 104,630 | \$ 101,749 |

The accompanying notes are an integ

Table of Contents**MENT SAVINGS PLAN****IN NET ASSETS AVAILABLE
FUND INFORMATION**December 31, 2000
(in thousands)

| T. Rowe Price Mid-Cap Growth | DFA U.S. Small Cap Value II Fund | Personal Choice Retirement Account | DFA International Value II Fund | DFA U.S. Large Cap Value II Fund | Participant Loans | Other | Employee Stock Ownership Plan | | Total |
|---------------------------------------|---|---|--|---|----------------------|---------|----------------------------------|-------------|--------------|
| | | | | | | | Allocated | Unallocated | |
| \$ 78,855 | \$ 63,454 | \$ 43,826 | \$ 40,230 | \$ 28,361 | \$ 67,353 | \$ | \$ 1,290,526 | \$ 393,395 | \$ 6,897,609 |
| | | | | | | | | | |
| 12,930 | 5,438 | | 4,010 | 2,628 | | | | | 222,805 |
| 70,249 | 1,315 | 102,103 | (1,834) | (2,074) | (12,206) | (1,224) | (27,913) | | 6,882 |
| | | | | | | | | 50,636 | 50,636 |
| | | | | | | | 100,059 | (100,059) | |
| | | | | | | | (16,723) | 16,723 | |
| 83,179 | 6,753 | 102,103 | 2,176 | 554 | (12,206) | (1,224) | 55,423 | (32,700) | 280,323 |
| 7,289 | 5,928 | (46,304) | (178) | 2,312 | 17,361 | 1,224 | (114,698) | (86,261) | (469,629) |
| 90,468 | 12,681 | 55,799 | 1,998 | 2,866 | 5,155 | | (59,275) | (118,961) | (189,306) |
| | | | | | | | | | |
| 12,540 | 5,947 | 33 | 3,465 | 2,476 | 2,299 | | 72,246 | | 558,420 |
| | | | | | | | | 22,867 | 22,867 |
| \$ 156,783 | \$ 70,188 | \$ 99,592 | \$ 38,763 | \$ 28,751 | \$ 70,209 | \$ | \$ 1,159,005 | \$ 251,567 | \$ 6,127,016 |

ral part of these financial statements.

Table of Contents

| BELLSOUTH RETIRE | | | | | | | |
|---|-------------------------------------|-----------------------------------|-------------------------------------|---|---|--------------------------|----------------------|
| STATEMENT OF CHANGES | | | | | | | |
| FOR BENEFITS, WITH | | | | | | | |
| Year Ended Dec | | | | | | | |
| (In Tho | | | | | | | |
| | BellSouth Stock Fund | Indexed Stock Fund | Interest Income Fund | Vanguard Growth Index- Institutional | Fidelity Growth & Income Portfolio | Balanced Fund | Bond Fund |
| Net Assets Available for Benefits, December 31, 1998 | \$ 2,251,426 | \$ 1,104,970 | \$ 910,241 | \$ 129,374 | \$ 180,281 | \$ 114,206 | \$ 119,840 |
| Employee contributions | 59,895 | 46,729 | 31,079 | 17,866 | 16,939 | 7,306 | 4,558 |
| Transfer of participants balances net | (30,420) | (52,577) | 74,445 | 69,439 | (14,643) | (9,183) | (18,483) |
| Supplemental contributions | | | | | | | |
| Allocation of shares to participants | | | | | | | |
| Transfer for loan repayment | | | | | | | |
| Total Contributions, Allocations and Transfers | 29,475 | (5,848) | 105,524 | 87,305 | 2,296 | (1,877) | (13,925) |
| Share of Trust investment activities | (88,643) | 221,237 | 52,988 | 48,269 | 18,251 | 8,543 | (2,110) |
| Total | (59,168) | 215,389 | 158,512 | 135,574 | 20,547 | 6,666 | (16,035) |
| Less: Distributions to participants | 148,107 | 69,796 | 126,076 | 13,483 | 9,087 | 7,452 | 6,213 |
| Interest on notes payable | | | | | | | |
| Net Assets Available for Benefits, December 31, 1999 | \$ 2,044,151 | \$ 1,250,563 | \$ 942,677 | \$ 251,465 | \$ 191,741 | \$ 113,420 | \$ 97,592 |

The accompanying notes are an integ

Table of Contents**IN NET ASSETS AVAILABLE
FUND INFORMATION**

December 31, 1999
(in thousands)

| T. Rowe Price Mid-Cap Growth | DFA U.S. Small Cap Value II Fund | Personal Choice Retirement Account | DFA International Value II Fund | DFA U.S. Large Cap Value II Fund | Participant Loans | Other | Employee Stock Ownership Plan | | Total |
|---------------------------------------|---|---|--|---|----------------------|-------|----------------------------------|-------------|--------------|
| | | | | | | | Allocated | Unallocated | |
| \$ 57,278 | \$ 68,227 | \$ | \$ 32,888 | \$ 30,731 | \$ 59,546 | \$ | \$ 1,262,543 | \$ 549,469 | \$ 6,871,020 |
| 6,967 | 5,617 | | 3,055 | 2,951 | | | | | 202,962 |
| 3,624 | (14,894) | 42,305 | (46) | (4,761) | 3,489 | (119) | (10,649) | | 37,527 |
| | | | | | | | | 48,889 | 48,889 |
| | | | | | | | 130,890 | (130,890) | |
| | | | | | | | (15,134) | 15,134 | |
| 10,591 | (9,277) | 42,305 | 3,009 | (1,810) | 3,489 | (119) | 105,107 | (66,867) | 289,378 |
| 13,898 | 7,210 | 1,521 | 5,516 | 1,030 | 7,007 | 119 | (36,417) | (61,709) | 196,710 |
| 24,489 | (2,067) | 43,826 | 8,525 | (780) | 10,496 | | 68,690 | (128,576) | 486,088 |
| 2,912 | 2,706 | | 1,183 | 1,590 | 2,689 | | 40,707 | | 432,001 |
| | | | | | | | | 27,498 | 27,498 |
| \$ 78,855 | \$ 63,454 | \$ 43,826 | \$ 40,230 | \$ 28,361 | \$ 67,353 | \$ | \$ 1,290,526 | \$ 393,395 | \$ 6,897,609 |

ral part of these financial statements.

Table of Contents

BELLSOUTH RETIREMENT SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS

(Dollars in Thousands, Except Per-Participant Amounts)

1. Plan Description

General

The following description of the BellSouth Retirement Savings Plan (the Plan) provides only general information. For additional information, participants should refer to the Plan Prospectus/Summary Plan Description, as supplemented (SPD). A copy of the SPD can be obtained by calling the BellSouth Participant Service Center at 1-866-697-1006. In addition, copies of the Plan, trust agreement and other related documents which include details of the Plan can be obtained by writing to: Secretary, BellSouth Savings Plan Committee, Room 13C09, 1155 Peachtree Street, N.E., Atlanta, Georgia 30309-3610.

The Plan was established by BellSouth Corporation (BellSouth) to provide a convenient way for management employees to save for their retirement on a long-term basis and to acquire an ownership interest in BellSouth. The Plan consists of two parts: one is a profit sharing plan which includes a qualified cash or deferred arrangement and which is intended to qualify as such under Sections 401(a), 401(k) and 401(m) and related sections of the Internal Revenue Code of 1986, as amended (the Code); the second part is an Employee Stock Ownership Plan (ESOP) which is designed as a stock bonus plan to invest primarily in shares of BellSouth Common Stock and which is intended to qualify under Sections 401(a), 401(m) and 4975(e)(7) and related sections of the Code. All regular full-time and part-time employees of participating BellSouth companies who are not covered by a collective bargaining agreement, have attained the age of 18, and have completed at least one month of service are eligible to participate. The Plan is subject to the Employee Retirement Income Security Act of 1974, as amended.

Master Trust

For investment purposes, the assets of the Plan are held in the BellSouth Master Savings Trust (the Master Savings Trust). The Master Savings Trust also holds the assets of the BellSouth Savings and Security Plan (SSP).

Investment Options

At December 31, 2001, the Plan's assets were comprised of the following investment vehicles: BellSouth Stock Fund, Indexed Stock Fund, Interest Income Fund, Bond Fund, Balanced Fund, Personal Choice Retirement Account and the following mutual funds: Fidelity Growth & Income Portfolio, Vanguard Growth Index-Institutional, DFA U.S. Small Cap Value II Fund, T. Rowe Price Mid-Cap Growth, DFA U.S. Large Cap Value II Fund and DFA International Value II Fund. All investments are valued on a daily basis.

The Personal Choice Retirement Account, or PCRA, was added as an investment option in 1999. Unlike the other funds offered by the Plan, the PCRA is an individual brokerage account in which participants act as their own investment advisor and may choose from a broad range of investment options. The investment options include no-load and load mutual funds, most stocks listed on many U.S. securities exchanges, bonds and other fixed-income investments. Participants open a PCRA through transfer of existing balances from the core funds and are assessed additional fees and commissions which are discussed in Note 4. There were 1,399 and 1,346 participants invested in the PCRA at December 31, 2001 and 2000, respectively.

Funds within the PCRA cannot be accessed directly for loans, withdrawals or distributions. Participants who want a loan, withdrawal or distribution to include amounts held in the PCRA must first transfer the desired amount from the PCRA to another fund in the Plan for a minimum of one day.

Table of Contents

BELLSOUTH RETIREMENT SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS (Continued)

(Dollars in Thousands, Except Per-Participant Amounts)

1. Plan Description (continued)

Concentrations of Risk

At December 31, 2001 and 2000, the Plan's assets were significantly concentrated in shares of BellSouth Common Stock, the value of which is subject to fluctuations related to corporate, industry and economic factors.

The Plan's other investment options include a variety of stocks, bonds, fixed income securities, mutual funds and other investment securities. Investment securities subject participants to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the Statements of Net Assets Available for Benefits, With Fund Information.

Vesting

All participant and employing company contributions vest immediately.

Participant Loans (Whole Dollars)

Participants may borrow from their fund accounts a minimum of \$1,000 up to the lesser of \$50,000 minus the highest outstanding loan principal balance over the previous twelve months or 50 percent of their before-tax account balances as defined by the Plan document and any amounts rolled over to the Plan from other qualified plans. Loan balances are secured by the assets allocated to the participant's accounts and bear interest at various rates which ranged from 5.75% to 11.5% at December 31, 2001. Principal and interest are paid ratably through periodic payroll deductions for active employees and by coupon for nonactive employees. As discussed earlier, amounts held in a PCRA are not directly available for loans.

Service Providers

As of May 1, 1999, State Street Bank & Trust Company serves as the Trustee for the Master Savings Trust. Prior to May 1, 1999, Bankers Trust Company served as the Trustee for the Master Savings Trust. Metropolitan Life Insurance Company serves as the recordkeeper and service center provider for the Plan. Charles Schwab & Co. Inc. provides brokerage services for the PCRA.

2. Accounting Policies

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

With respect to the Statements of Net Assets Available for Benefits, With Fund Information for the years presented, allocated Share of Trust Net Assets includes investments at fair value, accrued interest income, accrued dividends, receivables for investments sold, payables for investments purchased and accrued administrative expenses of the Master Savings Trust.

With respect to the Statements of Changes in Net Assets Available for Benefits, With Fund Information for the years presented, allocated Share of Trust Investment Activities includes the sum of realized gains, net of realized losses, the net change in unrealized appreciation/(depreciation) of the fair value of the investments, interest income, dividends, investment manager fees and other administrative fees paid by the Master Savings Trust.

Table of Contents

BELLSOUTH RETIREMENT SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS (Continued)

(Dollars in Thousands, Except Per-Participant Amounts)

2. Accounting Policies (continued)

The values of investments in the Master Savings Trust are determined as follows:

- Shares of BellSouth Common Stock and equity securities underlying the Indexed Stock Fund are valued on the basis of the closing price per share on December 31, 2001 and 2000 as reported on the New York Stock Exchange or, if no sales were made on that date, at the closing price on the next preceding day on which sales were made;
- The values of mutual funds, all of which are traded on a national securities exchange, are based on published daily closing net asset values as reported by the respective securities exchanges;
- Over-the-counter securities and government obligations are valued based on the bid prices on December 31, 2001 and 2000 from published sources where available and, if not available, from other sources considered reliable;
- Common trusts are valued at amounts determined from published reports of the funds;
- Securities in the PCRA are valued by methods which are consistent with the methods discussed above;
- Annuity contracts with insurance companies and synthetic contracts (derivatives) are fully benefit responsive and are valued at principal plus reinvested interest; and
- Future and forward contracts (derivatives) are carried at fair value and reflect the amount that the Master Savings Trust would receive or pay to terminate the contracts at the reporting date.

Purchases and sales of securities are reflected as of the trade date.

Realized gains and losses on sales of investments are determined on the basis of average cost.

Dividend income is recognized on the date the Master Savings Trust is entitled to the benefit. Interest earned on investments is recognized on the accrual basis.

Realized gains and losses as well as the current unrealized gains and losses of open derivative contracts are recorded currently to income.

3. Contributions

Employee contributions to the Plan are recorded based on Basic Contributions of up to 6% of eligible compensation and Supplemental Contributions of up to 9% of eligible compensation for those participants wishing to contribute additional amounts. Total contributions may not exceed 15% of eligible compensation. Contributions are designated by the participants as before-tax or after-tax, subject to certain IRS limitations.

Table of Contents**BELLSOUTH RETIREMENT SAVINGS PLAN****NOTES TO FINANCIAL STATEMENTS (Continued)****(Dollars in thousands, Except Per-Participant Amounts)****3. Contributions (continued)**

As discussed in Section 3 of the Plan document, participants may also rollover amounts into the Plan from other qualified plans.

Participants' Basic Contributions receive a matching contribution in BellSouth stock which is contributed to the ESOP Allocated Fund based on the following formula:

| <u>Contribution Type</u> | <u>%</u> | <u>Company Match</u> |
|--------------------------|----------|----------------------|
| Basic | 2 | 100% |
| Basic | 3-6 | Varies by Company |
| Supplemental | 7-15 | None |

The matching percentage is based on company financial performance and the performance of BellSouth stock. The match percentage remains in effect for a twelve-month period from April 1 through March 31. The range of match rates on Basic Contributions in excess of 2% for the three years ended December 31, 2001 were as follows:

| | <u>2001</u> | <u>2000</u> | <u>1999</u> |
|----------------|-------------|-------------|-------------|
| January-March | 100% | 25% - 100% | 25% - 100% |
| April-December | 85% - 100% | 100% | 25% - 100% |

4. Plan Expenses

Each participant in the Plan is charged a flat annual fee for Plan administrative expenses, including recordkeeping, trustee and other expenses considered reasonable by the Plan administrator. The fee is divided on a pro rata basis among each investment option of the participant. The per-participant fee was \$36.00 for 2001, \$35.25 for 2000 and \$33.00 for 1999. Additional fees are charged to individual participants for various services provided by the Plan's recordkeeper.

Participants who open a PCRA are charged a \$50 fee for the initial transfer into the PCRA and are charged an additional monthly fee of \$2.50 for each month that the participant maintains a PCRA balance.

Investment manager fees are paid by the Master Savings Trust. The Plan's share of investment manager fees included in allocated share of Trust investment activities in the Statements of Changes in Net Assets Available for Benefits, with Fund Information for the years presented, were as follows:

| | <u>For the Year Ended December 31,</u> | | |
|----------------------|--|-----------------|-----------------|
| | <u>2001</u> | <u>2000</u> | <u>1999</u> |
| BellSouth Stock Fund | \$ 305 | \$ 329 | \$ 278 |
| Indexed Stock Fund | 122 | (93) | 396 |
| Interest Income Fund | 437 | 405 | 417 |
| Balanced Fund | 196 | 119 | 133 |
| Bond Fund | 345 | 228 | 161 |
| Allocated ESOP | 198 | 179 | |
| | <u>\$ 1,603</u> | <u>\$ 1,167</u> | <u>\$ 1,385</u> |

Table of Contents**BELLSOUTH RETIREMENT SAVINGS PLAN****NOTES TO FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per-Participant Amounts)****4. Plan Expenses (continued)**

For the mutual funds, investment manager fees are not paid directly from the Master Savings Trust. However, these investments are subject to mutual fund management fees which reduce the overall return of the respective mutual fund. These fees, expressed as percentages of fund assets, which were assessed against the mutual funds by their respective managers, were as follows:

| | For the Year Ended December 31, | | |
|-------------------------------------|------------------------------------|-------|-------|
| | 2001 | 2000 | 1999 |
| Vanguard Growth Index-Institutional | 0.12% | 0.12% | 0.12% |
| Fidelity Growth & Income Portfolio | 0.66% | 0.67% | 0.68% |
| T. Rowe Price Mid-Cap Growth | 0.89% | 0.87% | 0.91% |
| DFA U.S. Small Cap Value II Fund | 0.41% | 0.44% | 0.44% |
| DFA International Value II Fund | 0.53% | 0.50% | 0.50% |
| DFA U.S. Large Cap Value II Fund | 0.31% | 0.37% | 0.37% |

5. Tax Status

The Internal Revenue Service has determined and informed BellSouth by a favorable determination letter dated April 14, 1998 that the Plan and related Trust meet the requirements of Section 401(a) of the Code and are exempt from federal income taxes under Section 501(a) of the Code.

The Plan was amended and restated effective July 1, 2001 to comply with the provisions of the GUST amendment to ERISA. The following acts are collectively referred to as the GUST amendment; the Retirement Protection Act of 1994, Uniformed Services Employment and Reemployment Rights Act of 1994, Small Business Job Protection Act of 1996, Taxpayer Relief Act of 1997, and the Internal Revenue Service Restructuring and Reform Act of 1998. Management has filed the amended Plan documents with the Department of Labor and Internal Revenue Service and believes that the Plan continues to be in compliance with the Internal Revenue Code and is not aware of any course of action or series of events that have occurred that might adversely affect the Plan's qualified status.

The federal income tax effects on participants with respect to the Plan are described in the SPD.

6. Termination Priorities

BellSouth intends to continue the Plan indefinitely but reserves the right to terminate or amend it. In the event the Plan is terminated and if BellSouth or its subsidiaries sponsor another defined contribution plan, the participants may elect to have their account balances transferred to the other plan. If BellSouth or its subsidiaries do not sponsor such a plan, the participants would receive a lump-sum distribution of their account balances.

Table of Contents**BELLSOUTH RETIREMENT SAVINGS PLAN****NOTES TO FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per-Participant Amounts)****7. Interest in BellSouth Master Savings Trust**

The assets of the Plan are held in the Master Savings Trust and are commingled with the assets of the SSP. The assets of the Master Savings Trust are allocated to the Plan based upon the total of each individual plan participant's share of the Master Savings Trust's assets. The Plan's allocated share of the total net assets of all funds in the Master Savings Trust was 69.62748% at December 31, 2001 and 68.19369% at December 31, 2000. The Plan's allocated share of the net assets of each fund in the Master Savings Trust at December 31, 2001 and 2000 were as follows:

| | <u>2001</u> | <u>2000</u> |
|-------------------------------------|-------------|-------------|
| BellSouth Stock Fund | 56.16645% | 54.09021% |
| Indexed Stock Fund | 87.34937% | 86.20217% |
| Interest Income Fund | 74.06593% | 73.76164% |
| Vanguard Growth Index-Institutional | 74.63545% | 72.77800% |
| Fidelity Growth & Income Portfolio | 74.83263% | 72.92631% |
| Balanced Fund | 81.79995% | 82.02028% |
| Bond Fund | 85.61237% | 92.17892% |
| T. Rowe Price Mid-Cap Growth | 76.10420% | 74.76342% |
| DFA U.S. Small Cap Value II Fund | 81.91562% | 84.22762% |
| Personal Choice Retirement Account | 100.0000% | 100.0000% |
| DFA International Value II Fund | 85.29036% | 86.39532% |
| DFA U.S. Large Cap Value II Fund | 74.65311% | 76.79393% |
| Participant Loans | 64.22065% | 63.24551% |
| Other | 74.61675% | 60.59535% |

Table of Contents**BELLSOUTH RETIREMENT SAVINGS PLAN****NOTES TO FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per-Participant Amounts)****7. Interest in BellSouth Master Savings Trust (continued)**

The financial position of the Master Savings Trust at December 31, 2001 and 2000 was as follows:

| | <u>2001</u> | <u>2000</u> |
|--------------------------------------|--------------|--------------|
| Assets: | | |
| Investments at value: | | |
| BellSouth Stock Fund: | | |
| Shares of BellSouth Common Stock# | \$ 2,529,043 | \$ 2,867,936 |
| Temporary cash investments | 11,323 | 15,254 |
| Distributable shares | 54 | 18 |
| Indexed Stock Fund: | | |
| Equity Index Fund# | 1,021,525 | 1,279,516 |
| Interest Income Fund: | | |
| General account investment contracts | 33,422 | 74,600 |
| Security backed investments | 1,313,174 | 1,145,384 |
| Temporary cash investments | 41,780 | 48,616 |
| Vanguard Growth Index-Institutional: | | |
| Securities | 263,689 | 357,703 |
| Fidelity Growth & Income Portfolio: | | |
| Securities | 217,311 | 246,970 |
| Balanced Fund: | | |
| Securities | 108,688 | 114,758 |
| Temporary cash investments | 11,554 | 12,333 |
| Bond Fund: | | |
| Securities | 236,785 | 136,945 |
| Temporary cash investments | 20,791 | 4,954 |
| T. Rowe Price Mid-Cap Growth: | | |
| Securities | 197,142 | 209,152 |
| DFA U.S. Small Cap Value II Fund: | | |
| Securities | 131,938 | 83,136 |
| DFA International Value II Fund: | | |
| Securities | 36,381 | 44,852 |
| Personal Choice Retirement Account: | | |
| Securities | 40,849 | 51,004 |
| Mutual funds | 25,122 | 29,181 |
| Common trusts | 2,197 | 2,508 |
| Temporary cash investments | 15,885 | 16,360 |
| DFA U.S. Large Cap Value II Fund: | | |
| Securities | 64,562 | 37,284 |
| Participant Loans: | | |
| Loans to participants | 106,468 | 108,781 |
| Contribution Account : | | |
| BellSouth Common Shares | 4,830 | 5,086 |
| Temporary cash investments | 2,886 | 1,346 |
| Distribution Account : | | |
| Temporary cash investments | 19,837 | 17,958 |

(Continued)

Table of Contents**BELLSOUTH RETIREMENT SAVINGS PLAN****NOTES TO FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per-Participant Amounts)****7. Interest in BellSouth Master Savings Trust (continued)**

| | <u>2001</u> | <u>2000</u> |
|--|---------------------|---------------------|
| Expense Account : | | |
| Temporary cash investments | 762 | 2,540 |
| Dividends and interest income receivable | 8,682 | 9,029 |
| Receivable for investments sold | 4,260 | 474 |
| Other receivables | | 76 |
| Variation margin receivable | 318 | |
| | <u>6,471,258</u> | <u>6,923,754</u> |
| Liabilities: | | |
| Payable for investments purchased | 81,991 | 36,300 |
| Variation margin payable | | 42 |
| Other payables | 2,264 | 392 |
| | <u>6,387,003</u> | <u>6,887,020</u> |
| Trust net assets (excluding ESOP Trusts) | | |
| Investment in ESOP Trusts: | | |
| Shares of BellSouth Common Stock allocated to participants# | 1,953,046 | 2,034,525 |
| Distributable shares | 22 | 5 |
| Shares of BellSouth Common Stock held for future allocation# | 418,893 | 661,301 |
| Temporary cash investments | 20,351 | 21,672 |
| | <u>8,779,315</u> | <u>9,604,523</u> |
| Total investments | | |
| Liabilities: | | |
| Notes payable | 212,831 | 306,959 |
| | <u>\$ 8,566,484</u> | <u>\$ 9,297,564</u> |
| Trust net assets | | |
| Investments at cost | <u>\$ 7,366,744</u> | <u>\$ 7,371,056</u> |

Represents an individual investment which is 5% or more of the Net Assets of the Master Savings Trust. These accounts are combined and presented as the Other fund in the accompanying financial statements.

The Master Savings Trust is party to derivative financial instruments for purposes other than trading. The most significant of the derivatives, guaranteed investment contracts (GICs) including synthetics, are used to offer a fixed interest rate of return over time, in which the principal and interest components can be accessed at book value. Synthetic GICs are actively managed, collateralized portfolios which offer increased credit quality over traditional GICs. Other derivative instruments, consisting of highly liquid exchange traded equity and debt futures are used primarily to rebalance the fixed income/equity allocation of the Trust's portfolio. In addition, mortgage rolls (forward contracts) are used in combination with actively managed cash equivalents to provide enhanced yield from mortgage sector bonds.

Table of Contents

BELLSOUTH RETIREMENT SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS (Continued)

(Dollars in Thousands, Except Per-Participant Amounts)

7. Interest in BellSouth Master Savings Trust (continued)

Distributions from the BellSouth Stock Fund and the BellSouth Management Savings and ESOP Trust and the BellSouth Savings and Security ESOP Trust (the ESOP Trusts) that are payable in shares of BellSouth Common Stock are separated from the Shares of BellSouth Common Stock and Shares of BellSouth Common Stock allocated to participants lines and reflected as Distributable Shares.

Assets in the BellSouth Stock Fund, Bond Fund, Indexed Stock Fund, mutual funds and some of the assets in the Balanced Fund and the PCRA Fund are invested in securities which fluctuate in market value, therefore the values of the fund units fluctuate daily.

Assets in the Interest Income Fund are invested in the following types of financial vehicles:

- *Cash and Cash Equivalents* These are short-term money market investments, maturing in less than twelve months, that are necessary to meet daily liquidity needs.
- *General Account Investment Contracts* These contracts are also referred to as traditional investment contracts. An investment contract is termed general account when the assets committed to the contract are commingled with other general assets of the contract issuer. The contract issuer promises to return the invested principal plus a stated rate of interest upon maturity. The quality of the promise is a function of the financial condition of the contract issuer.
- *Security Backed Investments* These are generic terms which refer to investment contracts other than traditional general account investment contracts as defined above. These investments consist of a combination of marketable securities, owned directly by the Plan or as units of a separate account or trust owned by the Plan, and an investment contract that provides liquidity for eligible employee benefits at book value.

Group Trust Investment Contracts Group Trust refers to the INVESCO Group Trust for Retirement Benefit Plans. The INVESCO Group Trust contains a series of commingled investment funds, available only to INVESCO clients, constructed to provide a stable value portfolio with the beneficial elements of various fixed income management strategies. The Plan's investment in any one of the various INVESCO Group Trust Funds is unitized and may be wrapped by an independent financial institution through the issuance of an investment contract.

Separate Account Investment Contracts An investment contract is termed separate account when the assets committed to the contract are segregated from the general assets of the contract issuer through the use of a specifically identifiable separate account. The separate account may be comprised of investments from one Plan or Trust, or comprised of investments from multiple qualified retirement Plans and Trusts. Though ownership of the assets held in a separate account is retained by the contract issuer, the assets are protected from liabilities arising from the contract issuers general operations. The investment performance of a separate account investment contract may be a function of the investment performance of the investments held in the separate account.

Synthetic Investment Contract The term synthetic investment contract is used to describe a variety of investment contracts under which a Plan retains ownership of the invested assets, or owns units of an account or trust which holds the invested assets. A synthetic investment contract, also referred to as a wrap contract, is negotiated with an independent financial institution. Under the terms of these investment contracts, the contract issuer ensures the Plan's ability to pay eligible employee benefits at book value. The investment performance of a synthetic investment contract may be a function of the investment performance of the invested assets.

Table of Contents**BELLSOUTH RETIREMENT SAVINGS PLAN****NOTES TO FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per-Participant Amounts)****7. Interest in BellSouth Master Savings Trust (continued)**

The value of the Interest Income Fund reflected in these financial statements is based upon the principal invested and the interest credited. The fair value of the Interest Income Fund, by investment type, at December 31, 2001 and 2000 was as follows:

| | December 31, 2001 | December 31, 2000 |
|--------------------------------------|------------------------------|------------------------------|
| General account investment contracts | \$ 33,422 | \$ 74,600 |
| Security backed investments: | | |
| Underlying assets | 1,358,287 | 1,171,635 |
| Wrapper contracts | (45,113) | (26,251) |
| Total contracts | \$ 1,346,596 | \$ 1,219,984 |

The contracts held by the Master Savings Trust in the Interest Income Fund are considered fully benefit-responsive in accordance with AICPA Statement of Position 94-4. The crediting interest rate was 5.77% at December 31, 2001 and 6.60% at December 31, 2000. The average yield was 6.24% in 2001 and 6.51% in 2000. Interest rates are reset on a semi-annual, quarterly or monthly basis to move the current book value of these investments toward the projected future market value over the life of the contract.

During 1990, the ESOP Trusts issued medium-term notes in the aggregate amount of \$850 million to fund the purchase of BellSouth Common Stock to be utilized at later dates to fulfill match obligations. Shares purchased with such funds are released for allocation to participant accounts based on a prescribed schedule coinciding with payments on the ESOP notes.

Assets held in the Master Savings Trust are generally unavailable to service the ESOP debt; however, the notes are guaranteed by and are subject to direct recourse against BellSouth. BellSouth contributes to the ESOP Trusts an amount necessary, net of ESOP dividends and interest, to service the ESOP notes. Such contributions are classified as Supplemental Contributions in the accompanying Statements of Changes in Net Assets Available for Benefits, With Fund Information. These contributions are subject to the claims of holders of debt securities issued by the ESOP Trusts but are held at BellSouth and paid to the ESOP Trusts twice yearly to fund, on a same day basis, required payments by the ESOP Trusts on the notes. Such contributions would not remain in the ESOP Trusts unless there was a default on the debt securities by the ESOP Trustee after having received the required contributions from BellSouth. Therefore, holders of the debt securities should not rely on the assets of the ESOP Trusts in arriving at an investment decision with respect to the debt securities.

In addition to Supplemental Contributions, BellSouth contributes amounts necessary to purchase any additional shares required to meet the match obligations after shares released by the ESOP Trusts have been used. Such contributions are classified as Employing Company Contributions in the accompanying Statements of Changes in Net Assets Available for Benefits, With Fund Information.

In lieu of receiving cash dividends earned on shares of BellSouth Common Stock which have been allocated to participants from the ESOP Trusts, participant accounts are credited with equivalent shares of BellSouth Common Stock. Dividends on the related ESOP shares are transferred to the Unallocated ESOP Fund and are applied towards the service of the ESOP notes. The transfer of these earnings is classified as Transfer for Loan Repayment in the accompanying Statements of Changes in Net Assets Available for Benefits, With Fund Information.

Table of Contents**BELLSOUTH RETIREMENT SAVINGS PLAN****NOTES TO FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per-Participant Amounts)****7. Interest in BellSouth Master Savings Trust (continued)**

BellSouth made supplemental cash contributions to the ESOP Trusts in the amount of \$79,477 in 2001, \$75,497 in 2000, and \$73,389 in 1999 for the purpose of servicing the guaranteed debt.

A description of each debt issue is as follows:

BellSouth Management Savings and ESOP Trust:

| <u>Title</u> | <u>Amount</u> | <u>Interest Rate</u> | <u>Due Date</u> |
|--|-------------------|----------------------|-----------------|
| Amortizing Medium-Term Notes, Series A | \$ 275,000 | 9.125% | July 1, 2003 |
| Amortizing Medium-Term Notes, Series A | \$ 275,000 | 9.19% | July 1, 2003 |
| Total | \$ 550,000 | | |

BellSouth Savings and Security ESOP Trust:

| <u>Title</u> | <u>Amount</u> | <u>Interest Rate</u> | <u>Due Date</u> |
|--|---------------|----------------------|-----------------|
| Amortizing Medium-Term Notes, Series A | \$ 300,000 | 9.125% | July 1, 2003 |

Maturities of the ESOP Trusts long-term debt outstanding at December 31, 2001 were as follows:

| | <u>2002</u> | <u>2003</u> | <u>Total</u> |
|------------|-------------|-------------|--------------|
| Maturities | \$ 104,648 | \$ 108,183 | \$ 212,831 |

Investment activities of the Master Savings Trust are allocated to the Plan based upon the total of each individual Plan participant's share of the Master Savings Trust investment activities during the period ended December 31, 2001.

The Master Savings Trust investment activities for the years ended December 31, 2001, 2000, and 1999 were as follows:

| | <u>For the Year Ended December 31,</u> | | |
|--|--|-------------|-------------|
| | <u>2001</u> | <u>2000</u> | <u>1999</u> |
| Investment Activities: | | | |
| Dividends on shares of BellSouth Common Stock | \$ 100,945 | \$ 112,515 | \$ 119,742 |
| Interest Income Fund income | 80,222 | 70,326 | 71,112 |
| Other interest | 19,928 | 37,067 | 66,375 |
| Net change in unrealized appreciation/(depreciation) on investments | (802,173) | (1,575,258) | (1,264,789) |
| Net realized gain on investments | 227,660 | 589,455 | 1,084,574 |
| Investment manager fees | (2,245) | (1,741) | (1,880) |
| Other fees | (4,748) | (3,021) | (2,999) |

| | | | |
|---------------------------|--------------|--------------|-----------|
| Net investment activities | \$ (380,411) | \$ (770,657) | \$ 72,135 |
|---------------------------|--------------|--------------|-----------|

8. Subsequent Events

Effective January 1, 2002, the BellSouth Stock Fund was converted to an Employee Stock Ownership Plan Fund. This change will disallow transfers and contributions into the BellSouth Stock Fund during the three days prior to the ex-dividend date. In addition, participants invested in the BellSouth Stock Fund may elect to have their quarterly dividends either reinvested in the fund or passed-through and paid to them outside the Plan in cash as taxable ordinary income.

Table of Contents

BELLSOUTH RETIREMENT SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS (Continued)

(Dollars in Thousands, Except Per-Participant Amounts)

8. Subsequent Events (continued)

Effective February 1, 2002, participant balances for 13,383 employees that transferred to the Cingular Wireless joint venture were transferred out of the Plan. The total asset transfer was \$266,432.

Effective March 15, 2002, participants in the Plan are able to diversify their past and future company match, previously held in the Employee Stock Ownership Plan Fund.

Effective April 30, 2002, Fidelity Investments became the record keeper and service center for the Plan, replacing Metropolitan Life Insurance Company.

Effective May 1, 2002, Fidelity Investments' service, Brokeragelink, replaced the PCRA, provided by Charles Schwab & Co., Inc.

Also effective May 1, 2002, the BellSouth Employee Stock Ownership Plan (PAYSOP) merged with the BellSouth Savings Plans. Participant accounts have been moved to the BellSouth Retirement Savings Plan (for management employees) or to the BellSouth Savings and Security Plan (for non-management employees) where each participant's allocated shares have been placed in the BellSouth Stock Fund. The total asset transfer into the BellSouth Savings Plans was \$226,301.

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the BellSouth Retirement Savings Plan has duly caused this annual report to be signed by the undersigned thereunto duly authorized.

BellSouth Retirement Savings Plan
By: BellSouth Corporation, as Plan
Administrator

BY: /s/ SALEM C. SHUNNARAH

Salem C. Shunnarah
(Executive Director)

Date: June 12, 2002