BELLSOUTH CORP
Form 10-Q
August 03, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2001

OR

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

For the transition period from to

Commission file number 1-8607

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

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

Registrant's telephone number 404 249-2000

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

At July 31, 2001, 1,875,285,201 common shares were outstanding.

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Part II

PART I - FINANCIAL INFORMATION

BELLSOUTH CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In Millions, Except Per Share Amounts)

	For the Three Months Ended June 30,		
	2000	2001	2
Operating revenues:			
Communications group	$ 4,601	$ 4,764	
Domestic wireless	936	-	
Latin America	689	744	
Domestic advertising and publishing	441	436	
All other	34	41	
Total operating revenues	6,701	5,985	
Operating expenses:			
Operational and support expenses	3,514	3,232	
Depreciation and amortization	1,240	1,203	
Severance accrual	-	-	
Total operating expenses	4,754	4,435	
Operating income	1,947	1,550	
Interest expense	332	334	
Net earnings of equity affiliates	22	108	
Other income, net	46	80	
Income before income taxes	1,683	1,404	
Provision for income taxes	619	524	
Net income	$ 1,064	$ 880	

Weighted-average common shares outstanding:		
Basic	1,882	1,874
Diluted	1,900	1,886
Dividends declared per common share	$ 0.19	$ 0.19
Earnings per share:		
Basic	$ 0.57	$ 0.47
Diluted	$ 0.56	$ 0.47

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

BELLSOUTH CORPORATION
CONSOLIDATED BALANCE SHEETS
(In Millions, Except Per Share Amounts)

	December 31, 2000	June 30, 2001 (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,061	$ 658
Accounts receivable, net of allowance for uncollectibles of $377 and $411	5,157	4,962
Material and supplies	379	434
Other current assets	809	1,046
Total current assets	7,406	7,100
Investments and advances	11,010	9,845
Property, plant and equipment	60,912	63,043
Less: accumulated depreciation	36,755	37,986
Property, plant and equipment, net	24,157	25,057
Deferred charges and other assets	4,180	4,668
Intangible assets, net	4,172	4,295
Total assets	$ 50,925	$ 50,965
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Debt maturing within one year	$ 7,569	$ 6,057
Accounts payable	2,233	1,734
Other current liabilities	3,468	3,695
Total current liablities	13,270	11,486
Long-term debt	12,463	13,043
Noncurrent liabilities:		
Deferred income taxes	3,580	3,607
Other noncurrent liabilities	4,700	4,949
Total noncurrent liabilities	8,280	8,556
Shareholders' equity:		
Common stock, $1 par value (8,650 shares authorized; 1,872 and		

1,874 shares outstanding)	2,020	2,020
Paid-in capital	6,740	6,763
Retained earnings	14,074	15,102
Accumulated other comprehensive income	(488)	(747)
Shares held in trust and treasury	(5,222)	(5,126)
Guarantee of ESOP debt	(212)	(132)
Total shareholders' equity	16,912	17,880
Total liabilities and shareholders' equity	$ 50,925	$ 50,965

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

BELLSOUTH CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In Millions)

	For the Six Months Ended June 30, 2000	2001
Cash Flows from Operating Activities:		
Net income	$ 2,065	$ 1,771
Adjustments to net income:		
Depreciation and amortization	2,458	2,360
Curtailment charge	-	72
Severance accrual	78	-
Loss on sale of investment	-	50
Provision for uncollectibles	179	219
Net earnings of equity affiliates	(153)	(190)
Dividends received from equity affiliates	39	214
Minority interests in income of subsidiaries	22	(10)
Deferred income taxes and investment tax credits	98	156
Net change in:		
Accounts receivable and other current assets	(199)	(199)
Accounts payable and other current liabilities	641	(287)
Deferred charges and other assets	(337)	(519)
Other liabilities and deferred credits	(182)	138
Other reconciling items, net	89	(63)
Net cash provided by operating activities	4,798	3,712
Cash Flows from Investing Activities:		
Capital expenditures	(3,268)	(3,357)
Investments in and advances to equity affiliates	(582)	(160)
Purchases of wireless licenses	(73)	(10)
Proceeds from sale of investment	-	1,018
Proceeds from disposition of short-term investments	247	108
Purchases of short-term investments	(177)	(76)
Proceeds from repayment of loans and advances	14	100
Investments in debt securities	-	(176)
Other investing activities, net	44	(42)
Net cash used for investing activities	(3,795)	(2,595)
Cash Flows from Financing Activities:		
Net borrowings (repayments) of short-term debt	(1,708)	(2,130)
Proceeds from long-term debt	2,083	1,819

Repayments of long-term debt	(335)	(547)
Dividends paid	(715)	(712)
Purchase of treasury shares	(148)	-
Other financing activities, net	53	50
Net cash used for financing activities	(770)	(1,520)
Net decrease in cash and cash equivalents	233	(403)
Cash and cash equivalents at beginning of period	1,287	1,061
Cash and cash equivalents at end of period	$ 1,520	$ 658

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

BELLSOUTH CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
AND COMPREHENSIVE INCOME
(Unaudited)
(In Millions)

For the Six Months Ended June 30, 20

	Number of Shares		Amount			
	Common Stock	Shares Held in Trust and Treasury (a)	Common Stock	Paid-in Capital	Retained Earnings	Accum. Other Compre-hensive Income/ (Loss)
Balance at December 31, 1999	2,020	(138)	$ 2,020	$ 6,771	$ 11,456	$ (358
Net income					2,065	
Other comprehensive income, net of tax:						
Foreign currency translation adjustment						27
Net unrealized gains on securities						335
Minimum pension liability adjustment						(9
Total comprehensive income (b)						
Dividends declared					(715)	
Share issuances for employee benefit plans		2			(60)	
Purchase of treasury stock		(3)				
Tax benefit related to stock options				4		
ESOP activities and related tax benefit						
Balance at June 30, 2000	2,020	(139)	$ 2,020	$ 6,775	$ 12,746	$ (5

(a) Trust and treasury shares are not considered to be outstanding for financial reporting purposes. As of June 30, 2000, there were approximately 36 shares held in trust and 103 shares held in treasury.

(b) Total comprehensive income for second quarter 2000 was $1,104.

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

BELLSOUTH CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
AND COMPREHENSIVE INCOME
(Unaudited)
(In Millions)

	For the Six Months Ended June 30					
	Number of Shares		Amount			
	Common Stock	Shares Held in Trust and Treasury (a)	Common Stock	Paid-in Capital	Retained Earnings	Accum. Other Compre- hensive Income/ (Loss)
Balance at December 31, 2000	2,020	(148)	$ 2,020	$ 6,740	$ 14,074	$ (488
Net income					1,771	
Other comprehensive income, net of tax:						
Foreign currency translation adjustment						(12)
Net unrealized losses on securities						(236)
Net unrealized losses on derivatives						(11)
Total comprehensive income (b)						
Dividends declared					(713)	
Share issuances for employee benefit plans		2		3	(32)	
Purchase of treasury stock		-				
Tax benefit related to stock options				20		
ESOP activities and related tax benefit					2	
Balance at June 30, 2001	2,020	(146)	$ 2,020	$ 6,763	$ 15,102	(747)

(a) Trust and treasury shares are not considered to be outstanding for financial reporting purposes. As of June 30, 2001, there were approximately 36 shares held in trust and 110 shares held in treasury.

(b) Total comprehensive income for second quarter 2001 was $770.

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

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)
(Dollars In Millions)

Note A - Preparation of Interim Financial Statements

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

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

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

Note B - NEW Accounting Pronouncements

BUSINESS COMBINATIONS AND GOODWILL AND OTHER INTANGIBLE ASSETS

In July 2001, the Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standards No. 141, "Business Combinations", and No. 142, "Goodwill and Other Intangible Assets". Under these new Standards the FASB eliminated accounting for certain mergers and acquisitions as poolings of interests, eliminated amortization of goodwill and indefinite life intangible assets, and established new impairment measurement procedures for goodwill. For calendar-year reporting companies, the standards become effective for all acquisitions completed on or after June 30, 2001. Changes in financial statement treatment for goodwill and intangible assets arising from mergers and acquisitions completed prior to June 30, 2001 become effective January 1, 2002. We are currently assessing the impact of implementing these standards.

Derivative Instruments and Hedging Activities

FASB Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities" requires that entities recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Gains and losses resulting from changes in the fair values of those derivatives are to be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. We adopted SFAS No. 133 on January 1, 2001. The impact of implementation was not material. The fair value of derivative instruments at June 30, 2001 was not material.

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)
(Dollars In Millions)

Note C - Earnings Per Share

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

	For the Three Months Ended June 30, 2000	2001	For the Si[x Months] Ended Ju[ne 30,] 2000
Basic common shares outstanding	1,882	1,874	1,881
Incremental shares from stock options and benefit plans	18	12	18
Diluted common shares outstanding	1,900	1,886	1,899

The earnings amounts used for per-share calculations are the same for both the basic and diluted methods.

Note D - Sale of Qwest Shares

In January 2001, we sold approximately 22.2 million shares of Qwest Communications common stock to Qwest for $1.0 billion in cash, or $45 per share.

In addition, we entered an agreement to purchase $250 of services and products from Qwest over a five-year period, with payment being made in shares of Qwest stock we currently own. Accordingly, 5.3 million shares are considered restricted and are no longer classified as available-for-sale. Minimum payments under the agreement are required to be made annually. The stock prices used to compute the number of shares for such payments is fixed per the agreement. All such prices are above our original cost.

Note E - Restructuring of Wireless Video Entertainment Business

In December 2000, we announced that we would restructure our video entertainment service and concentrate our entertainment business on our fiber optic-based wireline video operations. This move was made to better align our resources with our strategic priorities in broadband services.

We recorded charges of approximately $498, or $323 net of tax, related to this restructuring in the fourth quarter of 2000. These charges consisted of approximately $289 for asset writeoffs and writedowns and $209 for contract termination penalties, migration of customers to alternative service providers and for severance and related benefit expenses. As of June 30, 2001, we have charged $148 against the $209 accrued, leaving the accrual at $61 as of that date. We expect to complete the plan by the end of 2001. Operating revenues generated by this business were $14 in second quarter 2000 and $6 in second quarter 2001, while operating losses were $26 in second quarter 2000 and $9 in second quarter 2001. For the year-to-date periods, operating revenues were $28 in 2000 and $19 in 2001, while operating losses were $50 in 2000 and $16 in 2001.

NOTE F - Curtailment charge

In first quarter 2001, we recognized a curtailment loss of $72 in accordance with provisions of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pension". The loss resulted from accelerated recognition of prior service cost in excess of the decrease in our postretirement benefit obligation for the wireless employees that will be covered under Cingular's postretirement benefit plans.

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)
(Dollars In Millions)

NOTE G - Contribution of AB Cellular to Cingular

In December 2000 we exercised our option to redeem AT&T's 55.6% partnership interest in AB Cellular through the distribution of our Los Angeles Cellular operations to AT&T. This redemption resulted in our ownership of the remaining AB Cellular investment, including 100% of the Houston cellular operations, 87.35% of the Galveston cellular operations, and approximately $1,100 of cash. In January 2001, we received FCC approval and transferred these properties and the cash to Cingular, as contemplated by the October 2, 2000 Cingular contribution and formation agreement.

Note H - Segment Information

We have four reportable operating segments: (1) Communications group; (2) Domestic wireless; (3) Latin America; and (4) Domestic advertising and publishing. We have included the operations of all other businesses falling below the reporting threshold in the "All other" segment. The "Reconciling items" shown below include Corporate Headquarters and capital funding activities, the reversal of our proportionate share of Cingular's reported results, intercompany eliminations and other special items that may arise. Special items are transactions or events that are included in reported consolidated results but are excluded from segment results due to their nonrecurring or nonoperational nature.

During fourth quarter 2000, we contributed our domestic wireless operations to Cingular, and we account for our investment in Cingular under the equity method. For management purposes, however, we evaluate our domestic wireless segment based on our proportionate share of Cingular's results. Accordingly, the operating revenues and expenses reported for our domestic wireless segment for second quarter and year-to-date 2001 reflect 40% of Cingular's total revenues and expenses, whereas second quarter and year-to-date 2000 reflect the historical results of our wireless businesses that have been contributed to Cingular.

The following table provides information for each operating segment:

	Second Quarter		%	Yea
	2000	2001	Change	2000
Communications group				
External revenues	$ 4,571	$ 4,764	4.2	$ 9,0
Intersegment revenues	94	35	(62.8)	1
Total revenues	$ 4,665	$ 4,799	2.9	$ 9,2
Operating income	$ 1,541	$ 1,430	(7.2)	$ 3,0
Segment net income	$ 871	$ 819	(6.0)	$ 1,7
Domestic wireless				
External revenues	$ 1,028	$ 1,414	37.5	$ 1,9
Intersegment revenues	8	-	N/M*	
Total revenues	$ 1,036	$ 1,414	36.5	$ 1,9
Operating income	$ 158	$ 303	91.8	$ 2
Net earnings (losses) of equity affiliates	$ 48	$ -	N/M	$
Segment net income	$ 106	$ 129	21.7	$ 1

* Not Meaningful

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)
(Dollars In Millions)

Note H - Segment Information (continued)

	Second Quarter		%	Ye
	2000	2001	Change	2000
Latin America				
External revenues	$ 689	$ 744	8.0	$1,
Intersegment revenues	15	5	(66.7)	
Total revenues	$ 704	$ 749	6.4	$1,
Operating income	$ 52	$ 89	71.2	$
Net earnings (losses) of equity affiliates	$ (36)	$ (95)	N/M	$
Segment net income (loss)	$ (34)	$ (119)	N/M	$
Domestic advertising and publishing				
External revenues	$ 441	$ 436	(1.1)	$
Intersegment revenues	7	7	-	
Total revenues	$ 448	$ 443	(1.1)	$
Operating income	$ 204	$ 196	(3.9)	$
Segment net income	$ 124	$ 119	(4.0)	$
All other				
External revenues	$ 25	$ 27	8.0	$
Intersegment revenues	1	7	N/M	
Total revenues	$ 26	$ 34	30.8	$
Operating income	$ 3	$ 7	N/M	
Net earnings (losses) of equity affiliates	$ 11	$ (9)	N/M	$
Segment net income (loss)	$ 12	$ (4)	N/M	$
Reconciling items				
External revenues	$ (53)	$(1,400)	N/M	$
Intersegment revenues	(125)	(54)	N/M	(
Total revenues	$(178)	$(1,454)	N/M	$ (
Operating income(loss)	$ 11	$ (475)	N/M	$
Net earnings (losses) of equity affiliates	$ (1)	$ 212	N/M	$
Segment net income (loss)	$ (15)	$ (64)	N/M	$
Reconciliation to Consolidated Financial Information				
Operating Revenues				
Communications group	$ 4,665	$4,799	2.9	$9,
Domestic wireless	1,036	1,414	36.5	1,
Latin America	704	749	6.4	1,
Domestic advertising and publishing	448	443	(1.1)	
All other	26	34	30.8	
Total segments	$ 6,879	$7,439	8.1	$ 13,
Reconciling items	$(178)	$(1,454)	N/M	$ (
Total consolidated	$ 6,701	$5,985	(10.7)	$ 13,

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)
(Dollars In Millions)

Note H - Segment Information (continued)

	Second Quarter 2000	Second Quarter 2001	% Change	Ye 2000
Reconciliation to Consolidated Financial Information, continued				
Net Income				
Communications group	$ 871	$ 819	(6.0)	$1,
Domestic wireless	106	129	21.7	
Latin America	(34)	(119)	N/M	
Domestic advertising and publishing	124	119	(4.0)	
All other	12	(4)	N/M	
Total segments	$ 1,079	$ 944	(12.5)	$2,
Reconciling items	$ (15)	$ (64)	N/M	$
Total consolidated	$ 1,064	$ 880	(17.3)	$2,

Note I - Marketable Securities

We have investments in marketable securities, primarily common stocks, which are accounted for under the cost method. These investments are comprised primarily of our equity interest in Qwest and are classified as available-for-sale under SFAS No. 115. Under SFAS No. 115, available-for-sale securities are required to be carried at their fair value, with unrealized gains and losses, net of income taxes, recorded in accumulated other comprehensive income (loss) in our statement of changes in shareholders' equity and comprehensive income. The fair values of our investments in marketable securities are determined based on market quotations. Equity securities that are restricted for more than one year or not publicly traded are recorded at cost.

The tables below show certain summarized information related to our investments which are adjusted to their fair value at June 30:

2000	Cost	Gross Unrealized gains	Gross Unrealized losses	Recorded Basis
Investment in Qwest ...	$3,500	$ 200	$ --	$ 3,700
Other investments	458	167	(31)	594
Total	$3,958	$ 367	$ (31)	$ 4,294

2001	Cost	Gross Unrealized gains	Gross Unrealized losses	Recorded Basis
Investment in Qwest ...	$2,198	$ --	$(714)	$1,484
Other investments	509	3	(127)	385
Total	$2,707	$ 3	$(841)	$1,869

BELLSOUTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)
(Dollars In Millions)

Note J - Summary Financial Information for Equity Investees

The following table displays the summary combined financial information of our equity method businesses. These amounts are shown on a 100-percent basis.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2000	2001	2000	2001
Revenues	$1,550	$4,695	$3,049	$9,106
Operating income	$ 173	$ 812	$ 284	$1,283
Net income	$34	$ 233	$72	$ 351

Note K - Debt Issuance

In February 2000 we issued $2,000 of long-term debt, consisting of $1,000 of Ten-year, 7 3/4% Notes and $1,000 of Thirty-year, 7 7/8% Debentures. We received total proceeds of $1,974, which were used to retire commercial paper.

In April 2001, we privately sold $1,000 of 20-year annual put reset securities. The notes bear interest at 4.287% until April 2002, at which time the interest rate will be reset if certain investment banks holding call options exercise their options and remarket the notes. If the banks do not exercise their call options on that date, we will be required to redeem the notes at par. The proceeds were used to pay down short-term borrowings.

Note L - Contingencies

Litigation Matters

Reciprocal compensation

Following the enactment of the Telecommunications Act of 1996, our telephone company subsidiary, BellSouth Telecommunications, Inc. (BST), and various competitive local exchange carriers entered into interconnection agreements providing for, among other things, the payment of reciprocal compensation for local calls initiated by the customers of one carrier that are completed on the network of the other carrier. Numerous competitive local carriers have claimed entitlement from BST for compensation associated with dial-up calls originating on BST's network and connecting with Internet service providers served by the competitive local carriers' networks. BST has maintained that dial-up calls to Internet service providers are not local calls for which terminating compensation is due under the interconnection agreements; however, the courts and state regulatory commissions in BST's operating territory that have considered the matter have, in most cases, ruled that BST is responsible for paying reciprocal compensation on these calls.

During the second quarter of 2001, we adjusted our accrual for these claims. This adjustment increased our expenses by approximately $140 and reduced net income by $88. The adjustment reflects our current estimate of the liability for these claims. We have commenced discussions with several competitive local exchange carriers concerning settlement of these claims, and agreements have been reached in certain circumstances.

Also during the second quarter of 2001, the FCC released an Order on Remand and Report and Order addressing the issue of compensation for ISP traffic. In its Order, the FCC acknowledged that dial-up calls to Internet service providers are not local calls, but instead are "information access" traffic exempt from the reciprocal compensation provisions of the 1996 Act. The FCC has implemented a three-year interim period during which local carriers will pay inter-carrier compensation for such calls in decreasing increments. After the three-year interim period, the new rules on inter-carrier compensation to be adopted in connection with a Notice of Proposed Rulemaking released on April 27, 2001 are expected to be in effect. If no rules have been adopted by that time, the inter-carrier compensation in effect at the end of the third year would remain in effect.

Note L - Contingencies (continued)

Other reciprocal compensation issues

In a related matter, a competitive local carrier has claimed terminating compensation of approximately $165 for service arrangements that we did not believe involved "traffic" under our interconnection agreements. We filed a complaint with the state regulatory commission asking that agency to declare that we did not owe reciprocal compensation for these arrangements. In March 2000, the state commission ruled in our favor finding that compensation was not owed to the competitive local carrier. This matter is currently on appeal.

Compliance Matters

Foreign Corrupt Practices Act

In July 2000, the SEC began a formal investigation of whether we and others may have violated the Foreign Corrupt Practices Act (FCPA). The SEC has subpoenaed documents relating to the activities of our foreign subsidiaries, and we have produced responsive documents. Prior to the commencement of the SEC's formal investigation, we had engaged outside counsel to investigate an FCPA matter relating to the activities of one of our foreign subsidiaries in Latin America, and outside counsel concluded that those activities did not violate the Act. Thereafter and independent of these developments, our internal auditors, in the ordinary course of conducting compliance reviews, identified issues concerning accounting entries made by another of our Latin American subsidiaries. We have informed the SEC as to this matter, and the SEC has expanded its investigation to encompass it. Our internal investigation of the FCPA compliance of our foreign subsidiaries is continuing. We are cooperating with the SEC in its investigation, but we cannot predict the duration or the outcome of the SEC's investigation or whether the scope of the investigation will be expanded beyond the matters currently identified.

Regulatory matters

Beginning in 1996, we operated under a price regulation plan approved by the South Carolina Public Service Commission under existing state laws. In April 1999, however, the South Carolina Supreme Court invalidated this price regulation plan. In July 1999, we elected to be regulated under a new state statute, adopted subsequent to the Commission's approval of the earlier plan. The new statute allows telephone companies in South Carolina to operate under price regulation without obtaining approval from the Commission. The election became effective during August 1999. The South Carolina Consumer Advocate petitioned the Commission seeking review of the level of our earnings during the 1996-1998 period when we operated under the subsequently invalidated price regulation plan. The Commission voted to dismiss the petition in November 1999 and issued orders confirming the vote in February and June of 2000. In July 2000, the Consumer Advocate appealed the Commission's dismissal of the petition.

Also in 2000, the Florida Public Service Commission adopted a staff recommendation that our change in 1999 from a late charge based on a percentage of the amounts overdue to a flat rate fee plus an interest charge violated the Florida price regulation statute and voted that certain monies should be refunded. We protested the decision and the Commission should issue a decision by the end of 2001.

CWA Agreement

Our existing collective bargaining agreements with the Communications Workers of America (CWA) are scheduled to expire on August 4, 2001. We are currently in negotiations with the CWA over the terms of new agreements. Negotiations are proceeding, but we cannot predict at this time whether agreements will be reached by August 4, 2001.

Other Claims

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

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)
(Dollars In Millions)

Note M - Tracking Stock

In December 2000, our shareholders approved amendments to our charter that will permit us to issue our common stock in series, and our Board of Directors intends to initially designate two series: Latin America group stock, intended to reflect the separate performance of our Latin American businesses, and BLS group stock, intended to reflect the separate performance of all of our other businesses.

We plan a public offering of shares of Latin America group stock to finance our expansion in Latin America. At the time of a public offering, a number of shares of Latin America group stock will be reserved for the BLS group or for issuance to the holders of BLS group stock. We expect that we would distribute, as a dividend to the holders of BLS group stock, the reserved shares of Latin America group stock within six to 12 months following the public offering.

Our plans to create, issue and distribute Latin America group stock are subject to a number of conditions, including market conditions and other factors. The implementation and timing of these transactions are uncertain.

Note N - Subsidiary Financial Information

We have fully and unconditionally guaranteed all of the outstanding debt securities of BST that are subject to the reporting requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934. BST is a 100% owned subsidiary of BellSouth. In accordance with SEC rules, BST is no longer subject to the reporting requirements of the Securities Exchange Act of 1934, and we are providing the following condensed consolidating financial information.

BST is listed separately because it has debt securities, registered with the SEC, that we have guaranteed. All other operating subsidiaries that do not have registered securities guaranteed by us are presented in the Other column. The Parent column is comprised of headquarters entities which provide, among other services, executive management, administrative support and financial management to operating subsidiaries. The Adjustments column includes the necessary amounts to eliminate the intercompany balances and transactions between BST, Other and Parent to reconcile to our consolidated financial information.

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)
(Dollars In Millions)

Note N - Subsidiary Financial Information (continued)

CONDENSED CONSOLIDATING STATEMENTS OF INCOME

	For the Three Months Ended Ju		
	BST	Other	Parent
Total operating revenues	$ 4,552	$ 2,422	$ 376
Total operating expenses	3,173	2,094	141
Operating income	1,379	328	235
Interest expense	176	56	210
Net earnings (losses) of equity affiliates	4	22	1,320
Other income (expense), net	1	(27)	188
Income before income taxes	1,208	267	1,533
Provision for (benefit from) income taxes	431	115	75
Net income	$ 777	$ 152	$ 1,458

	For the Three Months Ended Ju		
	BST	Other	Parent
Total operating revenues	$ 4,657	$ 1,603	$ 648
Total operating expenses	3,528	1,383	452
Operating income	1,129	220	196
Interest expense	164	80	179
Net earnings (losses) of equity affiliates	4	98	1,117
Other income (expense), net	1	29	143
Income before income taxes	970	267	1,277
Provision for income taxes	344	154	23
Net income	$ 626	$ 113	$ 1,254

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)
(Dollars In Millions)

Note N - Subsidiary Financial Information (continued)

	For the Six Months Ended Jun		
	BST	Other	Parent
Total operating revenues	$ 9,019	$ 4,600	$ 755
Total operating expenses	6,332	4,204	326
Operating income	2,687	396	429
Interest expense	337	120	385
Net earnings (losses) of equity affiliates	7	139	2,565
Other income (expense), net	3	(14)	369
Income before income taxes	2,360	401	2,978
Provision for income taxes	866	145	134
Net income	$ 1,494	$ 256	$ 2,844

	For the Six Months Ended Jun		
	BST	Other	Parent
Total operating revenues	$ 9,233	$ 3,180	$ 1,193
Total operating expenses	6,745	2,785	932
Operating income	2,488	395	261
Interest expense	331	168	367
Net earnings (losses) of equity affiliates	8	176	2,274
Other income (expense), net	10	91	243
Income before income taxes	2,175	494	2,411
Provision for (benefit from) income taxes	783	293	(39)
Net income	$ 1,392	$ 201	$ 2,450

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)
(Dollars In Millions)

Note N - Subsidiary Financial Information (continued)

CONDENSED CONSOLIDATING BALANCE SHEETS

December 31, 2000

	BST	Other	Parent	Adj
ASSETS				
Current assets:				
Cash and cash equivalents	$ 62	$ 999	$ -	
Accounts receivable, net	3,195	2,162	5,522	
Other current assets	271	837	184	
Total current assets	3,528	3,998	5,706	
Investments and advances	322	7,505	10,592	
Property, plant and equipment, net	21,277	2,518	362	
Deferred charges and other assets	3,868	219	186	
Intangible assets, net	692	3,291	189	
Total assets	$ 29,687	$ 17,531	$ 17,035	
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Debt maturing within one year	$ 1,830	$ 1,724	$ 8,791	
Other current liabilities	3,514	4,054	1,105	
Total current liablities	5,344	5,778	9,896	
Long-term debt	7,641	1,594	8,139	
Noncurrent liabilities:				
Deferred income taxes	2,306	1,271	3	
Other noncurrent liabilities	3,209	1,316	321	
Total noncurrent liabilities	5,515	2,587	324	
Shareholders' equity:	11,187	7,572	(1,324)	
Total liabilities and shareholders' equity	$ 29,687	$ 17,531	$ 17,035	

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)
(Dollars In Millions)

Note N - Subsidiary Financial Information (continued)

	June 30, 2001				
	BST	Other	Parent	Adjustments	Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 102	$ 596	$ (121)	$ 81	$ 658
Accounts receivable, net	3,185	1,995	3,597	(3,815)	4,962
Other current assets	359	942	281	(102)	1,480
Total current assets	3,646	3,533	3,757	(3,836)	7,100
Investments and advances	310	5,569	7,141	(3,175)	9,845
Property, plant and equipment, net	22,010	2,577	470	-	25,057
Deferred charges and other assets	4,380	211	324	(247)	4,668
Intangible assets, net	906	3,174	200	15	4,295
Total assets	$ 31,252	$ 15,064	$ 11,892	$ (7,243)	$ 50,965

LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Debt maturing within one year	$ 2,723	$ 594	$ 5,800	$ (3,060)	$ 6,057
Other current liabilities	3,442	1,888	940	(841)	5,429
Total current liablities	6,165	2,482	6,740	(3,901)	11,486
Long-term debt	7,683	2,206	5,853	(2,699)	13,043
Noncurrent liabilities:					
Deferred income taxes	2,476	1,283	15	(167)	3,607
Other noncurrent liabilities	3,321	1,360	391	(123)	4,949
Total noncurrent liabilities	5,797	2,643	406	(290)	8,556
Shareholders' equity:	11,607	7,733	(1,107)	(353)	17,880
Total liabilities and shareholders equity	$ 31,252	$ 15,064	$ 11,892	$ (7,243)	$ 50,965

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)
(Dollars In Millions)

Note N - Subsidiary Financial Information (continued)

CONDENSED CONSOLIDATING CASH FLOW STATEMENTS

	For the Six Months Ended June 30, 2000			
	BST	Other	Parent	Adjustments
Cash flows from operating activities	$3,408	$ 1,162	$(1,337)	$ 1,565
Cash flows from investing activities	(2,390)	(739)	1,490	(2,156
Cash flows from financing activities	(911)	(404)	(46)	591
Net increase in cash	$ 107	$ 19	$ 107	$ -

	For the Six Months Ended June 30, 2001			
	BST	Other	Parent	Adjustments
Cash flows from operating activities	$3,217	$ 599	$ (380)	$ 276
Cash flows from investing activities	(2,859)	(301)	(610)	1,175
Cash flows from financing activities	(317)	(327)	575	(1,451
Net increase (decrease) in cash	$ 41	$ (29)	$ (415)	$ -

BELLSOUTH CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS
(Dollars in Millions, Except Per Share Amounts)

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

Consolidated Results of Operations

Key financial and operating data for second quarter 2000 and 2001 and the respective year-to-date periods are as follows. All references to earnings per share are on a diluted basis:

	Second Quarter		%	Yea
	2000	2001	Change	2000
Results of operations:				
Operating revenues	$6,701	$5,985	(10.7)	$ 13,1
Operating expenses	4,754	4,435	(6.7)	9,5
Operating income	1,947	1,550	(20.4)	3,5
Interest expense	332	334	0.6	6
Net earnings (losses) of equity affiliates	22	108	N/M*	1
Other income, net	46	80	N/M	1
Provision for income taxes	619	524	(15.3)	1,1
Net income	$1,064	$ 880	(17.3)	$2,0
As Reported:				
Net income	$1,064	$880	(17.3)	$2,0
Earnings per share	$ 0.56	$ 0.47	(16.1)	$ 1.
Cash flow data:				
Cash provided by operating activities	$2,448	$2,108	(13.9)	$4,7
Cash used for investing activities	$(2,239)	$(1,655)	(26.1)	$(3,79
Cash provided by (used for) financing activities	$ 157	$(507)	N/M	$ (77
Other:				
Effective tax rate	36.8%	37.3%	+50 bps	35.
Average debt balances:				
Short-term debt	$5,607	$ 6,039	7.7	$6,2
Long-term debt	$11,015	$13,431	21.9	$10,4
Total average debt balance	$16,622	$19,470	17.1	$16,6
EBITDA(1)	$3,187	$2,753	(13.6)	$ 6,1
EBITDA margin(2)	47.6%	46.0%	-160bps	46.

(1) EBITDA represents income before net interest expense, income taxes, depreciation and amortization, severance accrual, net earnings (losses) of equity affiliates and other income, net. We present EBITDA because it is a widely accepted financial indicator used by certain investors and analysts to analyze and compare companies on the basis of operating performance and because we believe that EBITDA is an additional meaningful measure of performance and liquidity. EBITDA does not represent cash flows for the period, nor is it an alternative to operating income (loss) as an indicator of operating performance. You should not consider it in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles. The items excluded from the calculation of EBITDA are significant components in understanding and assessing our financial performance. Our computation of EBITDA may not be comparable to the computation of similarly titled measures of other companies. EBITDA does not represent funds available for discretionary uses.

(2) EBITDA margin is EBITDA divided by operating revenues.

* - Not meaningful.

Overview of consolidated results of operations

On a comparative basis, our results reflect the effects of the contribution of our former domestic wireless operations to Cingular Wireless in fourth quarter 2000, and our acquisition of operations in Colombia in July 2000.

The results for year-to-date 2000 include:

- Income related to the restructuring of our ownership interest in the German wireless operator, E-Plus, which increased net income by $68, or $0.04 per share.

- Expense recorded as a result of our previously announced plan to reduce our domestic general and administrative staff, which reduced net income by $48, or $0.03 per share.

The results for second quarter 2001 include:

- Our adjustment to an accrual for reciprocal compensation, which reduced net income by $88, or $0.05 per share.

- Losses incurred as we exit our wireless video entertainment business, which reduced net income by $5 for the quarter and $10, or $0.01 per share, for the year-to-date period.

In addition to the second quarter items, the year-to-date 2001 period includes:

- A loss recorded as a result of selling 22.2 million shares of Qwest common stock. We received total proceeds of $1,000 and recognized a loss of $50, or $32 after tax, or $0.02 per share.

- Expense recorded for changes in post retirement medical benefit obligations, which reduced net income by $47, or $0.02 per share.

Events Affecting Comparability

Formation of Cingular Wireless

In October 2000, we contributed our domestic wireless voice and data operations to a joint venture with SBC Communications and formed Cingular Wireless (Cingular). We own an approximate 40% stake in Cingular, and share joint control with SBC. Accordingly, we account for our share of Cingular's results using the equity method. Prior to October 2000, we consolidated the revenues and expenses of these operations. As a result of this change, our second quarter and year-to-date 2000 results include the revenues and expenses attributable to our former domestic wireless operations and our second quarter and year-to-date 2001 results include equity in earnings attributable to Cingular.

Operating Revenues

Our reported operating revenues decreased $716 in second quarter 2001 and $1,237 for the year-to-date period compared to the same periods in 2000. These changes reflect:

- A decrease of $936 for the second quarter and $1,803 for the year-to-date period from our domestic wireless operations due to the contribution of our domestic wireless operations to Cingular, as explained above.

- Increases in our communications group of $163 for the second quarter and $315 for the year-to-date period driven by strong growth in digital and data revenues, wholesale revenues, and by the company's marketing of calling features. These increases were offset by declines in basic service revenues, reflecting competition and a slowing economy. Also impacting revenues was the decline in our public payphone business.

- Higher revenues from our Latin America group of $55, or 8.0%, for the second quarter and $150, or 11.0%, for the year-to-date period driven by the acquisition of Colombia in June 2000. We added approximately 2.4 million customers quarter over quarter, with 1.2 million of those coming from the acquisition and subsequent expansion of Colombia. The impact of customer additions on revenue growth was offset by declining monthly revenue per customer resulting from increased penetration of cellular service into the mass-consumer market and exchange rate declines in some countries.

- A decrease in revenues from our domestic advertising and publishing group of $5 for the second quarter driven by slowing volume growth. Revenues for the year-to-date period grew $80, or 10.1%, driven by timing of book publications.

Operating Expenses

Total operating expenses decreased $319 during second quarter 2001 and $818 during the year-to-date period. Operating expenses for year-to-date 2000 include a $78 severance accrual related to a plan to reduce our domestic general and administrative staff. Operating expenses for second quarter and year-to-date 2001 were impacted by approximately $140 of expense related to our adjustment of the accrual for reciprocal compensation. Operating expenses for year-to-date 2001 were also impacted by a curtailment loss related to postretirement medical benefits which increased expenses by $72. The remaining decreases of $459 for the second quarter and $952 for the year-to-date period reflect:

- A decrease of $422 for the second quarter and $854 for the year-to-date period in operational and support expenses. Included in this change were decreases of $633 for the second quarter and $1,281 for the year-to-date period attributable to the domestic wireless operations which were contributed to Cingular. Offsetting these decreases were higher expenses in the communications group driven by our accelerated DSL growth initiative and customer service initiatives.

- A decrease of $37 for the second quarter and $98 for the year-to-date period in depreciation and amortization due primarily to $154 for the second quarter and $321 for the year-to-date period of expense recorded by our former domestic wireless operations in 2000. These decreases were offset by increases at the communications group and Latin America group due to additions of property, plant, equipment and software to support expansion of our domestic wireline communications and Latin American wireless networks and amortization of intangibles relating to our acquisitions in Colombia.

Interest Expense

Interest expense remained relatively flat in second quarter 2001 and increased 8.8% in year-to-date 2001 as compared to the same 2000 periods. The higher interest expense in the year-to-date period is attributed to higher average debt balances driven by debt related to Colombia, and the buyout of our partners in our Carolina PCS operations. Lower average interest rates on commercial paper reduced the impact of these increases significantly in second quarter and to a lesser extent in the year-to-date period.

Net Earnings (Losses) of Equity Affiliates

Earnings from our unconsolidated businesses increased $86 in second quarter 2001 and $37 for the year-to-date period. These increases were driven by the addition of earnings from our equity investment in Cingular, which totaled $211 in second quarter 2001 and $354 for year-to-date 2001. The increases were significantly offset by higher losses of $59 for the second quarter and $95 for the year-to-date period from our equity investments in Latin America, driven by foreign exchange losses in Brazil. The year-to-date 2000 period results included $68 of income related to the restructuring of our ownership interest in our German wireless operations. These results are addressed in the discussions for the domestic wireless, Latin America group and all other segments.

Other Income, net

Other income, net includes interest income, gains/losses on disposition of assets, foreign currency gains/losses and miscellaneous nonoperating income. Other income, net remained relatively flat quarter over quarter and year over year.

Provision for Income Taxes

The provision for income taxes decreased $95 in second quarter 2001 and $109 for the year-to-date period. Our effective tax rate increased from 36.8% in second quarter 2000 to 37.3% in second quarter 2001. The increase in the effective tax rate was driven by higher losses at our Brazilian equity investments which are recorded net of tax.

For the year-to-date period, the effective tax rate increased from 35.8% in 2000 to 37.0% in 2001. The increase in the effective tax rate is due primarily to the higher losses at our Brazilian equity investments, and to the one-time gain related to the restructuring of E-Plus in first quarter 2000.

Results by Segment

We have four reportable operating segments: (1) Communications group; (2) Domestic wireless; (3) Latin America; and (4) Domestic advertising and publishing. We have included the operations of all other businesses falling below the reporting threshold in the "All other" segment. We evaluate the performance of each business unit based on net income, exclusive of charges for use of intellectual property and adjustments for special items that may arise. Special items are transactions or events that are included in reported consolidated results but are excluded from segment results due to their nonrecurring or nonoperational nature.

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

Communications Group

The communications group includes our core domestic businesses including: All domestic wireline voice, data, broadband, e-commerce, long distance, Internet services and advanced voice features. Services are marketed across three major customer segments: residential, business and wholesale.

	Second Quarter 2000	Second Quarter 2001	% Change		Ye... 2000
Results of Operations					
Operating revenues:					
Local service	$2,891	$2,964	2.5		$5,
Network access	1,210	1,226	1.3		2,
Long distance	169	176	4.1		
Other communications	395	433	9.6		
Total operating revenues	4,665	4,799	2.9		9,
Operating expenses:					
Operational and support expenses	2,184	2,356	7.9		4,
Depreciation and amortization	940	1,013	7.8		1,
Total Operating expenses	3,124	3,369	7.8		6,
Operating income	1,541	1,430	(7.2)		3,
Segment net income	$ 871	$ 819	(6.0)		$1,

Key Indicators					
Access line counts (000's):					
Access lines:					
Residential	17,203	17,011	(1.1)		
Business	8,401	8,426	0.3		
Other	260	229	(11.9)		
Total access lines	25,864	25,666	(0.8)		
Access line equivalents (1)	21,821	33,877	55.2		
Total equivalent access lines	47,685	59,543	24.9		
Resold lines and unbundled network elements (000's)	1,036	1,478	42.7		
Access minutes of use (millions)	28,798	27,413	(4.8)		57,

IntraLATA toll messages (millions)	129	111	(14.0)		
Internet customers (000's)	788	1,097	39.2		
ADSL customers (000's)	74	381	414.9		

Digital and data services revenues	$830	$1,056	27.2	$1,
Calling feature revenues	$532	$577	8.5	$1,

(1) Access line equivalents represent a conversion of non-switched data circuits to a switched access line basis and is presented for comparability purposes. Equivalents are calculated by converting high-speed/high-capacity data circuits to the equivalent of a switched access line based on transport capacity. While the revenues generated by access line equivalents have a directional relationship with these counts, growth rates cannot be compared on an equivalent basis.

Operating Revenues

Local service
The increase in local service revenues of $73 in the second quarter and $155 for the year-to-date period is attributable to strong growth in digital and data revenues, wholesale revenues, and by our marketing of calling features. Those increases were offset by a decrease in basic service revenues reflecting competition, rate reductions and a slowing economy as well as reduced payphone related revenues at our telephone operations.

Since second quarter 2000, residential access lines declined 1.1% to 17,011, while business access lines increased 0.3% to 8,426. The core business was affected by a slowing economy, as well as competitive and technological changes. The technological changes are manifested in the shifting of customers from wireline to wireless and second line customers to high-speed access service. At June 30, 2001, we provided 1.5 million wholesale lines to competitors, on both a resale and unbundled network elements (UNE) basis. At June 30, 2000, UNEs accounted for approximately 25% of our wholesale lines and at June 30, 2001 they represented 50%. Because of the larger discounts, this shift to UNEs is negatively impacting our revenue growth. We also estimate that we have lost an additional 1.8 million lines to facilities-based competitors.

Due to expanding demand for our digital and data services, we ended the second quarter with over 59 million total equivalent access lines, an increase of 24.9% since June 30, 2000.

Revenues from optional calling features such as Caller ID, Call Waiting, Call Return and voicemail service increased $45, or 8.5%, quarter over quarter and $97, or 9.3%, year over year. These increases were driven by growth in calling feature usage through our Complete Choice(R) Package, a one-price bundled offering of over 20 services.

Increased penetration of extended local area calling plans also increased local service revenues by approximately $20 compared to second quarter 2000 and $46 compared to the first six months of 2000.

Network access
Network access revenues increased $16, or 1.3%, in the second quarter of 2001 when compared to the same 2000 period, and $21, or 0.9%, year over year. Revenues from dedicated high-capacity data line offerings grew approximately $89 quarter over quarter and $211 year over year as Internet service providers and high-capacity users increased their use of our network. The increases were substantially offset by a $100 decline in the second quarter 2001 and a $198 decline for the year-to-date period in revenues derived from switched access services resulting from a decrease in access minute-of-use volumes and the impacts of access charge rate reductions.

Access minutes of use fell 4.8% to 27,413 million in second quarter 2001 from 28,798 million in second quarter 2000. For the year-to-date period, access minutes of use decreased 3.8% to 55,355 million in 2001 from 57,514 million in 2000. These decreases resulted from: Continued migration of minutes to dedicated digital and data services offerings which are fixed-charge based rather than minute-of-use based; competition from competitive local exchange carriers whose traffic completely bypasses our network; and the effect of competitive services such as wireless and Internet e-mail. Year-to-date 2000 minute-of-use volumes were also positively impacted by the additional day of activity resulting from the leap year.

Access charge rate reductions negatively impacted these revenues $27 in the second quarter 2001 and $53 for the year-to-date period. These rate reductions are primarily related to the FCC's access reform and productivity factor adjustments. The reductions were partially offset by recoveries of local number portability costs.

Long distance Long distance revenue increased $7, or 4.1%, in the second quarter 2001 and $8, or 2.4%, for the year-to-date period. Strong growth in wireless long distance and prepaid long distance cards was partially offset by losses in intralata toll as toll messages declined 14.0% for the quarter, and 17.4% year-to-date. These losses are driven by increased demand for Area Plus, a BellSouth package that combines a basic telephone line with an expanded local calling area. Area Plus packages grew 21% in the past year to over 2 million.

Other communications

Other communications revenue increased 9.6% in the second quarter 2001 and 7.8% for the year-to-date period, driven by growth in wireless interconnection revenues and offset by a reduction in payphone revenues, as we begin a transition out of this business that will be completed by December 2002.

Operating Expenses

Operational and support expenses

Operational and support expenses increased $172, or 7.9%, quarter over quarter and $208, or 4.8%, year over year. Included in these changes were expenses primarily attributable to labor costs to support data and customer service initiatives, which increased $212 for the second quarter 2001 and $416 for the year-to-date period. The increases were substantially offset by income generated as favorable pension plan returns exceeded expenses from other employee benefits.

Depreciation and amortization

Depreciation and amortization expense increased $73, or 7.8%, in second quarter 2001 and $138, or 7.5%, for the year-to-date period when compared to the same 2000 periods. The increases are primarily attributable to amortization of capitalized software and depreciation resulting from higher levels of net property, plant and equipment.

Domestic Wireless

During fourth quarter 2000, we contributed our domestic wireless operations to Cingular, and we account for our investment in Cingular under the equity method. For management purposes, however, we evaluate our domestic wireless segment based on our proportionate share of Cingular's results. Accordingly, the operating revenues and expenses reported for our domestic wireless segment for second quarter and year-to-date 2001 reflect 40% of Cingular's total revenues and expenses, whereas second quarter and year-to-date 2000 reflect the historical results of our wireless businesses that have been contributed to Cingular.

Certain reclassifications of prior period amounts have been made, where appropriate, to reflect comparable operating results.

	Second Quarter		%	Year
	2000	2001	Change	2000
Total operating revenues	$1,036	$1,414	36.5	$1,98
Operating expenses:				
Operational and support expenses	724	921	27.2	1,45
Depreciation and amortization	154	190	23.4	32
Total operating expenses	878	1,111	26.5	1,77
Operating income	158	303	91.8	21
Segment net income	$106	$ 129	21.7	$ 147
Customers (a)	5,482	8,487	54.8	
Average monthly revenue per customer (a)	$ 61	$ 52	(14.8)	$6

(a) For second quarter and year-to-date 2000, the amounts shown are for our consolidated properties and do not include customer data for our unconsolidated properties. Customer data for the second quarter and year-to-date 2001 is comprised of BellSouth's 40% share of the managed results of Cingular Wireless.

Operating Revenues

Total operating revenues grew $378 for second quarter 2001 and $738 for the year-to-date period when compared to the same 2000 periods. These growth rates are attributable to higher airtime, access and equipment sales revenues driven by the higher customer base created by the formation of Cingular. Cingular's revenues increased 13.6% from proforma second quarter 2000 results and 14.1% from proforma year-to-date results, driven by an 16.9% increase in cellular and PCS customer levels.

We expect competition to continue to intensify and pressure pricing in our markets. We believe this will further stimulate customer growth and demand and continue to increase usage as the overall market is expanded.

Operating Expenses

Operational and support expenses
Operational and support expenses increased $197, or 27.2%, during second quarter 2001 and $396, or 27.3%, for the year-to-date period when compared to the same 2000 periods. These increases were also attributable to the change in operations between periods. Cingular's expenses increased 10.9% over proforma second quarter 2000 results and 15.1% over proforma year-to-date 2000 results, impacted by higher levels of gross subscriber additions, higher cash expenses for marketing and advertising related to Cingular's national branding campaign, and merger and integration related expenses.

Depreciation and amortization

Depreciation and amortization increased $36, or 23.4%, to $190 during second quarter 2001 and $49, or 15.3%, to $370 for the year-to-date period when compared to the same 2000 periods. Cingular's expenses increased 7.2% over proforma second quarter 2000 results and 1.3% over proforma year-to-date 2000 results, impacted by higher levels of gross property, plant and equipment.

Latin America Group

The Latin America group is comprised of our investments in wireless businesses in eleven countries in Latin America. Consolidated operations include our businesses in Argentina, Chile, Colombia, Ecuador, Nicaragua, Peru and Venezuela. All other businesses are accounted for under the equity method, and accordingly their results are reported as Net earnings (losses) of equity affiliates.

	Second Quarter		%	Y
	2000	2001	Change	200
Total operating revenues	$704	$749	6.4	$1
Operating expenses:				
Operational and support expenses	522	505	(3.3)	1
Depreciation and amortization	130	155	19.2	
Total operating expenses	652	660	1.2	1
Operating income	52	89	71.2	
Net earnings (losses) of equity affiliates	(36)	(95)	N/M*	
Segment net income (loss)	$(34)	$(119)	N/M	$
Customers (a)	5,584	8,008	43.4	
Average monthly revenue per customer (a)	$35	$ 26	(25.7)	$

* - Not Meaningful.

(a) The amounts shown are for our consolidated properties and do not include customer data for our unconsolidated properties.

Operating Revenues

The increases of $45 quarter over quarter and $132 year over year are primarily due to the addition of the Colombia operations. Since June 30, 2000, our existing operations have added approximately 1.2 million customers, and we also added another 1.2 million customers with the acquisition and growth of Colombia. Primarily offsetting the impacts of customer growth is declining monthly revenue per customer resulting from increased penetration of our cellular service into the mass-consumer market and exchange rate declines in some countries. Revenues were also negatively impacted by competitive and economic pressures on Listel, one of our advertising and publishing subsidiaries in Brazil.

A stronger U.S. Dollar against foreign currencies has had a negative impact on reported revenues. Absent changes in foreign currency exchange rates, reported revenues would have increased an additional $28 for the quarter and an additional $64 for the year-to-date period.

Operating Expenses

Operational and support expenses
For the 2001 periods, these expenses decreased $17 compared to second quarter 2000 and increased $32 on a year-to-date comparative basis. The changes in both the quarter and year-to-date periods were favorably affected by reductions in expenses resulting from lower gross customer additions. The expense reductions were offset by increased expenses from the addition of the Colombia operations.

Operational and support expenses denominated in local currencies were favorably impacted by the weakening of foreign currencies against the U.S. Dollar. Absent changes in foreign currency exchange rates, reported operational and support expenses would have increased an additional $15 for the quarter and $38 for the year-to-date period.

Depreciation and amortization
Depreciation expense remained relatively flat quarter over quarter and increased $5 year over year primarily due to higher gross depreciable plant resulting from the continued investment in our wireless network infrastructure, offset by lower depreciation in Venezuela due to an extension of useful lives effective first quarter 2001. Amortization expense increased $25 quarter over quarter and $48 year over year as a result of growth in intangibles related to our purchase of Colombia.

Net Earnings (Losses) of Equity Affiliates

Net earnings (losses) from our international equity affiliates decreased $59 to $(95) in second quarter 2001 and $95 to $(137) for the year-to-date period. The decline in earnings from our unconsolidated international businesses is due to lower operating results from our two principal investments in Brazil. Both of these businesses experienced significant foreign exchange losses as a result of the weakening of the Brazilian Real against the U.S. Dollar.

Domestic Advertising and Publishing

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

	Second Quarter		%	Y
	2000	2001	Change	200
Total operating revenues	$448	$443	(1.1)	
Operating expenses:				
Operational and support expenses	237	241	1.7	
Depreciation and amortization	7	6	(14.3)	
Total operating expenses	244	247	1.2	

Operating income	204	196	(3.9)	
Segment net income	$124	$119	(4.0)	

Operating Results

Revenues decreased $5 for second quarter 2001 and increased $79 for the year-to-date period when compared to the same 2000 periods. Timing of book publications primarily drove the year-to-date increase. Adjusted for these book shifts, external revenues for this segment would have increased by approximately 0.7% for the year-to-date period.

Operational and support expenses increased $4 for second quarter 2001 and $17 for the year-to-date period when compared to the same 2000 periods.

All Other

This segment primarily includes our equity investments in wireless communications operations in Israel, Germany, Denmark and India. In addition, other minor revenue sources are included.

	Second Quarter		%	Y
	2000	2001	Change	200
Total operating revenues	$26	$34	30.8	
Operating expenses	23	27	17.4	
Operating income	3	7	N/M*	
Net earnings (losses) of equity affiliates	11	(9)	N/M	
Segment net income (loss)	$12	$ (4)	N/M	

* - Not Meaningful.

Operating Results

Revenues remained relatively flat, increasing $8 for second quarter 2001 and $16 for the year-to-date period when compared to the same 2000 periods. Expenses also remained relatively flat in both 2001 periods with operating expenses increasing $4 quarter over quarter and $8 year over year.

Net earnings (losses) from equity affiliates decreased $20 quarter over quarter and $63 year over year due to higher losses from our equity affiliate in Germany.

Financial Condition

Cash flows from operations are our primary source of funding for capital requirements of existing operations, debt service and dividends. We also have ready access to capital markets in the event additional funding is necessary. While current liabilities exceed current assets, our sources of funds -- primarily from operations and, to the extent necessary, from readily available external financing arrangements -- are sufficient to meet all current obligations on a timely basis. We believe that these sources of funds will be sufficient to meet the needs of our business for the foreseeable future.

Net cash provided by (used for):

	2000	2001	Change	
Operating activities..	$ 4,798	$ 3,712	$ (1,086)	(22.6)%
Investing activities..	$ (3,795)	$ (2,595)	$ 1,200	(31.6)%
Financing activities..	$(770)	$ (1,520)	$ (750)	97.4%

Net cash provided by operating activities
The decrease in cash from operations between 2000 and 2001 primarily reflects working capital expenditures to support our strategic initiatives on data and Latin American wireless. We also paid $200 related to a contract termination and $115 related to exiting the wireless entertainment business. Year-to-date 2000 included operating cash flow of approximately $440 from our former domestic wireless operations which were contributed to Cingular. Also, 2000 year-to-date cash flows were favorably impacted by the timing of tax payments.

Net cash used in investing activities
During the first six months of 2001, we invested $3,357 for capital expenditures to support our wireline and wireless networks, to promote the introduction of new products and services and increase operating efficiency and productivity. Significant investments are also being made to support deployment of high-speed Internet access and optical fiber-based broadband services. Included in these expenditures is approximately $389 in costs related to the purchase and development of internal-use software. Also, during 2001 we invested approximately $100 into our wireless operations in Brazil and invested $176 in a loan participation agreement related to our Colombian operations. The first six months of 2001 investing activities also include the receipt of approximately $1,000 from the sale of Qwest common stock.

Net cash used in financing activities
During the first six months of 2001 we reduced our net commercial paper borrowings primarily with $1,000 of proceeds from the sale of Qwest common stock shares and $1,000 of proceeds from the private sale of debt securities. We also refinanced certain debt at our Colombian operations. During the first half of 2000, we issued $2,000 of long-term debt. The proceeds of $1,974 from this issuance were used to retire commercial paper borrowings.

Our debt to total capitalization ratio was 51.6% at June 30, 2001 compared to 54.2% at December 31, 2000. The change is primarily a function of decreases in short-term debt driven by reductions in commercial paper.

At July 31, 2001, we had shelf registration statements on file with the SEC under which $1,200 of debt securities could be publicly offered.

Market Risk

For a complete discussion of our market risks, you should refer to the caption "Market Risk" in our 2000 Annual Report on Form 10-K. Our primary exposure to market risks relates to unfavorable movements in interest rates and foreign currency exchange rates. We do not anticipate any significant changes in our objectives and strategies with respect to managing such exposures.

Operating Environment and Trends of the Business

Regulatory Developments

Our future operations and financial results will be substantially influenced by developments in a number of federal and state regulatory proceedings. Adverse results in these proceedings could materially affect our revenues, expenses and ability to compete effectively against other telecommunications carriers.

Federal policies implemented by the Federal Communications Commission (FCC) have strongly favored access reform, whereby the historical subsidy for local service that is contained in network access charges paid by long distance carriers is moved to end-user charges or universal service funds, or both. On April 27, 2001, the FCC released a Notice of Proposed Rulemaking that commences a broad inquiry that will begin a fundamental examination of all forms of inter-carrier compensation--payments among telecommunications carriers resulting from their interconnecting networks. In general, there are two broad classes of intercarrier compensation: (1) reciprocal compensation that applies to local calls; and (2) access charges that apply to long distance calls. The objective of the Notice of Proposed Rulemaking is to examine the existing rules pertaining to inter-carrier compensation and explore alternative forms of inter-carrier compensation. This proceeding could lead to permanent changes in the compensation that BellSouth currently receives from other carriers and its end user customers. One alternative under consideration is "bill and keep," a policy that requires carriers to exchange traffic freely with each other and to recover from end user customers the costs of originating and terminating traffic. In addition, there are other aspects of access charges and universal service fund contribution requirements that continue to be considered by the state and federal regulatory commissions that could result in greater expense levels or reduced revenues.

The FCC has considerable authority to establish pricing, interconnection and other policies that had once been considered within the exclusive jurisdiction of the state public service commissions. We expect the FCC to continue policies that promote local service competition.

We have petitioned the FCC for permission under the Telecommunications Act of 1996 to offer full long distance services in South Carolina and Louisiana. The FCC has denied these petitions. In Georgia, an independent third party has issued a final report on its testing of our operating support systems, and the Georgia Public Service Commission has requested and received the comments of interested parties concerning the testing and other issues relating to a grant of long distance authority. The Georgia Commission is reviewing the comments. At the completion of its consideration, we expect to file a petition with the FCC for long distance authority in Georgia. We have also made filings with the public service commissions in each of Alabama, Florida, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina and Tennessee to review our compliance with the requirements for obtaining long distance authority. We expect to file an application with the FCC for each state at the appropriate point in the state commission's consideration. We do not know if the FCC will require further changes in our network interconnection elements and operating systems before it will approve such petitions. These changes could result in significant additional expenses and promote local service competition.

On April 27, 2001, the FCC released an Order on Remand and Report and Order addressing the issue of compensation for ISP traffic. In its Order, the FCC acknowledged that dial-up calls to Internet service providers are not local calls, but instead are "information access" traffic exempt from the reciprocal compensation provisions of the 1996 Act. The FCC has implemented a three-year interim period during which local carriers will pay inter-carrier compensation for such calls in decreasing increments. After the three-year interim period, the new rules on inter-carrier compensation to be adopted in connection with the Notice of Proposed Rulemaking referred to above are expected to be in effect. If no rules have been adopted by that time, the inter-carrier compensation in effect at the end of the third year would remain in effect.

Our intrastate prices are regulated under price regulation plans provided by statute or approved by state public service commissions. Some plans are subject to periodic review and may require renewal. The commissions reviewing these plans may require price reductions and other concessions from us as conditions to approving these plans.

The Mississippi Public Service Commission has commenced its review of the Mississippi price regulation plan that we operate under today as required by the plan. We have requested that the plan be renewed for an additional six years with certain modifications. As a part of the renewal and review process, the Mississippi Commission could require modifications to prices and other terms of the plan.

In January 2001, the Georgia Public Service Commission entered an order adopting new company performance measures, which will be used as one means to assess our wholesale service quality to competitive local exchange carriers. In addition, the Commission adopted an Enforcement Plan. The Enforcement Plan consists of three tiers. Under tier 1, we will be required to pay remedial sums to individual competitive local exchange carriers if we fail to meet certain performance criteria set by the Commission. Under tier 2, we will pay additional sums directly to the State Treasury for failing to meet certain performance metrics. Under tier 3, if we fail to meet certain performance criteria, then we will suspend additional marketing and sales of long distance services allowed by the Telecommunications Act of 1996. Our annual liability under the Plan will be capped at 44% of net revenues in Georgia. The decision also adopts other remedial measures for the filing of late or incomplete performance reports, and a market penetration adjustment for new and advanced services, which increases the amount of the payments where low volumes of advanced or nascent services are involved. The Enforcement Plan went into effect on March 1, 2001. We have made payments under the Enforcement Plan and we may be required to make payments in the future.

In May 2001, the Louisiana Public Service Commission issued an order adopting new company performance measures, in addition to clarification of existing measures, which will be used as one means to assess our wholesale service quality to competitive local exchange carriers. In addition, the Commission adopted an Enforcement Plan. The Enforcement Plan consists of three tiers. Under tier 1, we will be required to pay remedial sums to individual competitive local exchange carriers if we fail to meet certain performance criteria set by the Commission. Under tier 2, we will pay additional sums directly to the State Treasury for failing to meet certain performance metrics. Under tier 3, if we fail to meet certain performance criteria, then the Louisiana Public Service Commission may initiate a proceeding to determine whether to recommend to the FCC suspension of our marketing and sales of long distance services allowed by the Telecommunications Act of 1996. Our annual liability under the Plan will be capped at $59 in Louisiana. The order also adopts other remedial measures for the filing of late or incomplete performance reports, and a market penetration adjustment for new and advanced services, which increases the amount of the payments where low volumes of advanced or nascent services are involved.

In 2000, the Florida Public Service Commission commenced a proceeding to determine whether we violated certain Commission rules regarding service quality. This matter has been resolved with the adoption of a new service guaranty plan and the payment of monies to a fund promoting access to telecommunication services by people with low income. Also in 2000, the Commission adopted a staff recommendation that our change in 1999 from a late charge based on a percentage of the amounts overdue to a flat rate fee plus an interest charge violated the Florida price regulation statute and voted that certain monies should be refunded. We protested the decision and the Commission should issue a decision by the end of 2001.

We are involved in numerous legal proceedings associated with state and federal regulatory matters, the disposition of which could materially impact our operating results and prospects. See note L to our consolidated interim financial statements.

International Operations

Our reporting currency is the U.S. Dollar. However, most of our revenues are generated in the currencies of the countries in which we operate. In addition, many of our operations and equity investees hold U.S. Dollar-denominated short- and long-term debt. The currencies of many Latin American countries have experienced substantial volatility and depreciation in the past. Declines in the value of the local currencies in which we are paid relative to the U.S. Dollar will cause revenues in U.S. Dollar terms to decrease and dollar-denominated liabilities to increase. Where we consider it to be economically feasible, we attempt to limit our exposure to exchange rate fluctuations by using foreign currency forward exchange contracts or similar instruments as a vehicle for hedging; however, a substantial amount of our exposures are unhedged.

The impact of a devaluation or depreciating currency on an entity depends on the residual effect on the local economy and the ability of an entity to raise prices and/or reduce expenses. Our ability to raise prices is limited in many instances by government regulation of tariff rates and competitive constraints. Due to our constantly changing currency exposure and the potential substantial volatility of currency exchange rates, we cannot predict the effect of exchange rate fluctuations on our business.

Economic, social and political conditions in Latin America are, in some countries, unfavorable and volatile, which may impair our operations. These conditions could make it difficult for us to continue development of our business, generate revenues or achieve or sustain profitability. Historically, recessions and volatility have been primarily caused by: mismanagement of monetary, exchange rate and/or fiscal policies; currency devaluations; significant governmental influence over many aspects of local economies; political and economic instability; unexpected changes in regulatory requirements; social unrest or violence; slow or negative economic growth; imposition of trade barriers; and wage and price controls.

Most or all of these factors have occurred at various times in the last two decades in our core Latin American markets. We have no control over these matters. Economic conditions in Latin America are generally less attractive than those in the U.S., and poor social, political and economic conditions may inhibit use of our services which may adversely impact our business.

New Accounting Pronouncements

See note B to our consolidated interim financial statements.

Item 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

See the caption labeled "Market Risk" in Management's Discussion and Analysis of

Financial Condition and Results of Operations.

Cautionary Language Concerning Forward-Looking Statements

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

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

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

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

- significant deterioration in foreign currencies relative to the U.S. Dollar in foreign countries in which we operate;

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

- a decrease in the growth rate of demand for the services which we offer;

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

- protracted delay in our entry into the interLATA long distance market;

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

- the outcome of pending litigation;

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

- the impact and the success of the wireless joint venture with SBC Communications, known as Cingular Wireless, including marketing and product development efforts and financial capacity.

PART II -- OTHER INFORMATION

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

Our annual meeting of shareholders was held on April 23, 2001. The voting results were as follows:

Number of Shares Outstanding as of Record Date: 1,908,679,660

Number of Shares Present: 1,573,404,800

Percent of Shares Present: 82.43%

Proposal 1:
Election of Directors

	For	Withheld
James H. Blanchard	1,543,363,216	30,041,584
Armando M. Codina	1,542,880,181	30,524,619
Joseph M. Magliochetti	1,542,444,208	30,960,592
Leo F. Mullin	1,542,942,173	30,462,627

The terms of the following directors continued after the meeting:

F. Duane Ackerman
Reuben V. Anderson
J. Hyatt Brown
Kathleen F. Feldstein, PhD
James R. Kelly
John G. Medlin
Eugene F. Murphy
Robin B. Smith
William S. Stavropoulos

Proposal 2:
Ratification of Auditors

For	Against	Abstain
1,525,352,609	35,776,980	12,275,211

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit Number

4a No instrument which defines the rights of holders of our long- and intermediate-term debt is filed herewith pursuant to Regulation S-K, Item 601(b)(4)(iii)(A). Pursuant to this regulation, we agree to furnish a copy of any such instrument to the SEC upon request.

10aa-5 Amendment dated June 15, 2001 to the BellSouth Employee Stock Investment Plan.

11 Computation of Earnings Per Common Share.

12 Computation of Ratio of Earnings to Fixed Charges.

(b) Reports on Form 8-K:

Date of Event	Subject
April 19, 2001	BellSouth 1Q01 Earnings Release
May 17, 2001	Cingular Proforma First Quarter 2000 and 2001 Results
June 1, 2001	Discussion of Foreign Exchange losses on 2Q01 Results

SIGNATURE

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

BELLSOUTH CORPORATION

By /s/ W. Patrick Shannon
W. PATRICK SHANNON
Vice President - Finance and Supply Chain Management
(Principal Accounting Officer)

August 3, 2001

EXHIBIT INDEX

Exhibit Number	
10aa-5	Amendment dated June 15, 2001 to the BellSouth Employee Stock Investment Plan.
11	Computation of Earnings Per Common Share.
12	Computation of Ratio of Earnings to Fixed Charges.