

BELLSOUTH CORP
Form 8-K
October 25, 2005
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT PURSUANT

TO SECTION 13 OR 15(D) OF THE

SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported): October 25, 2005

Wireless merger integration costs

\$0.03

\$0.01

\$0.02

Gain on sale of Cellcom

(\$0.12)

Debt extinguishment costs

\$0.01

Normalized Diluted EPS Income from continuing operations⁽¹⁾

\$0.46

\$0.49

\$0.46

⁽¹⁾ 3Q04 does not sum due to rounding

Hurricane-related expenses Represents third quarter 2005 Hurricane Katrina-related charges of \$200 million after-tax and consists of asset impairment charges (based on preliminary damage assessments), incremental labor and material costs related to service restoration and network repairs, and incremental uncollectible expense. These expenses are comprised of charges related to BellSouth's wireline business and its 40 percent share of Cingular Wireless. Third quarter 2004 charges represent incremental labor and material costs in the wireline business due to Hurricanes Charley, Frances, Ivan and Jeanne.

Wireless merger integration costs Represents BellSouth's 40 percent share of tax-effected wireless merger integration costs of \$240 million incurred during the third quarter of 2005 in connection with the Cingular/ AT&T Wireless merger. Integration costs include one-time cash outlays or specified non-cash charges, including accelerated depreciation directly related to rationalization of the wireless network, sales distribution channels, the workforce, information technology systems and real estate.

Gain on sale of Cellcom Gain related to sale of Cellcom, a cellular communications operator in Israel.

Debt extinguishment costs Represents one-time expenses associated with the early extinguishment of \$300 million of long-term debt in the second quarter of 2005.

About BellSouth Corporation

BellSouth Corporation is a Fortune 100 communications company headquartered in Atlanta, Georgia. BellSouth has joint control and 40 percent ownership of Cingular Wireless, the nation's largest wireless voice and data provider with 52.3 million customers.

Backed by award winning customer service, BellSouth offers the most comprehensive and innovative package of voice and data services available in the market. Through BellSouth Answers®, residential and small business customers can bundle their local and long distance service with dial-up and high-speed DSL Internet access, satellite television and Cingular® Wireless service. For businesses, BellSouth provides secure, reliable local and long distance voice and data networking solutions. BellSouth also offers online and directory advertising through BellSouth® RealPages.com® and The Real Yellow Pages®.

BellSouth believes that diversity and fostering an inclusive environment are critical in maintaining a competitive advantage in today's global marketplace. More information about BellSouth can be found at <http://www.bellsouth.com>.

Further information about BellSouth and Cingular's third quarter earnings can be accessed at www.bellsouth.com/investor. The press release, financial statements and Investor News summarizing highlights of the quarter are available on the BellSouth Investor Relations website starting today at 8 a.m. Eastern Time (ET).

BellSouth will host a conference call with investors today at 10 a.m. (ET).

Dial-in information for the conference call is as follows:

Domestic: 888-370-1863

International: 706-634-1735

The conference call will also be webcast live beginning at 10 a.m. (ET) on our website at www.bellsouth.com/investor. The webcast will be archived on our website beginning at approximately 1 p.m. (ET) today.

A replay of the call will be available beginning at approximately 1 p.m. (ET) today, through November 1, 2005, and can be accessed by dialing:

Domestic: 800-642-1687 - Conference ID: 4107477

International: 706-645-9291 - Conference ID: 4107477

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In addition to historical information, this document may contain forward-looking statements regarding events and financial trends. Factors that could affect future results and could cause actual results to differ materially from those expressed or implied in the forward-looking statements include: (i) a change in economic conditions in markets where we operate or have material investments which would affect demand for our services; (ii) the intensity of competitive activity and its resulting impact on pricing strategies and new product offerings; (iii) higher than anticipated cash requirements for investments, new business initiatives and acquisitions; (iv) unfavorable regulatory actions; and (v) those factors contained in the Company's periodic reports filed with the SEC. The forward-looking information in this document is given as of this date only, and BellSouth assumes no duty to update this information.

This document may also contain certain non-GAAP financial measures. The most directly comparable GAAP financial measures, and a full reconciliation of non-GAAP to GAAP financial information, are attached hereto and provided on the Company's investor relations website, www.bellsouth.com/investor.

For More Information Contact:

Jeff Battcher, Media Relations at 404-249-2793

BellSouth Investor Relations at 800-241-3419

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BellSouth Corporation

Consolidated Statements of Income - Reported Basis (unaudited)

(amounts in millions, except per share data)

Note to Readers: See Normalization Earnings Summary and Reconciliation to GAAP results on pages 3 and 4 for a summary of unusual items included in Reported Basis results.

BELLSOUTH CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

GEORGIA

(State or Other Jurisdiction of Incorporation)

1-8607

(Commission File Number)

58-1533433

(IRS Employer Identification No.)

Room 15G03, 1155 Peachtree Street, N. E., Atlanta, Georgia

(Address of Principal Executive Offices)

30309-3610

(Zip Code)

(404) 249-2000

(Registrant's Telephone Number, Including Area Code)

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

3Q05 3Q04 Growth 2Q05

**Year-to-Date
Growth 2005 2004**

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

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- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02 Results of Operations and Financial Condition

The information in this report, including the Exhibits described below, shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall they be deemed incorporated by reference in any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.

Attached and incorporated herein by reference are:

(i) Exhibit 99-a, which is a copy of a press release of BellSouth Corporation dated October 25, 2005, reporting the company's financial results for the quarter ended September 30, 2005 and

Growth

(ii) Exhibit 99-b, which is a document entitled Investor News that contains more detailed information about the recently completed quarter.

Non-GAAP Financial Information

To provide clarity, internally and externally, about the most tangible and relevant measures of our financial performance, we supplement the reporting of BellSouth's consolidated financial information under GAAP with certain non-GAAP financial measures, including normalized operating results from continuing operations, free cash flow and operating income before depreciation and amortization margin. In

Operating Revenues

Communications group

\$4,558

\$4,590

-0.7%

\$4,598

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-0.9%

\$13,749

\$13,643

0.8%

Advertising and publishing

506

495

2.2%

527

-4.0%

1,521

1,481

2.7%

All other

8

10

-20.0%

17

-52.9%

35

30

16.7%

Total Operating Revenues

5,072

5,095

-0.5%

5,142

-1.4%

15,305

15,154

1.0%

Operating Expenses

Cost of services and products

2,017

1,881

7.2%

1,925

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4.8%

5,862

5,468

7.2%

Selling, general & administrative expenses

1,162

905

28.4%

951

22.2%

3,014

2,765

9.0%

Depreciation and amortization

922

908

1.5%

916

0.7%

2,756

2,720

1.3%

Total Operating Expenses

4,101

3,694

11.0%

3,792

8.1%

11,632

10,953

6.2%

Operating Income

971

1,401

-30.7%

1,350

-28.1%

3,673

4,201

-12.6%

Interest Expense

274

220

24.5%

285

-3.9%

850

646

31.6%

Other Income (Expense), net

512

136

tion with Cingular Wireless (Cingular) acquisition of AT&T Wireless, which was completed on October 26, 2004, we have also reported pro forma revenue and pro forma Average Revenue Per Unit (ARPU) for our domestic wireless segment. The pro forma adjustments are consistent with those set forth in Cingular's Form 8-K/A dated October 25, 2004. This information should not be considered in isolation or as a substitute for the consolidated (GAAP) financial information. Further, investors should note that these non-GAAP measures involve judgments by management (in particular, judgments as to what is or is not classified as a special item). We believe the presentation of these measures provides useful information to investors for the specific reasons set forth below.

Normalized Results From Continuing Operations. The presentation of normalized results from continuing operations enables investors to focus on period-over-period operating performance, without the impact of significant non-operational or non-recurring items. Additionally, normalized results include BellSouth's 40 percent share of Cingular Wireless' revenues and expenses. Cingular's results are recognized on the equity method for GAAP purposes. Accordingly, Cingular's results are not included in the revenue, expense, or operating income line items in the GAAP presentation. The financial results of Cingular, a joint venture representing our second largest operating segment, are a critical element of BellSouth's overall financial performance. The inclusion of Cingular's revenues and expenses on a proportional basis enables investors to evaluate BellSouth's overall financial performance, including all business segments.

Normalized results from continuing operations are provided to enhance the user's overall understanding of the Company's current financial performance and the Company's prospects for the future. We believe normalized results from continuing operations are an important measure of our recurring operations because it excludes items that may not be indicative of our core operating results, includes items that are core to our operating results not allowed by GAAP (e.g. Cingular's results) and provides a better baseline for modeling future earnings expectations. We believe the inclusion of normalized results from continuing operations provides consistency and comparability in our financial reporting and is provided in order to enable investors to more thoroughly evaluate our current performance compared to past performance.

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Finally, normalized measures are among the primary indicators management uses in planning and operating the business. By providing this information to investors supplementally, investors will be able to evaluate the results of the business through the eyes of management and assess the fundamental performance of the business.

Normalized results from continuing operations may exclude (a) events, such as changes in accounting method, that are generally non-recurring in nature and (b) material one-time gains or losses, both of which can distort reported operating results. A complete list of normalizing items, as well as a full reconciliation of normalized results to GAAP reporting, are included in the quarterly financial statements that are attached hereto and are available on the company's Web site, www.bellsouth.com/investor.

Free Cash Flow. We believe free cash flow provides investors a meaningful measure of liquidity of the business. It indicates the level of cash the business is generating from normal continuing operations less capital reinvestment that is required to continue the operations. Investors can utilize this measure to make assessments of the viability of the company and as a base line for valuation of the company. Management monitors operating free cash flow and makes operating decisions based on its level. We define operating free cash flow as operating cash flow from continuing operations less capital expenditures, both of which are taken directly from the statement of cash flows.

Operating Income Before Depreciation and Amortization and Related Margin. Facility-based telecommunications companies require significant recurring capital investments that generate large non-cash expense, making operating income a less meaningful measure of current period business performance and profitability. We use operating income from continuing operations before depreciation and amortization, and the related margin, as a measure of underlying operating performance of the business and to make meaningful comparisons of different operating periods.

Domestic Wireless Pro Forma Revenue and ARPU. Pro forma revenues and pro forma ARPU are used to provide more276.5%

124

N/M*

612

990

-38.2%

Income from Continuing Operations before Income

Taxes and Discontinued Operations

1,209

1,317

-8.2%

1,189

1.7%

&n meaningful period to period comparisons of reported revenues and ARPU. These unaudited pro forma measures incorporate AT&T Wireless' results for the three and nine months ended September 30, 2004 and include results from other acquired properties, exclude results from divested operations, and reflect intercompany eliminations and other adjustments for such periods. For further detail regarding other pro forma combined historical financial information, see the information filed by Cingular Wireless on Forms 8-K/A filed on November 29, 2004 and March 11, 2005.

The unaudited pro forma information is not intended to represent or be indicative of the results of Cingular that would have been reported had the merger and the above mentioned items been completed as of the dates presented, and should not be taken as representative of the future results of Cingular.

Hurricane Katrina Revenue Impacts. We provide additional information relating to the impact of billing credits associated with Hurricane Katrina on operating revenues, operating income and operating margin for the third quarter of 2005 for our three operating segments. We believe that this additional information better enables comparisons to prior periods and trends in the business.

In addition to historical information, this document contains forward-looking statements regarding events and financial trends. Factors that could affect future results and could cause actual results to differ materially from those expressed or implied in the forward-looking statements include: (i) a change in economic conditions in domestic or international markets where we operate or have material investments which would affect demand for our services; (ii) the intensity of competitive activity and its resulting impact on pricing strategies and new product offerings; (iii) higher than anticipated cash requirements for investments, new business initiatives and acquisitions; (iv) unfavorable regulatory actions; and (v) those factors contained in the Company's periodic reports filed

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with the SEC. The forward-looking information in this document is given as of this date only, and BellSouth assumes no duty to update this information.

Item 8.01 Other Events

On October 25, 2005, the Company announced that the Board of Directors authorized the repurchase of up to \$2 billion of common stock through the end of 2007.

3,435

4,545

-24.4%

Provision for Income Taxes

392

465

-15.7%

394

-0.5%

1,140

1,604

4

SIGNATURE

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

BELLSOUTH CORPORATION

By: /s/ Pat Shannon
Pat Shannon
Senior Vice President Finance and Controller
October 25, 2005