

SBC COMMUNICATIONS INC

Form 424B3

May 23, 2005

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

May 20, 2005

Dear AT&T Shareholder:

It is a pleasure to invite you to AT&T's 2005 Annual Meeting of Shareholders, on Thursday, June 30, 2005, beginning at 9:30 a.m. local time, at the Colorado Convention Center in Denver, Colorado.

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

If the merger is completed, AT&T shareholders will receive 0.77942 of a share of SBC common stock for each share of AT&T common stock held immediately prior to the merger. In addition, AT&T will declare a special dividend of \$1.30 per share which it intends to pay, assuming the merger will be completed, on the closing date of the merger. Based on the closing price of \$23.62 per share of SBC common stock on the New York Stock Exchange on January 28, 2005, the last trading day before the public announcement of the merger, the 0.77942 exchange ratio, taken together with the \$1.30 special dividend, represented a total merger consideration of approximately \$19.71 per AT&T share. Based on the closing price of \$23.73 per share of SBC common stock on the NYSE on May 19, 2005, the latest practicable date before the printing of this document, the total merger consideration was valued at approximately \$19.80 per AT&T share. However, the value of the merger consideration that you will receive for each share of AT&T common stock will depend on the price per share of SBC common stock at the time of the merger. That price is impossible to know at this time, will not be known at the time of the meeting and may be less than the current price or the price at the time of the meeting. Based on the estimated number of shares of AT&T common stock outstanding on the record date for the meeting, SBC expects to issue approximately 624,705,130 shares of SBC common stock to AT&T shareholders in connection with the merger. Immediately after the merger, former AT&T shareholders are currently expected to own approximately 16% of the then-outstanding shares of SBC common stock (without giving effect to shares of SBC common stock held by AT&T shareholders prior to the merger).

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

The accompanying document provides a detailed description of the proposed merger and the merger consideration. In addition, it provides you with important information regarding the AT&T board of directors and its senior management and other proposals that require your vote, as well as information regarding AT&T's corporate governance practices. I urge you to read the enclosed materials carefully. **Please pay particular attention to the Risk Factors beginning on page 20 for a discussion of the risks related to the merger and owning SBC common stock after the merger.**

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

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

Sincerely,

David W. Dorman

Chairman of the Board and Chief Executive Officer

AT&T Corp.

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

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

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

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REFERENCE TO ADDITIONAL INFORMATION

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

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

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

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

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

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

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

ABOUT THIS DOCUMENT

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

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NOTICE OF ANNUAL MEETING

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

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

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

to elect nine directors;

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

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

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

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

May 20, 2005

YOU CAN VOTE IN ONE OF FOUR WAYS:

- (1) Use the toll-free telephone number on your proxy card to vote by phone;
 - (2) Visit the website noted on your proxy card to vote via the Internet;
 - (3) Sign, date and return your proxy card in the enclosed envelope to vote by mail; or
 - (4) Vote in person at the meeting.
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The following are some of the questions that you, as a shareholder of AT&T, may have and answers to those questions. These questions and answers, as well as the following summary, are not meant to be a substitute for the information contained in the remainder of this document, and this information is qualified in its entirety by the more detailed descriptions and explanations contained elsewhere in this document. We urge you to read this document in its entirety prior to making any decision as to your AT&T common stock.

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

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

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

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

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

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

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

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

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

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

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

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

A4: AT&T shareholders of record at the close of business on May 27, 2005, the record date for the AT&T annual meeting, are entitled to receive notice of and to vote on matters that come before the annual meeting and any adjournments or postponements of the annual meeting. However, an AT&T shareholder may only vote his or her shares if he or she is present in person or is represented by proxy at the AT&T annual meeting.

Q5: How do I vote?

A5: After carefully reading and considering the information contained in this document, please submit your proxy by telephone or Internet in accordance with the instructions set forth on the enclosed proxy card, or fill out, sign and date the proxy card, and then mail your signed proxy card in the enclosed envelope as soon as possible so that your shares may be voted at the annual meeting. For detailed information please see Information about the AT&T Meeting How do I vote? on page 95.

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Q6: How many votes do I have?

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

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

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

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

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

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

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

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

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

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

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

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

A9: The AT&T board of directors recommends a vote **FOR:**
adoption of the merger agreement;

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

the election of the nine nominees for director; and

the ratification of the appointment of the independent auditors.

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

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

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

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

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

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

submit another proxy with a later date;

vote again by telephone or the Internet; or

vote in person at the annual meeting.

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

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

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

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

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

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

Morrow & Co., Inc.

445 Park Avenue, 5th Floor

New York, New York 10022

(212) 754-8000

E-mail: att.info@morrowco.com

Telephone: 1-800-206-5881

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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 157. Unless we have stated otherwise, all references in this document to AT&T are to AT&T Corp., all references to SBC are to SBC Communications Inc., all references to Merger Sub are to Tau Merger Sub Corporation, and all references to the merger agreement are to the Agreement and Plan of Merger, dated as of January 30, 2005, among AT&T, SBC and Merger Sub, a copy of which is attached as Annex A to this document.*

The Companies (Page 76)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Opinions of AT&T's Financial Advisors (Page 40)

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

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

In the merger, all outstanding AT&T employee stock options under AT&T's stock-based benefit plans and agreements will be converted into options to acquire shares of SBC common stock, with the number of shares of SBC common stock subject to option and the exercise price of the options adjusted to give effect to

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

AT&T's Executive Officers and Directors Have Interests in the Merger that Differ from, or Are in Addition to, Your Interests in the Merger (Page 48)

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

Material United States Federal Income Tax Consequences (Page 53)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Accounting Treatment (Page 56)

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

Regulatory Matters Related to the Merger (Page 57)

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

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

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

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

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

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

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

We expect to complete the merger after we receive AT&T shareholder approval at the annual meeting scheduled to be held on June 30, 2005 and after we receive all required regulatory approvals. We currently expect to complete the merger in late 2005 or early 2006. However, it is possible that factors outside our control could require us to complete the merger at a later time or not to complete it at all. See *The Merger* Regulatory Matters Related to the Merger beginning on page 57.

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

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

The Merger Agreement (Page 59)

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

Acquisition Proposals (Page 67)

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

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

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

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

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

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

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

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

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

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

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

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

any applicable governmental approvals in the U.K., Germany, Japan and Canada, plus other 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 pro-vide a reasonable basis to conclude that AT&T, SBC or their respective directors or officers would be subject to the risk of criminal liability;

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

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

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

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

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

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

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

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

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

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

Specified representations and warranties of SBC and Merger Sub must be true and correct in all material respects (as of the date of the merger agreement and as of the closing date, except to the extent that they expressly speak as of an earlier date, in which case such representation and warranty must be true and correct as of such earlier

date) and the remainder must be true and correct (without giving effect to any materiality or material adverse effect qualifications) unless all the inaccuracies taken together would not have a material adverse effect on SBC;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Comparison of Stockholder Rights (Page 139)

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

incorporation and by-laws.

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

The statements of operations data for each of the three-month periods ended March 31, 2005 and 2004 and the balance sheet data as of March 31, 2005 have been derived from SBC's unaudited consolidated financial statements, which are incorporated into this document by reference.

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

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

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

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- (1) Certain amounts have been reclassified to conform to 2005 presentation.
- (2) Dividends declared by SBC's board of directors reflect the following: in 2003, includes three additional dividends totaling \$0.25 per share above SBC's regular quarterly dividend payout.
- (3) The computation of ratio of earnings to fixed charges is included as Exhibit 12 to the registration statement of which this document forms a part.
- (4) Debt ratio reflects debt as a percentage of total capital calculated as follows:

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

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

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, as amended, for the fiscal year ended December 31, 2004, which are incorporated into this document by reference. The results of operations data for the years ended December 31, 2001 and 2000 and the balance sheet data as of December 31, 2002, 2001 and 2000 have been derived from AT&T's audited consolidated financial statements for such years, which have not been incorporated into this document by reference.

The results of operations data for each of the three-month periods ended March 31, 2005 and 2004 and the balance sheet data as of March 31, 2005 and 2004 have been derived from AT&T's unaudited consolidated financial statements, which are incorporated into this document by reference.

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

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

BALANCE SHEET
DATA:

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

OTHER

INFORMATION:

Number of employees continuing operations(3)	n/a	n/a	47,600	61,600	71,000	77,700	84,800
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- (1) In connection with the March 9, 1999 merger with Tele-Communications, Inc., AT&T issued separate tracking stock for Liberty Media Group (LMG). LMG was accounted for as an equity investment prior to its split-off from AT&T on August 10, 2001. There were no dividends declared for LMG tracking stock. AT&T Common Stock Group results exclude LMG.

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

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

(3) Data provided excludes LMG.

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

The following table sets forth selected unaudited pro forma condensed combined financial data of SBC and AT&T as of and for the quarter ended March 31, 2005. The pro forma amounts in the table below are based upon the historical financial statements of SBC and AT&T adjusted to give effect to the merger. It has been assumed for purposes of the pro forma financial data provided below that the merger was completed on January 1, 2005 for income statement purposes, and on March 31, 2005 for balance sheet purposes. These pro forma amounts have been derived from (a) the unaudited consolidated financial statements of SBC contained in its Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, which are incorporated by reference in this document, and (b) the unaudited consolidated financial statements of AT&T contained in its Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, which are incorporated by reference in this document.

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

The pro forma financial data in the table below does not include the realization of cost savings from operating efficiencies, revenue synergies or restructuring costs resulting from the merger. You should read this information in conjunction with the separate historical consolidated financial statements and accompanying notes of SBC and AT&T that are incorporated by reference in this document and the Unaudited Pro Forma Condensed Combined Financial Information for the Quarter Ended March 31, 2005 beginning on page 78.

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

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

2005

(\$ in millions)

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

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

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

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

The pro forma financial data in the table below does not include the realization of cost savings from operating efficiencies, revenue synergies or restructuring costs resulting from the merger. You should read this information in conjunction with the separate historical consolidated financial statements and accompanying notes of SBC and AT&T that are incorporated by reference in this document and the Unaudited Pro Forma Condensed Combined Financial Information for the Year Ended December 31, 2004 beginning on page 85.

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

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

2004

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

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

The following table summarizes unaudited per share information for SBC and AT&T on a historical basis, a pro forma combined basis for SBC and an equivalent pro forma combined basis for AT&T. It has been assumed for purposes of the pro forma financial information provided below that the merger was completed on January 1, 2005 for income statement purposes, and on March 31, 2005 for balance sheet purposes. The following information should be read in conjunction with the unaudited consolidated financial statements of SBC and AT&T at and for the three-month period ended March 31, 2005, which are incorporated by reference into this document, and the Unaudited Pro Forma Condensed Combined Financial Information for the Quarter Ended March 31, 2005 beginning on page 78. The pro forma information below is presented for illustrative purposes only and is not necessarily indicative of the operating results or financial position that would have occurred if the merger had been completed as of the beginning of the period presented, nor is it necessarily indicative of the future operating results or financial position of the combined company. The historical book value per share is computed by dividing total stockholders' equity by the number of common shares outstanding at the end of the period. The pro forma net income per share of the combined company is computed by dividing the pro forma net income available to holders of the combined company's common stock by the pro forma weighted average number of shares outstanding. The pro forma combined book value per share is computed by dividing total pro forma stockholders' equity by the pro forma number of common shares outstanding at the end of the period. AT&T equivalent pro forma combined per share amounts are calculated by multiplying the pro forma combined per share amounts by 0.77942, the fraction of a share of SBC common stock that would be exchanged for each share of AT&T common stock in the merger.

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

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

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

The following table summarizes unaudited per share information for SBC and AT&T on a historical basis, a pro forma combined basis for SBC and an equivalent pro forma combined basis for AT&T. It has been assumed for purposes of the pro forma financial information provided below that the merger was completed on January 1, 2004 for income statement purposes, and on December 31, 2004 for balance sheet purposes. The following information should be read in conjunction with the audited consolidated financial statements of SBC and AT&T at and for the year ended December 31, 2004, which are incorporated by reference into this document, and the Unaudited Pro Forma Condensed Combined Financial Information for the Year Ended December 31, 2004 beginning on page 85. The pro forma information below is presented for illustrative purposes only and is not necessarily indicative of the operating results or financial position that would have occurred if the merger had been completed as of the beginning of the period presented, nor is it necessarily indicative of the future operating results or financial position of the combined company. The historical book value per share is computed by dividing total stockholders' equity by the number of common shares outstanding at the end of the period. The pro forma per share loss from continuing operations of the combined company is computed by dividing the pro forma loss from continuing operations available to holders of the combined company's common stock by the pro forma weighted average number of shares outstanding. The pro forma combined book value per share is computed by dividing total pro forma stockholders' equity by the pro forma number of common shares outstanding at the end of the period. AT&T equivalent pro forma combined per share amounts are calculated by multiplying the pro forma combined per share amounts by 0.77942, the fraction of a share of SBC common stock that would be exchanged for each share of AT&T common stock in the merger.

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

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

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 May 19, 2005, the latest practicable trading day before the date of this document. You should read the information presented below in conjunction with Comparative Per Share Market Price Data and Dividend Information on page 19.

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

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

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

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

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

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

Table of Contents**RISK FACTORS**

*In addition to the other information included or incorporated by reference into this document, including the matters addressed under the caption **Cautionary Statement Concerning Forward-Looking Statements** beginning on page 156, and including the matters addressed under the caption **Item 1. Business What Special Considerations Should Investors Consider?** in AT&T's Annual Report on Form 10-K for the year ended December 31, 2004, which is incorporated by reference into this document, you should carefully consider the matters described below in deciding whether to vote for adoption of the merger agreement.*

Risk Factors Relating to the Merger

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

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

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

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

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

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

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 48.

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

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

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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 34.

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

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

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

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

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

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

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

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

Rapid development in telecommunications technologies, such as wireless, cable and Voice over Internet Protocol (VoIP), has significantly increased competition in the telecommunications industry. As a result, SBC will compete with not only traditional rivals such as long distance carriers, but also new competitors such as cable companies and satellite companies. These competitors are typically subject to less or no regulation and therefore are able to offer services at lower cost. In addition, these competitors also have lower cost structures compared to SBC, due in part to the 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 March 31, 2005 was approximately \$27.1 billion. SBC's pro forma indebtedness as of March 31, 2005, giving effect to the merger (as described in Unaudited Pro Forma Condensed Combined Financial Information for the Quarter Ended March 31, 2005 on page 78), would have been approximately \$37.7 billion. As a result of the increase in debt, demands on SBC's cash resources will increase after the merger, which could have important effects on an investment in SBC common stock. For example, while the impact of this increased indebtedness will be addressed by the combined cash flows of SBC and AT&T, the increased levels of indebtedness could nonetheless:

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

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

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

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

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

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

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

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

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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.

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

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

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

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

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

Upon completion of the merger, holders of AT&T common stock will become holders of SBC common stock. SBC's business differs from that of AT&T and, accordingly, the results of operations of SBC, as well as the trading price of SBC common stock, after the merger may be affected by factors different from those currently affecting AT&T's results of operations and the price of AT&T common stock. For a discussion of the businesses of AT&T and SBC and of certain factors to consider in connection with those businesses, see the documents incorporated by reference in this document and referred to under "Where You Can Find More Information" beginning on page 157.

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

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

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

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

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

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

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

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

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

Table of Contents**THE MERGER****Background of the Merger**

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

On two separate occasions during 2004, in July and again briefly in November, members of AT&T's senior management and SBC's senior management held discussions concerning a possible combination between the two companies, but on neither occasion did the discussions progress beyond initial exchanges of information and a preliminary exchange of views on contractual issues. SBC indicated a potential willingness on both occasions, as a conceptual matter, to pay a modest premium for AT&T shares in connection with a transaction in which SBC common stock would be the consideration, but did not quantify the potential premium. A precise exchange ratio was never proposed or discussed. In each instance, SBC determined to terminate the discussions, and confidential documents that were shared by the parties were either returned or destroyed. In the first instance, SBC believed that there was too much uncertainty regarding the future regulation of the telecommunications industry given (1) the applications for certiorari then pending in the U.S. Supreme Court seeking review of the FCC's order in the 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.

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

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

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

During the week of January 24, 2005, AT&T entered into a new confidentiality agreement with SBC, and AT&T's management continued its discussions with SBC's management. AT&T's management provided SBC with further information with respect to AT&T and SBC's management provided AT&T with additional information about SBC. Meetings and exchanges of documents and other confidential information between the managements of both companies took place, and AT&T's attorneys continued to discuss and negotiate the draft merger agreement with SBC's attorneys. The parties had already agreed to the transaction structure in

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

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

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

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

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of \$20.20 per share based on the closing market price of SBC's shares on that day, representing approximately a 2.5% premium to the closing market price of \$19.71 per AT&T share. Mr. Whitacre responded that SBC's proposal on the exchange ratio was its final proposal.

Following these conversations, AT&T's senior management consulted with representatives of CSFB and Morgan Stanley, AT&T's financial advisors, on how to respond. Thereafter, AT&T's management told SBC's management that, if the merger agreement could be executed before the opening of the financial markets on Monday, January 31, 2005, AT&T's management would recommend to the AT&T board of directors that it approve a transaction with a value to AT&T's shareholders, based on the January 28, 2005 closing market prices for the two companies' shares, equal to AT&T's \$19.71 per share closing market price on that day. SBC's management said that it would agree, if \$0.10 per share of that value could be shifted from the SBC stock consideration to the special dividend to be paid by AT&T (i.e., increasing the special dividend to \$1.30 per share and adjusting the exchange ratio to 0.77942 to produce a total value, based on the January 28, 2005 closing market prices, of \$19.71 per AT&T share). Following further discussions, the managements of the two companies agreed to recommend the transaction to their respective boards of directors with an exchange ratio of 0.77942 of an SBC share for each AT&T share and a special cash dividend of \$1.30 per AT&T share. While this represented a value of \$19.71 per AT&T share based on the closing market price of SBC's shares on January 28, 2005, it represented a value of approximately \$20.46 per AT&T share based on the closing market price of SBC shares on Friday, January 21, 2005 (the day on which Mr. Dorman and Mr. Whitacre discussed a potential premium range of 10% to 15%), or approximately a 13.2% premium to the closing market price of \$18.08 per AT&T share on that day. The negotiation of these economic terms focused on the exchange ratio and the premium to AT&T's share prices then reflected by the exchange ratio. Based on the exchange ratio that the two companies' managements agreed to recommend to their respective boards and the number of outstanding SBC and AT&T shares as of January 27, 2005, AT&T's shareholders would own approximately 16% of the outstanding SBC shares following the merger.

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

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

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

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

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

SBC's Reasons for the Merger

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

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

In particular, the SBC board of directors considered that:

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

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

advanced technological capabilities in data and IP-based services;

proven sales and service expertise for complex communications solutions; and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

agreement; and

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

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

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

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

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

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

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

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

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

The SBC board of directors also reviewed as background materials numerous publicly available third party analyses and newspaper articles regarding the telecommunications industry in general and AT&T's business prospects and financial condition in particular.

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

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

AT&T's Reasons for the Merger

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

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

adopted the merger agreement; and

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

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

of factors, including those set forth below.

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

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

its understanding of SBC's business, operations, financial condition, earnings and prospects on a stand-alone basis and forecasted combined basis; the AT&T board of directors considered that SBC had a solid financial position in the territories in which it was the incumbent local exchange carrier and that it was well positioned in all of its businesses nationwide as a result of the wide range of telecommunications products and services it offers and provides to its customers;

its understanding of the current and prospective business environment in which AT&T and SBC operate, including international, national and local economic conditions, the competitive and regulatory environment for telecommunications service providers generally, the technological trends in the telecommunications industry, and the likely effect of these factors on the combined company or, in the alternative, on AT&T on a stand-alone basis; the AT&T board of directors considered in particular that the competitive nature of the telecommunications industry made it more likely that AT&T's prospects for growth would be enhanced if its businesses were combined with SBC's to create a more diversified, well capitalized company;

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

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

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

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

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

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

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

the financial terms of the transaction, including the relative historical trading prices of AT&T common stock and SBC common stock, the fixed exchange ratio of 0.77942 of a share of SBC common stock for each share of AT&T common stock and the special dividend of \$1.30 in cash per share of AT&T common stock to be paid in connection with the merger, in particular, the AT&T board of directors noted that the exchange ratio and special dividend offered a premium to AT&T shareholders based on the trading prices of the companies' common stock

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

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

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

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

the financial analyses of CSFB and Morgan Stanley, AT&T's financial advisors, and the oral and written opinions dated January 30, 2005 of CSFB that, as of such date and subject to the matters described in its opinion, the exchange ratio was fair, from a financial point of view, to holders of AT&T common stock and the oral and written opinions dated January 30, 2005 of Morgan Stanley that, as of such date and subject to the matters and assumptions stated therein, the consideration to be received by holders of AT&T common stock in accordance with the merger agreement was fair from a financial point of view to such holders other than SBC and its affiliates (each opinion is discussed further below under Opinions of AT&T's Financial Advisors); in considering the foregoing opinions the AT&T board of directors was aware that AT&T has agreed to pay each of CSFB and Morgan Stanley a transaction fee based on 0.1% of the aggregate value of the transaction, which will be determined at closing and which is payable in three installments, one quarter on signing, one quarter on receipt of shareholder approval and the unpaid balance upon closing (each transaction fee is discussed further below under Opinions of AT&T's Financial Advisors);

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

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

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

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

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

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

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

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

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

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

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

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

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

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

the risk that, although AT&T has the right under limited conditions to consider and participate in discussions and negotiations with respect to alternative acquisition proposals, the provisions of the merger agreement relating to the potential payment of a termination fee of \$560 million (plus up to \$40 million in expenses) to SBC may have the effect of discouraging such proposals. See Risk Factors Risks Relating to the Merger The merger agreement restricts AT&T's ability to pursue alternatives to the merger .

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

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

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

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

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

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

Recommendation of the AT&T Board of Directors

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

Certain AT&T Projections

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

AT&T Projected Summary Financial Overview

(\$ in billions; except for per share amounts; all projected numbers are approximate)

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

Projected reconciliation of EBITDA to net income for the year ending 12/31/2005

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

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

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

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

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

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

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

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

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

The estimates and assumptions underlying the projections involve judgments with respect to, among other things, future economic, competitive, regulatory and financial market conditions and future business decisions which may not be realized and are inherently subject to significant business, economic, competitive and regulatory uncertainties, all of which are difficult to predict and many of which are beyond the control of AT&T and will be beyond the control of combined company after the merger. In addition, the projections were prepared with a view of AT&T on a stand-alone basis, and without reference to transaction-related costs. Accordingly, there can be no assurance that the projected results would be realized or that actual results would not differ materially from those presented in the prospective financial information. See *Cautionary Statement Regarding Forward-Looking Statements* beginning on page 156. These projections are not included in this document in order to induce any shareholder to vote in favor of adoption of the merger agreement or to impact any investment decision with respect to shares of AT&T or SBC common stock.

AT&T DOES NOT INTEND TO UPDATE OR OTHERWISE REVISE THESE PROJECTIONS TO REFLECT CIRCUMSTANCES EXISTING SINCE THEIR PREPARATION OR TO REFLECT THE OCCURRENCE OF

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

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Opinions of AT&T's Financial Advisors

Credit Suisse First Boston LLC Fairness Opinion

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

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

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

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

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

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

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

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

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

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

CSFB assumed, that such estimates represented reasonable estimates and judgments as to the future financial performance of AT&T. With respect to the publicly available research analyst estimates concerning SBC for 2005 through 2007 reviewed by CSFB, CSFB, with the consent of the AT&T board of directors and based upon its own comparison of such estimates to financial forecasts for such years prepared by and discussed with the management of SBC, assumed that such

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

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

The AT&T board of directors considered that CSFB had provided financial services in the past to SBC and its affiliates. However, the AT&T board of directors believed that CSFB's international reputation for expertise in investment banking generally and in telecommunications in particular and its familiarity with AT&T and its businesses made its selection as financial advisor in connection with the proposed transaction advisable notwithstanding these experiences involving SBC and its affiliates.

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

controlling CSFB or any of its affiliates against certain liabilities and

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expenses, including certain liabilities under the federal securities laws, related to or arising out of CSFB's engagement and any related transactions.

Morgan Stanley & Co. Incorporated Fairness Opinion

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

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

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

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

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

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

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

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

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

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

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

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

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

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

reviewed the merger agreement and certain related documents; and

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

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

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

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

indebtedness of AT&T, SBC and their affiliates for its own account, the

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

The AT&T board of directors considered that Morgan Stanley had provided financial services in the past to SBC and its affiliates. However, the AT&T board of directors believed that Morgan Stanley's international reputation for expertise in investment banking generally and in telecommunications in particular and its familiarity with AT&T and its businesses made its selection as financial advisor in connection with the proposed transaction advisable notwithstanding these experiences involving SBC and its affiliates.

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

Financial Analyses

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

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

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

received in accordance with the merger agreement.

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

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

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

Discounted Cash Flow Analysis

AT&T. CSFB and Morgan Stanley performed a discounted cash flow analysis (referred to in this document as DCF) with respect to AT&T's estimated future cash flows. The DCF analysis was based on financial forecasts for 2005 prepared and provided by the management of AT&T and certain publicly available analyst estimates and projections (including adjustments thereto) reviewed and discussed with the management of AT&T for 2006 through 2009 and terminal values based on multiples of AT&T's estimated last twelve months earnings before interest, taxes, depreciation and amortization (referred to in this document as EBITDA) for 2009 ranging from 3.5x to 4.5x. In this document, terminal value refers to the value of all future cash flows from a business or asset at a particular point in time. CSFB and Morgan Stanley discounted the unlevered free cash flows and estimated terminal value to a present value using discount rates ranging from 8.0% to 10.0%. CSFB and Morgan Stanley chose the discount rates utilized in this analysis based upon an analysis of the weighted average cost of capital of AT&T and their review of related information of selected large, diversified telecommunications companies. Weighted average cost of capital is a measure of the average expected return on all of a company's securities or loans based on the proportions of those securities or loans in such company's capital structure. Based on their experience with respect to telecommunications companies, their knowledge of the telecommunications industry in general and taking into consideration that the weighted average cost of capital analysis would allow for a wider range of comparable companies for purposes of assessing the range of weighted average costs of capital to use in their analysis, CSFB and Morgan Stanley selected MCI Inc., BellSouth Corporation, Verizon Communications Inc. and SBC as comparable companies. The DCF analysis of AT&T indicated a valuation range for AT&T common stock of \$11.09 to \$15.13 as compared to AT&T's common stock price as of January 28, 2005 of \$19.71.

SBC. CSFB and Morgan Stanley also performed a DCF analysis with respect to SBC's estimated future cash flows based on certain publicly available research analyst estimates and projections concerning SBC for 2005 through 2007, which were assumed, with the consent of the AT&T board of directors, to be reasonable estimates and projections for this purpose based, in part, on a comparison of such estimates to financial forecasts of management of SBC for such years and discussions of such forecasts with the management of SBC, and terminal values based on multiples of SBC's estimated last twelve months EBITDA for 2007 ranging from 5.5x to 6.5x. CSFB and Morgan Stanley discounted the unlevered free cash flows and estimated terminal value to a present value using discount rates ranging from 7.0% to 9.0%. CSFB and Morgan Stanley

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

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

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

Contribution Analysis

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

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

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

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

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income and cash flows from operations for the period 2007 through 2008, in each case as compared to the implied effective exchange ratio of 0.834x as of January 28, 2005.

Selected Company Analysis

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

In the case of AT&T, CSFB and Morgan Stanley reviewed MCI's enterprise value, calculated as equity value, plus net debt and other adjustments, as a multiple of certain publicly available analyst estimates of MCI's calendar year 2005 and 2006 EBITDA and MCI's dividend yield based on MCI's closing stock price as of January 28, 2005 and applied a range of the implied multiples and dividend yields to the corresponding financial data for AT&T based on financial forecasts for AT&T for 2005 prepared and provided by the management of AT&T and certain publicly available analyst estimates and projections (including adjustments thereto) for AT&T for 2006 reviewed and discussed with the management of AT&T. This analysis indicated an implied value per share of AT&T common stock ranging from \$9.50 to \$20.50.

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

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

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

Other Considerations

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

the potential pro forma effect of the merger on the pro forma combined company's estimated earnings per share in calendar years 2006, 2007 and 2008 both before and after giving effect to potential cost savings and other synergies anticipated to result from the merger developed jointly by SBC and AT&T and compared that data to the estimated earnings per share of AT&T and SBC on a standalone basis. Such analysis indicated that, after giving effect to potential cost savings and other synergies, the merger would be accretive to the pro forma earnings of SBC by 2008;

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

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

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

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

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

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

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

Lehman Brothers Inc.;

Prudential Financial Inc.;

Deutsche Bank Securities Inc.;

RBC Dain Rauscher Inc.;

CSFB; and

Morgan Stanley.

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

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

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

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

In considering the recommendation of the AT&T board of directors with respect to the merger agreement, AT&T's shareholders should be aware that some of AT&T's executive officers and directors have

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interests in the merger and have arrangements that are different from, or in addition to, those of AT&T's shareholders generally. The AT&T board of directors was aware of these interests and considered them, among other matters, in reaching its decisions to declare the merger and the other transactions contemplated by the merger agreement advisable, to adopt the merger agreement and to recommend that AT&T's shareholders vote in favor of approving the merger agreement.

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

Senior Officer Separation Plan. AT&T maintains the AT&T Senior Officer Separation Plan pursuant to which each of the executive officers are eligible to receive severance benefits if, during the two-year period following a change in control such as the merger, the participant's employment with AT&T is terminated by AT&T (other than for cause or by reason of the participant's disability) or by the participant for good reason.

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

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

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

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

payment of any unvested cash awards/payments;

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a cash payment sufficient to provide financial counseling for two years following the date of termination; and
outplacement services (provided such services begin within one year of termination).

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

Assuming that the merger is completed on December 31, 2005 and each of the executive officers' employment is terminated by AT&T without cause immediately after completion, the amount of severance (based upon current base salaries and target bonus amounts) that would be payable to each of Messrs. Cicconi, Dorman, Eslambolchi, Hannigan and Horton and the remaining executive officers, as a group, is \$3,840,000, \$10,275,000, \$4,050,000, \$6,459,750 and \$4,676,250 and \$11,994,000.

Employment Agreement with David W. Dorman. SBC has entered into an employment agreement, dated as of January 30, 2005, with Mr. Dorman. The agreement provides for a term of employment commencing upon completion of the merger and ending on Mr. Dorman's date of termination of employment. Provided that Mr. Dorman remains Chairman of the Board of Directors and Chief Executive Officer of AT&T through the completion of the merger, Mr. Dorman will serve as SBC's President and as a member of its board of directors during the term of the agreement.

During the term, Mr. Dorman will receive an annual base salary of no less than his annual base salary for 2005 as such amount may be increased prior to completion of the merger. In addition, for each fiscal year ending during the term, Mr. Dorman will be eligible to be awarded an annual bonus in cash on substantially the same terms as peer executives of SBC and its affiliates, which for the fiscal year beginning immediately prior to completion of the merger will be pro rated and at least at the same target percentage of annual base salary as was established by AT&T for 2005. Upon completion of the merger, all of Mr. Dorman's options to purchase shares of AT&T common stock will vest in full, and each option will remain exercisable for the remainder of its full term as provided by its terms. In addition, all other AT&T equity-based or other long or short-term incentive awards held by Mr. Dorman will vest in full or be paid out, as the case may be, and any performance awards will be distributed as provided by their terms. Mr. Dorman also will be eligible to participate on the same terms as peer executives of SBC and its affiliates in all long-term incentive plans of SBC beginning with the first performance period starting after completion of the merger. During the term, Mr. Dorman will be eligible for, and receive benefits under, employee benefit and perquisite arrangements no less favorable than those generally applicable or made available to peer executives of SBC and, during the first six months of the term, those generally applicable or made available to Mr. Dorman prior to completion of the merger.

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

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

An amount equal to the amount Mr. Dorman would have been entitled to receive under any plan, agreement or program of AT&T (other than his AT&T SERP described below) had his employment been terminated without cause immediately after completion of the merger (subject to Mr. Dorman's execution of any release required under any such plan, agreement or program);

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

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

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

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

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

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

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

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

AT&T Management Pension Plan. Under the terms of AT&T's management pension plan, if during the two-year period following a change in control, such as the merger, a participant's employment with AT&T is terminated by AT&T (other than for cause or by reason of the participant's disability) or by the participant for good reason, as of the participant's date of termination of employment, the participant (including an executive officer) will become fully vested in his or her benefit under the plan, any unbridged credited service will be bridged, the participant will be deemed to have completed the minimum period of credited service required for full conversion of the pension under the previous formula to a cash balance formula, he or she will receive a special change in control credit to his cash balance account plus interest from the end of the month in which the change in control occurs, and the participant may elect to receive his pension benefit in a lump sum or the existing annuity forms of benefit in the plan. The special change in control credit is an amount equal to the participant's eligible pay as defined in the Plan for the calendar year immediately preceding the calendar year in which the change in control occurs multiplied by the lesser of five percent for each whole year of the participant's employment through the change in control or 100 percent.

AT&T Excess Benefit and Compensation Plan. Under the terms of AT&T's excess benefit and compensation plan, as of an eligible participant's date of termination following a change in control such as the merger, the participant (including an executive officer) will receive the special change in control credit as described above under the Management Pension Plan based on eligible pay in excess of the applicable limit under Section 401 (a) (17) of the Code and his or her accrued pension benefit will include the special change

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in control credit for purposes of determining the participant's benefit under the excess benefit and compensation plan. Benefits under the plan are secured by assets in the AT&T Benefit Protection Trust.

Savings Plans. Under each of the AT&T Long Term Savings Plan for Management Employees, the AT&T Retirement Savings and Profit Sharing Plan and the AT&T of Puerto Rico, Inc. Long Term Savings Plan for Management Employees, if during the two-year period following a change in control, such as the merger, a participant's employment with AT&T is terminated by AT&T (other than for cause or by reason of the participant's death or disability) or by the participant for good reason, the participant, including each executive officer, will become fully vested in any benefits accrued through the date of a change in control such as the merger.

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

Executive Life Insurance Benefits. Under the AT&T Senior Officer Separation Plan, a participant in the AT&T Executive Life Insurance Program, including an executive officer, will be entitled to receive a cash payment equal to the sum of (1) the present value of any necessary future life insurance premium payments that are estimated to be sufficient to provide continuation of coverage at the participant's applicable benefit amount under the AT&T Executive Life Insurance Program policy as if the participant had continued in the active employment of AT&T until becoming eligible for postretirement medical benefits, plus (2) a tax adjustment payment, if, during the two-year period following a change in control such as the merger, the participant's employment is terminated by AT&T (other than for cause or by reason of the participant's disability) or by the participant for good reason. In addition, the AT&T Executive Life Insurance Program must remain in effect for at least two years following a change in control such as the merger.

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

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

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

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

AT&T Retiree Welfare Benefits. For purposes of each of the AT&T Post-retirement Welfare Benefits Plan, the AT&T Long-Term Care Plan for Retired Employees and the AT&T Supplementary Life Insurance Plan, if during the two-year period following a change in control, the employment of a management employee, including an executive officer, with AT&T is terminated by AT&T (other than for cause or by reason of the participant's death or disability) or by the participant for good reason, the management employee will become a participant in the plan (1) if the sum of the participant's age and credited service equals 65 years and (2) the participant had at least five years of credited service with AT&T as of December 31, 1999.

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

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

Material United States Federal Income Tax Consequences

The following is a summary of the material United States federal income tax consequences of the special dividend and the merger to U.S. holders of AT&T common stock. The summary is based on the Code, Treasury regulations thereunder and administrative rulings and court decisions in effect as of the date of this document, all of which are subject to change at any time, possibly with retroactive effect.

For purposes of this discussion, the term "U.S. holder" means:

a citizen or resident of the United States;

a corporation, or other entity taxable as a corporation for United States federal income tax purposes, created or organized under the laws of the United States or any of its political subdivisions;

a trust if it

is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust, or

has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person; or

an estate that is subject to United States federal income tax on its income regardless of its source.

If a partnership holds AT&T common stock, the tax treatment of a partner generally will depend on the status of the partners and the activities of the partnership. If a U.S. holder is a partner in a partnership holding AT&T common stock, such holder should consult its tax advisor.

This discussion only addresses AT&T shareholders that hold their shares of AT&T common stock as a capital asset within the meaning of Section 1221 of the Code. Further, this summary does not address all aspects of U.S. federal income taxation that may be relevant to an AT&T shareholder in light of such holder's particular circumstances or that may be applicable to holders subject to special treatment under United States federal income tax law (including, for example, non-United States persons, financial institutions, dealers in securities, insurance

companies, tax-exempt entities, holders who acquired AT&T common stock pursuant to the exercise of employee stock options or otherwise as compensation, holders subject to the alternative minimum tax provisions of the Code, and holders who hold AT&T common stock as part of a hedge, straddle, constructive sale or conversion transaction). In addition, no information is provided herein with respect to the tax consequences of the special dividend or the merger under applicable state, local or non-United States laws.

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

The Special Dividend

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

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

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

Assuming counsel's characterization of the special dividend prevails, the special dividend will be treated as a dividend for the United States federal income tax purposes to the extent paid out of current or accumulated earnings and profits of AT&T. AT&T expects that the entire amount of the special dividend will be paid out of its current or accumulated earnings and profits. Holders should consult their tax advisors regarding any alternative characterization of the special dividend, including as consideration received in exchange for their shares of AT&T common stock. In addition, holders that are corporations should consult their tax advisors regarding the potential applicability of the extraordinary dividend provisions of the Code.

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

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

The Merger

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

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

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

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

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

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

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

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

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

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

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and cash, reduced by the amount of cash received by the holder pursuant to the merger (excluding any cash received instead of a fractional share of SBC common stock) and increased by the amount of gain (including any portion of the gain that is treated as a dividend as described above but excluding any gain or loss resulting from the deemed receipt and redemption of fractional shares described below), if any, recognized by the holder on the exchange.

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

Cash in lieu of Fractional Shares. A holder of AT&T common stock who receives cash in lieu of a fractional share of SBC common stock generally will be treated as having received such fractional share in the merger and then as having received cash in redemption of such fractional share. Gain or loss generally will be recognized based on the difference between the amount of cash received in lieu of the fractional share and the portion of the holder's aggregate tax basis in the shares of AT&T common stock surrendered which is allocable to the fractional share. Such gain or loss generally will be long-term capital gain or loss if the holding period for such shares of AT&T common stock is more than one year at the effective time of the merger.

Closing Condition Tax Opinions. 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. These opinions will be based on representation letters provided by AT&T, SBC and Merger Sub to be delivered at the time of closing and on customary factual assumptions. Although the merger agreement allows each of them to waive this tax opinion condition to closing, SBC and AT&T currently do not anticipate doing so. If SBC and AT&T waive these conditions and the tax consequences of the merger are materially different from those described in this document, SBC and AT&T will inform you of this decision and ask you to vote on the merger taking this into consideration.

No ruling has been or will be sought from the Internal Revenue Service as to the United States federal income tax consequences of the merger, and the opinions of counsel are not binding upon the Internal Revenue Service or any court. Accordingly, there can be no assurances that the Internal Revenue Service will not disagree with or challenge any of the conclusions described herein.

Backup Withholding and Information Reporting. Payments of cash made in connection with the merger may be subject to information reporting and backup withholding at a rate of 28%, unless a holder of AT&T common stock provides a correct taxpayer identification number and any other required information to the exchange agent; or

is a corporation or comes within certain exempt categories and otherwise complies with applicable requirements of the backup withholding rules.

All non-corporate holders of AT&T common stock should complete and sign the Substitute Form W-9 included as part of the letter of transmittal to be delivered following completion of the merger. Backup withholding does not constitute an additional tax, but merely an advance payment of tax, which may be refunded to the extent it results in an overpayment of tax, provided that the required information is supplied to the Internal Revenue Service.

Accounting Treatment

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. Under the purchase method of accounting, the assets and liabilities of the acquired company are, as of completion of the merger, recorded at their respective fair values and added to those of the reporting public issuer, including an amount for goodwill representing the difference between the purchase price and the fair value of the identifiable net assets. Financial statements of SBC issued after consummation of the merger will reflect only the operations of AT&T after the merger and will not be restated retroactively to reflect the historical financial position or results of operations of AT&T.

All unaudited pro forma financial information contained in this document has been prepared using the purchase method to account for the merger. The final allocation of the purchase price will be determined after

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the merger is completed and after completion of an analysis to determine the assigned fair values of AT&T's tangible and identifiable intangible assets and liabilities. In addition, estimates related to restructuring and merger-related charges are subject to final decisions related to combining AT&T into SBC. Accordingly, the final purchase accounting adjustments may be materially different from the unaudited pro forma adjustments. Any decrease in the net fair value of the assets and liabilities of AT&T as compared to the unaudited pro forma information included in this document will have the effect of increasing the amount of the purchase price allocable to goodwill.

Regulatory Matters Related to the Merger***HSR Act and Antitrust***

The merger is subject to the requirements of the HSR Act, and the rules promulgated under the HSR Act by the FTC, which prevent transactions such as the merger from being completed until required information and materials are furnished to the DOJ, and the FTC and the applicable waiting period are terminated or expire. 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 will expire on the thirtieth day after SBC and AT&T have substantially complied with this request. The DOJ, the FTC and others may challenge the merger on antitrust grounds either before or after expiration or termination of the waiting period. Accordingly, at any time before or after the completion of the merger, any of the DOJ, the FTC or others could take action under the antitrust laws as it deems necessary or desirable in the public interest, including without limitation seeking to enjoin the completion of the merger or permitting completion subject to regulatory concessions or conditions. We cannot assure you that a challenge to the merger will not be made or that, if a challenge is made, it will not prevail.

FCC Approval

The Federal Communications Act of 1934, as amended, requires the approval of 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 consents are subject to public comment and objections and oppositions of third parties who may interpose objections. On March 11, 2005 the FCC placed the application on public notice and invited interested parties to file comments or petitions to deny. Such comments and responses or oppositions to such pleadings have been submitted to the FCC. On April 28, 2005 the FCC sent SBC and AT&T a letter requesting additional information and documents, and SBC and AT&T responded on May 9, 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. We cannot assure you that the requisite FCC approval will be obtained on a timely basis or at all. In addition, we cannot assure you that such approval will not include conditions that could result in the abandonment of the merger.

State Regulatory Approvals

AT&T and various of its subsidiaries hold certificates, licenses and service authorizations issued by 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 public utility commissions 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 already granted their approval as of the date of this document, while the other state PUCs are still reviewing the applications. SBC and AT&T believe that the merger complies with applicable state standards for approval, but there can be no assurance that the state PUCs will timely grant the transfer applications or not subject their approval to conditions or restrictions.

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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 approvals 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. We do not currently anticipate that our pursuit of any of these clearances or approvals will hinder, delay or restrict completion of the merger.

The merger may be subject to certain regulatory requirements of other municipal, state, federal and foreign governmental agencies and authorities, including those relating to the offer and sale of securities. We are currently working to evaluate and comply in all material respects with these requirements, as appropriate, and do not currently anticipate that they will hinder, delay or restrict completion of the merger.

Merger Fees, Costs and Expenses

All expenses incurred in connection with the merger agreement and the transactions contemplated by the merger agreement will be paid by the party incurring those expenses. See The Merger Agreement Covenants and Agreements Fees and Expenses on page 70.

No Dissenters Rights of Appraisal

The New York Business Corporation Law (which is referred to in this document as the NYBCL) provides that in some mergers, shareholders who do not vote in favor of a merger and who comply with a series of statutory requirements have the right to receive, instead of the merger consideration, the fair value of their shares as appraised by the courts, payable in cash. However, this right to appraisal is not available under the NYBCL to holders of AT&T common stock in connection with the merger contemplated under the merger agreement.

Resale of SBC Common Stock

In general, shares of SBC common stock issued to AT&T shareholders pursuant to the merger will be freely transferable, except for any shares received by persons who may be deemed to be affiliates of the parties under the Securities Act. Affiliates generally include individuals or entities that control, are controlled by, or are under common control with a person. Affiliates may sell their shares of SBC common stock only pursuant to an effective registration statement under the Securities Act covering the resale of those shares, an exemption under Rule 145(d) of the Securities Act or any other applicable exemption under the Securities Act. SBC's registration statement on Form S-4, of which this document constitutes a part, does not cover the resale of SBC common stock held by affiliates after the transactions.

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THE MERGER AGREEMENT

The following is a summary of selected provisions of the merger agreement. While SBC and AT&T believe this description covers the material terms of the merger agreement, it may not contain all of the information that is important to you and is qualified in its entirety by reference to the merger agreement, which is incorporated by reference in its entirety into, and is attached as Annex A to, this document. We urge you to read the merger agreement in its entirety.

The Merger

Upon the terms and subject to the conditions set forth in the merger agreement, Merger Sub will be merged with and into AT&T. As a result of the merger, AT&T will be the surviving corporation and will become a wholly owned subsidiary of SBC. The separate corporate existence of AT&T, with all its rights, privileges, immunities, powers and franchises, will continue unaffected by the merger, except as set forth in the merger agreement.

Closing and Effectiveness of the Merger

The closing of the merger will occur on the fifth business day after the satisfaction or waiver of all of the closing conditions provided in the merger agreement, except for those conditions that, by their terms, are to be satisfied at the closing (but subject to the satisfaction or waiver of those conditions), or on such other date as SBC and AT&T may agree in writing. See *Conditions to the Merger* beginning on page 71.

As soon as practicable following the closing, SBC and AT&T will deliver an executed and acknowledged certificate of merger to the Department of State of the State of New York. At that time, or at such later time as may be agreed by the parties in writing and specified in the certificate of merger, the merger will become effective.

Surviving Corporation's Governing Documents, Officers and Directors; SBC's Post-Closing Directors

Surviving Corporation Governing Documents. At the effective time of the merger, the certificate of incorporation of the surviving corporation will be in the form of the certificate of incorporation attached to the merger agreement and the by-laws of Merger Sub in effect at the effective time of the merger will be the by-laws of the surviving corporation, in each case until thereafter amended as provided therein or by applicable laws.

Surviving Corporation Officers and Directors. The directors and officers of Merger Sub at the effective time of the merger will, from and after the effective time, be the directors and officers of the surviving corporation until their successors will have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the surviving corporation's certificate of incorporation and by-laws.

SBC's Post-Closing Board of Directors. At the effective time of the merger, SBC will increase the size of its board of directors to enable it to appoint David W. Dorman, the current Chairman and Chief Executive Officer of AT&T, plus two other members of the board of directors of AT&T selected by mutual agreement of

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SBC and AT&T, as members of the board of directors of SBC, and the board of directors of SBC will appoint each of Mr. Dorman and the other two designees to serve as directors until their successors shall have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with SBC's restated certificate of incorporation and by-laws. For a more complete description with respect to the appointment of Mr. Dorman to the SBC board of directors see *The Merger* *Interests of AT&T Executive Officers and Directors in the Merger Employment Agreement with David W. Dorman* beginning on page 50.

Merger Consideration and Special Dividend

Conversion of AT&T Common Stock. At the effective time of the merger, each share of AT&T common stock issued and outstanding immediately prior to the effective time (other than any shares of AT&T common stock owned by SBC, AT&T or any of their respective subsidiaries, which shares are not beneficially owned by third parties) will be converted into the right to receive 0.77942 of a share of SBC common stock, together with the right, if any, to receive cash in lieu of fractional shares of SBC common stock. See *Fractional SBC Common Shares* below. In addition, immediately prior to the effective time of the merger, a special dividend of \$1.30 per share will become payable to each holder of a share of AT&T common stock as of a record date that would be set by the AT&T board of directors. See *Covenants and Agreements* *Special Dividend* below.

For more information regarding the SBC common stock, see *Description of SBC Capital Stock* *SBC Common Stock*.

Conversion of AT&T Subsidiary Preferred Stock. At the effective time of the merger, each share of AT&T subsidiary preferred stock issued and outstanding immediately prior to the effective time of the merger will be converted into the right to receive one share of SBC preferred stock having a value substantially equivalent, in SBC's judgment, to an AT&T subsidiary preferred share at the effective time of the merger and having such other terms as necessary to ensure that the SBC preferred stock would not constitute non-qualified preferred stock for federal income tax purposes and any other terms necessary so as not to prevent the delivery of the tax opinions described in

Conditions to the Merger below.

Cancellation of Other AT&T Common Stock. At the effective time of the merger, shares of AT&T common stock owned by SBC, AT&T or any of their respective subsidiaries, except for shares that are beneficially owned by third parties, will be canceled and retired without payment of any consideration therefor and will cease to exist.

Conversion of Merger Sub Stock. At the effective time of the merger, each share of common stock of Merger Sub issued and outstanding immediately prior to the effective time will be converted into one share of common stock, par value \$0.01 per share, of the surviving corporation.

Fractional SBC Common Shares. Fractional shares of SBC common stock will not be issued in the merger. Instead, any holder of shares of AT&T common stock who otherwise would have been entitled to receive a fractional share of SBC common stock will be entitled to receive a cash payment in lieu thereof in an amount equal to the product obtained by multiplying (1) the fractional part of a share of SBC common stock an AT&T stockholder would otherwise be entitled to receive by (2) 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.

Exchange Procedures. As soon as practicable after the effective time of the merger, an exchange agent selected by SBC with AT&T's approval will provide appropriate transmittal materials to holders of record of AT&T common stock, advising such holders of the procedure for surrendering their shares to the exchange agent.

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Upon the surrender of the holder's shares of AT&T common stock, the holder will be entitled to receive in exchange therefor:

whole shares of SBC common stock that such holder is entitled to receive pursuant to the merger, as described in Conversion of AT&T Common Stock above; and

a check in the amount, after giving effect to any required tax withholdings, of any cash payable in lieu of fractional shares plus any unpaid non-stock dividends and any other dividends or other distributions that such holder has the right to receive as described in the next paragraph.

All shares of SBC common stock to be issued pursuant to the merger will be deemed issued and outstanding as of the effective time of the merger. Whenever a dividend or other distribution is declared by SBC in respect of SBC common stock, the record date for which is after the effective time of the merger, that declaration will include dividends or other distributions in respect of all shares issuable pursuant to the merger agreement. No dividends or other distributions in respect of SBC common stock shall be paid to any holder of any unsurrendered shares of AT&T common stock until the unsurrendered shares of AT&T common stock are surrendered for exchange. Any holder of unsurrendered shares of AT&T common stock will be entitled to vote after the effective time of the merger at any meeting of SBC stockholders the number of whole shares of SBC common stock such holder is entitled to receive in the merger, regardless of whether the holder shall have exchanged its shares.

In the case of any shares of AT&T common stock that are not represented by certificates, the exchange agent will issue at the effective time of the merger the shares of SBC common stock to which such holders are entitled without any action by those holders.

Adjustments to Prevent Dilution. If, between the date of the merger agreement and the effective time of the merger, AT&T changes the number of issued and outstanding shares of AT&T common stock or securities convertible or exchangeable into or exercisable for shares of AT&T common stock, or SBC changes the number of issued and outstanding shares of SBC common stock or securities convertible or exchangeable into or exercisable for shares of SBC common stock, as a result of a reclassification, stock split (including a reverse stock split), stock dividend or distribution, recapitalization, merger, subdivision, issuer tender or exchange offer, or other similar transaction, then the exchange ratio of 0.77942 will be equitably adjusted.

Stock Options and Other Stock Awards. At the effective time of the merger, each outstanding option to purchase shares of AT&T common stock granted under AT&T's stock-based benefit plans and under individual employment agreements to which AT&T is a party, whether vested or unvested, will be converted into an option to acquire a number of shares of SBC common stock (rounded up to the nearest whole number) obtained by multiplying the number of shares of AT&T common stock subject to the AT&T stock option immediately prior to the effective time of the merger by the exchange ratio of 0.77942. The exercise price per share (rounded down to the nearest whole cent) will be obtained by dividing the exercise price per AT&T share of such AT&T stock option immediately prior to the effective time of the merger by the exchange ratio of 0.77942. Following the effective time of the merger, each AT&T stock option will continue to be governed by the same terms and conditions as were applicable to the option immediately prior to the effective time of the merger.

At the effective time of the merger, each right of any kind, contingent or accrued, to acquire or receive shares of AT&T common stock or benefits measured by the value of AT&T common stock, and each award of any kind consisting of shares of AT&T common stock that may be held, awarded, outstanding, payable or reserved for issuance under any AT&T stock plans or benefit plans, other than AT&T stock options, will be deemed to be converted into the right to acquire or receive benefits measured by the value of (as the case may be) the number of shares of SBC common stock obtained by multiplying the number of AT&T shares subject to such award immediately prior to the effective time of the merger by the exchange ratio of 0.77942, and each such right will otherwise be subject to the terms and conditions applicable to such right under the relevant AT&T stock plan or other benefit plan.

The AT&T board of directors, or its applicable committee, will take all necessary actions to ensure that the terms of AT&T stock options and other stock-based awards then outstanding are equitably adjusted to

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take into account the payment of the special dividend of \$1.30 per share described under Conversion of AT&T Common Stock above.

Representations and Warranties

The merger agreement contains various representations and warranties of AT&T, Merger Sub and SBC. *AT&T*. The representations and warranties of AT&T relate generally to:

- organization, good standing and qualification;
- capital structure;
- corporate authority, approval and fairness matters;
- governmental filings, absence of violations and certain contracts;
- AT&T's SEC filings and financial statements;
- absence of certain changes;
- litigation and liabilities;
- employee benefit plans;
- compliance with laws and licenses;
- material contracts;
- real property;
- right-of-way agreements;
- takeover statutes;
- environmental matters;
- taxes;
- labor matters;
- intellectual property and IT assets;
- General Services Administration action;
- export controls and trade sanctions;
- foreign corrupt practices act; and
- brokers and finders.

SBC and Merger Sub. The representations and warranties of SBC and Merger Sub relate generally to:
organization, good standing and qualification;

capital structure of SBC;

capital structure of Merger Sub;

corporate authority, approval and fairness matters;

governmental filings, absence of violations;

SBC reports and financial statements;

litigation and liabilities;

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compliance with laws; and

absence of changes.

Certain representations and warranties of AT&T and SBC are qualified as to materiality or material adverse effect. When used with respect to AT&T or SBC, material adverse effect means:

a material adverse effect on the financial condition, assets, liabilities, business or results of operations of AT&T or SBC, as applicable, and its subsidiaries taken as a whole, excluding any such effects resulting from:

- changes in political or regulatory conditions generally;

- changes or conditions generally affecting the U.S. economy or financial markets or generally affecting any of the segments of the telecommunications industry in which AT&T or SBC, as applicable, or any of its subsidiaries operates; or

- the announcement or consummation of the merger agreement; or
- an effect that would prevent, materially delay or materially impair the ability of AT&T or SBC, as applicable, to consummate the merger and the other transactions contemplated by the merger agreement.

When used with respect to AT&T, material adverse effect excludes the effect of a decline in the revenues of the consumer business operations of AT&T and its subsidiaries prior to the effective time of the merger of not more than 50% from the revenues in AT&T's 2005 business plan, it being understood that only the portion of any decline in revenues in excess of 50%, if any, will be considered in determining whether there is a material adverse effect.

Covenants and Agreements

Conduct of AT&T Pending the Merger. The merger agreement provides that, until the termination of the merger agreement or effective time of the merger, the business of AT&T and its subsidiaries will be conducted in the ordinary and usual course and, to the extent consistent therewith, AT&T and its subsidiaries will use their respective reasonable best efforts to preserve their business organizations intact and maintain existing relations and goodwill with governmental entities, customers, suppliers, distributors, creditors, lessors, employees and business associates and keep available the services of the present employees and agents of AT&T and its subsidiaries. In addition, AT&T may not knowingly take or permit any of its subsidiaries to take any action or refrain from taking any action that would be reasonably and foreseeable likely to prevent the consummation of the merger by the termination date described in Termination below.

The merger agreement also provides that, from the date of the merger agreement until the effective time of the merger, except as otherwise expressly required by the merger agreement or except as SBC may approve in writing (such approval not to be unreasonably withheld or delayed), and subject to certain other exceptions, AT&T will not and will not permit its subsidiaries to:

- adopt or propose any change in its certificate of incorporation or by-laws or amend any term of the AT&T shares;

- merge or consolidate AT&T or any of its subsidiaries with any other person, except for any such transactions among wholly owned subsidiaries of AT&T that are not obligors or guarantors of third-party indebtedness, or adopt a plan of liquidation;

- acquire assets outside of the ordinary course of business from any other person with a value or purchase price in excess of \$100,000,000 in the aggregate, subject to certain exceptions;

- enter into any material line of business in any geographic area other than the current lines of business of AT&T or any of its subsidiaries, and in the geographic areas where they were conducted as of the date of the merger agreement, or engage in the conduct of any business in any state or foreign country

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that would require the receipt or transfer of a license from a governmental entity, subject to certain exceptions;

file for any license from a governmental entity outside of the ordinary course of business, subject to certain exceptions;

issue, sell, pledge, dispose of, grant, transfer, lease, license, guarantee or encumber, or authorize the issuance, sale, pledge, disposition, grant, transfer, lease, license, guarantee or encumbrance of, any shares of capital stock of AT&T or any of its subsidiaries, any securities convertible or exchangeable into or exercisable for any shares of such capital stock, or any options, warrants, conversion rights, stock appreciation rights, redemption rights, repurchase rights, agreements, arrangements, calls, commitments or rights to acquire any shares of such capital stock or such convertible or exchangeable securities, other than the issuance of shares pursuant to AT&T's stock plans or pursuant to AT&T's dividend reinvestment program;

create or incur any lien material to AT&T or any of its subsidiaries on any assets of AT&T or any of its subsidiaries having a value in excess of \$50,000,000, other than in connection with existing receivables facilities and securitizations and renewals thereof in the ordinary course of business, or in connection with the refinancing of AT&T's indebtedness under its existing credit facility;

make any loans, advances or capital contributions to or investments in any person in excess of \$25,000,000 in the aggregate;

declare, set aside or pay any dividend or distribution on any shares of AT&T common stock other than the special dividend or AT&T's regular quarterly dividend of \$.2375 per share in cash per quarter at record and payment dates consistent with past practices, or any shares of capital stock of any subsidiaries, provided that AT&T will designate the record dates for its quarterly dividends to coincide with the record dates for SBC's quarterly dividends, beginning with the record date on July 10, 2005;

reclassify, split, combine, subdivide or repurchase, redeem or otherwise acquire any of its capital stock or securities convertible or exchangeable into or exercisable for any shares of its capital stock;

incur or guarantee any indebtedness for borrowed money or guarantee such indebtedness of another person, or issue or sell any debt securities or warrants or other rights to acquire any debt security of AT&T or any of its subsidiaries, except for:

indebtedness incurred in the ordinary course of business not to exceed \$100,000,000 in the aggregate,

indebtedness in replacement of existing indebtedness on customary commercial terms,

guarantees by AT&T of indebtedness of its wholly owned subsidiaries or guarantees by subsidiaries of indebtedness of AT&T, or

interest rate swaps on customary commercial terms consistent with past practice and not to exceed \$100,000,000 of notional debt in the aggregate in addition to notional debt currently under swap or similar arrangements;

make or authorize any capital expenditure, subject to certain exceptions;

other than in the ordinary course of business, enter into any contract that would have been a material contract for purposes of the merger agreement had it been entered into prior to the date of the merger agreement;

make any changes with respect to accounting policies or procedures, except as required by changes in generally accepted accounting principles or by applicable law or as AT&T, based upon the advice of its independent auditors after consultation with SBC, determines in good faith is advisable to conform to best accounting practices;

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settle any litigation or other proceedings before a governmental entity for an amount to be paid by AT&T or any of its subsidiaries greater than \$50,000,000 or which would be reasonably likely to have any adverse impact on its or its subsidiaries' operations, subject to certain tax-related exceptions;

amend or modify in any material respect, or terminate or waive any material right or benefit under, any material contract or cancel, modify or waive any debts or claims or waive any rights having in each case a value in excess of \$25,000,000, other than in the ordinary course of business;

make any material tax election or take any material position on any material tax return filed on or after the date of the merger agreement or adopt any method that is inconsistent with elections made, positions taken or methods used in preparing or filing similar tax returns in prior periods, except as required by law or by any currently effective tax sharing agreement;

sell, lease, license or otherwise dispose of any assets of AT&T or its subsidiaries except in the ordinary course of business or obsolete assets or sales, leases, licenses or other dispositions of assets with a fair market value of not more than \$50,000,000 in respect of any one asset and not more than \$100,000,000 in the aggregate, subject to certain exceptions;

except as required by agreements in effect prior to the date of the merger agreement or as otherwise required by applicable law:

enter into any commitment to provide any severance or termination benefits to, or amend any existing arrangement with, any director, officer or employee of AT&T or any of its subsidiaries, other than for severance or termination benefits to employees (other than certain executive officers) in the ordinary course of business consistent with past practice and pursuant to the terms of certain plans, programs or arrangements in effect prior to the date of the merger agreement or except in connection with newly hired or newly promoted employees, in each case to the extent consistent with past practice;

increase the benefits payable under any existing severance or termination benefit policy or employment agreement, other than as required to be increased pursuant to the existing terms of any such policy or agreement or as a result of ordinary pay raises or promotions;

enter into any employment severance, change in control, termination, deferred compensation or other similar agreement, or amend any such existing agreement, with any director, officer or employee of AT&T or any of its subsidiaries other than pursuant to the terms of any compensation or benefit plan in effect on the date of the merger agreement;

establish, adopt, amend or terminate any compensation and benefit plan, except for technical amendments in the ordinary course of business consistent with past practice that do not materially increase the cost of such arrangements to AT&T;

increase the compensation, bonus or other benefits of, make any new awards under any compensation and benefit plan to, or pay any bonus to any director, officer, employee, consultant or independent contractor of AT&T or any of its subsidiaries, except for increases, new awards or payments in the ordinary course of business consistent with past practice for employees other than certain executive officers or except in connection with newly hired or newly promoted employees, in each case to the extent consistent with past practice;

take any action to fund, secure the payment of or accelerate the vesting or payment of compensation or benefits under any compensation and benefit plan, except as required pursuant to its terms;

materially change any actuarial or other assumptions used to calculate funding obligations with respect to any compensation and benefit plan or change the manner in which contributions to such plans are made or the basis on which such contributions are determined, except as may be required by generally accepted accounting principles or in the ordinary course of business consistent with past practice;

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amend the terms of any outstanding equity-based award;

provide for accelerated vesting, removal of restrictions or exercisability of any stock based or stock related awards upon a change in control occurring on or prior to the effective time of the merger for any grants made after the date of the merger agreement;

exercise any discretion to cash out awards pursuant to AT&T's 1997 Long Term Incentive Program; or

enter into any new collective bargaining agreements or amendments to existing collective bargaining agreements except in connection with newly hired or newly promoted employees, in each case to the extent consistent with past practice;

fail to initiate appropriate steps to renew any material governmental licenses held by AT&T or any of its subsidiaries that are scheduled to terminate prior to or within 60 days after the effective time of the merger or to prosecute any pending applications for any material governmental license; or

agree or commit to do any of the foregoing.

Conduct of SBC Pending the Merger. The merger agreement provides that SBC will not, and it will cause its subsidiaries not to, enter into any agreement for the acquisition of any business or person which provides interexchange telecommunications or long distance services, other than the provision of such services in *de minimis* amounts or any provision of such services solely as a component of the provision of mobile wireless voice or data services. In addition, SBC may not knowingly take or permit any of its subsidiaries to take any action or refrain from taking any action that would be reasonably and foreseeable likely to prevent the consummation of the merger by the termination date described in Termination below.

The merger agreement also provides that, from the date of the merger agreement until the effective time of the merger, except as otherwise expressly required by the merger agreement or as AT&T may approve in writing (such approval not to be unreasonably withheld or delayed), SBC will not and will not permit its subsidiaries to:

adopt or propose any material change in SBC's certificate of incorporation or by-laws or amend any term of the shares of SBC common stock;

merge or consolidate SBC or Merger Sub with any other person or adopt a plan of liquidation;

enter into or acquire any new line of business that is material to SBC and its subsidiaries taken as a whole and is not strategically related to the current business or operations of SBC and its subsidiaries;

issue, sell, pledge, dispose of, grant, transfer, lease, license, guarantee or encumber, or authorize the issuance, sale, pledge, disposition, grant, transfer, lease, license, guarantee or encumbrance of, any shares of capital stock of SBC or any of its subsidiaries, or securities convertible or exchangeable into or exercisable for any shares of such capital stock, or any options, warrants, conversion rights, stock appreciation rights, redemption rights, repurchase rights, agreements, arrangements, calls, commitments or rights to acquire any shares of such capital stock or such convertible or exchangeable securities, except for shares of SBC common stock issued for fair value in arm's-length transactions or in the ordinary course of business consistent with past practices pursuant to SBC's employee benefit plans;

declare, set aside or pay any dividend or distribution on any shares of SBC common stock or capital stock of any of its subsidiaries other than by wholly owned subsidiaries and pro rata dividends or distributions payable to holders of interests in non wholly owned subsidiaries and other than SBC's regular quarterly dividend, including any increases thereof, at record and payment dates consistent with past practice;

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reclassify, split, combine or subdivide, or repurchase, redeem or otherwise acquire at prices above fair market value any of its capital stock or securities convertible or exchangeable into or exercisable for any shares of its capital stock; or

agree or commit to do any of the foregoing.

To the extent that SBC's foregoing obligations relate to Cingular LLC and its subsidiaries, these obligations will be limited to taking such steps, such as the exercise of any veto rights, that are within the unilateral power and control of SBC and its subsidiaries (other than Cingular LLC and its subsidiaries), and none of the foregoing obligations will require any of SBC's representatives (or require SBC to compel any of its representatives) to take any actions that would violate the fiduciary duties of such representatives under applicable law with respect to any beneficial owners of equity securities of Cingular LLC or its affiliates other than SBC or any of its subsidiaries.

Acquisition Proposals. The merger agreement provides that AT&T, any of its subsidiaries or any of the officers and directors of AT&T or any of its subsidiaries will not, and AT&T will cause its and its subsidiaries' employees, agents and representatives, including any investment banker, attorney or accountant retained by it or any of its subsidiaries, not to, 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.

The merger agreement provides that these restrictions would not prevent AT&T or its board of directors from complying with its disclosure obligations under the Securities Exchange Act of 1934, as amended (which is referred to in the document as the Exchange Act), with regard to an acquisition proposal. However, if such disclosure has the substantive effect of withdrawing, modifying or qualifying the recommendation of the AT&T board of directors of the merger in a manner adverse to SBC or the adoption of the merger agreement by the board of directors of AT&T, SBC will have the right to terminate the merger agreement. See Termination below.

The merger agreement also provides that the above restrictions would not prevent AT&T or its board of directors, at any time prior to, but not after, the time the merger agreement is adopted by requisite vote of AT&T shareholders, from:

providing information in response to a request therefor by a person who has made an unsolicited bona fide written acquisition proposal if the AT&T board of directors receives from the person so requesting such information an executed confidentiality agreement (excluding standstill provisions) on customary terms;

engaging in any discussions or negotiations with any person who has made an unsolicited bona fide written acquisition proposal if the AT&T board of directors receives from such person an executed confidentiality agreement (excluding standstill provisions) on customary terms; or

recommending or agreeing to recommend such an unsolicited bona fide written acquisition proposal to the AT&T shareholders;

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if and only to the extent that:

in each such case referred to in the three bullet points of the previous paragraph, the AT&T board of directors determines in good faith after consultation with outside legal counsel that such action is necessary in order for its directors to comply with their fiduciary duties under applicable law;

in the case referred to in the last two bullet points of the previous paragraph, the AT&T board of directors determines in good faith, after consultation with its financial advisor and outside counsel, taking into account all legal, financial and regulatory aspects of the proposal, the likelihood of obtaining financing, and the person making the proposal, that such acquisition proposal (which must involve at least 50% of the assets or equity securities of AT&T), if consummated, is more favorable, from a financial point of view, taking into account the likelihood of consummation, to AT&T's shareholders than the transactions contemplated by the merger agreement, in each case taking into account any revisions to the terms of the transactions contemplated by the merger agreement (any such more favorable acquisition proposal is referred to in this document as a superior proposal); and

in the case referred to in the last bullet point of the previous paragraph, SBC must have had written notice of AT&T's intention to take the action referred to that bullet point at least five business days prior to the taking of such action by AT&T and AT&T has complied with the following paragraph.

AT&T has agreed that it does not consider that Verizon Communications, Inc. would be more likely than SBC to obtain the regulatory approvals required to consummate an acquisition of AT&T, or to obtain those regulatory approvals more quickly. AT&T's agreement is based upon and assumes that there is no material change in Verizon's business or in the information available to AT&T with respect to that business and that Verizon would not be willing to assume materially greater contractual obligations or risk with respect to obtaining regulatory approvals than SBC has assumed in the merger agreement.

The merger agreement provides that AT&T must notify SBC as promptly as practicable (and, in any event, within 24 hours) if any inquiries, proposals or offers with respect to any acquisition proposal or potential acquisition proposal are received by, any such information is requested from, or any such discussions or negotiations are sought to be initiated or continued with, it or any of its representatives, indicating, in connection with such notice, the name of such person and the material terms and conditions of any proposal or offer and thereafter shall keep SBC informed, on a current basis, on the status and terms of any such proposal or offer and the status of any such discussions or negotiations.

The merger agreement further provides that during the five-business day period prior to its recommending an acquisition proposal to AT&T's shareholders, AT&T and its representatives will negotiate in good faith with SBC and its representatives regarding any revisions to the terms of the transaction contemplated by the merger agreement proposed by SBC and that AT&T may take any such action with respect to an acquisition proposal that is a superior proposal only if it continues to be a superior proposal in light of any revisions to the terms of the transaction contemplated by the merger agreement to which SBC may have agreed prior to the expiration of the five business day period. No acquisition proposal will be deemed to be a superior proposal if SBC will have agreed to revisions to the transactions contemplated by the merger agreement and the AT&T board of directors will not have reasonably determined in good faith that the transactions contemplated by the merger agreement as so revised are not substantially equivalent to or better than such acquisition proposal, from a financial point of view, taking into account the likelihood of consummation, to AT&T's shareholders.

AT&T will deliver to SBC a new notice of superior proposal with respect to each acquisition proposal that has been materially revised or modified prior to taking any action to recommend or agreeing to recommend such acquisition proposal to AT&T's shareholders and that a new five business-day period will commence with respect to each such materially revised or modified acquisition proposal from the time SBC receives a notice of superior proposal with respect thereto. AT&T will provide any information to SBC that it is providing to another person in connection with an acquisition proposal as permitted by the merger agreement at the same time it provides it to such

other person.

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The merger agreement provides that AT&T must immediately cease and cause to be terminated any existing activities, discussions or negotiations with any person conducted with respect to any acquisition proposal. AT&T must promptly request each person that has executed a confidentiality agreement in connection with its consideration of a transaction with AT&T to return or destroy all confidential information furnished prior to the execution of the merger agreement to or for the benefit of such person by or on behalf of AT&T or any of its subsidiaries. AT&T must take the necessary steps to promptly inform its representatives of the obligations undertaken with respect to acquisition proposals.

Shareholders Meeting. The merger agreement requires AT&T to call and hold a shareholders meeting to vote upon the adoption of the merger agreement as promptly as practicable after the date the registration statement of which this document forms a part became effective and in any event within 120 days after the date of the merger agreement (or, if later, not more than 60 days after the date of this document). Additionally, subject to specified conditions related to its fiduciary duties, the board of directors of AT&T has agreed to recommend that stockholders tender their shares in the offer and vote in favor of the merger agreement.

Reasonable Best Efforts. Each of AT&T, SBC and their respective subsidiaries will use their reasonable best efforts to take all necessary actions to comply with all legal requirements which may be imposed on that party with respect to the merger and to consummate the transactions contemplated by the merger agreement as soon as practicable, including making any necessary filings with governmental entities, and obtaining all necessary or advisable consents, registrations, approvals, permits and authorizations from any third parties and/or governmental entities, as soon as practicable. However, in connection with using their reasonable best efforts, the parties will not be required to take or refrain from taking any action, or to agree to any restriction with respect to any assets or operations of the parties or their respective subsidiaries, that would take effect prior to the effective time of the merger or would reasonably be expected to have a material adverse effect on AT&T or a specified material adverse effect (as defined below) on SBC and its subsidiaries following the effective time of the merger. If any lawsuits or other legal proceedings challenge the consummation of the merger or other transactions contemplated by the merger agreement, AT&T and SBC agree to use their reasonable best efforts to resolve any such challenges.

For purposes of the merger agreement, a specified material adverse effect is generally defined as a material adverse effect on AT&T and its subsidiaries, or on SBC and its subsidiaries following the effective time of the merger (with materiality considered by reference to the properties, assets, liabilities, business and results of operations of AT&T and its subsidiaries, taken as a whole, rather than that of SBC and its subsidiaries, taken as a whole), in each case applying the following principles:

both the positive and negative effects of any required divestiture or other required action, restriction or agreement referred to in the preceding paragraph will be taken into account (subject to the following two bullet points);

any required divestiture of any of the consumer business operations of AT&T or its subsidiaries, or of any fiber optic facilities used by AT&T or its subsidiaries to provide exchange access or local exchange services that compete with SBC's fiber optic facilities in SBC's region (up to an aggregate net negative effect of \$100 million from the divestiture of these fiber optic facilities), will be deemed to have a net effect of zero; and

the loss of any synergies anticipated by SBC from the merger with respect to any divestiture required by the FCC or DOJ in order to consummate the transactions contemplated by the merger agreement will not be taken into account.

For purposes of the above principles, SBC's region includes those portions of the States of Texas, Oklahoma, Arkansas, Missouri, Kansas, California, Nevada, Illinois, Michigan, Indiana, Ohio, Wisconsin and Connecticut in which SBC or one of its subsidiaries is an incumbent local exchange carrier, as defined in the Telecommunications Act of 1934, as amended, and net negative effect means the aggregate negative economic effects, net of any positive effects, on the value of the assets, business or operations of SBC and its subsidiaries after the effective time of the merger from the divestiture of any fiber optic facilities referred to in the second bullet point above.

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Notice and Access to Information. The parties have agreed to notify each other of certain written communications, notices and proceedings related to the merger. In addition, AT&T has agreed to provide SBC with reasonable access to its and its subsidiaries' information concerning its and its subsidiaries' business, properties and personnel as may reasonably be requested.

Publicity. AT&T and SBC have agreed to consult with each other prior to issuing any press releases or public announcements with respect to the transactions contemplated by the merger agreement and prior to making any filings with any third party or governmental entity with respect thereto, except as may be required by applicable law or by obligations pursuant to any listing agreement with or rules of any national securities exchange or by the request of any governmental entity.

Employee Matters. SBC has agreed that, from the effective time of the merger through the first anniversary of the last day of the plan year of each compensation and benefit plan in which the effective time of the merger occurs, those individuals who were employees or former employees of AT&T and its subsidiaries at the effective time of the merger will be provided compensation and employee benefits, other than plans involving the issuance of shares of AT&T common stock and payments or benefits made by reason of, or any increase in value attributable to, the transactions contemplated by the merger agreement, no less favorable than those provided to those employees prior to the effective time of the merger. In addition, until the second anniversary of the effective time of the merger, SBC will and will cause the surviving corporation to continue several of AT&T's severance plans (to the extent required under each of the severance plans). SBC has also agreed to waive pre-existing conditions exclusions, waiting periods and certain other requirements, provide credit for co-payments and deductibles paid and generally recognize prior service with AT&T for purposes of SBC's benefit plans (other than for purposes of benefit accrual under defined benefit pension or retirement plans or for new programs for which credit for benefit accrual is not given to similarly situated employees of SBC).

SBC has agreed that it will and will cause the surviving corporation and its subsidiaries to honor the terms of any collective bargaining agreements to which AT&T and its subsidiaries are a party.

AT&T and SBC have agreed that, prior to the consummation of the merger, AT&T will establish a retention bonus pool designed to retain certain key employees of AT&T through the transition period between the announcement of the merger and a period following the consummation of the merger. Participants in the retention pool will be selected by AT&T in consultation with SBC, although the final selections will be made in the sole discretion of AT&T and in no event will members of AT&T's executive committee be eligible to participate. The aggregate amount of the retention pool will be up to \$100,000,000. Individual retention bonus amounts generally will range between one and three times the participant's annual base salary depending upon the participant's position and will be paid to participants on a date established by AT&T which may be no earlier than six months following the closing of the merger or on such earlier date as the participant's employment is terminated by AT&T or SBC without cause or a constructive termination of the participant for good reason.

Fees and Expenses. Whether or not the merger is consummated, except as otherwise agreed by the parties, the parties will pay all of their own costs and expenses incurred in connection with the merger agreement and the transactions contemplated by the merger agreement.

Indemnification and Directors' and Officers' Insurance. SBC and AT&T have agreed to indemnify and hold harmless the directors and officers of AT&T and its subsidiaries for costs arising out of matters existing or occurring at or prior to the effective time of the merger. The surviving corporation has agreed to maintain directors' and officers' liability insurance for six years following the effective time of the merger.

Regulatory Compliance. AT&T and each of its subsidiaries agreed to use its reasonable best efforts to:

cure any material violations and defaults by any of them under any applicable rules and regulations of the FCC or the Federal Aviation Administration, which is referred to as the FAA in this document, no later than the effective time of the merger;

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comply in all material respects with the terms of, and make all necessary filings under, AT&T's FCC licenses and the FAA rules; and

take all actions reasonably requested in writing by SBC for each of them to be in compliance effective upon the closing of the merger with the provisions of Sections 271 and 272 of the Communications Act of 1934, as amended. SBC has agreed to reimburse AT&T for any reasonable out-of-pocket expenses it incurs at SBC's request to comply with this requirement.

Neither AT&T nor its subsidiaries will be required to cure any alleged material violation or default with any applicable rule or regulation of the FCC or the FAA for any matter until there is a final and nonappealable order or decision holding that AT&T or its subsidiary is in material violation or default of the applicable rule or regulation.

Potential Sale of AT&T's Assets. Between the date of the merger agreement and the effective time of the merger, AT&T and its subsidiaries must cooperate with SBC to facilitate the disposition of certain agreed upon assets or ownership interests or assets or ownership interests which are inconsistent with SBC's strategic objectives and the value of which in the aggregate does not exceed \$100,000,000.

AT&T and its subsidiaries will use their reasonable best efforts to permit potential purchasers of those potential sale interests to conduct reasonable investigations, comply with any applicable right of first refusal, right of first offer, right of approval or similar provisions that may be applicable and to deliver notices, make filings and execute contracts in connection with such potential sale interests, as reasonably requested by SBC.

AT&T and its subsidiaries will not be required to execute any contract requiring AT&T or any of its subsidiaries to dispose of any such potential sale interests, or to agree to restrictions on their businesses or operations, prior to the effective time of the merger. SBC may identify potential purchasers of potential sale interests and negotiate contracts selling those interests. AT&T may and, to the extent reasonably requested by SBC, will participate in such negotiations. SBC will reimburse AT&T and its subsidiaries for their reasonable costs in complying with their obligations with respect to potential sale interests.

Special Dividend. Following the date of the adoption of the merger agreement by holders of AT&T shares constituting the requisite vote at the stockholders meeting and prior to the effective time of the merger, AT&T will declare and pay a special dividend of \$1.30 per share payable to holders of record of outstanding shares of AT&T common stock as of a record date set by the AT&T board of directors, to be payable no later than the effective time of the merger. Subject to applicable law, AT&T will use its reasonable best efforts to cause the special dividend to be paid prior to the effective time on the closing date of the merger. **AT&T does not intend to pay the special dividend unless the merger is to be completed.**

Conditions to the Merger

Conditions to Each Party's Obligations to Effect the Merger. The respective obligation of each of SBC, Merger Sub and AT&T to complete the merger is conditioned upon the satisfaction or waiver prior to the effective time of the merger of each of the following conditions:

the merger agreement will have been duly adopted by holders of a majority of the outstanding shares of AT&T common stock entitled to vote on the matter in accordance with applicable law and AT&T's certificate of incorporation and by-laws;

the waiting period applicable to the consummation of the merger under the HSR Act will have expired or been earlier terminated;

if applicable, the European Commission, or a governmental entity of a member state of the European Union, as applicable, will have granted approval of the merger and the other transactions contemplated by the merger agreement;

all approvals and authorizations required to be obtained in respect of AT&T's communications licenses and from foreign and other governmental entities for the consummation of the merger will have been obtained (subject to certain exceptions);

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no governmental entity of competent jurisdiction will have enacted, issued, promulgated, enforced or entered any order or law that is in effect and restrains, enjoins or otherwise prohibits consummation of the merger or the other transactions contemplated by the merger agreement, except for orders of governmental entities outside the United States as would not, individually or in the aggregate, reasonably be expected to have a specified material adverse effect (as defined under *Covenants and Agreements Reasonable Best Efforts* above) and which do not provide a reasonable basis to conclude that the 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 by the SEC and no proceedings for that purpose will have been initiated 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.

Conditions to Obligations of SBC and Merger Sub. The obligations of SBC and Merger Sub to effect the merger are subject to the satisfaction or waiver by SBC at or prior to the effective time of the merger of the following conditions:

certain specified representations and warranties made by AT&T in the merger agreement will be true and correct in all material respects as of the date of the merger agreement and as of the closing date as though made on and as of the closing date (except to the extent any such representation and warranty expressly speaks as of an earlier date, in which case such representation and warranty shall be true and correct as of such earlier date); any failure of any of the other representations and warranties made by AT&T in the merger agreement, without giving effect to any materiality or material adverse effect qualifications contained therein, individually or in the aggregate, to be true and correct as of the date of the merger agreement and as of the closing date as though made on and as of the closing date (except to the extent any such representation and warranty expressly speaks as of an earlier date, in which case such representation and warranty shall be true and correct as of such earlier date) will not have had, or reasonably be expected to have, a material adverse effect; and SBC will have received a certificate as to the foregoing from the chief executive officer or chief financial officer of AT&T;

AT&T will 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 SBC will have received a certificate to such effect from the chief executive officer or chief financial officer of AT&T;

no governmental entity of competent jurisdiction will have instituted (or if instituted, will not have withdrawn) any 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 action, suit, claim, hearing, investigation or other proceeding the existence of which would, in the reasonable judgment of SBC, individually or in the aggregate, be reasonably likely to result in the failure of the condition described in the fifth bullet point under *Conditions to the Merger Conditions to Each Party's Obligation to Effect the Merger* above;

All governmental consents will have been made or obtained (subject to certain exceptions). All governmental consents that have been obtained will have been obtained without the imposition of any term, condition or consequence the acceptance of which would, individually or in the aggregate, reasonably be expected to have or result in a specified material adverse effect (as defined in the merger agreement) and all required governmental consents obtained from the FCC shall have been obtained by a final order;

AT&T will 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

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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 will 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 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.

Conditions to Obligations of AT&T. The obligation of AT&T to effect the merger is also subject to the satisfaction or waiver by AT&T at or prior to the effective time of the merger of the following conditions:

certain specified representations and warranties made by SBC and Merger Sub in the merger agreement will be true and correct in all material respects as of the date of the merger agreement and as of the closing date as though made on and as of the closing date (except to the extent any such representation and warranty expressly speaks as of an earlier date, in which case such representation and warranty shall be true and correct as of such earlier date); any failure of any of the other representations and warranties made by SBC and Merger Sub in the merger agreement, without giving effect to any materiality or material adverse effect qualifications contained therein, individually or in the aggregate, to be true and correct as of the date of the merger agreement and as of the closing date as though made on and as of the closing date (except to the extent any such representation and warranty expressly speaks as of an earlier date, in which case such representation and warranty will be true and correct as of such earlier date), will not have had, or reasonably be expected to have, an SBC material adverse effect; and AT&T will have received a certificate as to the foregoing from the chief executive officer or chief financial officer of SBC;

Each of SBC and Merger Sub will 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 will have received a certificate to such effect from the chief executive officer or chief financial officer of SBC on behalf of SBC and Merger Sub; and

AT&T will 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 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.

Termination

The merger agreement may be terminated and the merger may be abandoned at any time prior to the effective time of the merger, whether before or after the adoption of the merger agreement by AT&T's shareholders, by action taken by the board of directors of the terminating party or parties:

by mutual written consent of AT&T and SBC;

by either AT&T or SBC 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 the termination date may be extended from time to time by SBC or AT&T one or more times to a date not beyond July 31, 2006, provided that if the closing condition with respect to governmental consents has not been satisfied solely by reason of a required governmental consent that 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

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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 Conditions to the Merger Conditions to Each Party s Obligations to Effect 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:

by AT&T if:

the AT&T board of directors authorizes AT&T, subject to complying with the terms of the merger agreement, to enter into a binding written agreement concerning a transaction that constitutes a superior proposal and AT&T prior to such termination pays to SBC in immediately available funds the termination fee; or

there has been a breach of any representation, warranty, covenant or agreement made by SBC or Merger Sub in the merger agreement, or any such representation or warranty becomes untrue or incorrect after the execution of the merger agreement, such that closing conditions to AT&T s obligation to effect the merger would not be satisfied and such breach or failure to be true and correct is not curable by the termination date.

by SBC 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, or any such representation or warranty has become untrue or incorrect after the execution of the merger agreement, such that closing conditions to SBC s obligation to effect to merger would not be satisfied and such breach or failure to be true or correct 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 has knowingly and materially and not inadvertently breached its obligations under the merger agreement relating to acquisition proposals.

Effect of Termination

If the merger agreement is terminated and the merger is abandoned as described above, the merger agreement will be void and of no effect, with no liability on the part of any party to the merger agreement, other than for damages resulting from willful or intentional breach of any covenant in the merger agreement.

Termination Fees and Expenses

AT&T will promptly, but in no event later than two days after the date of termination, pay to SBC a termination fee of \$560,000,000 and all out-of-pocket expenses incurred by SBC and Merger Sub in connection with the merger agreement and the transactions contemplated by the merger agreement up to a maximum of \$40,000,000, if:

a bona fide acquisition proposal, but substituting 40% for the 15% thresholds described under Covenants and Agreements Acquisition Proposals above, has been made to AT&T or any of its subsidiaries or its shareholders and such proposal becomes publicly known, or any person publicly

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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);

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 preceding bullet point (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.

No termination fee will be payable to SBC in the case described in the first of the four bullet points above unless and until:

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

a merger, consolidation or similar business combination has been consummated between AT&T or one of its subsidiaries and such an acquiring party within such 15 month period.

If AT&T fails to promptly pay the termination fee and related expenses and, in order to obtain such payment, SBC or Merger Sub commences a lawsuit which results in judgment against AT&T for such fee or related expenses, then AT&T will pay SBC or Merger Sub its costs and expenses, including attorneys' fees, in connection with such lawsuit with interest on the delinquent termination fee at Citibank's prime rate effective at the time the termination fee was due. If the termination fee and/or out-of-pocket expenses are paid by AT&T, such amounts will be SBC's and Merger Sub's sole and exclusive remedy for monetary damages under the merger agreement.

Amendment, Extension and Waiver

At any time prior to the effective time of the merger, the parties to the merger agreement may modify or amend the merger agreement by written agreement executed and delivered by duly authorized officers of the respective parties. The conditions to each of the parties' obligations to consummate the merger may be waived by such party in whole or in part to the extent permitted by applicable laws.

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THE COMPANIES

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. Its 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 provides a broad range of communications services and customized solutions, including:

domestic and international long distance and toll-free voice services;

local services, including switched and private line voice, local data and special access services;

domestic and international data and internet protocol (IP) services for a variety of network standards, including frame relay and asynchronous transfer mode (ATM);

managed networking services and outsourcing solutions; and

domestic and international wholesale transport services.

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. AT&T provides a broad range of communications services to consumers individually and in combination with other services, including:

domestic and international long distance;

voice over internet protocol (VoIP);

transaction-based communications services, such as operator-assisted calling services and prepaid phone cards;

local calling; and

internet service through AT&T Worldnet® service and AT&T digital subscriber line (DSL) service.

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 was formed as one of several regional holding companies created to hold AT&T's local telephone companies. On January 1, 1984, SBC was spun off from AT&T pursuant to an antitrust consent decree, becoming an independent publicly traded telecommunications services provider. At formation, SBC primarily operated in five southwestern states. Its subsidiaries merged with Pacific Telesis Group in 1997, Southern New England Telecommunications Corporation in 1998 and Ameritech Corporation in 1999, thereby expanding its wireline operations as the incumbent local exchange carrier into a total of 13 states. Its services and products are marketed under the SBC brand name as well as several other brands including Cingular Wireless, through

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its joint venture with BellSouth Corporation; SBC Yahoo! through its alliance with Yahoo, Inc (Yahoo!); and SBCGDish Network through its agreement with EchoStar Communications Corp.

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.

The services and products that it offers vary by market, and include: local exchange services, wireless communications, long-distance services, internet services, telecommunications equipment, and directory advertising and publishing. In the first quarter of 2004, SBC began offering satellite television services through its agreement with EchoStar. SBC groups its operating subsidiaries as follows:

wireline subsidiaries, providing primarily land and wire based services;

wireless subsidiaries, holding its investment in Cingular Wireless, which provides primarily radio-wave based services;

directory subsidiaries, providing services related to directory advertising and publishing;

international subsidiaries, holding investments in primarily foreign entities outside of the U.S.; and

other subsidiaries, providing primarily corporate operations.

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**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION
FOR THE QUARTER ENDED MARCH 31, 2005**

The Unaudited Pro Forma Condensed Combined Financial Statements presented below are derived from the historical consolidated financial statements of SBC and AT&T. The Unaudited Pro Forma Condensed Combined Financial Statements are prepared using the purchase method of accounting, with SBC treated as the acquirer and as if the acquisition of AT&T had been completed on January 1, 2005 for statement of income purposes and on March 31, 2005 for balance sheet purposes. For a summary of the business combination, see *The Merger* beginning on page 28.

The Unaudited Pro Forma Condensed Combined Financial Statements are based upon the historical financial statements of SBC and AT&T adjusted to give effect to the AT&T acquisition. The pro forma amounts have been developed from (a) the unaudited consolidated financial statements of SBC contained in its Quarterly Report on Form 10-Q for the three-month period ended March 31, 2005, which are incorporated by reference in this document, and (b) the unaudited consolidated financial statements of AT&T contained in its Quarterly Report on Form 10-Q for the three-month period ended March 31, 2005, which are incorporated by reference in this document.

As of the date of this document, SBC has not performed the detailed valuation studies necessary to arrive at the required estimates of the fair market value of the AT&T assets to be acquired and the AT&T liabilities to be assumed and the related allocations of purchase price, nor has it identified the adjustments necessary, if any, to conform AT&T data to SBC's accounting policies. However, as indicated in Note 2 to the Unaudited Pro Forma Condensed Combined Financial Statements, SBC has made certain adjustments to the historical book values of the assets and liabilities of AT&T to reflect certain preliminary estimates of the fair values necessary to prepare the Unaudited Pro Forma Condensed Combined Financial Statements, with the excess of the purchase price over the historical net assets of AT&T, as adjusted to reflect estimated fair values, recorded as goodwill and indefinite-lived intangibles. Actual results may differ from these Unaudited Pro Forma Condensed Combined Financial Statements once SBC has determined the final purchase price for AT&T and has completed the valuation studies necessary to finalize the required purchase price allocations and identified any necessary conforming accounting changes for AT&T. There can be no assurance that such finalization will not result in material changes.

The Unaudited Pro Forma Condensed Combined Financial Statements are provided for illustrative purposes only and do not purport to represent what the actual consolidated results of operations or the consolidated financial position of SBC would have been had the AT&T acquisition occurred on the dates assumed, nor are they necessarily indicative of future consolidated results of operations or consolidated financial position.

The Unaudited Pro Forma Condensed Combined Financial Statements do not include the realization of cost savings from operating efficiencies, revenue synergies or other restructuring costs expected to result from the AT&T acquisition. Specifically, the Unaudited Pro Forma Condensed Combined Financial Statements do not reflect any impact of a retention pool that AT&T will establish prior to the consummation of the merger, which is designed to retain certain key employees of AT&T through the transition period between the announcement of the merger and a period following the consummation of the merger. The aggregate amount of the retention pool is up to \$100 million. For further information, see *The Merger* Interests of AT&T Executive Officers and Directors in the Merger Retention Program.

The Unaudited Pro Forma Condensed Combined Financial Statements should be read in conjunction with the separate historical consolidated financial statements and accompanying notes of SBC and AT&T which are incorporated by reference in this document.

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SBC COMMUNICATIONS INC.
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME
For the Three Months Ended March 31, 2005
(\$ in millions, except per share data)

	Historical		Pro Forma	
	SBC	AT&T	Adjustments	Combined
Total Operating Revenues	\$ 10,248	\$ 7,015	\$ (473)(c)	\$ 16,790
Operating Expenses				
Cost of sales (exclusive of depreciation and amortization shown separately below)	4,397	4,032	(422)(c) (28)(d)	7,979
Selling, general and administrative	2,470	1,277	(49)(d)	3,698
Depreciation and amortization	1,825	636	125 (b5) (27)(g)	2,559
Total Operating Expenses	8,692	5,945	(401)	14,236
Operating Income	1,556	1,070	(72)	2,554
Interest expense	353	203	(39)(e)	517
Other income (expense) net	98	30		128
Income Before Income Taxes	1,301	897	(33)	2,165
Provision (benefit) for income taxes	416	368	(13)(h)	771
Net Income	\$ 885	\$ 529	\$ (20)	\$ 1,394
Basic Earnings Per Share:				
Net Income	\$ 0.27	\$ 0.66		\$ 0.35(f)
Weighted Average Common Shares Outstanding (000,000)	3,303	800		3,927
Diluted Earnings Per Share:				
Net Income	\$ 0.27	\$ 0.66		\$ 0.35(f)
Weighted Average Common Shares Outstanding with Dilution (000,000)	3,315	806		3,944

The accompanying notes are an integral part of these
Unaudited Pro Forma Condensed Combined Financial Statements.

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SBC COMMUNICATIONS INC.
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
As of March 31, 2005
(\$ in millions, except per share data)

	Historical		Pro Forma	
	SBC	AT&T	Adjustments	Combined
Assets				
Current Assets				
Cash and cash equivalents	\$ 427	\$ 3,705	\$ (1,041) (a)	\$ 3,091
Accounts receivable net	5,268	3,112		8,380
Other current assets	2,319	1,896		4,215
Total current assets	8,014	8,713	(1,041)	15,686
Property, Plant and Equipment Net	49,311	11,203		60,514
Goodwill and Other Intangibles Net	2,211	5,186	17,524 (b5) (5,186)(b5)	19,735
Investments in Equity Affiliates	1,867			1,867
Investments in and Advances to Cingular Wireless	32,949			32,949
Other Assets	12,594	6,594	(822)(b2)	18,366
Total Assets	\$ 106,946	\$ 31,696	\$ 10,475	\$ 149,117
Liabilities and Stockholders Equity				
Current Liabilities				
Debt maturing within one year	\$ 6,175	\$ 1,982	\$	\$ 8,157
Other current liabilities	11,416	6,953		18,369
Total current liabilities	17,591	8,935		26,526
Long-Term Debt	20,937	7,468	1,160 (b3)	29,565
Other noncurrent liabilities	28,014	7,877	1,832 (b2)	37,723
Total noncurrent liabilities	48,951	15,345	2,992	67,288
Stockholders Equity				
Common shares issued	3,433	801	(801)(b4) 624 (b1)	4,057
Capital in excess of par value	12,726	27,049	(26,008)(b4) (1,041)(a) 14,275 (b1)	27,001
Retained earnings (deficit)	29,171	(20,651)	20,651 (b4)	29,171
Treasury shares (at cost)	(4,332) (594)	217	(217)(b4)	(4,332) (594)

Accumulated other comprehensive
income

Total stockholders equity	40,404	7,416	7,483	55,303
Total Liabilities and Stockholders Equity	\$ 106,946	\$ 31,696	\$ 10,475	\$ 149,117

The accompanying notes are an integral part of these
Unaudited Pro Forma Condensed Combined Financial Statements.

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SBC COMMUNICATIONS INC.
NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS
For the Quarter Ended March 31, 2005
(\$ in millions, except per share data)

Note 1. Basis of Presentation

The accompanying Unaudited Pro Forma Condensed Combined Financial Statements present the pro forma consolidated financial position and results of operations of the combined company based upon the historical financial statements of SBC and AT&T, after giving effect to the merger and adjustments described in these footnotes, and are intended to reflect the impact of the pending AT&T acquisition on SBC. On January 31, 2005, SBC and AT&T jointly announced the execution of the merger agreement, pursuant to which SBC would acquire AT&T in a transaction in which each share of AT&T common stock, par value of \$1.00, would be converted into and exchanged for 0.77942 of a share of SBC common stock (equivalent to approximately 624 million shares, or 19% of the shares of SBC common stock that were outstanding at March 31, 2005). Based on the average closing price of SBC common stock for the two days prior to, including, and two days subsequent to the public announcement of the merger (January 31, 2005) of \$23.87, the purchase price would be approximately \$14,899. After the AT&T acquisition, AT&T will be a wholly-owned subsidiary of SBC. The transaction has been approved by the board of directors of each company and also must be approved by the shareholders of AT&T. The transaction is subject to review and approval by the DOJ, FCC and various other regulatory authorities.

The accompanying Unaudited Pro Forma Condensed Combined Financial Statements are presented for illustrative purposes only and do not give effect to any cost savings, revenue synergies or restructuring costs which may result from the integration of SBC's and AT&T's operations. Specifically, the Unaudited Pro Forma Condensed Combined Financial Statements do not reflect any impact of a retention pool that AT&T will establish prior to the consummation of the merger, which is designed to retain certain key employees of AT&T through the transition period between the announcement of the merger and a period following the consummation of the merger. The aggregate amount of the retention pool is up to \$100. For further information, see *The Merger* Interests of AT&T Executive Officers and Directors in the Merger Retention Program.

Additionally, the Unaudited Pro Forma Condensed Combined Financial Statements do not include any transaction costs relating to the merger that will be included by SBC as part of the purchase price (as those amounts are anticipated to be immaterial to the total purchase price). For more information on estimated cost savings and revenue synergies, see *The Merger* SBC's Reasons for the Merger on page 32 and *The Merger* AT&T's Reasons for the Merger on page 34. The Unaudited Pro Forma Condensed Balance Sheet reflects the merger as if it had been effective on March 31, 2005. The Unaudited Pro Forma Combined Condensed Statement of Income reflects the merger as if it had been in effect on January 1, 2005.

Note 2. Pro Forma Adjustments

- (a) The Pro Forma Condensed Combined Balance Sheet has been adjusted to record the special dividend of \$1.30 per share to be paid by AT&T to AT&T shareholders prior to the closing of the merger. For purposes of the Unaudited Pro Forma Condensed Combined Balance Sheet, the dividend is calculated based on 801 million AT&T shares outstanding as of March 31, 2005. However, the actual dividend paid will be based on AT&T shares outstanding on the record date for payment of the dividend.

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SBC COMMUNICATIONS INC.
NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS
For the Quarter Ended March 31, 2005 (Continued)
(\$ in millions, except per share data)

- (b) This entry reflects the preliminary allocation of the purchase price to identifiable net assets acquired and the excess purchase price to Goodwill and Other Intangibles Net as follows:

	Common Stock	Additional Capital	Total
Total consideration: Issuance of SBC common stock to AT&T shareholders	\$ 624	\$ 14,275	\$ 14,899(b1)
<i>Preliminary estimate of fair value of identifiable net assets acquired:</i>			
AT&T's equity			\$ 7,416
Special dividend to AT&T shareholders			(1,041)(a)
AT&T's adjusted Equity			\$ 6,375(b4)
Elimination of AT&T goodwill and intangibles			(5,186)(b5)
Preliminary estimate of fair value adjustment of AT&T long-term debt			(1,160)(b3)
Preliminary estimate of fair value adjustment of AT&T pension and postretirement plans			(2,654)(b2)
Preliminary estimate of fair value of identifiable net assets (liabilities) acquired			\$ (2,625)
Goodwill and Other Intangibles Net			\$ 17,524(b5)

- (b1) The purchase price allocation included within these Unaudited Pro Forma Condensed Combined Financial Statements is based upon a purchase price of \$14,899 calculated as follows:

AT&T shares outstanding at March 31, 2005	800,823,621
Exchange ratio	0.77942
SBC shares to be issued	624,177,946
Price per share(1)	\$ 23.87
Aggregate value of SBC consideration	\$ 14,899
Value attributed to par at \$1 par value	\$ 624
Balance to capital in excess of par value	\$ 14,275

- (1) Price per share is based on the average closing price of SBC common stock for the two days prior to, including and two days subsequent to the public announcement of the merger.

It is assumed that all stock will be new issuances. However, SBC may issue treasury shares for a portion of the required SBC common stock. The actual number of newly issued shares of SBC common stock or treasury shares to be delivered in connection with the merger will be based upon the number of AT&T shares issued and outstanding when the merger closes.

- (b2) The Unaudited Pro Forma Condensed Combined Balance Sheet has been adjusted to reflect AT&T's pension and postretirement benefit plans at fair value. The total adjustment of \$2,654 represents unrecognized net loss of \$976 and \$1,276 and unrecognized prior services costs of \$358 and \$44 for AT&T's pension and postretirement plans, respectively, as of March 31, 2005. Such

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SBC COMMUNICATIONS INC.
NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS
For the Quarter Ended March 31, 2005 (Continued)
(\$ in millions, except per share data)

amounts were reflected in the balance sheet based on the plans the adjustments relate to and whether such plans were in a net asset or net liability position.

- (b3) The Unaudited Pro Forma Condensed Combined Balance Sheet has been adjusted to report AT&T's long-term debt at fair value. The estimated fair value of AT&T's long-term debt (including current maturities of long-term debt) was \$10,021 at March 31, 2005, calculated using quotes or rates available for debt with similar terms and maturities, based on AT&T's debt ratings at that time. The carrying value of AT&T's long-term debt (including current maturities of long-term debt) was \$8,861 at March 31, 2005, resulting in a total increase to debt of \$1,160. The carrying value of debt with an original maturity of less than one year approximates market value. None of this fair market value adjustment was attributed to current maturities of long-term debt.
- (b4) The Unaudited Pro Forma Condensed Combined Balance Sheet has been adjusted to eliminate the historical shareholders' equity accounts of AT&T.
- (b5) The Unaudited Pro Forma Condensed Combined Balance Sheet has been adjusted to reflect the elimination of AT&T's historical goodwill and other purchased intangibles. The Unaudited Pro Forma Condensed Combined Financial Statements reflect a preliminary allocation of the purchase price to tangible assets and liabilities with many fair values approximating historical book values as of March 31, 2005, especially for property, plant and equipment (PP&E). The remaining unallocated purchase price was allocated to Goodwill and Other Intangibles Net.

Of the total amount allocated to Goodwill and Other Intangibles Net, SBC has tentatively identified approximately \$1,500 for customers acquired with a straight-line asset life of three years (amortization of this intangible is reflected in the Unaudited Pro Forma Condensed Combined Statement of Income). However, the final purchase price allocation, based on third party appraisals, may result in different allocations for tangible and intangible assets than that presented in these Unaudited Pro Forma Condensed Combined Financial Statements, and those differences could be material. The following table is presented for illustrative purposes as an example that gives the estimated annual impact on pro forma net income for every incremental \$1,000 that is allocated to amortizable intangibles or PP&E with various lives.

Lives in Years	Estimated Amortization Expense	Net Income Impact	Per Share Impact
3	\$ 333	\$ 206	\$ 0.05
10	100	62	0.02
20	50	31	0.01

- (c) The Unaudited Pro Forma Condensed Combined Statement of Income has been adjusted to eliminate certain intercompany revenues and expenses, consisting primarily of switched access, UNE-P and high-capacity transport services, which include DS1s and DS3s (types of dedicated high-capacity lines), and SONET (a dedicated high-speed solution for multisite businesses). Other intercompany transactions and ending intercompany balances are immaterial.

- (d) The Unaudited Pro Forma Condensed Combined Statement of Income has been adjusted to reflect lower amortization of prior service cost and unrealized losses due to the adjustment of AT&T's pension and postretirement plans to fair value (see note b2). The adjustment reflects the elimination of amounts recorded by AT&T in 2005 for amortization of unrecognized prior service costs of \$31 and amortization of losses of \$46 for pension and postretirement benefits.

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SBC COMMUNICATIONS INC.
NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS
For the Quarter Ended March 31, 2005 (Continued)
(\$ in millions, except per share data)

- (e) The Unaudited Pro Forma Condensed Combined Statement of Income has been adjusted to reflect lower interest expense due to the adjustment of AT&T's long-term debt to fair value (see note b3). The difference between the fair value and the face amount of each borrowing is amortized on a straight-line basis as a reduction to interest expense over the remaining term of the borrowing, based on the maturity date.
- (f) Pro forma combined basic earnings per common share are based on the historical SBC weighted average shares outstanding during the quarter ended March 31, 2005 of 3.3 billion and the assumption that the 624 million shares assumed to be issued by SBC (see note b1) were outstanding for all of the quarter ended March 31, 2005, calculated using net income.
- Pro forma combined diluted earnings per common share are based on the historical SBC weighted average shares with dilution outstanding during the quarter ended March 31, 2005 of 3.32 billion and the assumption that the 629 million shares and equivalents (624 million shares assumed to be issued by SBC plus 6 million AT&T weighted average common stock equivalents converted at the exchange ratio of 0.77942) were outstanding for all of the quarter ended March 31, 2005, calculated using net income.
- (g) The Unaudited Pro Forma Condensed Combined Statement of Income has been adjusted to reflect the elimination of AT&T's historical intangible asset amortization due to the elimination of AT&T's historical intangible assets (see note b5).
- (h) The Unaudited Pro Forma Condensed Combined Statement of Income has been adjusted to reflect the aggregate pro forma income tax effect of notes (c) through (g) above and the amortization impact of item (b5). The aggregate pre-tax effect of these adjustments was \$33, reflected as *Income Before Income Taxes* on the Unaudited Pro Forma Condensed Combined Statement of Income, which was taxed at the SBC marginal tax rate of 38.05%.

Note 3. Federal Income Tax Consequences of the Merger

The Unaudited Pro Forma Condensed Combined Financial Statements assume that the merger qualifies as a tax-free reorganization for federal income tax purposes.

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**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2004**

The Unaudited Pro Forma Condensed Combined Financial Statements presented below are derived from the historical consolidated financial statements of SBC and AT&T. The Unaudited Pro Forma Condensed Combined Financial Statements are prepared using the purchase method of accounting, with SBC treated as the acquirer and as if the acquisition of AT&T had been completed on January 1, 2004 for statement of income purposes and on December 31, 2004 for balance sheet purposes. For a summary of the business combination, see "The Merger" beginning on page 28.

The Unaudited Pro Forma Condensed Combined Financial Statements are based upon the historical financial statements of SBC and AT&T adjusted to give effect to the AT&T acquisition. The pro forma amounts have been developed 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.

As of the date of this document, SBC has not performed the detailed valuation studies necessary to arrive at the required estimates of the fair market value of the AT&T assets to be acquired and the AT&T liabilities to be assumed and the related allocations of purchase price, nor has it identified the adjustments necessary, if any, to conform AT&T data to SBC's accounting policies. However, as indicated in Note 2 to the Unaudited Pro Forma Condensed Combined Financial Statements, SBC has made certain adjustments to the historical book values of the assets and liabilities of AT&T to reflect certain preliminary estimates of the fair values necessary to prepare the Unaudited Pro Forma Condensed Combined Financial Statements, with the excess of the purchase price over the historical net assets of AT&T, as adjusted to reflect estimated fair values, recorded as goodwill and indefinite-lived intangibles. Actual results may differ from these Unaudited Pro Forma Condensed Combined Financial Statements once SBC has determined the final purchase price for AT&T and has completed the valuation studies necessary to finalize the required purchase price allocations and identified any necessary conforming accounting changes for AT&T. There can be no assurance that such finalization will not result in material changes.

The Unaudited Pro Forma Condensed Combined Financial Statements are provided for illustrative purposes only and do not purport to represent what the actual consolidated results of operations or the consolidated financial position of SBC would have been had the AT&T acquisition occurred on the dates assumed, nor are they necessarily indicative of future consolidated results of operations or consolidated financial position.

The Unaudited Pro Forma Condensed Combined Financial Statements do not include the realization of cost savings from operating efficiencies, revenue synergies or restructuring costs expected to result from the AT&T acquisition. Specifically, the Unaudited Pro Forma Condensed Combined Financial Statements do not reflect any impact of a retention pool that AT&T will establish prior to the consummation of the merger, which is designed to retain certain key employees of AT&T through the transition period between the announcement of the merger and a period following the consummation of the merger. The aggregate amount of the retention pool is up to \$100 million. For further information, see "The Merger - Interests of AT&T Executive Officers and Directors in the Merger Retention Program."

The Unaudited Pro Forma Condensed Combined Financial Statements should be read 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.

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SBC COMMUNICATIONS INC.
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME
For the Year Ended December 31, 2004
(\$ in millions, except per share data)

	Historical		Pro Forma	
	SBC	AT&T	Adjustments	Combined
Total Operating Revenues	\$ 40,787	\$ 30,537	\$ (1,839)(c)	\$ 69,485
Operating Expenses				
Cost of sales (exclusive of depreciation and amortization shown separately below)	17,383	17,528	(1,839)(c) (110)(d)	32,962
Selling, general and administrative	9,939	6,557	(194)(d)	16,302
Depreciation and amortization	7,564	3,768	500 (b5) (1,080)(g) (115)(h)	10,637
Asset impairment and net restructuring and other charges		12,772	(g)	12,772
Total Operating Expenses	34,886	40,625	(2,838)	72,673
Operating Income (Loss)	5,901	(10,088)	999	(3,188)
Interest expense	1,023	803	(152)(e)	1,674
Other income (expense) net	2,287	(138)		2,149
Income (Loss) Before Income Taxes	7,165	(11,029)	1,151	(2,713)
Provision (benefit) for income taxes	2,186	(4,560)	438 (i)	(1,936)
Income (Loss) From Continuing Operations	\$ 4,979	\$ (6,469)	\$ 713	\$ (777)
Basic Earnings Per Share:				
Income (Loss) From Continuing Operations	\$ 1.50	\$ (8.14)		\$ (0.20)(f)
Weighted Average Common Shares Outstanding (000,000)	3,310	795		3,932
Diluted Earnings Per Share:				
Income (Loss) From Continuing Operations	\$ 1.50	\$ (8.14)		\$ (0.20)(f)
Weighted Average Common Shares Outstanding with Dilution (000,000)	3,322	795		3,932

The accompanying notes are an integral part of these
Unaudited Pro Forma Condensed Combined Financial Statements.

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SBC COMMUNICATIONS INC.
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
As of December 31, 2004
(\$ in millions, except per share data)

	Historical		Pro Forma	
	SBC	AT&T	Adjustments	Combined
Assets				
Current Assets				
Cash and cash equivalents	\$ 760	\$ 3,698	\$ (1,038) (a)	\$ 3,420
Accounts receivable net	5,480	3,195		8,675
Other current assets	2,301	2,494		4,795
Total current assets	8,541	9,387	(1,038)	16,890
Property, Plant and Equipment Net	50,046	11,509		61,555
Goodwill and Other Intangibles Net	2,054	5,263	17,828 (b5) (5,263)(b5)	19,882
Investments in Equity Affiliates	1,798			1,798
Investments in and Advances to Cingular Wireless	33,687			33,687
Other Assets	12,718	6,645	(851)(b2)	18,512
Total Assets	\$ 108,844	\$ 32,804	\$ 10,676	\$ 152,324
Liabilities and Stockholders Equity				
Current Liabilities				
Debt maturing within one year	\$ 5,734	\$ 1,886	\$	\$ 7,620
Other current liabilities	13,200	7,202		20,402
Total current liabilities	18,934	9,088		28,022
Long-Term Debt	21,231	8,779	958 (b3)	30,968
Other noncurrent liabilities	28,175	7,918	1,880 (b2)	37,973
Total noncurrent liabilities	49,406	16,697	2,838	68,941
Stockholders Equity				
Common shares issued	3,433	799	(799)(b4) 622 (b1)	4,055
Capital in excess of par value	12,804	27,170	(26,132)(b4) (1,038) (a) 14,235 (b1)	27,039
Retained earnings (deficit)	29,352	(21,180)	21,180 (b4)	29,352
Treasury shares (at cost)	(4,535)			(4,535)
	(550)	230	(230)(b4)	(550)

Accumulated other comprehensive
income

Total stockholders equity	40,504	7,019	7,838	55,361
Total Liabilities and Stockholders Equity	\$ 108,844	\$ 32,804	\$ 10,676	\$ 152,324

The accompanying notes are an integral part of these
Unaudited Pro Forma Condensed Combined Financial Statements.

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SBC COMMUNICATIONS INC.
Notes to Unaudited Pro Forma Condensed Combined Financial Statements
For the Year Ended December 31, 2004
(\$ in millions, except per share data)

Note 1. Basis of Presentation

The accompanying Unaudited Pro Forma Condensed Combined Financial Statements present the pro forma consolidated financial position and results of operations of the combined company based upon the historical financial statements of SBC and AT&T, after giving effect to the merger and adjustments described in these footnotes, and are intended to reflect the impact of the pending AT&T acquisition on SBC. On January 31, 2005, SBC and AT&T jointly announced the execution of the merger agreement, pursuant to which SBC would acquire AT&T in a transaction in which each share of AT&T common stock, par value of \$1.00, would be converted into and exchanged for 0.77942 of a share of SBC common stock (equivalent to approximately 622 million shares, or 19% of the shares of SBC common stock that were outstanding at December 31, 2004). Based on the average closing price of SBC common stock for the two days prior to, including, and two days subsequent to the public announcement of the merger (January 31, 2005) of \$23.87, the purchase price would be approximately \$14,857. After the AT&T acquisition, AT&T will be a wholly-owned subsidiary of SBC. The transaction has been approved by the board of directors of each company and also must be approved by the shareholders of AT&T. The transaction is subject to review and approval by the DOJ, FCC and various other regulatory authorities.

The accompanying Unaudited Pro Forma Condensed Combined Financial Statements are presented for illustrative purposes only and do not give effect to any cost savings, revenue synergies or restructuring costs which may result from the integration of SBC's and AT&T's operations. Specifically, the Unaudited Pro Forma Condensed Combined Financial Statements do not reflect any impact of a retention pool that AT&T will establish prior to the consummation of the merger, which is designed to retain certain key employees of AT&T through the transition period between the announcement of the merger and a period following the consummation of the merger. The aggregate amount of the retention pool is up to \$100. For further information, see *The Merger* Interests of AT&T Executive Officers and Directors in the Merger Retention Program. Additionally, the Unaudited Pro Forma Condensed Combined Financial Statements do not include any transaction costs relating to the merger that will be included by SBC as part of the purchase price (as those amounts are anticipated to be immaterial to the total purchase price). For more information on estimated cost savings and revenue synergies, see *The Merger* SBC's Reasons for the Merger on page 32 and *The Merger* AT&T's Reasons for the Merger on page 34. The Unaudited Pro Forma Condensed Balance Sheet reflects the merger as if it had been effective on December 31, 2004. The Unaudited Pro Forma Combined Condensed Statement of Income reflects the merger as if it had been in effect on January 1, 2004.

Note 2. Pro Forma Adjustments

- (a) The Pro Forma Condensed Combined Balance Sheet has been adjusted to record the special dividend of \$1.30 per share to be paid by AT&T to AT&T shareholders prior to the closing of the merger. For purposes of the Unaudited Pro Forma Condensed Combined Balance Sheet, the dividend is calculated based on 799 million AT&T shares outstanding as of December 31, 2004. However, the actual dividend paid will be based on AT&T shares outstanding on the record date for payment of the dividend.

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SBC COMMUNICATIONS INC.
Notes to Unaudited Pro Forma Condensed Combined Financial Statements
For the Year Ended December 31, 2004 (Continued)
(\$ in millions, except per share data)

(b) This entry reflects the preliminary allocation of the purchase price to identifiable net assets acquired and the excess purchase price to Goodwill and Other Intangibles Net as follows:

	Common Stock	Additional Capital	Total
Total consideration: Issuance of SBC common stock to AT&T shareholders	\$ 622	\$ 14,235	\$ 14,857(b1)
<i>Preliminary estimate of fair value of identifiable net assets acquired:</i>			
AT&T's equity			\$ 7,019
Special dividend to AT&T shareholders			(1,038)(a)
AT&T's adjusted equity			\$ 5,981(b4)
Elimination of AT&T goodwill and intangibles			(5,263)(b5)
Preliminary estimate of fair value adjustment of AT&T long-term debt			(958)(b3)
Preliminary estimate of fair value adjustment of AT&T pension and postretirement plans			(2,731)(b2)
Preliminary estimate of fair value of identifiable net assets (liabilities) acquired			\$ (2,971)
Goodwill and Other Intangibles Net			\$ 17,828(b5)

(b1) The purchase price allocation included within these Unaudited Pro Forma Condensed Combined Financial Statements is based upon a purchase price of \$14,857, calculated as follows:

AT&T shares outstanding at December 31, 2004	798,570,623
Exchange ratio	0.77942
SBC shares to be issued	622,421,915
Price per share(1)	\$ 23.87
Aggregate value of SBC consideration	\$ 14,857
Value attributed to par at \$1 par value	\$ 622
Balance to capital in excess of par value	\$ 14,235

(1) Price per share is based on the average closing price of SBC common stock for the two days prior to, including and two days subsequent to the public announcement of the merger.

It is assumed that all stock will be new issuances. However, SBC may issue treasury shares for a portion of the required SBC common stock. The actual number of newly issued shares of SBC common stock or treasury shares to be delivered in connection with the merger will be based upon the number of AT&T shares issued and outstanding when the merger closes.

(b2) The Unaudited Pro Forma Condensed Combined Balance Sheet has been adjusted to reflect AT&T's pension and postretirement benefit plans at fair value. The total adjustment of \$2,731 represents unrecognized net losses of \$1,000 and \$1,298 and unrecognized prior service costs of \$380 and \$53 for AT&T's pension and postretirement plans, respectively, as of December 31, 2004.

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SBC COMMUNICATIONS INC.
Notes to Unaudited Pro Forma Condensed Combined Financial Statements
For the Year Ended December 31, 2004 (Continued)
(\$ in millions, except per share data)

Such amounts were reflected in the balance sheet based on the plans the adjustments relate to and whether such plans were in a net asset or net liability position.

- (b3) The Unaudited Pro Forma Condensed Combined Balance Sheet has been adjusted to report AT&T's long-term debt at fair value. The estimated fair value of AT&T's long-term debt (including current maturities of long-term debt) was \$10,928 at December 31, 2004, calculated using quotes or rates available for debt with similar terms and maturities, based on AT&T's debt ratings at that time. The carrying value of AT&T's long-term debt (including current maturities of long-term debt) was \$9,970 at December 31, 2004, resulting in a total increase to debt of \$958. The carrying value of debt with an original maturity of less than one year approximates market value. None of this fair market value adjustment was attributed to current maturities of long-term debt.
- (b4) The Unaudited Pro Forma Condensed Combined Balance Sheet has been adjusted to eliminate the historical shareholders' equity accounts of AT&T.
- (b5) The Unaudited Pro Forma Condensed Combined Balance Sheet has been adjusted to reflect the elimination of AT&T's historical goodwill and other purchased intangibles. The Unaudited Pro Forma Condensed Combined Financial Statements reflect a preliminary allocation of the purchase price to tangible assets and liabilities with many fair values approximating historical book values as of December 31, 2004, especially for property, plant and equipment (PP&E). The remaining unallocated purchase price was allocated to Goodwill and Other Intangibles Net.

Of the total amount allocated to Goodwill and Other Intangibles Net, SBC has tentatively identified approximately \$1,500 for customers acquired with a straight-line asset life of three years (amortization of this intangible is reflected in the Unaudited Pro Forma Condensed Combined Statement of Income). However, the final purchase price allocation, based on third party appraisals, may result in different allocations for tangible and intangible assets than that presented in these Unaudited Pro Forma Condensed Combined Financial Statements, and those differences could be material. The following table is presented for illustrative purposes as an example that gives the estimated annual impact on pro forma net income for every incremental \$1,000 that is allocated to amortizable intangibles or PP&E with various lives.

Lives in years	Estimated Amortization Expense	Net income impact	Per share impact
3	\$ 333	\$ 206	\$ 0.05
10	100	62	0.02
20	50	31	0.01

- (c) The Unaudited Pro Forma Condensed Combined Statement of Income has been adjusted to eliminate certain intercompany revenues and expenses, consisting primarily of switched access, UNE-P and high-capacity transport services, which include DS1s and DS3s (types of dedicated high-capacity lines), and SONET (a dedicated high-speed solution for multisite businesses). Other intercompany transactions and ending intercompany balances are immaterial.

- (d) The Unaudited Pro Forma Condensed Combined Statement of Income has been adjusted to reflect lower amortization of prior service cost and unrealized losses due to the adjustment of AT&T's pension and postretirement plans to fair value (see note b2). The adjustment reflects the elimination of amounts recorded by AT&T in 2004 for amortization of unrecognized prior service costs of \$171 and amortization of losses of \$133 for pension and postretirement benefits.

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SBC COMMUNICATIONS INC.
Notes to Unaudited Pro Forma Condensed Combined Financial Statements
For the Year Ended December 31, 2004 (Continued)
(\$ in millions, except per share data)

- (e) The Unaudited Pro Forma Condensed Combined Statement of Income has been adjusted to reflect lower interest expense due to the adjustment of AT&T's long-term debt to fair value (see note b3). The difference between the fair value and the face amount of each borrowing is amortized on a straight-line basis as a reduction to interest expense over the remaining term of the borrowing, based on the maturity date.
- (f) Pro forma combined basic and diluted earnings per common share are based on the historical SBC weighted average shares of SBC common stock outstanding in 2004 of 3.31 billion and the assumption that the approximately 622 million shares assumed to be issued by SBC (see note b1) were outstanding for all of 2004, calculated using the loss from continuing operations.
- (g) Included in the Unaudited Pro Forma Condensed Combined Statement of Income is an impairment charge on PP&E of approximately \$11,400 recorded by AT&T in the third quarter of 2004. Since the triggering event for assessing impairment of long-lived assets occurred in July 2004, the impairment charge is not adjusted in the Unaudited Pro Forma Condensed Combined Statement of Income. However, depreciation expense has been reduced by \$1,080 to reflect SBC estimates of PP&E fair value for the purpose of purchase price allocation and are based on PP&E levels after the impairment. Had the value used for depreciation been assigned to PP&E as of the beginning of the year, there would be no impairment. For purposes of the Unaudited Pro Forma Condensed Combined Statement of Income, the useful lives of PP&E was two to 16 years for communications, network and other equipment and five to 40 years for buildings and improvements.
- (h) The Unaudited Pro Forma Condensed Combined Statement of Income has been adjusted to reflect the elimination of AT&T's historical intangible asset amortization due to the elimination of AT&T's historical intangible assets (see note b5).
- (i) The Unaudited Pro Forma Condensed Combined Statement of Income has been adjusted to reflect the aggregate pro forma income tax effect of notes (c) through (h) above and the amortization impact of item (b5). The aggregate pre-tax effect of these adjustments was \$1,151 reflected as Income (Loss) Before Income Taxes in the Pro Forma Adjustments column on the Unaudited Pro Forma Condensed Combined Statement of Income, which was taxed at SBC's marginal tax rate of 38.05%.

Note 3. Federal Income Tax Consequences of the Merger

The Unaudited Pro Forma Condensed Combined Financial Statements assume that the merger qualifies as a tax-free reorganization for federal income tax purposes.

Table of Contents**DIRECTORS AND MANAGEMENT OF SBC FOLLOWING THE MERGER****SBC Directors and Officers Following the Merger**

Pursuant to the merger agreement, SBC's board of directors will increase its size immediately following the effective time of the merger and appoint David W. Dorman and two other members of the AT&T board of directors mutually selected by SBC and AT&T to SBC's board of directors. Mr. Dorman also will be named as President of SBC immediately following the effective time of the merger.

Biographical Information Regarding Current SBC Directors

Edward E. Whitacre, Jr., age 63, is Chairman of the Board and Chief Executive Officer of SBC and has served in this capacity since January 1990. Mr. Whitacre has been a Director of SBC since October 1986. He is the Chairman of the Executive Committee and a member of the Corporate Development Committee and the Finance/ Pension Committee of SBC. Mr. Whitacre is a Director of Anheuser-Busch Companies, Inc. and Burlington Northern Santa Fe Corporation.

Gilbert F. Amelio, age 62, is Senior Partner of Sienna Ventures (a privately-held venture capital firm), Sausalito, California, and has served in this capacity since April 2001. Dr. Amelio is also Chairman and Chief Executive Officer of Beneventure Capital, LLC (a full-service venture capital firm), San Francisco, California, and has served as such since 1999 and was Principal of Aircraft Ventures, LLC (a consulting firm), Newport Beach, California, from April 1997 to December 2004. In 2003, AmTech, LLC (a high technology investments and consulting services firm), where Dr. Amelio served as Chairman and Chief Executive Officer from 1999 to April 2004, declared bankruptcy. Dr. Amelio was elected a Director of SBC in February 2001 and had previously served as an Advisory Director of SBC from April 1997 to February 2001. He served as a Director of Pacific Telesis Group from 1995 until the company was acquired by SBC in 1997. He is a member of the Audit Committee and the Human Resources Committee of SBC. Dr. Amelio is a Director of SiVault Systems, Inc.

August A. Busch III, age 67, is Chairman of the Board of Anheuser-Busch Companies, Inc. (a brewing, packaging, and family entertainment holding company), St. Louis, Missouri, and has served in this capacity since 1977. Mr. Busch also served as Chief Executive Officer of Anheuser-Busch Companies, Inc. from 1975 until June 2002. Mr. Busch has been a Director of SBC since October 1983. He served as a Director of Southwestern Bell Telephone Company from 1980 to 1983. He is the Chairman of the Corporate Governance and Nominating Committee and a member of the Corporate Development Committee and the Executive Committee of SBC. Mr. Busch is a Director of Anheuser-Busch Companies, Inc. and Emerson Electric Co.; and an Advisory Member of the Board of Directors of Grupo Modelo, S.A. de C.V.

Martin K. Eby, Jr., age 71, retired. Mr. Eby was Chairman of the Board of The Eby Corporation (a commercial general contractor holding company), Wichita, Kansas, from April 1979 until his retirement in July 2004. Mr. Eby also was President and Chief Executive Officer of The Eby Corporation from June 1967 to December 1997. He has been a Director of SBC since June 1992. He is a member of the Audit Committee and the Human Resources Committee of SBC.

James A. Henderson, age 70, retired. Mr. Henderson was Chairman of the Board from 1995 and Chief Executive Officer from 1994 of Cummins Inc. (manufacturer of diesel and natural gas engines), Columbus, Indiana, until his retirement in December 1999. Mr. Henderson has been a Director of SBC since October 1999. He served as a Director of Ameritech Corporation from 1983 until the company was acquired by SBC in 1999. He also served as a Director of Indiana Bell Telephone Company (which became a subsidiary of Ameritech) from 1978 until 1983. He is the Chairman of the Human Resources Committee and a member of the Executive Committee and the Finance/ Pension Committee of SBC. Mr. Henderson is a Director of International Paper Company; Nanophase Technologies Corporation; Rohm and Haas Company; and Ryerson Tull, Inc.

Charles F. Knight, age 69, retired. Mr. Knight was Chairman of the Board of Emerson Electric Co. (manufacturer of electrical and electronic equipment), St. Louis, Missouri, from 1974 until his retirement in

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September 2004, when he was elected to the honorary position of Chairman Emeritus. Mr. Knight also was Chief Executive Officer of Emerson Electric Co. from 1973 to 2000. He has been a Director of SBC since October 1983. He served as a Director of Southwestern Bell Telephone Company from 1974 to 1983. He is the Chairman of the Corporate Development Committee and a member of the Executive Committee and the Finance/ Pension Committee of SBC. Mr. Knight is a Director of Anheuser-Busch Companies, Inc.; BP p.l.c.; International Business Machines Corporation; and Morgan Stanley.

Lynn M. Martin, age 65, is Chair of the Council for the Advancement of Women and Advisor to the firm of Deloitte & Touche LLP (an auditing and management consulting services firm), Chicago, Illinois, and has served in this capacity since 1993. She has also been President of The Martin Hall Group, LLC (a human resources consulting firm), Chicago, Illinois, since January 2005. Ms. Martin served as U.S. Secretary of Labor from 1991 to 1993 and as a member of the U.S. House of Representatives from Illinois from 1981 to 1991. Ms. Martin has been a Director of SBC since October 1999. She served as a Director of Ameritech Corporation from 1993 until the company was acquired by SBC in 1999. She is a member of the Finance/ Pension Committee and the Public Policy and Environmental Affairs Committee of SBC. She is a Director of Constellation Energy Group, Inc.; certain Dreyfus Funds; The Procter & Gamble Company; and Ryder System, Inc.

John B. McCoy, age 61, retired. Mr. McCoy was Chairman from November 1999 and Chief Executive Officer from October 1998 of Bank One Corporation (commercial and consumer bank) until his retirement in December 1999, and Chairman and Chief Executive Officer of its predecessor, Banc One Corporation, from 1987 to 1998. Mr. McCoy has been a Director of SBC since October 1999. He served as a Director of Ameritech Corporation from 1991 until the company was acquired by SBC in 1999. He is the Chairman of the Finance/ Pension Committee and a member of the Corporate Governance and Nominating Committee and the Executive Committee of SBC. He is a Director of Cardinal Health, Inc.; ChoicePoint Inc.; and Federal Home Loan Mortgage Corporation.

Mary S. Metz, age 68, is Chair of the Board of Trustees of American Conservatory Theater (a nonprofit nationally renowned theater and an accredited conservatory), San Francisco, California, and has served in this capacity since November 2004. Dr. Metz is also President Emerita of Mills College. She was President of S. H. Cowell Foundation, San Francisco, California, from January 1999 until her retirement in March 2005 and was Dean of the University Extension of the University of California, Berkeley, from 1991 until 1998. Dr. Metz has been a Director of SBC since April 1997. She served as a Director of Pacific Telesis Group from 1986 until the company was acquired by SBC in 1997. She is a member of the Corporate Governance and Nominating Committee and the Public Policy and Environmental Affairs Committee of SBC. Dr. Metz is a Director of Longs Drug Stores Corporation; Pacific Gas and Electric Company; and UnionBanCal Corporation.

Toni Rembe, age 69, retired. Ms. Rembe was a partner in the law firm of Pillsbury Winthrop LLP, San Francisco, California, from 1971 until her retirement in December 2004. Ms. Rembe was elected a Director of SBC in January 1998 and had previously served as an Advisory Director of SBC from April 1997 to January 1998. She served as a Director of Pacific Telesis Group from 1991 until the company was acquired by SBC in 1997. She is a member of the Corporate Development Committee and the Public Policy and Environmental Affairs Committee of SBC. Ms. Rembe is a Director of Aegon N.V.

S. Donley Ritchey, age 71, is Managing Partner of Alpine Partners (a family investment general partnership), Danville, California, and has served in this capacity since 1981. Mr. Ritchey was Chairman of the Board of Lucky Stores, Inc. from 1981 until his retirement in 1986 as well as Chief Executive Officer from 1980 to 1985. Mr. Ritchey has been a Director of SBC since April 1997. He served as a Director of Pacific Telesis Group from 1984 until the company was acquired by SBC in 1997. He is a member of the Audit Committee and the Corporate Governance and Nominating Committee of SBC. Mr. Ritchey is a Director of The McClatchy Company.

Joyce M. Roché, age 58, is President and Chief Executive Officer of Girls Incorporated (a national nonprofit research, education, and advocacy organization), New York, New York, and has served in this capacity since September 2000. Ms. Roché was an independent marketing consultant from 1998 to 2000. She

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was President and Chief Operating Officer of Carson, Inc. from 1996 to 1998, and Executive Vice President of Global Marketing of Carson, Inc. from 1995 to 1996. Ms. Roché has been a Director of SBC since October 1998. She served as a Director of Southern New England Telecommunications Corporation from 1997 until the company was acquired by SBC in 1998. She is a member of the Finance/ Pension Committee and the Public Policy and Environmental Affairs Committee of SBC. She is a Director of Anheuser-Busch Companies, Inc.; The May Department Stores Company; and Tupperware Corporation.

Laura D Andrea Tyson, age 57, is Dean of the London Business School, London, England, and has served in this capacity since January 2002. Dr. Tyson was Dean of the Walter A. Haas School of Business at the University of California, Berkeley, from July 1998 to December 2001. Dr. Tyson served as Professor of Economics and Business Administration at the University of California, Berkeley, from 1997 to 1998. She served as National Economic Adviser to the President of the United States from 1995 to 1996 and as Chair of the White House Council of Economic Advisers from 1993 to 1995. Dr. Tyson has been a Director of SBC since October 1999. She served as a Director of Ameritech Corporation from 1997 until the company was acquired by SBC in 1999. She is a member of the Corporate Development Committee and the Finance/Pension Committee of SBC. Dr. Tyson is a Director of Eastman Kodak Company and Morgan Stanley.

Patricia P. Upton, age 66, is President and Chief Executive Officer of Aromatique, Inc. (manufacturer and wholesaler of decorative fragrances), Heber Springs, Arkansas, and has served in this capacity since 1982. Ms. Upton has been a Director of SBC since June 1993. She is the Chairwoman of the Public Policy and Environmental Affairs Committee and a member of the Executive Committee and the Human Resources Committee of SBC.

Biographical Information Regarding SBC Executive Officers

The following table sets forth the name, age and title of each of SBC's executive officers named in the Compensation Table included in SBC's proxy statement for its 2005 Annual Meeting of Stockholders dated as of March 11, 2005;

Name	Age	Position
Edward E. Whitacre Jr.		Chairman of the Board of Directors and Chief Executive Officer
John H. Atterbury III	63	Group President IP Services
James D. Ellis	56	Senior Executive Vice President and General Counsel
Randall L. Stephenson	62	Chief Operating Officer
Rayford Wilkins, Jr.	45	Group President
	53	

All of the executive officers have held high-level managerial positions with SBC or its subsidiaries for more than the past five years. Executive officers are not appointed to a fixed term of office.

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INFORMATION ABOUT THE AT&T ANNUAL MEETING

You should read this section along with the information contained under the heading Questions and Answers about the AT&T Annual Meeting and the Merger . Together they are intended to answer the questions you may have about how you may vote your shares of AT&T common stock at the AT&T annual meeting, to provide you with answers about how AT&T selected the nominees for director for whom you are being asked to vote, about how you can communicate with the AT&T board of directors, and how to propose a candidate for nomination or submit a proposal to be considered at next year s annual meeting, if the merger has not yet been completed.

How do I vote?

All AT&T shareholders may vote by mail. Registered AT&T shareholders who own their shares in their own name and most beneficial AT&T shareholders who own shares through a bank or broker also may vote by telephone or the Internet. If one of these options is available to you, AT&T strongly encourages you to use it because it is faster and less costly.

Your telephone or Internet vote authorizes the Proxy Committee to vote your shares in the same manner as if you marked, signed and returned your proxy card. Under the laws of New York, the jurisdiction in which we are incorporated, voting instructions given telephonically or over the Internet are valid.

Registered AT&T shareholders can vote by telephone by calling **1-800-273-1174** or on the Internet at **<http://att.proxyvoting.com>**. Please have your proxy card in hand when calling or going online. To vote by mail, please sign, date and mail your proxy card in the envelope provided.

1. ***Vote by Telephone*** Call **1-800-273-1174** from any touch-tone telephone **ANYTIME**. For telephone voting, you will need to enter the number in the shaded area on your proxy card

To vote as your board of directors recommends on <u>ALL</u> items	PRESS 1
To vote on <u>each of the 10 items separately</u>	PRESS 0

Election of Directors (Item 2):

To vote <u>FOR ALL</u> nominees	PRESS 1
to <u>WITHHOLD FROM ALL</u> nominees	PRESS 9
to <u>WITHHOLD FROM AN INDIVIDUAL</u> nominee	PRESS 0

NOMINEES: (01) W. F. Aldinger, (02) K. T. Derr, (03) D. W. Dorman,
 (04) M. K. Eickhoff-Smith, (05) H. L. Henkel, (06) F. C. Herringer,
 (07) J. C. Madonna, (08) D. F. McHenry and (09) T. L. White

All other voting items:

To vote <u>FOR</u>	PRESS 1
to vote <u>AGAINST</u>	PRESS 9
to <u>ABSTAIN</u>	PRESS 0

2. ***Vote by Internet*** Access the website: **<http://att.proxyvoting.com/>** which is available **ANYTIME**. You will need to enter the number in the shaded area on your proxy card. Follow the simple instructions provided in the login site. Your vote will be immediately confirmed.

If you own your AT&T shares through a bank or broker, you should follow the separate instructions they provide you. Although most banks and brokers offer telephone and Internet voting, availability and specific processes will depend on their voting arrangements.

For participants in the AT&T Shareowner Dividend Reinvestment and Stock Purchase Plan or the AT&T Amended 1996 Employee Stock Purchase Plan, your shares will be voted as you specify on your proxy card and will not be voted if the proxy card is not returned or if you do not vote by telephone or the Internet.

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For employee AT&T shareholders participating in the AT&T Long Term Savings Plan for Management Employees, the AT&T Long Term Savings and Security Plan, the AT&T Retirement Savings and Profit Sharing Plan, the AT&T of Puerto Rico, Inc. Long Term Savings Plan for Management Employees, or the AT&T of Puerto Rico, Inc. Long Term Savings and Security Plan, your shares will be voted by the trustee of each applicable plan as you specify on your voting instruction form. If your voting instruction form is not returned, the trustee will vote your shares in the same proportion as the shares for which instructions were received from all other participants in that plan. If you wish to abstain from voting on any matter, you must indicate this on your voting instruction form. You cannot vote your plan shares in person at the meeting. To allow sufficient time for voting, the trustee must receive your voting instructions by no later than 5:00 p.m. Eastern Daylight Time on Tuesday, June 28, 2005.

If you attend the annual meeting in person, you may request a ballot when you arrive. If your shares are held in the name of your bank, broker, or other nominee, you need to bring an account statement or letter from the nominee indicating that you were the beneficial owner of the shares on May 27, 2005, the record date for voting.

What do I need to do if I wish to attend the AT&T annual meeting in person?

If you are a registered AT&T shareholder, you should use the admission ticket that is attached to your proxy card. If you will attend the meeting, please be sure to respond to the "I/We plan to attend the Annual Meeting" question when you vote. A beneficial AT&T shareholder may obtain an admission ticket in advance by sending a written request, with proof of ownership such as a bank or brokerage firm account statement, to: Manager Proxy, AT&T Corp., Room 3A130, One AT&T Way, Bedminster, New Jersey 07921-0752.

AT&T shareholders who do not bring admission tickets to the meeting may be admitted upon verification of ownership at the admissions counter at the meeting site.

If you attend the annual meeting, you may be asked to present valid government-issued photo identification, such as a driver's license or passport, before being admitted. Cameras, recording devices and other electronic devices will not be permitted, and attendees may be subject to security inspections or other security precautions.

The Colorado Convention Center is fully accessible to disabled persons, and sign interpretation and wireless headsets will be available for the hearing impaired AT&T shareholders.

Highlights of the annual meeting will be available on AT&T's Investor Relations Website at www.att.com/ir.

Does AT&T have a policy for confidential voting?

AT&T has a confidential voting policy. All proxies and other voting materials, including telephone and Internet voting, are kept confidential and are not disclosed to AT&T, SBC or their officers and directors, subject to standard exceptions. Such documents are available for examination only by the inspector of election and certain personnel associated with processing proxy cards and tabulating the vote. One independent inspector of election, a consultant to IVS Associates, Inc., has been appointed.

What does it mean if I receive more than one proxy card?

Your shares are likely registered differently or are in more than one account. You should vote each of your accounts by telephone, the Internet, or mail. If you mail your proxy cards, please sign, date and return each proxy card to guarantee that all of your shares are voted. If you wish to combine your AT&T shareholder accounts in the future, you should contact AT&T's transfer agent, EquiServe, at 1-800-348-8288. Combining accounts reduces printing and mailing costs, resulting in savings for AT&T that benefits you as an AT&T shareholder.

Table of Contents**Why did I receive only one set of proxy materials although there are multiple AT&T shareholders at my address?**

In accordance with a notice sent to eligible AT&T shareholders that share a single address, AT&T is sending only one set of proxy materials, which includes a proxy card for each household member, to that address unless AT&T receives instructions to the contrary from any AT&T shareholder at that address. This practice, known as householding, is used to reduce AT&T's printing and postage costs. If an AT&T shareholder of record residing at such an address wishes to receive a separate set of proxy materials in the future, he or she may contact EquiServe, AT&T's transfer agent, at 1-800-348-8288, or by e-mail to att@equiserve.com, or write to EquiServe, P.O. Box 43007, Providence, RI 02940-3007. If you are an AT&T shareholder of record that receives multiple copies of AT&T's proxy materials, you can request householding by contacting AT&T in the same manner. If you own shares through a bank, broker, or other nominee, you can request householding by contacting the nominee.

How do I access proxy materials on the Internet?

AT&T shareholders can access AT&T's 2005 Notice of Annual Meeting, this document and AT&T's 2004 Annual Report on Form 10-K, together with the amendment to that Annual Report filed on Form 10-K/A, on the Internet on AT&T's Investor Relations Website at www.att.com/ir. For future AT&T shareholder meetings, registered AT&T shareholders can further save AT&T expense by consenting to access their proxy statement and annual report electronically. You can choose this option by marking the "Electronic Access" box on your proxy card or by following the instructions provided when you vote by telephone or the Internet. If you choose this option, prior to each AT&T shareholder meeting you will receive your proxy card in the mail along with a notice of the meeting and instructions for voting by mail, telephone, or the Internet. You may select Electronic Access for each account held in your name. Your choice will remain in effect unless you revoke it by contacting AT&T's transfer agent, EquiServe, at 1-800-348-8288 or visiting AT&T's Investor Relations Website at www.att.com/ir. Internet voting instructions are provided on page 95 under "How do I vote?"

How were the nominees for director selected?

Each of the nine nominees was approved for inclusion on AT&T's slate of directors by AT&T's Governance and Nominating Committee on February 17, 2005. Mr. Dorman, AT&T's Chairman of the Board and Chief Executive Officer, is one of AT&T's executive officers. Messrs. Aldinger, Derr and Dorman, Ms. Eickhoff-Smith, Messrs. Henkel, Herringer, Madonna, McHenry and White were elected by AT&T's shareholders as directors at AT&T's May 2004 annual meeting and are standing for re-election.

How does the AT&T board of directors determine which directors are independent?

The standards for determining independence are set forth in AT&T's Corporate Governance Guidelines which are available on AT&T's Investor Relations Website (www.att.com/ir/cg) and are attached as Annex D. AT&T's Guidelines meet or exceed the listing standards of the NYSE.

Pursuant to the Guidelines, the AT&T board of directors undertook its annual review of director independence on March 7, 2005. During this review the AT&T board of directors broadly considered all relevant facts and circumstances, not merely from the standpoint of a director but also from that of persons or organizations with which a director has a relationship. As a result of this review, the AT&T board of directors affirmatively determined that all of the directors nominated for election at AT&T's 2005 Annual Meeting of Shareholders, other than AT&T's Chairman of the Board and Chief Executive Officer, Mr. Dorman, are independent and have no material relationship with AT&T.

How can I recommend a candidate for election to the AT&T board of directors?

AT&T shareholders who wish to recommend a candidate for election to the AT&T board of directors should write to: Vice President - Law and Secretary, AT&T Corp., Room 3A123, One AT&T Way, Bedminster, NJ 07921-0752, stating in detail the qualifications of a candidate for consideration by the Governance and Nominating Committee. In considering board candidates, the committee seeks individuals of

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proven judgment and competence who are outstanding in their respective fields. The committee considers such factors as experience, education, employment history, special talents or personal attributes, anticipated participation in board activities and geographic and diversity factors. The committee process for identifying and evaluating nominees would include detailed consideration of the recommendations and opinions of members of the AT&T board of directors, AT&T's executive officers, AT&T's executive human resources department and the AT&T shareholders. There would be no difference in the process of evaluation of candidates recommended by an AT&T shareholder and those recommended by other sources.

How can I communicate with the AT&T board of directors?

AT&T shareholders interested in communicating directly with the AT&T board of directors may do so by writing to: Board of Directors, AT&T Corp., P.O. Box 406, Bedminster, NJ 07921-0752. The Governance and Nominating Committee of the AT&T board of directors has approved a process for handling letters received by AT&T and addressed to members of the AT&T board of directors. Under that process, AT&T's Corporate Secretary, or members of his staff, review all such correspondence and regularly forward to each non-employee director a summary of all such correspondence and copies of all correspondence that, in the opinion of the Corporate Secretary, deal with the functions of the AT&T board of directors or the board's committees, or that he otherwise determines require their attention. Directors may at any time review a log of all correspondence received by AT&T that is addressed to members of the AT&T board of directors and request copies of any such correspondence. Concerns relating to accounting, internal controls or auditing matters are immediately brought to the attention of AT&T's internal audit department and handled in accordance with procedures established by the Audit Committee with respect to such matters.

How do I submit an AT&T shareholder proposal for next year's annual meeting?

AT&T shareholder proposals may be submitted for inclusion in AT&T's 2006 proxy statement after the 2005 annual meeting, but must be received no later than 5:00 p.m. Eastern Standard Time on January 27, 2006. Proposals should be sent via registered, certified, or express mail to: Vice President Law and Secretary, AT&T Corp., Room 3A123, One AT&T Way, Bedminster, NJ 07921-0752.

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**THE AT&T ANNUAL MEETING PROPOSALS AND INFORMATION
Information About the AT&T Board of Directors and Corporate Governance**

The AT&T Board of Directors

The AT&T board of directors is responsible for establishing broad corporate policies and monitoring AT&T's overall performance. However, in accordance with corporate legal principles, the AT&T board of directors is not involved in day-to-day operating matters. Members of the AT&T board of directors are kept informed of AT&T's business by participating in board and committee meetings, by reviewing analyses and reports sent to them each month and through discussions with AT&T's Chairman of the Board and other officers.

The AT&T board of directors held 10 meetings and the committees held 23 meetings in 2004. Each of the directors attended at least 75% of the meetings of the AT&T board of directors and its committees. The average attendance in the aggregate at the total number of meetings of the AT&T board of directors and the total number of committee meetings was 94.4%. It is AT&T's policy that directors should attend the annual meeting, absent unusual circumstances. Nine of the ten members of the AT&T board of directors attended the AT&T 2004 annual meeting.

AT&T's non-employee directors meet in executive session without any management directors or employees present approximately eight times each year. The chairman of the Governance and Nominating Committee serves as chairman for each executive session of the AT&T board of directors.

Election of Directors (Proposal 2 on Proxy Card)

AT&T's Proxy Committee intends to vote for the election of the nine nominees listed on the following pages. These nominees have been selected by the AT&T board of directors on the recommendation of the Governance and Nominating Committee. If you do not wish your shares to be voted for particular nominees, please identify the exceptions in the designated space provided on the proxy card or, if you are voting by telephone or the Internet, follow the instructions provided when you vote. Directors will be elected by a plurality of the votes cast. Any shares not voted, whether by abstention or otherwise, have no impact on the vote.

If at the time of the meeting one or more of the nominees have become unavailable to serve, shares represented by proxies will be voted for the remaining nominees and for any substitute nominee or nominees designated by the Governance and Nominating Committee or, if none, the size of the AT&T board of directors will be reduced. The Governance and Nominating Committee knows of no reason why any of the nominees will be unavailable or unable to serve.

Directors elected at the annual meeting will hold office until the next annual meeting or until their successors have been elected and qualified. For each nominee there follows a brief listing of principal occupation for at least the past five years, other major affiliations and age as of March 1, 2005.

Nominees for Election as Directors

William F. Aldinger

Age: 57

Director Since: 2003

Mr. Aldinger is Chairman and Chief Executive Officer of HSBC North America Holdings Inc., a financial services company. He joined HSBC Finance Corporation, formerly known as Household International, Inc., in 1994 as President and Chief Executive Officer. Mr. Aldinger became Chairman of Household International, Inc. in May 1996. He is an officer and director of a number of subsidiaries of HSBC North America Holdings Inc. Mr. Aldinger is a director of HSBC Holdings plc, MasterCard International and Illinois Tool Works Inc. He is a member of the boards of Children's Memorial Medical Center/ Children's Memorial Hospital and the Children's Memorial Foundation. Mr. Aldinger also serves on the board of trustees of the J.L. Kellogg Graduate School of Management.

Table of Contents**Kenneth T. Derr****Director Since:** 1995**Age:** 68

Mr. Derr is a retired Chairman of the Board and Chief Executive Officer of ChevronTexaco Corporation, an international oil company. He was Chairman and Chief Executive Officer from 1989 to 1999, Vice Chairman from 1985 to 1989 and director from 1981 to 1999. Mr. Derr also serves as a director of the American Petroleum Institute, a member of The Business Council, Council on Foreign Relations and the Board of Overseers of the Hoover Institution; Director of the Committee to Encourage Corporate Philanthropy; Director of American Productivity and Quality Center; Member of the Board of the University of California San Francisco Foundation, and Trustee Emeritus of Cornell University. Mr. Derr is a director of Citigroup Inc., Halliburton Company and Calpine Corporation.

David W. Dorman**Director Since:** 2002**Age:** 51

Mr. Dorman has been the Chairman of the Board and Chief Executive Officer of AT&T since November 2002. He was President of AT&T from 2000 to 2002 and the Chief Executive Officer of Concert, a former global venture created by AT&T and British Telecommunications plc, from 1999 to 2000. Mr. Dorman was Chairman, President and Chief Executive Officer of PointCast Incorporated from 1997 to 1999; Executive Vice President of SBC Communications Inc. in 1997; Chairman, President and Chief Executive Officer of Pacific Bell from 1994 to 1997; and President of Sprint Business from 1990 to 1994. He served as a member of the President's Advisory Committee on High Performance Computing and Communications, Information Technology and the Next Generation Internet. Mr. Dorman is a director of Scientific Atlanta, Inc. and Yum! Brands, Inc.

M. Kathryn Eickhoff-Smith**Director Since:** 1987**Age:** 65

Ms. Eickhoff-Smith has been President and Chief Executive Officer of Eickhoff Economics, Inc., an economic consulting firm, since 1987. She is a past Associate Director for Economic Policy for the U.S. Office of Management and Budget (1985-1987) and the former Executive Vice President and Treasurer of Townsend Greenspan & Co., Inc. (1962-1985). Ms. Eickhoff-Smith is a director of Tenneco Automotive Inc.

Herbert L. Henkel**Director Since:** 2004**Age:** 56

Mr. Henkel has been the Chairman of the Board of Ingersoll-Rand Company, a manufacturer of industrial products and components, since 2000 and President and Chief Executive Officer since 1999. He was the President and Chief Operating Officer of Ingersoll-Rand from April 1999 to October 1999. Mr. Henkel was the Chief Operating Officer of Textron Inc. from 1998 to 1999, and Vice President Industrial Products Segment from 1993 to 1998. Mr. Henkel is a director of Pitney Bowes Inc. and C.R. Bard, Inc.

Frank C. Herringer**Director Since:** 2002**Age:** 62

Mr. Herringer has been Chairman of the Board of Transamerica Corporation, a financial services company, since 1995. He served as Chief Executive Officer from 1991 to 1999 and President from 1986 to 1999. From 1999 to May 2000, Mr. Herringer served on the Executive Board of Aegon N.V. and as Chairman of the Board of Aegon USA, Inc. Mr. Herringer is a director of The Charles Schwab Corporation, Mirapoint Inc. and Amgen Inc.

Jon C. Madonna**Director Since:** 2002**Age:** 61

Mr. Madonna is a retired Chairman and Chief Executive Officer of KPMG, an international accounting and consulting firm. He was with KPMG for 28 years where he held numerous senior leadership positions throughout his career and served as Chairman from 1990 to 1996. Subsequent to his retirement from KPMG, Mr. Madonna served as Vice Chairman of Travelers Group, Inc. from 1997 to 1998 and President and Chief Executive Officer of Carlson Wagonlit Corporate Travel, Inc. from 1999 to 2000. He was Chief Executive Officer of DigitalThink, Inc. from 2001 to 2002, and was Chairman of DigitalThink, Inc. from April 2002 to May 2004. Mr. Madonna is a director of Albertson's, Inc., Phelps Dodge Corporation and Tidewater Inc.

Table of Contents**Donald F. McHenry****Director Since:** 1986**Age:** 68

Mr. McHenry has been a Distinguished Professor in the Practice of Diplomacy at the School of Foreign Service at Georgetown University, since 1981. He has also been President of IRC Group LLC, international relations consultants, since 1981. Mr. McHenry is a director of FleetBoston Financial Corporation, The Coca-Cola Company, International Paper Company and GlaxoSmithKline plc.

Tony L. White**Director Since:** 2002**Age:** 58

Mr. White is Chairman of the Board, President and Chief Executive Officer of Applera Corporation, a life sciences company. He was elected Chairman of the Board, President and Chief Executive Officer of Perkin Elmer Corporation (renamed Applera Corporation) in 1995. Prior to that, he was Executive Vice President and a Member of the Office of the Chief Executive Officer at Baxter International Inc. from 1991 to 1995. Mr. White is a director of C.R. Bard, Inc. and Ingersoll-Rand Company.

Dr. Shirley Ann Jackson is not standing for re-election.

The Committees of the AT&T Board of Directors and Their Functions

The AT&T board of directors has established a number of committees, including the Audit Committee, the Compensation and Employee Benefits Committee and the Governance and Nominating Committee, each of which is briefly described below. Another committee of the AT&T board of directors is the Proxy Committee whose members are listed on your proxy card. The Proxy Committee votes the shares represented by proxies at the annual meeting of AT&T shareholders.

The Audit Committee assists the AT&T board of directors in maintaining the integrity of AT&T's financial statements, its financial reporting processes and systems of internal audit controls, AT&T's compliance with legal and regulatory requirements and overseeing AT&T's code of conduct and ethics policies. The Audit Committee reviews the scope of independent and internal audits and assesses the results. The Audit Committee meets with AT&T's management to consider the adequacy of the internal controls and the objectivity of financial reporting. The committee also meets with the independent auditors and with appropriate financial personnel and internal auditors concerning these matters. The committee selects, compensates and appoints AT&T's independent auditors. Both the internal auditors and the independent auditors periodically meet alone with the committee and always have unrestricted access to the committee. AT&T does not limit the number of audit committees of publicly listed companies on which members of AT&T's Audit Committee may serve. One of AT&T's Audit Committee members, Mr. Madonna, serves on three other audit committees. In March 2005 the AT&T board of directors affirmatively determined that such simultaneous service would not impair Mr. Madonna's ability to effectively serve on AT&T's Audit Committee. The Audit Committee currently consists of six independent non-employee directors. The committee met ten times in 2004.

The Compensation and Employee Benefits Committee administers incentive compensation plans, including stock option plans, and advises the AT&T board of directors regarding employee benefit plans. The committee establishes the compensation structure for AT&T's senior managers, approves the compensation of AT&T's senior executives and makes recommendations to the AT&T board of directors with respect to compensation of the Chief Executive Officer. The Compensation and Employee Benefits Committee currently consists of five independent non-employee directors. The committee met nine times in 2004.

The Governance and Nominating Committee advises and makes recommendations to the AT&T board of directors on all matters concerning directorship and corporate governance practices, including compensation of directors and the selection of candidates as nominees for election as directors, and provides guidance with respect to matters of public policy. The Governance and Nominating Committee currently consists of seven independent non-employee directors. The committee met four times in 2004. The committee recommended to the AT&T board of directors the slate of directors for election at the 2005 Annual Meeting of AT&T Shareholders.

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AT&T is committed to the highest standards of corporate governance and ethical behavior. On the recommendation of the Governance and Nominating Committee, the AT&T board of directors has adopted AT&T's Corporate Governance Guidelines which are available on AT&T's Investor Relations Website at www.att.com/ir/cg and are attached hereto as Annex D. The AT&T board of directors has also adopted a Financial Officer Code of Ethics which is also available on AT&T's Investor Relations Website. All of AT&T's directors, officers and employees must act ethically at all times and in accordance with the policies set forth in AT&T's code of conduct. AT&T's code includes Our Common Bond, a set of business values which guide all of AT&T's decisions and behavior, and is published on AT&T's Investor Relations Website. The AT&T board of directors did not grant any waivers of any ethics policies in 2004 to AT&T's directors or executive officers. The charters of the Audit Committee, Governance and Nominating Committee and Compensation and Employee Benefits Committee are also available on AT&T's Investor Relations Website.

The table below provides membership information for each of the AT&T board committees:

Name	Audit	Compensation and Employee Benefits	Governance and Nominating
Mr. Aldinger			
Mr. Derr		<i>Chair</i>	
Ms. Eickhoff-Smith			
Mr. Henkel			
Mr. Herringer			
Dr. Jackson			
Mr. Madonna	<i>Chair</i>		
Mr. McHenry			<i>Chair</i>
Mr. White			

Independence of Directors; Financial Expert

The AT&T board of directors has determined that each of AT&T's non-employee directors is independent within the definitions contained in the current NYSE rules (see Information About the AT&T Annual Meeting How does the AT&T board of directors determine which directors are independent? on page 97). In addition, the AT&T board of directors has determined that each member of the Audit Committee is independent within the definition contained in the current SEC rules. Furthermore, the AT&T board of directors has determined that both Mr. Herringer and Mr. Madonna qualify as audit committee financial experts as defined by the SEC.

Compensation of Directors

In 2004, independent non-employee directors received an annual retainer of \$70,000. The chairperson of the Audit Committee received an additional annual retainer of \$25,000. The chairpersons of the Compensation and Employee Benefits Committee and the Governance and Nominating Committee each received an additional annual retainer of \$10,000. No fees are paid for attendance at regularly scheduled board and committee meetings. Directors received a fee of \$1,500 for each special board or committee meeting attended. Each director had the option of either deferring his or her annual retainer, chair fees and special meeting fees (pursuant to the Deferred Compensation Plan for Non-Employee Directors) or receiving their fees as cash payments. Under the Deferred Compensation Plan for Non-Employee Directors, directors may elect to defer the receipt of all or part of their cash retainer and other compensation into the AT&T common stock portion or the cash portion of the deferred compensation account. The AT&T common stock portion (the value of which is measured from time to time by the market value of AT&T common stock) is credited quarterly with a number of deferred shares of AT&T common stock equivalent in market value to the amount of the quarterly dividend on the shares also then credited in the accounts. The cash portion of the

deferred compensation account earns interest, compounded quarterly, at an annual rate equal to the average interest rate for 10-year United States Treasury Notes for the previous quarter, plus 5%, for amounts deferred prior to

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January 1, 2001, and plus 2% for amounts deferred on or after January 1, 2001. The American Jobs Creation Act of 2004 has imposed new restrictions on deferred compensation plans including the Deferred Compensation Plan for Non-Employee Directors.

Each independent non-employee director received an additional award of AT&T restricted stock units equal in value to \$100,000 on the date of the grant, May 27, 2004. These awards are in addition to the already existing awards of AT&T restricted stock units equal in value to \$100,000 on the date of grant: February 23, 2004, for Mr. Henkel; July 16, 2003, for Mr. Aldinger; and June 11, 2003, for all other non-employee directors. The awards granted on May 27, 2004, vest 50% on the second anniversary of the grant date and 25% on each of the third and fourth anniversaries of the grant date. The earlier awards vest upon a director's retirement from the AT&T board of directors. The restricted stock units awarded to non-employee directors pay dividend equivalents quarterly in cash.

AT&T also provides independent non-employee directors with travel accident insurance when on AT&T's business and complimentary telecommunications services. An independent non-employee director may also enroll in a Directors' Universal Life Insurance Program sponsored by AT&T at no cost to the independent non-employee director. The life insurance benefit under the Directors' Universal Life Insurance Program will continue after the independent non-employee director's retirement from the AT&T board of directors.

The total premiums during 2004 for these policies were \$500 for travel accident insurance and \$33,090 for group life insurance. The value of telecommunications services received, or for which reimbursement was provided, together with amounts necessary to offset the directors' applicable tax liabilities resulting from such services and benefits, computed at maximum marginal rates, averaged \$5,447 per non-employee director in 2004.

Stock Ownership of AT&T Management and Directors

The following table sets forth information concerning the beneficial ownership of AT&T common stock, as of March 1, 2005, for (a) each current director elected to the AT&T board of directors in 2004 and each nominee for election as a director in 2005; (b) each of the executives named in the Summary Compensation Table (the named executives) not listed as a director; and (c) directors and executive officers as a group. No director or executive officer owns any AT&T preferred shares. Except as otherwise noted, the nominee or family members had sole voting and investment power with respect to such securities.

Name	Number of Shares			Percent of Class
	Beneficially Owned(1)	Other Common Stock Equivalents(2)	Total	
(a)				
William F. Aldinger	3,000	11,926	14,926	*
Kenneth T. Derr	3,835(3)	30,776	34,611	*
David W. Dorman	1,752,318(4)	462,700	2,215,018	*
M. Kathryn Eickhoff-Smith	4,245(5)	21,168	25,413	*
Herbert L. Henkel	0	16,558	16,558	*
Frank C. Herringer	17,936(6)	18,970	36,906	*
Shirley Ann Jackson	2,511(7)	20,571	23,082	*
Jon C. Madonna	3,901(8)	12,823	16,724	*
Donald F. McHenry	3,726(9)	26,528	30,254	*
Tony L. White	3,901(10)	17,882	21,783	*

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Name	Number of Shares			Percent of Class
	Beneficially Owned(1)	Other Common Stock Equivalents(2)	Total	
(b)				
James W. Cicconi	615,663(11)	112,800	728,463	*
Hossein Eslambolchi	502,731(12)	211,400	714,131	*
William J. Hannigan	218,002(13)	299,950	517,952	*
Thomas W. Horton	399,576(14)	187,900	587,476	*

Name	Beneficially Owned(1)	Other Common Stock Equivalents(2)	Total	Percent of Class
(c)				
Directors and Executive Officers as a group (19 persons)	4,500,619(15)	1,730,762(16)	6,231,381	*

* Less than one percent

Footnotes:

(1) As of March 1, 2005, no individual director or nominee for director or named executive beneficially owned 1% or more of AT&T's outstanding common shares, nor did the directors and executive officers as a group.

(2) Includes share units held in deferred compensation accounts that do not constitute beneficially owned securities and restricted stock units. The number of restricted stock units owned by each non-employee director is as follows:

William F. Aldinger	11,221 restricted stock units
Kenneth T. Derr	11,077 restricted stock units
M. Kathryn Eickhoff-Smith	11,077 restricted stock units
Herbert L. Henkel	11,088 restricted stock units
Frank C. Herringer	11,077 restricted stock units
Shirley Ann Jackson	11,077 restricted stock units
Jon C. Madonna	11,077 restricted stock units
Donald F. McHenry	11,077 restricted stock units
Tony L. White	11,077 restricted stock units

The number of restricted stock units owned by Mr. Dorman and each of AT&T's other named executives as of March 1, 2005, is the number set forth in the column Other Common Stock Equivalents.

- (3) Includes beneficial ownership of 2,745 shares that may be acquired within 60 days pursuant to stock options awarded under a non-employee director incentive compensation plan.
- (4) Includes beneficial ownership of 1,521,007 shares that may be acquired within 60 days pursuant to stock options awarded under employee incentive compensation plans.
- (5) Includes 1,000 shares held in an IRA account and 100 shares held in a Keogh account. Also includes 200 shares held by a trust, as to which Ms. Eickhoff-Smith has disclaimed beneficial ownership. In addition, includes beneficial ownership of 2,745 shares that may be acquired within 60 days pursuant to stock options awarded under a non-employee director incentive compensation plan.
- (6) Includes 10,000 shares held by trusts, 4,000 shares held in an IRA account, 1,000 shares held in a Keogh account for his spouse, 200 shares held by trusts for each of his two daughters, 100 shares held by a trust for his niece, and five shares held by a trust for his spouse. Also includes 30 shares held in a custodial account as to which Mr. Herringer has disclaimed beneficial ownership. In addition, includes beneficial ownership of 2,401 shares that may be acquired within 60 days pursuant to stock options awarded under a non-employee director incentive compensation plan.

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- (7) Includes 78 shares owned by Dr. Jackson's spouse. Dr. Jackson has disclaimed beneficial ownership of these shares. Also includes beneficial ownership of 2,433 shares that may be acquired within 60 days pursuant to stock options awarded under a non-employee director incentive compensation plan.
- (8) Includes beneficial ownership of 1,501 shares that may be acquired within 60 days pursuant to stock options awarded under a non-employee director incentive compensation plan.
- (9) Includes 381 shares held in a Keogh account. In addition, includes beneficial ownership of 2,745 shares that may be acquired within 60 days pursuant to stock options awarded under a non-employee director incentive compensation plan.
- (10) Includes beneficial ownership of 2,401 shares that may be acquired within 60 days pursuant to stock options awarded under a non-employee director incentive compensation plan.
- (11) Includes beneficial ownership of 581,624 shares that may be acquired within 60 days pursuant to stock options awarded under employee incentive compensation plans.
- (12) Includes 0.6 shares held in a 401(k) account. Also includes beneficial ownership of 497,168 shares that may be acquired within 60 days pursuant to stock options awarded under employee incentive compensation plans.
- (13) Includes 150 shares held in an IRA account, 100.7394 shares held by a trust for his son, and 100 shares held by a trust for his daughter. In addition, includes beneficial ownership of 182,500 shares that may be acquired within 60 days pursuant to options awarded under employee incentive compensation plans.
- (14) Includes beneficial ownership of 389,557 shares that may be acquired within 60 days pursuant to stock options awarded under employee incentive compensation plans.
- (15) Includes beneficial ownership of 4,108,901 shares that may be acquired within 60 days pursuant to stock options awarded under employee and non-employee director incentive compensation plans.
- (16) Includes 1,546,310 restricted stock units and 84,605 share units held in deferred compensation accounts.

Beneficial Ownership of More Than 5% of AT&T Common Stock

The following table sets forth information as to the beneficial ownership of AT&T common stock by each person or group known by AT&T, based on filings pursuant to Section 13(d) or (g) under the Exchange Act, to own beneficially more than 5% of the outstanding shares of AT&T common stock as of December 31, 2004.

Name and Address of Beneficial Owner	Number of Shares	Percent of Class
Capital Research and Management Company 333 South Hope Street Los Angeles, CA 90071	111,633,100(1)	14.0%
Dodge & Cox 555 California Street 40th Floor San Francisco, CA 94104	103,261,885(2)	13.0%

Footnotes:

- (1) Based on a Schedule 13G/ A filed on February 11, 2005, by Capital Research and Management Company, an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, Capital Research is deemed to be the beneficial owner, as a result of acting as investment advisor to various companies, and has sole dispositive power with respect to 111,633,100 shares or approximately 14.0% of AT&T's outstanding shares of common stock.
- (2) Based on a Schedule 13G/ A filed February 10, 2005, Dodge & Cox beneficially owned these shares on behalf of clients that may include investment companies registered under the Investment Company Act and/or employee benefit plans, pension funds, endowment funds or other institutional clients. Dodge & Cox has sole voting power for 96,589,398 shares, shared voting power for 1,641,180 shares, sole dispositive power for 103,261,885 shares and no shared dispositive power for any of the shares.

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Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires AT&T's directors and executive officers, and persons who own more than 10 percent of a registered class of AT&T's equity securities, to file with the SEC and the NYSE initial reports of ownership and reports of changes in beneficial ownership of AT&T's equity securities.

To AT&T's knowledge, based upon the reports filed and written representations that no other reports were required, during the fiscal year ended December 31, 2004, none of AT&T's directors or executive officers failed to file on a timely basis reports required by Section 16(a) of the Exchange Act with the following exceptions: William J. Hannigan, one late report of three positions; and Christopher R. Reidy, one late report of one position.

Ratification of The Appointment by The Audit Committee of Independent Auditors (Proposal 3 on Proxy Card)

The Audit Committee has selected and appointed the firm of PricewaterhouseCoopers LLP as the independent auditors to examine AT&T's financial statements for the year 2005. PricewaterhouseCoopers LLP has audited AT&T's financial statements for many years. The AT&T board of directors recommends that AT&T shareholders vote FOR ratification of the appointment. Ratification of the appointment of auditors requires a majority of the votes cast. Any shares not voted, whether by abstention or otherwise, have no impact on the vote.

AT&T Shareholder Proposals

AT&T receives many suggestions from AT&T shareholders, some as formal AT&T shareholder proposals. All are given careful consideration and are adopted, if appropriate.

Proponents of six AT&T shareholder proposals have stated that they intend to present the following proposals at the annual meeting. Information on the share ownership of the proponents is available by writing to: Manager Proxy, AT&T Corp., Room 3A130, One AT&T Way, Bedminster, New Jersey 07921-0752. The proposals and supporting statements are quoted below. The AT&T board of directors has concluded it cannot support these proposals for the reasons given.

No Future Stock Options AT&T Shareholder Proposal (Proposal 4 on Proxy Card)

Mrs. Evelyn Y. Davis, Watergate Office Building, 2600 Virginia Ave., NW, Suite 215, Washington, DC 20037, has submitted the following proposal:

RESOLVED: That the Board of Directors take the necessary steps so that NO future NEW stock options are awarded to ANYONE, nor that any current stock options are repriced or renewed (unless there was a contract to do so on some).

REASONS: Stock option awards have gone out of hand in recent years, and some analysts MIGHT inflate earnings estimates, because earnings affect stock prices and stock options.

There are other ways to reward executives and other employees, including giving them actual STOCK instead of options.

Recent scandals involving CERTAIN financial institutions have pointed out how analysts CAN manipulate earnings estimates and stock prices.

If you AGREE, please vote YOUR proxy FOR this resolution.

AT&T's directors recommend a vote against the above proposal. The AT&T 2004 Long Term Incentive Program (2004 Plan) approved by AT&T shareholders at AT&T's 2004 Annual Meeting allows the Compensation and Employee Benefits Committee (CEBC) to grant various equity-based long-term incentive awards, including stock options. However, as discussed in AT&T's 2004 proxy statement, AT&T has adopted a number of company practices, policies and special limitations that enhanced AT&T's pay-for-performance

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philosophy and ownership culture. These included a migration from AT&T's historical reliance on stock options to the use of other types of equity, including performance shares and restricted stock units (RSUs).

Beginning in 2004, AT&T modified its long-term incentive compensation strategy to eliminate the use of stock options and utilize a blend of performance awards (70%) and RSUs (30%). The CEBC believes, at this time, that this new approach provides a stronger link to performance compared to time-vested stock options. However, the 2004 Plan continues to allow for the use of stock options should AT&T's compensation programs need to be adjusted to address emerging practices or future expectations.

Eliminating stock options from AT&T's long-term incentive plan would significantly limit AT&T's board's flexibility to potentially modify AT&T's compensation practices based on new or unforeseen circumstances. Management regularly reviews competitive compensation practices in determining the various elements of pay, including equity compensation programs, and the CEBC needs adequate flexibility to adjust to changing market conditions.

Under the 2004 Plan, AT&T has included a number of design elements to ensure that any stock option grant would incorporate sound corporate governance requirements. These include provisions to prohibit discounted options, reload features and loans to exercise stock options. The 2004 Plan also expressly prohibits both the direct and indirect repricing of underwater options without AT&T shareholder approval (except in limited transactions related to a capital adjustment or merger transaction). Additionally, AT&T began expensing stock option grants in 2003 and provides full disclosure on the potential accounting expense associated with stock options. **Therefore, AT&T's directors recommend that AT&T shareholders vote AGAINST this proposal.**

Link Restricted Stock Unit Vesting to Performance – AT&T Shareholder Proposal (Proposal 5 on Proxy Card)

American Federation of State, County and Municipal Employees (AFSCME) Employees Pension Plan, 1625 L Street, N.W., Washington, DC 20036, has submitted the following proposal:

RESOLVED, that the shareowners of AT&T Corp. (AT&T) ask the Compensation and Employee Benefits Committee of the Board of Directors to adopt a policy that a significant portion of restricted stock and restricted stock units granted to senior executives require the achievement of performance goals as a prerequisite to vesting. The policy should be implemented in a way that does not violate any existing employment agreement or the terms of any equity compensation plan. The policy would not apply to performance share units, which by their terms already contain performance targets.

SUPPORTING STATEMENT

AT&T uses a substantial amount of restricted stock to compensate its senior executives. From 2001 through 2003, CEO David Dorman received awards with a total value of \$7,810,212, while chief technology officer Hossein Eslambochi [sic] received awards valued at \$3,354,286 during that period. The vesting of these awards does not depend on the achievement of any performance goals; rather, they simply vest over time.

We believe that compensation policies should align the interests of senior executives with those of shareowners. Restricted stock awards advance that goal better than stock options because restricted stock grants facilitate direct ownership of shares. Restricted stock grants also have the virtue of more transparent accounting treatment than stock options, whose cost – unlike that of restricted stock – is not recognized on a company's income statement. However, to provide appropriate incentives, we believe that restricted stock awards should have real downside risk.

There has been significant criticism of the incentive value of restricted stock grants without performance hurdles. An August 11, 2003 editorial in Forbes characterized restricted stock grants without performance targets as "weak incentives for improving performance." WorldCom/ MCI corporate monitor and former SEC chairman Richard Breeden opined in his August 2003 governance

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recommendations that there is not a strong reason for granting restricted stock rather than simply paying cash unless there are performance hurdles to vesting. Matt Ward, CEO of San Francisco-based Westward Pay Strategies, says restricted stock grants without performance targets create the lay-low effect: just lay low and don't get fired.

Leading companies have been requiring senior executives to satisfy performance requirements before restricted stock can vest. In its widely publicized 2003 shift from stock options to restricted stock, Microsoft has imposed performance vesting targets on its 600 most senior managers. The performance share units granted to GE CEO Jeffrey Immelt in 2003 similarly require the achievement of goals relating to cash flow from operations and total shareholder return. AT&T should follow the lead of these companies.

The need for performance targets for the vesting of restricted stock is especially acute in light of AT&T's stock price performance. According to the most recent proxy statement, \$100 invested in AT&T's stock on December 31, 1998 would have been worth \$29 on December 31, 2003, while \$100 invested in an index of peer companies would have been worth \$38 on that date.

We urge shareowners to vote for this proposal.

AT&T's directors recommend a vote against the above proposal. The Board of Directors' Compensation and Employee Benefits Committee (CEBC), comprised exclusively of independent outside directors, is responsible for, among other things, discharging AT&T's board's responsibility relating to executive compensation programs and policies. The CEBC supports the proponent's underlying concept of performance-based equity grants. However, AT&T believes that its new executive compensation program is already substantially based on performance and has effectively aligned management and AT&T shareholder interests.

In connection with the approval by AT&T shareholders at AT&T's 2004 Annual Meeting of Shareholders of the AT&T 2004 Long Term Incentive Program, AT&T adopted a new long term incentive strategy which is predominantly performance based. Going forward, awards to AT&T's employees are comprised of a blend of 70% performance shares/units and 30% restricted stock units (RSUs).

The CEBC believes that restricted stock is a valuable component of long term incentive compensation but should comprise a smaller portion of compensation. AT&T's performance shares (which are the significant majority of long term incentives) are tied to AT&T's achievement of specified financial objectives over a three-year period. The RSUs are subject to a four-year vesting schedule, consistent with the long term nature of the compensation. Additionally, certain senior officers are required to hold the vested RSUs (net of taxes) granted after 2003 for one additional year beyond the vesting date. Executives must also meet the stock ownership requirements described in the Executive Compensation AT&T's Board Compensation Committee Report on Executive Compensation on page 119.

The CEBC, based on input from AT&T's independent consultants, and a review of competitive benchmark data, believes that the current structure is appropriately balanced and competitive. Recruiting, retaining and motivating talented employees is crucial in today's highly competitive global economy. RSUs, when used reasonably, assist not only in recruiting and retaining employees but also in motivating employees to focus on AT&T's long-term performance and results.

The CEBC does not believe that the proposed policy is appropriate. The proposed policy would only apply to the RSU portion of AT&T's new compensation program and fails to take into account AT&T's total long term incentive program. **Therefore, AT&T's directors recommend that AT&T shareholders vote AGAINST this proposal.**

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Executive Compensation AT&T Shareholder Proposal (Proposal 6 on Proxy Card)

American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) Reserve Fund, 815 Sixteenth Street, N.W., Washington, DC 20006, has submitted the following proposal:

Resolved: the shareowners of AT&T Corp. (AT&T) request that the Compensation and Employee Benefits Committee prepare a report for shareholders, at reasonable cost and excluding confidential information, to determine whether AT&T s senior executive compensation policies create an incentive to export jobs, restructure operations or make other strategic decisions that are designed to boost short-term earnings, but may have adverse consequences for long-term shareholder value.

Supporting Statement

AT&T has used earnings-based metrics, such as operating net income, as criteria for determining senior executives bonus awards. We believe such criteria are inadequate. In our view, they create undue incentives for senior executives to make strategic decisions geared towards short-term earnings, even when those decisions may have adverse long-term consequences for AT&T and its shareholders.

In our view, the growing tendency of American corporations to export jobs, either directly or through third party vendors, makes this a timely issue. It appears that AT&T uses third party vendors in other countries to provide a significant and increasing share of its services for United States customers (*Boston Globe*, 11/17/2004).

At AT&T, we believe the temptation to export jobs is exacerbated by the earnings-based metrics that are used to determine bonus awards and incentive pay. These criteria may give senior executives a personal incentive to boost earnings within one- to three-year performance periods, because higher earnings may increase their own pay. Consequently, they may be rewarded for making decisions that boost earnings in the short run, before it becomes apparent that the long-term consequences are detrimental.

A *Reuters* report concluded that, outsourcing could do more harm than good (10/31/2003). The report cited one survey in which 66 percent of companies ... were disappointed with their outsourcing contracts. It added that only 39 percent of the companies [surveyed] would renew contracts with their existing outsourcing suppliers, and 15 percent planned to bring services back in-house.

Business Week has reported that, many companies [have] ended up repatriating ... work because they felt they were losing control of core businesses or found them too hard to coordinate (2/3/2003). Other reports have expressed concerns about the security of customer and proprietary information in offshore locations (*The Sunday Herald*, 3/28/2004; *BBC News*, 4/4/2004).

We believe bonus awards and long-term incentives should be based on evaluations of executive performance that emphasize the long-term consequences of strategic decisions. In our opinion, the proposed report would help shareholders to judge whether our Board of Directors provides appropriate incentives to senior management.

We urge shareholder to vote FOR this proposal.

AT&T s directors recommend a vote against the above proposal. AT&T is sensitive to certain global competitive, geographic and marketplace factors in determining appropriate executive incentive programs and policies. However, the Compensation and Employee Benefits Committee (CEBC) believes the proposal would arbitrarily and unnecessarily consume AT&T s resources and that the report may not provide any significant benefit to AT&T shareholders. A similar proposal received less than 9% of the votes cast at AT&T s 2004 Annual Meeting of Shareholders.

AT&T s CEBC, which is composed entirely of independent directors, is responsible for determining the performance goals and objectives for the Chief Executive Officer and the other members of AT&T s senior

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management team. The CEBC is committed to establish fair and equitable compensation policies and make decisions that are in the best interests of AT&T and AT&T shareholders.

AT&T's executive compensation program consists of an annual base and long-term incentives based on AT&T's key financial and operational results that provide a mechanism to reward executive officers for maximizing long-term AT&T shareholder value. Further detail on these key components and AT&T's compensation philosophy statement can be found on page 120.

AT&T describes its executive compensation policies, programs and practices in this document. The AT&T board of directors believes that the report sought by the proponent would not provide any additional meaningful information to AT&T shareholders and would not accomplish the objectives set forth in the proposal. **Therefore, AT&T's directors recommend that AT&T shareholders vote AGAINST this proposal.**

Poison Pill AT&T Shareholder Proposal (Proposal 7 on Proxy Card)

Mr. William Steiner, 112 Abbottsford Gate, Piermont, NY 10968, has submitted the following proposal:

7 Redeem or Vote Poison Pill

RESOLVED: Shareholders request that our Board adopt a policy that any future poison pill be redeemed or put to a shareholder vote within 4-months after it is adopted by our Board. And formalize this as corporate governance policy or bylaw consistent with the governing documents of our company.

I believe that there is a material difference between a shareholder vote within 4-months in contrast to any greater delay in a shareholder vote. For instance a 5- to 12-month delay in a shareholder vote could guarantee that a poison pill stays effective through an entire proxy contest. This can result in us as shareholders losing a profitable offer for our stock or an exchange for shares in a more valuable company.

I believe that even if a special election would be needed, the cost would be almost trivial in comparison to the potential loss of a valuable offer.

William Steiner, 112 Abbottsford Gate, Piermont, NY 10968 submitted this proposal.

Pills Entrench Current Management

They [poison pills] entrench the current management, even when it's doing a poor job. They [poison pills] water down shareholders' votes and deprive them of a meaningful voice in corporate affairs.

Take on the Street by Arthur Levitt, SEC Chairman, 1993-2001

Like a Dictator

[Poison pill] That's akin to the argument of a benevolent dictator, who says, "Give up more of your freedom and I'll take care of you."

T.J. Dermot Dunphy, CEO of Sealed Air (NYSE) for 25 years

Progress Begins with a First Step

I believe that the advantage taking the above RESOLVED step is reinforced by viewing our overall corporate governance fitness which is not impeccable. For instance in 2004 it was reported:

The Corporate Library an independent investment research firm in Portland, Maine rated our company:

- F in Overall Board Effectiveness
- D in Board Composition
- F in CEO Compensation

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- D in Accounting
- D in Strategic Decisionmaking

The Corporate Library said, Overall the company s Board Effectiveness Rating suggests that the weaknesses of the board contribute a HIGH degree of investment, credit or underwriter risk to this stock.

Kenneth Derr was designated a problem director by TCL because he was chairperson of the committee that set executive compensation at our company, which received a CEO Compensation grade of F .

We had no Lead Director or Independent Chairman independence concern.

Eight directors were allowed to hold from 4 to 6 director seats each over-extension concern.

2003 CEO pay of \$17 million including stock option grants. Source:
<http://www.aflcio.org/corporateamerica/paywatch/ceou/database.cfm>

If CEO pay is excessive this could be a sign that our board is weak in its oversight of our CEO. I believe the above slate of under-achievement practices reinforce the advantage to adopt the one RESOLVED statement here to help improve our corporate governance scores.

Stock Values

If a poison pill makes our company difficult to sell the value of our stock could suffer.

Redeem or Vote Poison Pill

Yes on 7

AT&T s directors recommend a vote against the above proposal. In AT&T s 2004 proxy statement, AT&T included an AT&T shareholder proposal submitted by Mr. Steiner, with Mr. Chevedden as his proxy, which sought to require the AT&T board of directors to seek AT&T shareholder approval prior to the adoption or extension of a shareholder rights plan, commonly referred to as a poison pill. The proposal received the affirmative vote of 66.65% of shares voting for or against the proposal. On June 23, 2004, AT&T s board of directors adopted a Rights Plan Policy that states: No shareholder rights plan will be adopted unless (i) approved by shareholders in advance or (ii) a majority of the independent directors determine, in the exercise of their fiduciary duties, that it is in the best interests of shareholders to adopt the plan without shareholder approval. AT&T believes that the inclusion of the fiduciary exception in the Policy is required by New York law and, accordingly, that AT&T has implemented the 2004 proposal to the maximum extent permitted by law.

This year s proposal differs from the 2004 proposal in calling for AT&T shareholder ratification of a poison pill within four months after its adoption rather than AT&T shareholder approval prior to the adoption of a poison pill. AT&T does not believe this constitutes a material difference and, in fact, this year s ratification proposal is weaker than the Rights Plan Policy AT&T has already adopted, which requires prior AT&T shareholder approval. It is also important to note that AT&T has never adopted a poison pill and has no intention of adopting one at this time. Finally, the agreement AT&T has reached with SBC to acquire AT&T, illustrates that poison pills are not a meaningful issue for AT&T at this time.

In sum, the proposal is duplicative, unnecessary, inconsequential and essentially moot. **Therefore, the AT&T s directors recommend that AT&T shareholders vote AGAINST this proposal.**

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Shareholder Approval of Future SERPs AT&T Shareholder Proposal (Proposal 8 on Proxy Card)

Domini Social Investments LLC, 536 Broadway, 7th Floor, New York, NY 10012-3915, with co-filer, Ms. Jane Banfield, 32 Stevens Street, Bernardsville, NJ 07924, has submitted the following proposal:

Executive Pension Benefits

RESOLVED: Shareholders request that the Board adopt a policy to seek shareholder approval of any future supplemental executive retirement plan (SERP) or individual retirement arrangement for senior executives that provides preferential benefit formulas or supplemental pension benefits not provided to other managers under the Company s regular tax-qualified plan. Implementation of this policy shall not breach any existing employment agreement or vested benefit.

SUPPORTING STATEMENT

Companies establish SERPs to provide supplemental retirement benefits that exceed IRS limitations on benefits that can be paid from tax-qualified pension plans. In addition to its traditional SERP, which provides contributions on salary above IRS limits, AT&T maintains a second SERP providing officers with additional contributions not available to other managers. AT&T also maintains individual pensions for certain officers that guarantee them lifetime pension annuities on far more generous terms than apply to other managers.

These plans together provide a substantial extra component of compensation. AT&T estimated that CEO Dorman and CFO Horton will receive *annual* payments of \$1.99 million and \$1.42 million, respectively, at age 65.

Unlike most companies with SERPs, AT&T also provides individual non-qualified pension arrangements to certain executive officers that have the effect of granting extra years of service credit. For example, after just four years of service, CEO Dorman is vested in a supplemental pension equal (in 2005) to 34.7% of his final three-year average total compensation and he accrues 3.6% for each additional year of service (to a maximum 60%).

Dorman s employment agreement also includes a pension parachute. If he terminates prior to 2010 due to a change in control, his minimum annual pension is boosted by an additional 10.8% of final compensation.

In comparison, prior to 1998, employees accrued 1.6% of final average pay per year of service under AT&T s Management Pension Plan and would have needed over 20 years service to replace 34.7% of salary in retirement. Moreover, in 1998 AT&T converted to a cash balance formula, freezing pension contributions for thousands of managers for up to 13 years, and reducing expected total benefits as much as 50% for some employees. A class action lawsuit regarding the conversion is currently pending in federal court.

As AT&T downsizes, we believe these gross disparities between the retirement security offered to senior executives and to other employees create potential morale problems and reputational risk, and may increase employee turnover.

Moreover, because these forms of pension compensation are not performance-based, they do not help to align management incentives with long-term shareholder interests. Shareholder approval of these benefits would help to ensure reasonable formulas for future agreements.

Because prior shareholder approval is often not practical, the Company would have the option to seek approval after the material terms of an executive s employment agreement are determined.

AT&T s directors recommend a vote against the above proposal. AT&T s executive compensation programs are designed to help AT&T compete for the superior talent required to achieve corporate objectives and increase AT&T shareholders value. The AT&T board of directors, through the Compensation and Employee Benefits Committee (CEBC), comprised solely of independent non-management directors, has the

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sole responsibility for establishing, administering and reviewing the policies and plans related to compensation and benefits for senior executives. As stated in AT&T's Executive Compensation AT&T's Board Compensation Committee Report on Executive Compensation Compensation Philosophy and Objectives beginning on page 120, AT&T operates in a very competitive and dynamic industry and its compensation and benefit programs for executives must be designed to attract and retain executives who possess the talent necessary to transform the business.

The shareholder proposal requests the AT&T board of directors to seek AT&T shareholder approval of certain types of post-termination benefits provided under employment agreements and non-qualified retirement programs. Retirement benefits are a critical component of a senior executive's overall compensation program. In order to attract high quality senior management, AT&T must have the flexibility to offer the retirement benefits offered by similar companies.

AT&T sponsors two Supplemental Executive Retirement Plans (SERPs). The first SERP, the AT&T Excess Compensation and Benefit Plan, provides supplemental retirement benefits for any manager, including senior executives, whose contributions and benefits under AT&T's tax qualified retirement plan are limited by the Internal Revenue Code. This type of supplemental plan is almost universal for companies who sponsor tax-qualified retirement plans.

The second SERP, the AT&T Non-Qualified Pension, provides pension credits on annual bonuses and deferred salary for all AT&T officers. While the annual bonuses for all managers, other than officers, are provided pension credits in AT&T's tax qualified retirement plan (or the excess plan to the extent the IRS limits are exceeded), the annual bonuses of officers are only pensionable under Non-Qualified Pension Plan using the same formula applicable to other managers under the qualified plan.

As a result, all participants in these SERPs are treated equally and the plans do not give preferential treatment to the most senior officers.

The proposal further states that Mr. Dorman has an individual non-qualified pension arrangement established as part of his employment agreement that provides retirement benefits in addition to those provided under AT&T's SERPs. Mr. Dorman's original individual non-qualified pension arrangement was a necessary component of the competitive compensation package AT&T needed in order to attract a seasoned telecommunications executive to AT&T. Overall, this agreement was needed to offset the individual non-qualified pension arrangement that Mr. Dorman was forfeiting from his prior employer, and was modified in 2003 to reflect his appointment as Chief Executive Officer. It is important to note that Mr. Dorman's individual non-qualified pension is offset against other retirement benefits from AT&T and from his former employer.

The AT&T board of directors firmly believes that, in the extremely competitive market for talented telecommunications executives, it is important to preserve its current flexibility to design and implement competitive compensation programs, including severance and retirement benefits. The AT&T board of directors must be able to offer benefits commensurate with the industry at large to attract, motivate and retain talent. This proposal, if implemented, would significantly limit its flexibility in creating competitive compensation packages for senior executives in the future and may place us at a significant competitive disadvantage against other companies.

Therefore, AT&T's directors recommend that AT&T shareholders vote AGAINST the proposal.

Shareholder Ratification of Severance Agreements AT&T Shareholder Proposal (Proposal 9 on Proxy Card)
California Public Employees Retirement System (CalPERS), Lincoln Plaza, 400 P Street, Sacramento, CA 95814, has submitted the following proposal:

Table of Contents**SHAREHOLDER PROPOSAL**

RESOLVED, that the shareholders of AT&T Corporation (the Company) amend the Company's bylaws, in compliance with applicable law, to require that the Board of Directors (Board) seek shareholder ratification of any Severance Agreement with any Officer that provides Severance Benefits with a total present value exceeding 2.99 times the sum of the Officer's base salary plus target bonus. Severance Agreement is defined as any agreement that dictates what an Officer can be compensated when AT&T terminates employment without cause or when there is a termination of employment following a finally approved and implemented change of control. Severance benefits shall mean the value of all cash and non-cash benefits, including, but not limited to, the following: (i) cash benefits; (ii) perquisites, (iii) consulting fees, (iv) equity and the accelerated vesting of equity, (v) the value of gross-up payments, i.e., payments to off-set taxes, and (vi) the value of additional service credit or other special additional benefits under the Company's retirement system. If the Board determines that it is not practicable to obtain shareholder approval in advance, the Board may seek approval after the material terms have been agreed upon. This bylaw amendment shall take effect upon adoption and apply only to agreements adopted, extended or modified after that date.

SUPPORTING STATEMENT

As a major shareholder of the Company, CalPERS supports compensation policies for Officers that strongly link pay to performance. CalPERS strongly opposes pay practices that reward under-performing Officers with large payouts when they are terminated for poor-performance, e.g., CalPERS is outraged with the \$140 million severance payment made by the Disney Corporation to Michael Ovitz after 14 months of employment. The adoption of this by-law amendment, in CalPERS opinion, will put a reasonable cap on what can be paid out to Officers who are terminated for under-performance while allowing the Company the flexibility it needs to attract qualified individuals to serve in demanding positions of senior management.

This proposal, in CalPERS opinion, will also address the risk of egregious severance packages being paid out by the Company as a result of a merger, acquisition or spin-off by limiting: 1) The inappropriate acceleration of the vesting of options for Officers in mergers, etc.; 2) Inappropriate links between severance/change-of-control payments and post-merger economic performance; 3) Recapitalizations where the management and shareholder base does not substantially change but change-in-control payments are triggered; and 4) The payment of gross-ups to pay federal taxes owed.

According to CalPERS Pay-for-Performance Model, for each of the years from 2001-2003 the Company's top 5 officers were compensated at least 10 times the median of the industry's top 5 (industry being defined as the four-digit Global Industry Classification System 5010). In addition, the Corporate Library graded the Company's CEO Compensation an F.

Since CalPERS believes the Company is high risk for continuing its weak compensation practices, CalPERS urges shareholders to vote FOR this proposal.

AT&T's directors recommend a vote against the above proposal. The AT&T board of directors and the Compensation and Employee Benefits Committee (CEBC) are fully aware of the concerns that exist today about excessive compensation. However, the CEBC needs the flexibility to provide competitive compensation programs, including severance agreements, which are often essential to attract and retain key executive talent. The proposed action could hinder the AT&T board of directors' ability to recruit, motivate and reward qualified executives by restricting the use of an important compensation tool. In addition, AT&T's compensation policies and procedures are structured to guard against excessive and unjustified compensation.

Importantly, the CEBC is composed of independent non-employee directors who recommend the compensation of the Chief Executive Officer for approval by the independent members of the AT&T board of directors and approve the compensation of other executive officers. AT&T's compensation programs, including the severance arrangements, are

evaluated by the CEBC, with input by independent executive

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compensation consultants. These programs have been developed to be consistent with general industry practice for companies of comparable size. The CEBC devotes considerable time and effort to compensation issues, including establishing the appropriate balance among various objectives.

The CEBC believes that the use of employment and severance agreements for a limited group of key executives is reasonable, appropriate and necessary. Implementation of this proposal would be costly and disruptive to the efficiency of AT&T. To call a special meeting of AT&T shareholders to approve an agreement prior to signing with an executive would be extremely expensive and is unworkable on its face. Alternatively under the proposal, AT&T could be required to present the agreement for ratification to AT&T shareholders at the next annual meeting. As a result, AT&T could not, in good faith, enter into a definitive employment agreement with prospective executives.

The CEBC believes that it is ultimately in the AT&T shareholders' best interests that responsibility for executive severance continues to be vested in the outside directors of the CEBC rather than being circumscribed by rigid and arbitrary limitations reflected in the proposed resolution. **Therefore, AT&T's directors recommend that AT&T shareholders vote AGAINST this proposal.**

Advance Notice Procedures; Nomination of Directors

Under AT&T's by-laws, no nominations of individuals for election as directors or other business may be brought before AT&T's annual meeting except as specified in the notice of the meeting (which notice includes shareholder proposals that AT&T is required to set forth in its proxy statement under SEC Rule 14a-8) or as otherwise brought before the meeting by or at the direction of the AT&T board of directors or by an AT&T shareholder entitled to vote who has delivered written notice to AT&T (containing certain information specified in the by-laws) not later than 90 or earlier than 120 days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 calendar days before or more than 60 calendar days after such anniversary date, the notice by the shareholder must be so delivered not earlier than the close of business on the 120th calendar day prior to such annual meeting but not later than the close of business on the later of the 90th calendar day prior to such annual meeting or the 10th calendar day following the calendar day on which public announcement of the date of such meeting is first made by AT&T. These requirements are separate and apart from and in addition to the SEC's requirements that an AT&T shareholder must meet to have a shareholder proposal included in AT&T's proxy statement under SEC Rule 14a-8.

A copy of the full text of AT&T's by-law provisions discussed above may be obtained by writing to AT&T's Office of the Corporate Secretary. AT&T's by-laws are also available on the AT&T Investor Relations Website at www.att.com/ir.

Other Matters to Come Before the Annual Meeting

In addition to the proposals described above, there will be an address by AT&T's Chairman of the Board and Chief Executive Officer and a general discussion period during which AT&T shareholders will have an opportunity to ask questions about AT&T's business. In the event that any matter not described herein may properly come before the meeting, the Proxy Committee will vote the shares represented by it in accordance with its best judgment; provided, however, that the Proxy Committee will only exercise this discretionary authority with respect to matters that were unknown a reasonable time before the solicitation of proxies. At the time this document went to press, AT&T knew of no other matters that might be presented for AT&T shareholder action at the AT&T 2005 Annual Meeting of Shareholders.

Adjournment of Meeting to Permit Further Solicitation of Proxies (Proposal 1a. on Proxy Card)

In the event that, as of the date of the meeting, the Proxy Committee has not received proxies instructing it to vote in favor of the adoption of the merger agreement sufficient to adopt the merger agreement, AT&T may propose an adjournment of the meeting in order to permit the further solicitation of proxies. However, if

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such a proposal is made at the meeting, the Proxy Committee will only be able to vote in favor of this proposal the shares represented by it with respect to which it has received a valid proxy indicating that it should vote in favor of an adjournment proposed for this purpose. This proposal is Item 1a. on the proxy card.

Report of the Audit Committee of the AT&T Board of Directors

The following report of the Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any AT&T filing under the Securities Act or the Exchange Act, except to the extent AT&T specifically incorporates this report by reference therein.

Review of AT&T's Audited Financial Statements

The purpose of the Audit Committee is to assist the AT&T board of directors in its general oversight of AT&T's financial reporting, internal controls and audit functions. The Audit Committee Charter describes in greater detail the full responsibilities of the Committee.

The Audit Committee has reviewed and discussed the audited financial statements of AT&T for the year ended December 31, 2004, with management and PricewaterhouseCoopers LLP, AT&T's independent accountants. Management is responsible for the preparation, presentation and integrity of AT&T's financial statements; accounting and financial reporting principles; establishing and maintaining disclosure controls and procedures (as defined in the Exchange Act Rule 13a-15(e)); establishing and maintaining internal control over financial reporting (as defined in the Exchange Act Rule 13a-15(f)); evaluating the effectiveness of disclosure controls and procedures; evaluating the effectiveness of internal control over financial reporting; and evaluating any change in internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting. PricewaterhouseCoopers LLP is responsible for performing an independent audit of the consolidated financial statements and expressing an opinion on the conformity of those financial statements with accounting principles generally accepted in the United States, as well as expressing an opinion on (i) management's assessment of the effectiveness of internal control over financial reporting and (ii) the effectiveness of internal control over financial reporting.

During the course of 2004 management completed the documentation, testing and evaluation of AT&T's system of internal control over financial reporting in response to the requirements set forth in Section 404 of the Sarbanes-Oxley Act of 2002 and related regulations. The Audit Committee was kept apprised of the progress of the evaluation and provided oversight and advice to management during the process. In connection with this oversight, the Committee received periodic updates provided by management and PricewaterhouseCoopers LLP. At the conclusion of the process, management provided the Committee with and the Committee reviewed a report on the effectiveness of AT&T's internal control over financial reporting. The Committee also reviewed the report of management contained in AT&T's Annual Report on Form 10-K for the year ended December 31, 2004, filed with the SEC, as well as PricewaterhouseCoopers LLP's Report of Independent Registered Public Accounting Firm included in AT&T's Annual Report on Form 10-K related to its audit of (i) the consolidated financial statements and financial statement schedule, (ii) management's assessment of the effectiveness of internal control over financial reporting and (iii) the effectiveness of internal control over financial reporting. The Committee continues to oversee AT&T's efforts related to its internal control over financial reporting and management's preparations for the evaluation in 2005.

The Audit Committee has discussed with PricewaterhouseCoopers LLP the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, Communication with Audit Committees and PCAOB Auditing Standard No. 2, An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements. In addition, PricewaterhouseCoopers LLP has provided the Audit Committee with the written disclosures required by the Independence Standards Board Standard No. 1, as amended, Independence Discussion with Audit Committees, and the Audit Committee has discussed with PricewaterhouseCoopers LLP their firm's independence.

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Based on the Audit Committee's review of the consolidated financial statements and discussions with and representations from management and PricewaterhouseCoopers LLP referred to above, the Committee recommended to the AT&T board of directors that the audited financial statements be included in AT&T's Annual Report on Form 10-K for the year ended December 31, 2004, for filing with the Securities and Exchange Commission.

Submitted by:

Jon C. Madonna (Chairman)
William F. Aldinger
M. Kathryn Eickhoff-Smith
Herbert L. Henkel
Frank C. Herringer
Donald F. McHenry

AT&T's Independent Public Accountants***Principal Auditor Fees and Services (\$ in 000's)***

Aggregate fees for professional services rendered for AT&T by PricewaterhouseCoopers LLP for the years ended December 31, 2004, and 2003, were:

	2004	2003
Audit	\$ 16,616	\$ 12,737
Audit Related	1,886	2,732
Tax	8,657	13,855
All Other	0	374
Total	\$ 27,159	\$ 29,698

The *Audit* fees for the years ended December 31, 2004 and 2003 were for professional services rendered for the audits of the consolidated financial statements of AT&T, statutory audits, issuance of comfort letters and consents. In 2004, audit fees also include fees for professional services rendered for the audits of management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting.

The *Audit Related* fees for the years ended December 31, 2004 and 2003 were for professional services rendered for Section 404 of the Sarbanes Oxley Act of 2002 readiness assistance and audits of employee benefit plans. In 2004, audit related fees also include fees for SAS 70 attestations and a carve-out audit. Additional fees of \$850 and \$909 were paid in 2004 and 2003, respectively, directly by the respective plan trusts for employee benefit plan audits and related services.

Tax fees for the years ended December 31, 2004 and 2003 relate to tax compliance, including assistance with matters relating to US, state, local and foreign income and non-income tax returns, tax audits, assistance with claims for refunds, tax services performed for executives and expatriates in various countries, and tax advice related to transfer pricing and restructuring of international operations.

All Other fees in 2003 were primarily for services rendered for management advisory services.

The *de minimis* exception (described under "Preapproval Policies and Procedures" below) was not used for any fees paid to PricewaterhouseCoopers LLP.

The Audit Committee has considered whether the provision of the above services other than audit services is compatible with maintaining PricewaterhouseCoopers LLP's independence.

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All audit fees, audit related fees, tax fees and all other fees were preapproved by the Audit Committee. The percentage of hours expended on PricewaterhouseCoopers LLP's engagement to audit AT&T's financial statements that were performed by other than PricewaterhouseCoopers LLP's full-time, permanent employees did not exceed 50%.

Representatives of PricewaterhouseCoopers LLP are expected to be present at AT&T's 2005 Annual Meeting of Shareholders, will have an opportunity to make a statement and are expected to be available to answer questions.

Preapproval Policies and Procedures

All audit and non-audit services provided by PricewaterhouseCoopers LLP must be preapproved by the Audit Committee. The non-audit services specified in Section 10A(g) of the Exchange Act may not be provided by PricewaterhouseCoopers LLP.

The approval of all audit and non-audit services will take place at the last Audit Committee meeting each year for the subsequent fiscal year estimated services. During the course of the fiscal year, any requests for unforeseen or additional audit or non-audit services to be provided by PricewaterhouseCoopers LLP must be preapproved by the Audit Committee, except for those qualifying for the de minimis exception which provides that the preapproval requirement for certain non-audit services may be waived if:

- (i) the aggregate amount of such non-audit services provided to AT&T constitutes not more than 5% of the total fees paid by AT&T to PricewaterhouseCoopers LLP in the fiscal year such non-audit services are provided;
- (ii) such services were not recognized by AT&T as non-audit services at the time they were provided; and
- (iii) such services are promptly brought to the attention of the Audit Committee.

The Audit Committee may delegate to the Chairman of the Audit Committee the authority to grant preapprovals. In such event, the decisions of the Chairman regarding preapprovals will be presented to the full Audit Committee at its next meeting.

In order to be presented to the Chairman of the Audit Committee or the full Audit Committee for approval, all unforeseen or additional proposed services must first be approved by the Controller/ Chief Accounting Officer (if for a corporate department) or Business Unit Chief Financial Officer, and by the AT&T Chief Financial Officer.

PricewaterhouseCoopers LLP will provide a revised estimate for the year, by project, of audit and non-audit services to the Financial Vice President - Internal Audit prior to each regularly scheduled Audit Committee meeting.

PricewaterhouseCoopers LLP will review its revised services estimate at each Audit Committee meeting. The Audit Committee will periodically review such estimate with the full AT&T board of directors.

Audit Committee approval of audit and non-audit services to be performed by PricewaterhouseCoopers LLP shall be disclosed to investors in periodic reports required by the SEC.

Table of Contents**Five Year Performance Comparison**

The graph below provides an indicator of cumulative total shareholder returns for AT&T common stock compared with the S&P 500 Stock Index (S&P 500) and the S&P Composite 1500 Diversified Telecommunications Services Index (Diversified Telecom Services).

	Dec-99	Dec-00	Dec-01	Dec-02	Dec-03	Dec-04
AT&T common stock	100	35	47	34	28	28
S&P 500	100	91	80	62	80	89
Diversified Telecom Services	100	62	54	36	35	38

Explanation

The graph assumes \$100 invested on December 31, 1999, in AT&T common stock, the S&P 500 and Diversified Telecom Services with the reinvestment of all dividends, including the AT&T distribution to shareholders of AT&T Wireless Services, Inc. (AWS) common stock on July 9, 2001, and Comcast Corporation (Comcast) Class A common stock on November 18, 2002(1). For the purpose of this chart, the AWS and Comcast distributions are treated as nontaxable cash dividends that would have been converted into additional AT&T shares at the close of business for AWS on July 9, 2001, and at the close of business for Comcast on November 18, 2002. The number of shares of AT&T common stock outstanding and per share data have been adjusted to reflect the one-for-five reverse stock split effective on November 18, 2002.

Footnote:

(1) Data Source: S&P Compustat

Executive Compensation***AT&T Board Compensation Committee Report on Executive Compensation***

The Compensation and Employee Benefits Committee (the Committee) administers incentive compensation plans, including equity plans, and advises the AT&T board of directors regarding employee benefit plans. The Committee also establishes the compensation structure for senior managers, approves the compensation of executive officers and makes recommendations to the AT&T board of directors with respect to compensation of the Chief Executive Officer. In 2004, the AT&T board of directors approved the compensation of the named executives in the Summary Compensation Table on page 125.

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Compensation Philosophy and Objectives

AT&T operates in a very competitive, dynamic and challenging industry. AT&T believes that the compensation programs for executives should be designed to attract and retain individuals who possess the high-quality skills and talent necessary to ensure AT&T's success. AT&T's compensation philosophy provides a strong link between an executive's total earnings opportunity and AT&T's short-term and long-term performance, based on the achievement of predetermined financial targets and operational goals relative to AT&T's competitors, as well as to an individual's contributions. The core principles underlying the framework for the programs are as follows:

Total compensation opportunities must be competitive yet reasonable The value will be based on comparable companies' pay opportunities and will be targeted at levels that will attract, motivate and retain a highly skilled workforce and enable AT&T to compete with other premier employers for the best talent.

Pay must be performance-based A significant part of each executive's compensation is directly linked to achieving specific results that appropriately balance financial and operational performance measures and stock price appreciation, creating shareowner value in the short and long term.

A significant portion of the total compensation opportunity should be equity-based AT&T believes that an equity stake effectively aligns employee and shareowner interests and provides proper motivation for enhancing shareowner value.

The Committee feels confident that, with the assistance of compensation consultants and through benchmarking, AT&T's salary, bonus and equity-based programs enable us to effectively attract, retain and motivate a high-caliber management team. In addition, the Committee believes that, by thoroughly reviewing all elements of compensation, AT&T has fostered a competitive total rewards package designed to promote its pay-for-performance philosophy.

Changes in 2004

Beginning in 2003 and continuing into 2004, AT&T worked with an independent outside consultant to conduct a comprehensive review of AT&T's compensation philosophy and programs. AT&T engaged the consultant to act as AT&T's advisor and report directly to us during the review process. Outcomes of the review in 2004 included the following:

Revised AT&T's position on compensation Beginning in 2004, AT&T set an objective to target pay levels at the median level of AT&T's peers when performance meets the set targets. This represented a reduction from AT&T's previous goal to be a premium payer in the market. With median pay established as the baseline, actual pay should exceed the median level only when AT&T's performance exceeds AT&T's targeted operational objectives or the performance of AT&T's peer companies. Similarly, actual pay should fall below the median when performance is below these reference points. As a result, AT&T's compensation programs allow the Committee to differentiate compensation levels by executive, based on corporate performance, individual achievements and personal talents and experience.

Reaffirmed AT&T's peer groups for benchmarking purposes AT&T's peer groups include companies with large market capitalization and large telecommunications companies. The 2004 benchmarking analysis used data disclosed in the proxy statements and available published surveys.

Introduced a policy requiring officers and executives to accumulate and hold targeted levels of common stock AT&T believes that compensation programs fostering continued stock ownership effectively align executives with the long-term interests of shareowners and the success of AT&T.

Executive Compensation Components and Practices

AT&T's executive compensation program consists of four key components: base salary; short-term (annual) incentives; long-term incentives (performance shares, restricted stock or restricted stock units and

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stock options); and certain other benefits and perquisites that are aligned with general market practices. In addition, AT&T now requires officers and executives to accumulate and hold targeted levels of common stock. The policies and practices for determining executive compensation are described hereunder.

Base Salary

The Committee establishes pay guidelines for each of the executive officer positions based on the following factors:

Job responsibilities and scope,

Competitive compensation of similar positions at comparable companies in AT&T's peer groups, and

AT&T's targeted pay position.

Within the established pay guidelines, each officer's salary is determined based on the following factors:

Strategic impact of the position,

Expertise and level of experience required,

Overall business performance, and

Individual contributions.

Annual salary reviews are conducted each year to evaluate the individual performance of senior executives. While overall salary increase funding is sensitive to both market movement and AT&T's performance, individual salaries are not necessarily adjusted each year. The base salaries for the AT&T executive officers named in this report did not increase during 2004.

Short-Term Incentives

Overview

All executives are eligible to be considered for short-term incentives. The annual bonus for executive officers is based on AT&T's key financial and operational results as measured against targets for revenue, earnings (cash flow, net income, or earnings before interest and taxes) and certain qualitative measures of performance. (For 2004, earnings were evaluated based on AT&T's achievement of pre-determined cash flow objectives.) Targets for these measures are established in advance and reviewed and approved by the Committee.

AT&T also sets a minimum performance level that must be met before any awards can be paid. If that minimum level is not achieved, no annual bonuses will be paid. The final award amount depends on the actual level of performance achieved in comparison to the targets. For 2004, 100% of the incentive pool funding was determined by AT&T's overall performance.

However, AT&T has the discretion to make adjustments to ensure that award payments reflect AT&T's true operating results. If performance is at or above threshold, a market share modifier can be used to make an adjustment to the incentive pool funding of between -10% and 10%, based on business unit market share.

An individual's bonus target is expressed as a percentage of base salary. Bonuses for 2004, which were paid in March 2005, could range from 50% to 200% of the target award. Once the incentive pools are established, awards are allocated to individuals as follows: 30% determined by the incentive pool funding formula (described above) and 70% determined by the individual's performance against his or her goals and objectives.

Results for the 2004 Performance Year

AT&T's performance in 2004 was below target for the revenue goal and at target for the earnings goal, based on AT&T cash flow performance. Additionally, AT&T executed and gained revenue market share in key areas. As a result, the bonus pool was funded slightly below target. Bonuses for 2004 were paid out in March 2005.

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Long-Term Incentives

Strategy Review

Long-term incentives provide a mechanism to reward executive officers for maximizing long-term shareowner value. In 2002 and 2003, the Committee reviewed AT&T's equity compensation strategy, specifically focusing on the following factors:

Effectiveness of the current stock option strategy,

AT&T's yearly share usage for AT&T's long-term incentive awards as compared to the AT&T common stock outstanding (AT&T's run rate),

The potential dilutive impact of the equity programs, and

The impact of the depressed stock prices within the telecommunications industry.

As a result of the review, the Committee and management determined that a new long-term incentive strategy combining only performance-based awards and restricted stock units will:

Strengthen AT&T's ability to attract, retain and motivate top talent and performers,

Provide a stronger link to performance than time-vested stock options,

Better align the interests of AT&T's senior executives and shareowners,

Provide a better opportunity for senior executives to acquire and hold AT&T stock, and

Lower the potential share usage levels by directly impacting the annual run rate of shares and mitigating the potential long-term dilution implications of 10-year stock options.

At the AT&T 2004 annual meeting, shareowners overwhelmingly approved the AT&T 2004 Long Term Incentive Program. Awards under the program going forward will be comprised of 70% performance-based awards and 30% restricted stock units for all participants.

Performance Shares

2001-2003 Performance Share Plan

Performance shares are units equivalent in value to shares of AT&T common stock. At the end of the performance cycle, performance shares are paid out based upon the achievement of pre-set targets for corporate performance set by the Committee. The performance share award approved by the Committee in 2001 for the 2001-2003 performance period was paid out in 2004. The award was based on three-year cumulative earnings per share and EBITDA (earnings before interest, taxes, depreciation and amortization) results against pre-established targets and relative total shareholder return, as measured against S&P 500 peer group companies.

Based on AT&T's actual performance for the period covering 2001-2003, 100% of the performance shares were earned and distributed as reported in the Summary Compensation Table on page 125. Although actual earnings per share and EBITDA were slightly above target, the funding was reduced to 100% of target because AT&T's total shareholder return was below the 50th percentile of the S&P 500.

2004 Performance Share Plan

Under the 2004 plan, performance share units are to be granted annually, with a three-year performance period. Awards are intended to be paid in shares. An annual goal is set for each of the three years in the performance period (2004-2006). The payout is based on the average performance over the three years. This represents a change from the 2001-2003 plan, which had cumulative goals for the three-year period. This change was made because in the dynamic telecommunications industry, developing goals over extended periods of time is challenging. The performance measures are revenue and earnings. Dividend equivalents are accrued and paid in cash based on the award earned at the end of the three-year performance period.

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For performance at the threshold level, the plan pays out 50% of the target award. For performance at the target level, the payout is 100%. At the maximum level, the payout is 150%.

Restricted Stock Units

In 2004, all executives and officers were eligible to be considered for restricted stock unit awards primarily for purposes of retention. Restricted stock units are subject to forfeiture and may not be disposed of by the recipient until certain restrictions established by the Committee lapse. For restricted stock unit awards granted in 2004, 50% vest after year two, 25% vest after year three, and 25% vest after year four. Dividend equivalents will be paid quarterly in cash. Officers of AT&T are required to hold restricted stock units for one full year after they are fully vested.

Run Rate and Dilution Management

In addition to providing competitive individual grant levels, AT&T will also monitor the annual share usage levels and resulting dilution to ensure alignment with shareowner interests. As AT&T communicated to its shareowners when the 2004 plan was approved, AT&T will target the annual share usage level to approximately 0.9% of AT&T's common shares outstanding. The actual annual run rate is expected to be as low as 0.77% or as high as 1.0% percent per year, depending on the achievement of specified performance targets and objectives. Overall, the shares granted in 2004 represent a run rate of 0.94% (at target performance), while the projected run rate for 2005 is expected to be approximately 0.8%.