

BELLSOUTH CORP  
Form PRE 14A  
February 23, 2004

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**SCHEDULE 14A INFORMATION**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant o

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Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**BellSouth Corporation**

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(Name of Registrant as Specified In Its Charter)

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## BellSouth Corporation

-2004 -

# Notice of Annual Meeting of Shareholders and Proxy Statement

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**NOTICE OF 2004 ANNUAL MEETING OF SHAREHOLDERS**

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**When is the meeting?** 9:00 a.m. eastern time, Monday, April 26, 2004

**Where is the meeting held?** Cobb Galleria Centre Ballroom  
2 Galleria Parkway  
Atlanta, Georgia 30339

**What are the items of business?** Elect three directors.

Ratify the appointment of PricewaterhouseCoopers LLP as BellSouth's independent auditor for the year 2004.

Vote on the directors' proposal to amend the Company's By-laws to provide for the annual election of the directors.

Vote on the directors' proposal regarding the BellSouth Corporation Stock and Incentive Compensation Plan.

Vote on three shareholder proposals.

Transact such other business as may properly come before the meeting, and any adjournment or postponement.

**Who can vote?** You can vote if you were a shareholder of record on March 8, 2004. Your shares can be voted at the meeting only if you are present or represented by a valid proxy. Even if you plan to attend the meeting, we encourage you to vote by proxy as soon as possible.

**How can I vote?** Your vote is important. Please vote in one of these ways:

By Internet visit the website listed on the proxy card;

By telephone use the toll-free telephone number shown on the proxy card;

By mail mark, sign, date and promptly return the enclosed proxy card in the postage-paid envelope; or

In person submit a ballot at the Annual Meeting of Shareholders on April 26, 2004.

Rebecca M. Dunn  
Senior Vice President Corporate Compliance and Corporate Secretary

March 10, 2004

Atlanta, Georgia

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March 10, 2004

Dear Shareholder:

It is my pleasure to invite you to attend the 2004 Annual Meeting of BellSouth Shareholders. The meeting will be held Monday, April 26th in Atlanta, Georgia. We will begin promptly at 9:00 a.m. eastern time with discussion and voting on the matters described in this Proxy Statement, followed by my report on BellSouth's financial performance and operations. If you are unable to attend, you can listen to the audio of the Annual Meeting live over the Internet by going to our website at [www.bellsouth.com/investor](http://www.bellsouth.com/investor). Additionally, we will maintain copies of the slides and audio from my report on the website for your reference after the meeting.

You may recall that we moved the financial statements and review of operations from the Proxy Statement into the Annual Report last year. We will continue this format because we believe it makes the Annual Report a more complete document that provides our shareholders and other

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users of the Annual Report with extensive information about BellSouth in one publication. If you did not receive a copy of this year's Annual Report or would like an additional copy, you can obtain it from our website, [www.bellsouth.com/investor](http://www.bellsouth.com/investor), or you can call 800-969-2372 and request that a copy be mailed to you.

The Proxy Statement continues to be a critical element of BellSouth's corporate governance process. Its purpose is to answer your questions and give you important information regarding BellSouth's Board of Directors and senior management. It includes discussions regarding proposals that require your vote, and it contains information describing BellSouth's corporate governance practices.

I am proud to be able to say that BellSouth has a long history of adhering to sound corporate governance practices, making us a leader in this area. We commit to you that our management team and Board will continue to conduct the affairs of this corporation in accordance with the highest standards of ethics, corporate governance and disclosure. If you would like more information regarding our governance practices, I encourage you to visit our website at [www.bellsouth.com/corporate\\_governance](http://www.bellsouth.com/corporate_governance).

On behalf of management and the directors of BellSouth Corporation, I want to thank you for your continued support and confidence in BellSouth. We look forward to seeing you at the 2004 Annual Meeting.

Sincerely,

Duane Ackerman  
Chairman of the Board, President and Chief Executive Officer

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### PROXY STATEMENT

#### [BellSouth Answers Your Voting and Annual Meeting Questions](#)

##### **What is the purpose of this Proxy Statement?**

The purpose of this Proxy Statement is to provide information regarding matters to be voted on at the 2004 Annual Meeting of BellSouth Shareholders. Additionally, it contains certain information that the Securities and Exchange Commission requires BellSouth to provide annually to shareholders. The Proxy Statement is also the document used by BellSouth's Board of Directors to solicit proxies to be used at the 2004 Annual Meeting. Proxies are solicited to give all shareholders of record an opportunity to vote on the matters to be presented at the Annual Meeting, even if they cannot attend the meeting. The Board has designated a Directors' Proxy Committee, which will vote the shares represented by proxies at the Annual Meeting in the manner indicated by the proxies. The members of the Directors' Proxy Committee are Mr. James P. Kelly, Mr. Eugene F. Murphy and Mr. Leo F. Mullin.

The Proxy Statement and the accompanying proxy card are being mailed to BellSouth shareholders beginning on or about March 10, 2004.

##### **Who is entitled to vote on the matters discussed in the Proxy Statement?**

You are entitled to vote if you were a shareholder of record of BellSouth stock as of the close of business on March 8, 2004. Your shares can be voted at the meeting only if you are present or represented by a valid proxy.

##### **How can I vote?**

You can vote in person by completing a ballot at the Annual Meeting, or you can vote prior to the meeting by proxy. Even if you plan to attend the meeting, we encourage you to vote your shares as soon as possible by proxy. You may vote by proxy using the Internet, by telephone or by mail as discussed below.

**How do I vote by proxy?**

*Vote By Internet:*

You can vote your shares using the Internet. In order to vote online, have the enclosed proxy card in hand, go to the website indicated on the proxy card and follow the instructions. Internet voting is available twenty-four hours a day, seven days a week until 11:00 p.m. eastern time on April 25, 2004. You will be given the opportunity to confirm that your instructions have been properly recorded, and you can consent to view future proxy statements and annual reports on the Internet instead of receiving them in the mail. If you vote on the Internet, you do **NOT** need to return your proxy card.

*Vote By Telephone:*

You can also vote your shares by telephone if you have a touch-tone phone. In order to vote by telephone, have the enclosed proxy card in hand, call the toll-free telephone number shown on the proxy card and follow the instructions. Telephone voting is available twenty-four hours a day, seven days a week until 11:00 p.m. eastern time on April 25, 2004. Easy-to-follow voice prompts allow you to vote your shares and confirm that your instructions have been properly recorded. You can also consent during the voting process to view future proxy statements and annual reports on the Internet instead of receiving them in the mail. If you vote by telephone, you do **NOT** need to return your proxy card.

*Vote By Mail:*

If you choose to vote by mail, mark the proxy card, date and sign it, and return it in the postage-paid envelope provided. If you wish to view future proxy statements and annual reports on the Internet instead of receiving them in the mail, check the box provided on the card.

If you sign the proxy card but do not specify how you want your shares to be voted, your shares will be voted by the Directors' Proxy Committee in favor of the election of all of the director nominees and in accordance with the directors' recommendations on the other proposals listed on the proxy card.

If you are an employee participating in certain employee plans, please refer to, "How are my employee plan shares voted?" on page 6 for a discussion regarding the deadline for voting your proxy.

If you hold your shares through a bank, broker or other nominee, your ability to vote by telephone or the Internet depends on their voting processes. Please follow the instructions on the proxy card carefully.

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**Can I assign my proxy to someone else?**

If you want to assign your proxy to someone other than the Directors' Proxy Committee, you should cross out the names of the Committee members appearing on the proxy card and insert the name(s) of up to three other people. The person(s) you have assigned to represent you must present your signed proxy card and a completed ballot at the meeting to vote your shares.

**Can I change my mind after I vote?**

If you vote by proxy, you can revoke that proxy at any time before it is voted at the meeting. You can do this by:

- (1) voting again on the Internet or by telephone prior to the meeting;
- (2) signing another proxy card with a later date and returning it to us prior to the meeting; or
- (3) attending the meeting in person and casting a ballot.

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If you are an employee participating in certain employee plans, please refer to, "How are my employee plan shares voted?" on page 6 for a discussion regarding the deadline for voting your proxy.

### **How will a proposal or other matter that was not included in the Proxy Statement be handled for voting purposes if it comes up at the Annual Meeting?**

If any matter that is not described in this Proxy Statement should properly come before the meeting, the Directors' Proxy Committee will vote the shares represented by it in accordance with its members' best judgment. The Directors' Proxy Committee will not use its discretionary voting authority with respect to any validly conducted solicitation in opposition. In addition, shares represented by proxy cards that are marked to deny discretionary authority to the Directors' Proxy Committee on other matters considered at the meeting will not be counted in determining the number of votes cast with respect to those matters. At the time this Proxy Statement went to press, the Company did not know of any other matters that might be presented for shareholder action at the Annual Meeting.

### **What constitutes a quorum for the Annual Meeting?**

Forty percent of the voting power of the outstanding shares of BellSouth common stock must be present, either in person or represented by proxy, to constitute a quorum necessary to conduct the Annual Meeting. Abstentions and broker non-votes will be counted for purposes of establishing a quorum at the meeting. On January 31, 2004, there were 1,868,561,352 shares of BellSouth common stock outstanding. This total includes shares issued to certain grantor trusts, which are not considered outstanding for financial reporting purposes.

### **How many votes are required to elect the director nominees?**

Directors are elected by a plurality of the votes, which means the three nominees who receive the highest number of properly executed votes will be elected as directors. Each share of BellSouth stock is entitled to one vote for each of three director nominees. Shares represented by proxies that are marked "withhold authority" for the election of one or more director nominees will not be counted in determining the number of votes cast for those persons.

### **How many votes are required to approve the other matters to be voted on?**

The affirmative vote of a majority of the shares present (in person or by proxy and entitled to vote at the Annual Meeting) is needed to ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent auditor for the year 2004, to approve the directors' proposal to adopt the BellSouth Corporation Stock and Incentive Compensation Plan and to approve the three shareholder proposals. The affirmative vote of 75% of the outstanding shares of BellSouth common stock is needed to approve the directors' proposal to amend the Company's By-laws to provide for the annual election of directors. Abstentions will have the same effect as votes against each of these proposals. Any other matters properly considered at the meeting will be determined by a majority of the votes cast.

### **How many votes am I entitled to per share?**

Each share of BellSouth stock represented at the Annual Meeting is entitled to one vote on each matter properly brought before the meeting. All shares entitled to vote and represented by properly executed proxies received before the polls are closed at the Annual Meeting, and not revoked or superseded, will be voted at the Annual Meeting in accordance with the instructions indicated by those proxies.

### **What is the difference between a registered shareholder and a beneficial holder of shares?**

If your BellSouth shares are registered directly in your name with our transfer agent, Mellon Investor Services LLC, you are considered a "registered shareholder" with respect to those shares. If this is the case, the shareholder proxy material has been sent or provided directly to you by BellSouth.

If your BellSouth shares are held in a stock brokerage account or by a bank or other nominee, you are considered the "beneficial holder" of the shares held for you in what is known as "street name." If this is the case, the proxy material has been forwarded to you by your brokerage firm, bank or nominee, which is considered the shareholder of record with respect to these shares. As the beneficial holder, you have the right to direct your broker, bank or nominee how to vote your shares by using the voting instruction form/card included in the proxy material, or by voting via telephone or Internet. Follow the voting instructions provided in your proxy material.

**If I am a beneficial holder, how are my shares voted if I do not return voting instructions?**

Your shares may be voted if they are held in the name of a brokerage firm, even if you do not provide the brokerage firm with voting instructions. Brokerage firms have the authority, under the rules of the New York Stock Exchange, to vote shares on certain "routine" matters for which their customers do not provide voting instructions. The election of directors, the ratification of PricewaterhouseCoopers LLP as the independent auditor of the Company and the directors' proposal to amend the Company's By-laws to eliminate the classification of the Board of Directors and elect directors annually are considered routine matters. The other directors' proposal and the shareholder proposals in this year's Proxy Statement are not considered "routine" under the applicable rules. When a proposal is not a routine matter and the brokerage firm has not received voting instructions from the beneficial holder of the shares with respect to that proposal, the brokerage firm cannot vote the shares on that proposal. This is called a "broker non-vote." In tabulating the voting result for any particular proposal, shares that constitute broker non-votes are not considered entitled to vote on that proposal. Therefore, broker non-votes will have no effect on the outcome of any matter being voted on at the Annual Meeting, assuming that a quorum is obtained.

**What is "householding" and how does it affect me?**

Householding is a program, approved by the Securities and Exchange Commission, which allows the delivery of only one package of shareholder proxy material to you if there are multiple BellSouth shareholders who live at the same address. This means, if your household participates in the householding program, you will receive an envelope containing one set of proxy material and a separate proxy card for each shareholder account in the household. Please vote all proxy cards enclosed in the package. "Proxy material" may include an annual report, a proxy statement or an information statement, as applicable.

*Participation in householding will not impact or apply to any of your other shareholder mailings, such as dividend checks, Forms 1099 and account statements.* Your participation in householding continues until you or any member of your household revokes his or her implied consent by calling BellSouth Shareholder Services at 800-631-6001 and requesting to opt out. Alternatively, you may revoke your consent by writing to: BellSouth Shareholder Services, P.O. Box 3336, South Hackensack, N.J. 07606-1936. If you live in an eligible household that is not currently participating in this program and are receiving multiple copies of the Annual Report and Proxy Statement, you can request to participate in householding by contacting BellSouth Shareholder Services at 800-631-6001.

Householding saves BellSouth money by reducing printing and postage costs. It also creates less paper for our shareholders to manage and is environmentally friendly. If you are a beneficial holder, you can request information about householding from your broker, bank or nominee.

**What does it mean if I receive more than one BellSouth shareholder package?**

If you receive more than one package of shareholder proxy material, this means that you have multiple accounts holding BellSouth shares with brokers and/or our transfer agent. Please vote all of your shares by voting the proxy card included in each package. Additionally, to avoid receiving multiple sets of material in the future, we recommend that you contact your broker and/or our transfer agent to consolidate as many accounts as possible under the same name and address. If you are a beneficial holder, please call your broker for instructions. If you are a registered shareholder, contact BellSouth Shareholder Services at 800-631-6001 for instructions regarding how to consolidate multiple accounts.

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**How are my employee plan shares voted?**

*For BellSouth Employees:* If you are a registered shareholder and/or own stock in one or more of the following employee plans and the accounts are registered in the same name, you will receive one proxy card that will serve as voting instructions to the Directors' Proxy Committee, if applicable, and also to the trustees of those plans.

- BellSouth Employee Stock Investment Plan (ESIP)
- BellSouth Employee Stock Purchase Plan (ESPP)
- BellSouth Savings and Security Plan (SSP)
- BellSouth Retirement Savings Plan (BRSP)

As a reminder, the ESIP was terminated effective December 31, 2003.

Participants in the SSP and the BRSP must vote their proxies no later than 9:00 a.m. eastern time on Friday, April 23, 2004. The trustee will vote plan shares in the SSP and the BRSP represented by proxy cards that are not signed and received by the trustee by this deadline (or otherwise voted) in the same proportion as shares are voted for each plan. Shares in the ESIP and ESPP are not voted unless the card is signed and returned



(or otherwise voted).

*For Cingular Wireless Employees:* If you own BellSouth shares through the Cingular Wireless 401(k) Savings Plan, and you are also a registered BellSouth shareholder with your account in the same name, you will receive one proxy card representing the combined shares that will serve as voting instructions to the Directors' Proxy Committee, if applicable, and also to the trustee of that plan.

**What happens if I abstain from voting?**

If you abstain from voting on a matter, your shares will be counted for the purpose of determining if a quorum is present, but will not be counted as an affirmative vote with respect to that matter and, therefore, will have the same effect as a vote against that proposal.

**What do I need to do if I want to attend the Annual Meeting?**

You do not need to make a reservation to attend the Annual Meeting. However, please note that you will need to demonstrate that you are a BellSouth shareholder to be admitted to the meeting. If your shares are registered in your name, an admission card is attached to the enclosed proxy card. Bring the admission card with you to the meeting. If you are a BellSouth employee and received your proxy material via e-mail, bring a copy of the e-mail or your account statement with you. If your shares are held in the name of your broker or bank, you will need to bring evidence of your stock ownership, such as your most recent account statement. If you do not have an admission card or proof that you own BellSouth stock, you may not be admitted to the meeting.

Attendance at the Annual Meeting is limited to BellSouth shareholders, members of their immediate families, or their named representatives. BellSouth reserves the right to limit the number of representatives who may attend the meeting.

**Can I view my Proxy Statement and Annual Report over the Internet instead of receiving them in the mail?**

If you are a registered BellSouth shareholder, you can consent to view all future proxy statements and annual reports on the Internet instead of receiving them by U.S. mail. This choice will save BellSouth money by reducing printing and postage costs, and is friendlier to our environment. If you choose to access future proxy statements and annual reports online, you will continue to receive a proxy card in the mail. Future proxy cards will contain the website access address and other necessary information to view the proxy material and to submit your vote. Whether you receive your proxy material in the mail or view it on the Internet, you will continue to have the option to vote on the Internet, by telephone, by mail, or at the Annual Meeting. If you want to take advantage of this option, you can make this election when voting your proxy. If you vote on the Internet or by telephone, respond to the question when prompted.

If you elect to view the proxy material on the Internet and then change your mind, you may revoke the election by calling BellSouth Shareholder Services at 800-631-6001.

If you hold your BellSouth stock through a bank, broker or other nominee, please refer to the information provided by that entity for instructions on how to elect to view future proxy statements and annual reports over the Internet.

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**CORPORATE GOVERNANCE MATTERS**

**THE BOARD OF DIRECTORS**

At the date of this Proxy Statement, the Board of Directors of BellSouth consists of eleven members, ten of whom are non-employee directors.

Joseph Magliochetti, who had been a BellSouth director since 2000, passed away during 2003. He will be remembered for his lifelong commitment to helping others and his leadership of Dana Corporation, one of the nation's leading businesses. We deeply appreciate Mr. Magliochetti's exemplary service and contributions to BellSouth during his tenure on our Board. We will miss him.

Eugene Murphy will leave the Board on April 26, 2004 following the Annual Meeting after over four years of providing distinguished service and leadership. We are indebted to Mr. Murphy for his invaluable insight and commitment to BellSouth.

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The Board is currently divided into three classes with three-year terms. The terms are staggered ("classified") so that the term of one class expires at each annual meeting of BellSouth shareholders. Three director nominees have been nominated for election at this meeting to serve for a three-year term expiring at our Annual Meeting in 2007. However, if the Directors' proposal to amend the Company's By-laws to elect the directors annually is approved by our shareholders, then the terms of all directors, including those elected at the 2004 Annual Meeting, will end at the 2005 Annual Meeting of Shareholders. Thereafter, all directors will be elected for one-year terms. See "Matters to be Voted On" on page 20.

**Following is the age, principal occupation and certain other information for each director nominee and other directors serving unexpired terms.**

### **Nominees for election at this meeting to a term expiring in 2007:**

**James H. Blanchard, 62, Chief Executive Officer, Synovus Financial Corp., a bank holding company. BellSouth director since 1994.** Chairman of the Board, Synovus Financial Corp., 1986 - 2003. Director of BellSouth Telecommunications, Inc., 1988 - 1994. Director of Synovus Financial Corp.; and Total System Services, Inc.

**Armando M. Codina, 57, Chairman of the Board and Chief Executive Officer, Codina Group Inc., a real estate development company. BellSouth director since 1992.** Director of BellSouth Telecommunications, Inc., 1989 - 1992. Director of AMR Corporation; and General Motors Corporation.

**Leo F. Mullin, 61, Chairman of the Board, Delta Air Lines, Inc., an air transportation company. BellSouth director since 1998.** Chief Executive Officer, Delta Air Lines, Inc., 1997 - 2003. Vice Chairman of Unicom Corporation and its principal subsidiary, Commonwealth Edison Company, an electric service utility, 1995 - 1997. President and Chief Operating Officer of First Chicago Corporation, a bank holding company, 1993 - 1995. Director of Delta Air Lines, Inc.; and Johnson & Johnson.

### **Directors whose terms continue until 2005:**

**F. Duane Ackerman, 61, Chairman of the Board, President and Chief Executive Officer, BellSouth Corporation. BellSouth director since 1993.** Vice Chairman of the Board, President and Chief Executive Officer, 1996 - 1997; Vice Chairman of the Board and Chief Operating Officer, 1995 - 1996. President and Chief Executive Officer, BellSouth Telecommunications, Inc., 1992 - 1994. Director of Allstate Corporation.

**Reuben V. Anderson, 61, Partner, Phelps Dunbar, LLP, a law firm. BellSouth director since 1994.** Mississippi Supreme Court Justice, 1985 - 1990. Director of Burlington Resources, Inc.; The Kroger Company; Mississippi Chemical Corp.; and Trustmark Corporation.

**Kathleen F. Feldstein, 63, President, Economics Studies, Inc., a private economics consulting firm. BellSouth director since 1998.** Director of Bank of America Corporation; Ionics, Inc.; and Knight Ridder.

**Directors whose terms continue until 2006:**

**J. Hyatt Brown, 66, Chairman of the Board and Chief Executive Officer, Brown & Brown, Inc., an insurance services company. BellSouth director since 1994.** Director of BellSouth Telecommunications, Inc., 1984 - 1994. Director of FPL Group, Inc.; International Speedway Corporation; Rock-Tenn Company; and SunTrust Banks Inc.

**James P. Kelly, 60, Retired Chairman of the Board and Chief Executive Officer, United Parcel Service, Inc., a global express carrier and package distribution logistics company. BellSouth director since 2000.** Vice Chairman and Chief Operating Officer, United Parcel Service of America, Inc., 1996 - 1997; Director of Dana Corporation; Hewitt Associates, Inc.; and United Parcel Service, Inc.

**Robin B. Smith, 64, Chairman of the Board, Publishers Clearing House, a direct marketing company. BellSouth director since 1994.** Independent Chair/Director of American Scandia Advisor Funds, Jennison/Dryden and Strategic Partner Funds administered by Prudential Investments LLC.

**William S. Stavropoulos, 64, Chairman of the Board and Chief Executive Officer, The Dow Chemical Company, a chemical manufacturing company. BellSouth director since 1997.** Director of Chemical Financial Corp.; Fidelity Group of Funds; Maersk, Inc.; NCR Corporation; and The Dow Chemical Company.

### CORPORATE GOVERNANCE PHILOSOPHY

Corporate governance encompasses the internal policies and practices by which BellSouth is operated and controlled on behalf of its shareholders. One important element includes having a strong independent Board of Directors that is accountable to the Company and its owners. Over the last two years, the Board has conducted an extensive review of the Company's corporate governance principles and procedures. As a result of this review, the Board made various changes to ensure that BellSouth conforms to applicable best practices. The Board will continue to monitor this evolving area and make such additional changes as appropriate.

The business affairs of BellSouth are conducted under the direction of the Board of Directors in accordance with the Georgia Business Corporation Code, as implemented by the Company's Articles of Incorporation and By-laws. The role of the Board of Directors is to effectively govern the affairs of the Company for the benefit of its shareholders and, to the extent appropriate under Georgia law, other constituencies, which include the Company's employees, customers, suppliers, and the communities in which it does business. The Board strives to ensure the success and continuity of the Company's business through the election of qualified senior management. It is also responsible for ensuring that the Company's activities are conducted in a responsible and ethical manner.

BellSouth has a strong Board of Directors that is independent and diverse. BellSouth Chief Executive Officer Duane Ackerman is the only director who is a BellSouth employee. Our Board includes eight current or retired chief executive officers, including four from Fortune 200 companies. Distinguished by a depth of experience in a wide variety of challenging industries and professions, the Board has valuable expertise in banking, economics, the law, real estate, insurance and other fields critical to the effective governance and management of a multi-billion dollar enterprise.

### COMMITTEES OF THE BOARD

The Board of Directors has five standing committees that assist the Board in carrying out its duties: the Audit Committee; the Director Nominating and Corporate Governance Committee; the Executive Nominating and Compensation Committee; the Finance/Strategic Planning Committee; and the Public Policy Committee. An additional Committee, the Executive Committee, meets only when called by the Chairman of the Board. Information regarding each of the Board's committees is shown below. The charter of each of the committees is available on our website at [www.bellsouth.com/corporate\\_governance](http://www.bellsouth.com/corporate_governance).

<b>Audit</b>	<b>Director Nominating and Corporate Governance</b>	<b>Executive Nominating and Compensation</b>	<b>Finance/Strategic Planning</b>	<b>Public Policy</b>	<b>Executive</b>
E. F. Murphy, Chair J. H. Brown K. F. Feldstein W. S. Stavropoulos	L. F. Mullin, Chair J. H. Blanchard J. P. Kelly R. B. Smith	J. P. Kelly, Chair J. H. Blanchard R. B. Smith	A. M. Codina, Chair R. V. Anderson L. F. Mullin	R. V. Anderson, Chair F. D. Ackerman A. M. Codina	F. D. Ackerman, Chair R. V. Anderson A. M. Codina J. P. Kelly L. F. Mullin E. F. Murphy
<b>Audit Committee</b>					

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The Audit Committee Report is on page 14. The Committee met nine times in 2003. The Board of Directors has determined that two current members of the Audit Committee, J. Hyatt Brown and William S. Stavropoulos, qualify as "audit committee financial experts" pursuant to the rules of the Securities and Exchange Commission. Each of the members of the Audit Committee, including Mr. Brown and Mr. Stavropoulos, qualify as "independent" directors pursuant to the rules of the New York Stock Exchange. The Board has also determined that several other members of the Board would qualify as "audit committee financial experts" if they were to serve on the Audit Committee at some time in the future. The Audit Committee's primary duties and responsibilities currently include the following:

Provides assistance to the Board of Directors in fulfilling its responsibility to the shareholders, potential shareholders and the investment community with respect to its oversight of:

- > The quality and integrity of the Company's financial statements;
- > The Company's compliance with legal and regulatory requirements;
- > The independent auditor's qualifications and independence;
- > The performance of the Company's internal audit function and its independent auditor; and
- > The Company's internal controls and risk assessment.

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Reviews with the Chief Corporate Auditor and the independent auditor the completeness of coverage of key business controls and risk areas, including the effective use of audit resources and the scope of the audit plan.

Appoints and/or dismisses, approves the compensation of, and provides oversight of the work of the independent auditor employed by the Company for the purpose of preparing or issuing the Company's annual audit report or related work.

Pre-approves all auditing services and allowable non-audit services provided to the Company by the independent auditor.

### **Director Nominating and Corporate Governance Committee**

The Director Nominating and Corporate Governance Committee met three times in 2003. Each of the members of the Director Nominating and Corporate Governance Committee satisfies the "independence" requirements of the New York Stock Exchange. Its primary duties and responsibilities include the following:

Oversees and evaluates issues of corporate governance, and makes recommendations to the Board regarding governance policies and practices.

Recommends to the Board policies regarding rotation of committee members and chairs.

Recommends a process for the annual assessment of Board performance.

Reviews the qualifications of and recommends to the Board nominees for election as members of the Board of Directors.

Annually reviews the qualifications and independence of current directors.

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Recommends a corporate philosophy and strategy governing director compensation, and provides oversight and monitors the Company's program of director compensation and benefits to ensure consistency with the philosophy and strategy.

### **Executive Nominating and Compensation Committee**

The Executive Nominating and Compensation Committee Report on Executive Compensation begins on page 15. The Committee met seven times in 2003. Each of the members of the Executive Nominating and Compensation Committee satisfies the "independence" requirements of the New York Stock Exchange. The Committee's primary duties and responsibilities include the following:

Reviews and approves corporate goals and objectives relevant to Chief Executive Officer compensation. Evaluates the performance of the Chief Executive Officer and evaluates, reviews and recommends to the Board the annual salary, short-term bonus and long-term incentive plans, and other benefits, direct and indirect, of the Chief Executive Officer.

Nominates qualified persons as executive officers.

Provides oversight of the Company's executive compensation plans, including incentive compensation and equity-based compensation plans.

Oversees the Company's executive succession and management development plans.

Provides oversight of the Company's qualified employee benefit plans.

### **Finance/Strategic Planning Committee**

The Finance/Strategic Planning Committee met six times in 2003. Its primary duties and responsibilities include the following:

Reviews, approves or recommends to the full Board the long-term business goals and strategies of the Company, including strategic considerations in the allocation of corporate resources such as establishing the dividend policy.

Oversees the financial objectives, policies, procedures and activities of the Company.

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### **Public Policy Committee**

The Public Policy Committee met twice in 2003. Its primary duties and responsibilities include the following:

Oversees and makes recommendations to the Board with respect to political, social, and legal trends and issues that may have an impact on the business operations, financial performance or public image of the Company.

Provides oversight of the Company's plans, practices and policies with respect to diversity and inclusion.

Provides oversight of the Company's political, civic, charitable, educational and philanthropic contributions and activities.

### **Executive Committee**

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The Executive Committee did not meet in 2003. The Committee meets only when called by the Chairman of the Board during the intervals between Board meetings. It has all the authority of the Board, subject to the limitations imposed by law, the By-laws or the Board of Directors. Its primary duties and responsibilities include the following:

Exercises interim power and authority delegated to it at any time when any matter requires expeditious action by the Board of Directors or when it would not be practical for the full Board to meet to review or act upon any matter.

Performs such other duties as may be directed by the Board of Directors from time to time.

### INDEPENDENT DIRECTORS

All of the Company's directors are independent, non-employee directors except Mr. Ackerman, the Chairman of the Board, President and Chief Executive Officer of BellSouth. Mr. Ackerman does not participate in any action of the Board relating to any executive compensation plan in which he participates.

The Board annually assesses each director's independence status by reviewing any potential conflicts of interest and outside affiliations, based on the criteria used to determine independence, which are detailed in the Governance Principles at [www.bellsouth.com/corporate\\_governance/principles](http://www.bellsouth.com/corporate_governance/principles).

The independent directors listed below are affiliated with companies that have business relationships with the Company. The Board of Directors has determined that none of these relationships is material, and that the relationships do not prevent the directors from being "independent directors."

Reuben V. Anderson is a partner in the law firm of Phelps Dunbar, located in Jackson, Mississippi. During 2003, two subsidiaries of BellSouth retained Phelps Dunbar regarding a variety of legal issues. The amount of fees paid to Phelps Dunbar for such services was approximately \$98,000, which was less than 1% of the firm's gross revenue for the last fiscal year. In making the determination that this relationship is not material and does not prevent Mr. Anderson from being an "independent" director, the Board took into account the fact that the fees paid to Phelps Dunbar are comparable to those paid to other law firms for similar services, and that the amount of fees paid to Phelps Dunbar by BellSouth is insignificant both to BellSouth and the firm.

James H. Blanchard is Chief Executive Officer of Synovus Financial Corp. Its subsidiary, Creative Financial Group, Ltd., provides financial planning services to employees of the Company under an employee benefit plan on a non-exclusive basis. The amount paid by the Company to Creative Financial Group under the plan was approximately \$309,000 in 2003. Creative Financial Group has provided these services to BellSouth employees since 1990. Synovus Financial Corp. acquired Creative Financial Group in 2001. The amount of fees paid to Creative Financial Group for such services was less than 1% of Synovus' gross revenue for the last fiscal year. In making the determination that this relationship is not material and does not prevent Mr. Blanchard from being an "independent" director, the Board took into account the fact that Creative Financial Group was providing these services to BellSouth for many years prior to its acquisition by Synovus, that the fees paid to Creative Financial Group are comparable to those paid to other financial planning companies for similar services, and that the amount of fees paid to Creative Financial Group is insignificant to both BellSouth and Synovus.

Armando M. Codina is the Chairman of the Board and Chief Executive Officer of the Codina Group, Inc. The Codina Group has on occasion provided brokerage and construction management services to the Company or its subsidiaries in the south Florida area. In 2003, the Company's subsidiaries paid the Codina Group approximately \$96,000 in connection with the negotiation of certain lease terminations. In making the determination that this relationship is not material and does not prevent Mr. Codina from being an "independent" director, the Board took into account the fact that the fees paid to the Codina Group are competitive with industry standards in the area and were based on the savings

realized through the negotiations. The amount of fees paid was less than 1% of the firm's gross revenues for the last fiscal year and was insignificant to both BellSouth and the Codina Group. In connection with the same transactions, the Codina Group paid Sunlink Corporation, a wholly-owned real estate subsidiary of the Company, standard referral fees of approximately \$15,000.

BellSouth purchases services, supplies and equipment in the normal course of business from many suppliers and sells or leases products and services to many customers. In some instances, these transactions occur with companies with which members of the Board of Directors have

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relationships as directors or executive officers. For 2003, none of these transactions was significant or reportable, either individually or collectively.

### BOARD, COMMITTEE AND ANNUAL MEETINGS

The Board of Directors held fifteen meetings in 2003, of which eight were regularly scheduled and seven were specially called meetings. Average director attendance at all Board and committee meetings held during 2003 was 95%.

As a general matter, Board members are expected to attend BellSouth's annual meetings of shareholders absent a pressing reason. At BellSouth's 2003 Annual Meeting, only one director was unable to attend.

### DIRECTOR NOMINATIONS

As provided in its charter, the Director Nominating and Corporate Governance Committee is responsible for identifying individuals qualified to become directors. The Committee seeks input from the Chairman of the Board, other Board members, and the Committee's professional search firm. The Committee will also consider and evaluate any candidates recommended by shareholders. In accordance with the Board's Governance Principles, the Committee seeks to create a Board that will bring to the Company a broad range of experience, knowledge and judgment. The Committee believes that the Board as a whole should have collective knowledge of and experience with respect to:

Corporate Governance	Competitive Positioning
Business	Legal/Public Policy/Government/
Finance/Accounting	Economics
Manufacturing and Operations	Technology
Marketing; Consumer Brand Marketing	Industry Knowledge
Major Industry Restructuring	Corporate Strategy

A candidate's breadth of experience should enable him or her to contribute significantly to the governance of a complex, multi-billion dollar enterprise. The candidate should not represent the interests of particular constituencies. When the Committee reviews a potential new candidate, the Committee looks specifically at the candidate's qualifications in light of the needs of the Board and the Company at that time given the current mix of director attributes.

The Committee also considers the candidate's independence, as defined in the Board's Governance Principles, and in the rules of the New York Stock Exchange. It also considers such factors as values, ethical standards, and the ability to contribute meaningfully to the Board. The Committee expects a high level of commitment from the Company's directors and considers a candidate's service on other boards to ensure that the candidate has sufficient time to devote to Board duties.

Shareholders who wish to recommend director candidates for the 2005 Annual Meeting of Shareholders should notify the Corporate Secretary in writing at BellSouth Corporation, Suite 2005, 1155 Peachtree Street, N.E., Atlanta, Georgia 30309-3610. This notification must be received by the Company between December 26, 2004 and February 9, 2005, and must provide information about the nominee's qualifications for Board membership and other information required by the By-laws. A copy of the By-laws can be obtained by writing to the Corporate Secretary at the address set forth above. Alternatively, a copy of the By-laws is available on our website, [www.bellsouth.com/corporate\\_governance](http://www.bellsouth.com/corporate_governance). This requirement does not apply to the deadline for submitting shareholder proposals for inclusion in the Proxy Statement (see "Shareholder Proposals for the 2005 Proxy Statement" on page 41), nor does it apply to questions a shareholder may want to ask at the meeting. The Committee will evaluate any director candidate nominated by shareholders according to the criteria discussed above and, based on the results of that evaluation, will determine whether to include the candidate in its recommended slate of director nominees in the proxy statement.

The Company retains discretion to vote proxies it receives with respect to director nominations or any other business proposals received after February 9, 2005. The Company retains discretion to vote proxies it receives with respect to such proposals received prior to February 9, 2005 provided (a) the Company includes in its proxy statement advice on the nature of the proposal and how it intends to exercise its voting discretion, and (b) the proponent does not issue its own proxy statement.

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### DIRECTOR COMPENSATION



**Fees and Other Compensation**

The only member of BellSouth's Board of Directors who is an employee of the Company is Duane Ackerman, Chairman of the Board, President and Chief Executive Officer. Mr. Ackerman receives no compensation for serving as Chairman of the Board. As provided in its charter, the Director Nominating and Corporate Governance Committee is responsible for recommending compensation for the non-employee directors.

In 2003, the Committee engaged a compensation consultant to assess the competitiveness and structure of the director compensation program. As a result of that review, the Committee recommended, and the Board approved, an increase in director compensation to keep total compensation in the median range of peer companies. The changes included an increase in the annual retainer and the use of value denominated stock grants and stock options. In addition, the value of the stock option component of total compensation was reduced relative to the stock grant component. Directors may defer all or a portion of their retainers and fees under the Directors' Compensation Deferral Plan. The program provides for the following payments to non-employee directors:

Annual retainer	\$	40,000
Attendance fee for each Board meeting	\$	1,800
Attendance fee for each Committee meeting	\$	1,500
Annual retainer for each Committee chair	\$	5,000
Annual grant of BellSouth stock	\$	35,000

In addition, each non-employee director receives an annual grant of nonqualified stock options valued at \$35,000 to purchase shares of BellSouth stock at an exercise price per share equal to the fair market value of the stock on the grant date. The options become exercisable one year after the grant date. In 2003, the per share grant price for the options awarded to the eleven eligible non-employee directors was \$25.065.

Non-employee directors also are provided certain telecommunication services, death benefits and, while on BellSouth business, travel accident insurance. In 2003, the cost of such benefits was approximately \$1,500 per director. The Company also provides coverage for the directors under its Directors' and Officers' Liability Insurance Policy.

**Stock Ownership Incentives**

To further link director and shareholder interests, BellSouth provides awards to each non-employee director who owns BellSouth stock valued at least five times the amount of the annual retainer for Board members. The director receives one additional nonqualified stock option for every two shares owned in excess of five times the retainer amount. The maximum number of additional options that may be granted annually to any director is 4,000 options. Directors only receive additional stock options for each excess share one time; thereafter, they must acquire additional shares in order to continue to receive additional stock options. The options become exercisable one year after the grant date.

The following directors received grants of additional options at a per share grant price of \$25.065 in 2003:

- Reuben V. Anderson, 788 options
- James H. Blanchard, 779 options
- J. Hyatt Brown, 4,000 options
- Armando M. Codina, 4,000 options
- Kathleen F. Feldstein, 871 options
- James P. Kelly, 689 options
- Joseph M. Magliochetti, 176 options\*
- Robin B. Smith, 874 options
- William S. Stavropoulos, 732 options

The director realizes value from the stock options only when exercised, and only to the extent that the price of BellSouth stock on the exercise date exceeds the price of the stock on the grant date.

\*

Mr. Magliochetti passed away in September 2003.

**Non-employee Directors' Charitable Contribution Program**

The Non-employee Directors' Charitable Contribution Program has been terminated with respect to new members of the Board; however, contributions will continue to be made on behalf of the five directors who were members of the Board prior to January 1997. This program was designed to acknowledge the service of Company directors and to recognize the mutual interests of directors and the Company in supporting

worthy institutions. The program provided that BellSouth

would make a contribution to educational or cultural organization(s) designated by the director. Directors had to have five years of service on the Board or on the board of a subsidiary to qualify for this program. The amount contributed by BellSouth increased with each year served by the director, up to a maximum contribution of \$1 million, payable after ten years of service. All charitable deductions for tax purposes accrue solely to the Company and the individual directors derive no direct financial benefit from the program.

### COMMUNICATING WITH BELLSOUTH'S BOARD OF DIRECTORS

Shareholders can communicate with the members of BellSouth's Board of Directors by writing to: Board of Directors, BellSouth Corporation, Suite 2005, 1155 Peachtree Street, Atlanta, Georgia 30309-3610. Alternatively, a shareholder can contact the members of the Board by clicking on "Contact Directors" on our website, [www.bellsouth.com/corporate\\_governance](http://www.bellsouth.com/corporate_governance). At each Audit Committee meeting, the Corporate Secretary presents a summary of communications, excluding "junk mail," received since the last meeting, and makes the communications available to the directors on request.

### AUDIT COMMITTEE REPORT

The Audit Committee of the BellSouth Board of Directors is composed of four independent, non-employee directors, as required by applicable listing standards of the New York Stock Exchange. No member of the Audit Committee is a current or former officer or employee of the Company.

The Committee has been in existence since the Company was incorporated in 1983 and has operated under a formal, written charter adopted by the Board of Directors since 1995. The Audit Committee has reviewed the relevant requirements of the Sarbanes-Oxley Act of 2002, the rules of the U.S. Securities and Exchange Commission adopted pursuant to the Sarbanes-Oxley Act and the new listing standards of the New York Stock Exchange regarding audit committee procedures and responsibilities. Although the Audit Committee's existing procedures and responsibilities generally complied with the requirements of these rules and standards, the Board of Directors has adopted amendments to the Committee's charter to make explicit its adherence to them.

During 2003, the Committee reviewed the Company's quarterly financial statements, the business control processes and the Company's compliance with laws and regulations. The Committee also heard reports on current audit activities as well as plans for future internal audits. It also reviewed the Company's process for communicating its ethical code of conduct. In addition, the Committee met and held separate discussions with the Chief Corporate Auditor, the Chief Financial Officer, other members of management, and the Company's independent auditor, PricewaterhouseCoopers LLP.

Management has responsibility for the Company's system of internal controls and the overall financial reporting process. The independent auditor has responsibility for performing an independent audit of the Company's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America, and to issue a report thereon. The Audit Committee has responsibility for monitoring and overseeing the Company's system of internal controls and financial reporting process. The members of the Audit Committee are not certified public accountants, professional auditors or professionals in the fields of accounting and auditing. Pursuant to the rules of the Securities and Exchange Commission, the Board of Directors has determined that two members of the Committee, J. Hyatt Brown and William S. Stavropoulos, qualify as "audit committee financial experts."

The Committee approved the appointment of PricewaterhouseCoopers LLP as the Company's independent auditor for the year 2004, subject to shareholder ratification. The Company's independent auditor provided to the Committee the written disclosures required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and the Committee discussed with the independent auditor that firm's independence. The Audit Committee has determined that the provision of the non-audit services described below is compatible with maintaining PricewaterhouseCoopers LLP's independence.

The Committee has reviewed and discussed the 2003 consolidated financial statements with management and the independent auditor. It has also discussed the certification process with the Chief Executive Officer and Chief Financial Officer. Management represented to the Committee that the Company's consolidated financial statements were prepared in accordance with generally accepted accounting principles. The Committee discussed with the independent auditor matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit

Committee) as currently in effect. Based on these discussions and reviews, the Committee recommended that the Board of Directors include the audited consolidated financial statements in the 2003 Report to Shareholders and in the Company's Annual Report on Form 10-K for the year ended December 31, 2003 for filing with the Securities and Exchange Commission.

Eugene F. Murphy (Chair)  
J. Hyatt Brown  
Kathleen F. Feldstein  
William S. Stavropoulos

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### INDEPENDENT AUDITOR FEES AND SERVICES

#### Fees paid to the Independent Auditor

The following table presents fees for professional audit services rendered by the Company's independent auditor, PricewaterhouseCoopers LLP, for the audit of the Company's annual financial statements for the years ended December 31, 2002 and December 31, 2003, and fees billed for other services rendered by PricewaterhouseCoopers LLP during those periods:

	2002	2003
<b>Audit fees</b>	\$ 3,594,825	\$ 3,698,825
<b>Non-audit fees:</b>		
<b>Audit-related fees(A)</b>	719,000	2,745,000
<b>Tax fees(B)</b>	211,000	55,300
<b>All other fees(C)</b>	4,480,000	1,772,500
<b>Total fees paid to auditor</b>	<b>\$ 9,004,825</b>	<b>\$ 8,271,625</b>

(A) Audit-related fees primarily relate to regulatory compliance procedures at BellSouth's long distance subsidiary and audits of BellSouth's employee benefit plans.

(B) Tax fees primarily relate to technical tax advice rendered to the Company.

(C) For 2002, these fees primarily relate to attestation work related to the Company's entry into the long distance market in 2002. For 2003, they primarily relate to process reviews and assessments.

#### Pre-Approval of Services by the Independent Auditor

The Audit Committee has adopted a policy regarding the pre-approval of audit and permitted non-audit services to be performed by the Company's independent auditor, PricewaterhouseCoopers LLP. The Audit Committee will, on an annual basis, consider and, if appropriate, approve the provision of audit and non-audit services by PricewaterhouseCoopers. Thereafter, the Audit Committee will, as necessary, consider and, if appropriate, approve the provision of additional audit and non-audit services by PricewaterhouseCoopers which are not encompassed by the Audit Committee's annual pre-approval and are not prohibited by law. The Audit Committee has delegated to the Chair of the Audit Committee the authority to pre-approve, on a case-by-case basis, non-audit services to be performed by PricewaterhouseCoopers which are not encompassed by the Audit Committee's pre-approval and not prohibited by law, provided that the Chair shall report any decisions to pre-approve such services to the Audit Committee at its next regular meeting. None of the engagements pre-approved by the Audit Committee during 2003 made use of the de minimus exception to pre-approval contained in the applicable rules of the Securities and Exchange Commission.

**ON EXECUTIVE COMPENSATION**

The Executive Nominating and Compensation Committee of the BellSouth Board of Directors is responsible for the oversight and administration of the Company's executive compensation program. The Committee is composed entirely of independent, non-employee directors and operates pursuant to a written charter.

The Company's executive compensation program is based on a philosophy that the total compensation package must be competitive with comparable companies with whom BellSouth competes for talent in order to attract and retain outstanding executives. The program also seeks to emphasize variable compensation that is dependent on the achievement of performance goals set by the Committee. The 2003 executive compensation program was based on the following principles:

Base salaries are targeted to the median level of salaries paid to officers in comparable companies with comparable responsibilities.

Annual incentive awards are dependent upon the Company's performance against established target levels and its financial performance relative to its peers.

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Long-term compensation links officers' rewards to the return realized by BellSouth shareholders. It includes stock options, which reward stock price appreciation, performance shares, which are based on BellSouth's Total Shareholder Return ("TSR") relative to its peer group's TSR, and restricted stock with time-based vesting requirements. TSR is measured by adding the amount of appreciation in the Company's stock price to the amount of dividends paid to shareholders.

The Committee retains independent outside consultants to regularly review the Company's executive compensation program in order to ensure it is consistent with our philosophy and principles and to validate the results obtained from external market surveys. The Committee has sole authority to retain, terminate and approve the fees of the consultants. The Committee met with its consultants several times during the year to seek advice regarding the compensation of the Company's executive officers.

The 2003 executive compensation program and a specific discussion regarding the compensation of the Chief Executive Officer are described in detail below. The tables included elsewhere in this Proxy Statement reflect the results of the philosophy and principles discussed below.

**Stock Ownership Guidelines**

In keeping with its belief that tying the financial interests of BellSouth executives to those of the shareholders will result in enhanced shareholder value, the Board has established executive stock ownership guidelines. Under these guidelines, the officers are expected to own BellSouth stock valued at between one and four times their individual base salary amounts, depending upon their position in the Company. In order to incent officers to exceed the targets, awards of incentive stock options are made to those who exceed the targets. In 2003, the Company awarded an aggregate of 82,730 incentive stock options to twenty-two officers who exceeded their stock ownership targets.

**Base Salary**

BellSouth establishes a market-competitive target salary for each officer based upon his or her job responsibilities. The target salary is established by utilizing information from general industry surveys, surveys of telecommunications and technology companies, independent outside consultants and proxy materials of comparable companies. The Committee reviewed the market competitiveness of each individual salary, as well as Company and individual performance, and the Chief Executive Officer's recommendations regarding individual pay treatment and approved individual salary levels for the Company's officers.

**Annual Incentive Awards**

The BellSouth Corporation Officer Short-Term Incentive Award Plan (the "Incentive Award Plan"), which was approved by the Company's shareholders in 1996, is designed to provide annual incentive awards that qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code (see discussion below), thus allowing the Company to fully deduct these payments. The Incentive Award Plan establishes an overriding performance goal prohibiting the payment of any short-term award to eligible officers unless the Company has positive consolidated earnings, as defined in the Plan. Furthermore, the Incentive Award Plan establishes maximum levels of awards payable to any one

individual. The Committee works within these limitations and then exercises discretion in determining the actual amount of individual awards. A target incentive award amount, determined as a percentage of base salary, is established for each officer. The Committee designs the target incentive award amount to be competitive with large capitalization companies in general industry and other telecommunications companies as determined by examining external surveys, data from proxy statements and recommendations by independent outside consultants.

The Incentive Award Plan is intended to place a significant part of each executive's annual compensation at risk. An executive's annual incentive award for a particular year is based on the Company's or business unit's performance for that year (measured by revenue growth, net income, customer satisfaction, and other factors), and the executive's individual achievement of personal commitments. The Committee approves performance objectives for executives at the beginning of each year. The weight given to each of these performance components varies, depending upon the officer's particular job assignment. In addition, the officer's award can be adjusted by the Committee based upon a comparison of the financial performance of the Company or business unit with the financial performance of the peer group of companies.

The method used to determine the Chief Executive Officer's annual incentive award is discussed below in the section entitled "2003 Compensation for the Chief Executive Officer."

### **Long-Term Incentive Program**

BellSouth's long-term incentive program is intended to focus the officer group on the achievement of corporate goals over time. Officers must carefully weigh the short and long-term benefits or consequences of their decisions and manage the business to effectively grow and compete in a rapidly changing communications marketplace. They also must balance long-term business development with the need for a reasonable current return. The Committee's intention is to incent the Company's officers to make the prudent business decisions necessary to secure a strong foothold for BellSouth in the competitive telecommunications marketplace.

*Awards in 2003:* This philosophy is put into effect by basing the Company's long-term incentive compensation on the performance of BellSouth stock through a combination of nonqualified stock options, performance shares and restricted stock. First, each officer receives an annual grant of nonqualified stock options which are issued at market price as of the date of grant. The officer receives value from the options only if the stock price has appreciated as of the date of exercise. Second, the Committee granted performance shares to each officer. Performance shares are tied to the achievement of TSR performance levels relative to a peer group of telecommunications companies over a three-year performance period. The officer receives value from the performance shares only if the minimum level of performance relative to the peer group is achieved. Third, the Committee granted shares of restricted stock to each officer. The officer receives value from the restricted shares only if he or she remains employed by the Company on the vesting date. For further details regarding these awards, see "Executive Compensation" beginning on page 33.

In determining the number of stock options, performance shares and restricted shares granted to each officer for 2003, the Committee applied an annual grant level percentage to each individual officer's base salary. This percentage was comparable to and designed to be competitive with the grant practices of large capitalization companies in general industry and other telecommunications companies, as determined by examining external surveys, data from proxy statements and recommendations by independent outside consultants. The actual number of stock options granted was determined by using the Black-Scholes option pricing model. The number of performance shares and restricted shares awarded was determined by using the average of the closing prices of a share of BellSouth common stock during the month of January 2003. The Committee does not adjust each annual grant to reflect options or units outstanding or previously granted to a particular executive officer.

### **2003 Compensation for the Chief Executive Officer**

*Evaluation Procedure:* The Executive Nominating and Compensation Committee has developed, with the approval of the full Board of Directors, a procedure for evaluating the Chief Executive Officer's performance. The Committee annually reviews the Chief Executive Officer's accomplishments and conducts an evaluation of the Chief Executive Officer. The full Board of Directors discusses the results of the evaluation and the Committee Chair reviews the results with the Chief Executive Officer. In determining the Chief Executive Officer's compensation for 2003, the Committee recognized that Company results have been impacted over the past three years by a number of external factors. These include general economic weakness, difficult conditions in the telecommunications industry and a challenging regulatory environment contributing to significant overcapacity in the industry. The Committee believes the Chief Executive Officer has done an excellent job of guiding the Company through virtually unprecedented adverse industry conditions. Despite the turmoil in the telecom industry, under Mr. Ackerman's leadership, the Company achieved excellent results in 2003. Financial performance, customer service and shareholder returns were among the best in the industry. The Committee considered all these factors in setting Mr. Ackerman's compensation levels.

*2003 Base Salary:* In determining Mr. Ackerman's base salary effective March 1, 2003, the Committee reviewed his major accomplishments during 2002 and conducted an evaluation of his performance. It also engaged the services of an independent outside consultant to review reported base salary information for the chief executive officers of the other companies in the peer group as well as the salaries of chief executive officers of other companies of comparable size. Based upon this evaluation and its review of relevant market data, the Committee concluded that the Chief Executive Officer's salary should be increased. However, at Mr. Ackerman's request, the Committee did not increase his salary over the level paid effective March 1, 2002 (before salary reduction for unpaid furlough taken in 2002). For further details, see the Summary Compensation Table on page 33.

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*2003 Short-Term Incentive Award:* In determining the Chief Executive Officer's short-term incentive award for 2003 performance, the Committee applied the evaluation procedure discussed above. In early 2004, the Committee conducted a review of Mr. Ackerman's accomplishments for 2003 and concluded that, under his leadership, BellSouth exceeded the goals set by the Committee at the beginning of the year in the areas of service to customers, as well as the financial targets. Based on these factors, the Committee exercised its judgment and awarded Mr. Ackerman the overall short-term incentive award shown in the Summary Compensation Table on page 33.

*2003 Long-Term Incentive Award:* The Committee approved grants of stock options to Mr. Ackerman as shown in the Option / SAR Grants in 2003 table on page 34. The number of options granted was determined by using the same procedure as is described for the executive officers in "Long-Term Incentive Program Awards in 2003," on page 17. Mr. Ackerman was also granted performance shares as shown in the Long-Term Incentive Plan Awards in 2003 table on page 35. He was also granted shares of restricted stock that vest in three annual installments. The number of performance shares and restricted shares awarded was determined in the same manner as discussed in "Long-Term Incentive Program Awards in 2003," on page 17.

#### **Executive Compensation Review**

During 2003, the Committee asked its independent compensation consultant to perform a comprehensive review of the Company's entire executive compensation program. The consultant analyzed base pay, incentive plans, benefits plans and perquisite plans provided in whole or in part by the Company for its executives. The consultant found the plans and programs to be in accordance with sound compensation practices. The Committee has taken and continues to take its consultant's advice into consideration when making compensation related decisions.

#### **Internal Revenue Code Section 162(m) Implications for Executive Compensation**

The Committee is responsible for addressing issues raised by Section 162(m) of the Internal Revenue Code ("Section 162(m)"). This Section limits the Company's tax deduction for compensation paid to certain executive officers that does not qualify as "performance-based" to \$1 million per executive officer. To qualify as performance-based under Section 162(m), compensation payments must be made pursuant to a plan that is administered by a committee of outside directors and must be based on achieving objective performance goals. In addition, the material terms of the plan must be disclosed to and approved by shareholders, and the Committee must certify that the performance goals were achieved before payments can be awarded.

The Committee continues to carefully consider the impact of this rule and has taken several steps that are designed to comply with its provisions and to maximize the corporate tax deduction for performance-based compensation. First, it adopted the BellSouth Corporation Stock Plan, which was approved by the Company's shareholders in 1995 and amended by the shareholders in 2000. This plan establishes performance criteria that are intended to qualify awards made under the plan to the named executive officers as performance-based awards approved by the shareholders; thus, these awards should not be counted toward the \$1 million limitation. Second, it adopted the BellSouth Corporation Officer Short-Term Incentive Award Plan, which was approved by the Company's shareholders in 1996. Awards made under this plan are intended to qualify as performance-based awards approved by the shareholders and thus also should not count toward the \$1 million limitation. However, the Committee believes that in some instances it may be necessary to forsake a tax deduction in order to continue to attract and retain qualified executives.

James P. Kelly (Chair)  
James H. Blanchard  
Robin B. Smith

#### **COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

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The Executive Nominating and Compensation Committee consists of Messrs. Kelly (Chair) and Blanchard, and Ms. Smith. None of the members of the Executive Nominating and Compensation Committee is a former or current officer or employee of the Company or any of its subsidiaries.

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**BENEFICIAL OWNERSHIP OF COMMON STOCK**

The following table sets forth beneficial ownership of shares of BellSouth common stock by each director, by each executive officer named in the Summary Compensation Table on page 33, by all directors and executive officers as a group, and by the only person or entity known to BellSouth to beneficially own more than 5% of the outstanding shares of our common stock as of February 4, 2004 (or such other date as indicated below).

Name	Beneficial Ownership as of February 4, 2004			Total	Percent of Shares Beneficially Owned
	Current Beneficial Holdings	Shares Subject To Options (A)	Shares and Stock Units Held Under Deferral Plans (B)		
F. Duane Ackerman	348,772	3,653,698	108,620	4,111,090	*
Richard A. Anderson	126,386	709,863	9,089	845,338	*
Reuben V. Anderson	2,000	39,421	16,278	57,699	*
James H. Blanchard	20,714	52,773	31,007	104,494	*
J. Hyatt Brown	80,774	40,000	13,531	134,305	*
Armando M. Codina	59,041	39,773	26,607	125,421	*
Francis A. Dramis, Jr.	113,240	569,778			