

BELLSOUTH CORP
Form 11-K
June 30, 2003
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 11-K

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

For the fiscal year ended December 31, 2002

or

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

For the transition period from _____ to _____

Commission file number
1-8607

BellSouth Retirement Savings Plan

BellSouth Corporation

1155 Peachtree Street, N.E.

Atlanta, Georgia 30309-3610

Table of Contents

BELLSOUTH RETIREMENT SAVINGS PLAN

Table of Contents

	Page
<u>Report of Independent Auditors</u>	2
<u>Statement of Net Assets Available for Benefits, With Fund Information as of December 31, 2002</u>	3
<u>Statement of Net Assets Available for Benefits, With Fund Information as of December 31, 2001</u>	5
<u>Statement of Changes in Net Assets Available for Benefits, With Fund Information for the Year ended December 31, 2002</u>	7
<u>Statement of Changes in Net Assets Available for Benefits, With Fund Information for the Year ended December 31, 2001</u>	9
<u>Statement of Changes in Net Assets Available for Benefits, With Fund Information for the Year ended December 31, 2000</u>	11
<u>Notes to Financial Statements</u>	13
<u>Signature Page</u>	25
<u>Exhibit 23 - Consent of Independent Auditors</u>	26
<u>Exhibit 99 - Statement Required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>	27

Table of Contents

REPORT OF INDEPENDENT AUDITORS

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

In our opinion, the accompanying statements of net assets available for benefits and the related statements of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of the BellSouth Retirement Savings Plan (the Plan) at December 31, 2002 and 2001, and the changes in net assets available for benefits for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

/s/ PricewaterhouseCoopers LLP

Atlanta, Georgia

June 20, 2003

Table of Contents**BELLSOUTH RETIRE****STATEMENT OF NET ASSETS AVAILABLE**

December

(In Tho

	<u>BellSouth Stock Fund</u>	<u>Indexed Stock Fund</u>	<u>Interest Income Fund</u>	<u>Vanguard Growth Index- Institutional</u>	<u>Fidelity Growth & Income Portfolio</u>	<u>Balanced Fund</u>	<u>Bond Fund</u>
ASSETS							
Share of Trust net assets	\$ 816,899	\$ 575,357	\$ 1,317,410	\$ 117,473	\$ 118,391	\$ 80,464	\$ 183,928
Investment in BellSouth Retirement Savings Employee Stock Ownership Plan Trust:							
Shares of BellSouth common stock allocated to participants							
Shares of BellSouth common stock held for future allocation							
Temporary cash investments							
Total Investments	816,899	575,357	1,317,410	117,473	118,391	80,464	183,928
Contributions receivable	825	811	952	418	361	150	269
Fund, BellSouth Savings and Security Plan and other transfers receivable net	152		1,657			152	
Total Assets	817,876	576,168	1,320,019	117,891	118,752	80,766	184,197
LIABILITIES							
Distributions payable	163	62	421	17	23	18	6
Fund, BellSouth Savings and Security Plan and other transfers payable net		751		44	66		255
Notes payable							
Total Liabilities	163	813	421	61	89	18	261
Net Assets Available for Benefits	\$ 817,713	\$ 575,355	\$ 1,319,598	\$ 117,830	\$ 118,663	\$ 80,748	\$ 183,936

The accompanying notes are an integ

Table of Contents

MENT SAVINGS PLAN

FOR BENEFITS, WITH FUND INFORMATION

31, 2002

usands)

T. Rowe Price Mid- Cap Growth	DFA U. S. Small Cap Value II Fund	Brokerage Link Account	DFA International Value II Fund	DFA U.S. Large Cap Value II Fund	Participant Loans	Other	Employee Stock Ownership Plan		Total
							Allocated	Unallocated	
\$ 118,715	\$127,590	\$ 61,125	\$ 29,602	\$ 48,184	\$ 50,041	\$ 4,962	\$	\$	\$ 3,650,141
							567,859		567,859
								109,603	109,603
							201	10,176	10,377
118,715	127,590	61,125	29,602	48,184	50,041	4,962	568,060	119,779	4,337,980
385	333		84	166					4,754
		13		14	1,533		32		3,553
119,100	127,923	61,138	29,686	48,364	51,574	4,962	568,092	119,779	4,346,287
25	48		2	2	51		127		965
639	47		241			4,962			7,005
								77,387	77,387
664	95		243	2	51	4,962	127	77,387	85,357
\$ 118,436	\$127,828	\$ 61,138	\$ 29,443	\$ 48,362	\$ 51,523	\$	\$ 567,965	\$ 42,392	\$ 4,260,930

ral part of these financial statements.

Table of Contents**BELLSOUTH RETIRE****STATEMENT OF NET ASSETS AVAILABLE**

December

(In Tho

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

The accompanying notes are an integ

Table of Contents

MENT SAVINGS PLAN

FOR BENEFITS, WITH FUND INFORMATION

31, 2001

(in thousands)

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

ral part of these financial statements.

Table of Contents**BELLSOUTH RETIRE****STATEMENT OF CHANGES****FOR BENEFITS, WITH****Year Ended Dec****(In Tho**

	BellSouth Stock Fund	Indexed Stock Fund	Interest Income Fund	Vanguard Growth Index- Institutional	Fidelity Growth & Income Portfolio	Balanced Fund	Bond Fund
Net Assets Available for Benefits, December 31, 2001	\$ 1,430,274	\$ 893,343	\$ 1,033,758	\$ 196,731	\$ 163,253	\$ 98,851	\$ 151,832
Employee contributions	29,680	29,185	92,089	13,317	11,908	4,995	14,621
Transfers of participants balances net	(167,043)	(54,950)	342,481	(23,541)	779	(410)	31,193
Transfer to Cingular Wireless Master Savings Trust	(55,556)	(34,813)	(23,439)	(11,838)	(12,382)	(5,748)	(6,554)
Transfer from BellSouth Employee Stock Ownership Plan upon merger	105,064						
Supplemental contributions							
Allocation of shares to participants							
Transfer for loan repayment							
Total Contributions, Allocations and Transfers	(87,855)	(60,578)	411,131	(22,062)	305	(1,163)	39,260
Share of Trust investment activities	(392,266)	(181,537)	58,232	(41,675)	(27,942)	(6,197)	15,477
Total	(480,121)	(242,115)	469,363	(63,737)	(27,637)	(7,360)	54,737
Less: Distributions to participants	132,440	75,873	183,523	15,164	16,953	10,743	22,633
Interest on notes payable							
Net Assets Available for Benefits, December 31, 2002	\$ 817,713	\$ 575,355	\$ 1,319,598	\$ 117,830	\$ 118,663	\$ 80,748	\$ 183,936

Table of Contents

MENT SAVINGS PLAN

IN NET ASSETS AVAILABLE

FUND INFORMATION

December 31, 2002

(in thousands)

							<u>Employee Stock Ownership Plan</u>		
T. Rowe									
Price	DFA		DFA	DFA					
Mid-Cap	U.S. Small	Brokerage	International	U.S. Large	Participant				
Growth	Cap	Link	Value II	Cap	Loans	Other	Allocated	Unallocated	Total
	Value II	Account	Fund	Value II					
	Fund		Fund	Fund					
\$ 150,385	\$ 108,602	\$ 85,438	\$ 31,147	\$ 48,522	\$ 69,657	\$	\$ 1,141,661	\$ 147,857	\$ 5,751,311
12,529	10,734		2,579	5,790					227,427
12,504	48,264	7,960	4,859	14,378	(9,679)	(1,019)	(195,235)		10,541
(9,723)	(6,892)	(4,313)	(2,682)	(3,978)	(6,656)		(81,858)		(266,432)
									105,064
								57,081	57,081
							93,054	(93,054)	
							(16,885)	16,885	
15,310	52,106	3,647	4,756	16,190	(16,335)	(1,019)	(200,924)	(19,088)	133,681
(33,772)	(20,151)	(25,591)	(3,061)	(10,002)	2,607	1,019	(288,287)	(74,564)	(1,027,710)
(18,462)	31,955	(21,944)	1,695	6,188	(13,728)		(489,211)	(93,652)	(894,029)
13,487	12,729	2,356	3,399	6,348	4,406		84,485		584,539
								11,813	11,813
\$ 118,436	\$ 127,828	\$ 61,138	\$ 29,443	\$ 48,362	\$ 51,523	\$	\$ 567,965	\$ 42,392	\$ 4,260,930

... a normal part of these financial statements.

Table of Contents**BELLSOUTH RETIRE****STATEMENT OF CHANGES****FOR BENEFITS, WITH****Year Ended Dec****(In Tho**

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

The accompanying notes are an integ

Table of Contents**MENT SAVINGS PLAN****IN NET ASSETS AVAILABLE****FUND INFORMATION**

December 31, 2001

(in thousands)

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

ral part of these financial statements.

Table of Contents**BELLSOUTH RETIRE****STATEMENT OF CHANGES****FOR BENEFITS, WITH****Year Ended Dec****(In Tho**

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

The accompanying notes are an integ

Table of Contents

MENT SAVINGS PLAN

IN NET ASSETS AVAILABLE

FUND INFORMATION

December 31, 2000

(in thousands)

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

... part of these financial statements.

Table of Contents

BELLSOUTH RETIREMENT SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS

(Dollars in Thousands, Except Per-Participant Amounts)

1. Plan Description

General

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

The Plan was established by BellSouth Corporation (BellSouth) to provide a convenient way for management employees to save for their retirement on a long-term basis and to acquire an ownership interest in BellSouth. The Plan consisted of two parts: one is a profit sharing plan which includes a qualified cash or deferred arrangement and which is intended to qualify as such under Sections 401(a), 401(k) and 401(m) and related sections of the Internal Revenue Code of 1986, as amended (the Code); the second part is an Employee Stock Ownership Plan (ESOP) which is designed as a stock bonus plan to invest primarily in shares of BellSouth Common Stock and which is intended to qualify under Sections 401(a), 401(m) and 4975(e)(7) and related sections of the Code. Effective January 1, 2002, the Plan includes a third part, an employee stock ownership plan which is designed as a stock bonus plan to invest primarily in BellSouth shares held in the BellSouth Stock Fund and which is intended to qualify as such under Code sections 401(a), 401(k), 401(m) and 4975(e)(7) and related sections of the Code. As such, participants invested in the BellSouth Stock Fund may elect to have their quarterly dividends either reinvested in the fund or passed-through and paid to them outside the Plan in cash as taxable income. Effective March 15, 2002, participants in the Plan were able to diversify their past and future company match, previously held in the ESOP Allocated Shares Fund. All regular full-time and part-time employees of participating BellSouth companies who are not covered by a collective bargaining agreement have attained the age of 18, and have completed at least one month of service are eligible to participate. The Plan is subject to the Employee Retirement Income Security Act of 1974, as amended.

Master Trust

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

Investment Options

Edgar Filing: BELLSOUTH CORP - Form 11-K

At December 31, 2002, the Plan's assets were comprised of the following investment vehicles: BellSouth Stock Fund, Indexed Stock Fund, Interest Income Fund, Bond Fund, Balanced Fund, BrokerageLink Account and the following mutual funds: Fidelity Growth & Income Portfolio, Vanguard Growth Index Institutional, DFA U.S. Small Cap Value II Fund, T. Rowe Price Mid-Cap Growth, DFA U.S. Large Cap Value II Fund and DFA International Value II Fund. All investments are valued on a daily basis.

The Charles Schwab Personal Choice Retirement Account, or Schwab PCRA, was replaced with Fidelity's BrokerageLink account as an investment option in 2002. Unlike the other funds offered by the Plan, BrokerageLink consists of individual brokerage accounts in which participants act as their own investment advisor and may choose from a broad range of investment options. The investment options include no-load and load mutual funds, most stocks listed on many U.S. securities exchanges, bonds and other fixed-income investments. Participants open a BrokerageLink account through transfer of existing balances from the core funds and are assessed additional fees and commissions which are discussed in Note 4. There were 1,283

Table of Contents

BELLSOUTH RETIREMENT SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS (Continued)

(Dollars in Thousands, Except Per-Participant Amounts)

1. Plan Description (continued)

participants invested in BrokerageLink at December 31, 2002 and 1,399 participants invested in the Schwab PCRA at December 31, 2001.

Funds within BrokerageLink cannot be accessed directly for loans, withdrawals or distributions. Participants who want a loan, withdrawal or distribution from the BrokerageLink accounts must first transfer the desired amount from the BrokerageLink accounts to the Interest Income Fund for a minimum of one day where it may then be transferred to another fund in the Plan.

Concentrations of Risk

At December 31, 2002 and 2001, the Plan's assets were significantly concentrated in shares of BellSouth Common Stock, the value of which is subject to fluctuations related to corporate, industry and economic factors.

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

Vesting

All participant and employing company contributions vest immediately.

Participant Loans (Whole Dollars)

Edgar Filing: BELLSOUTH CORP - Form 11-K

Participants may borrow from their fund accounts a minimum of \$1,000 up to the lesser of \$50,000 minus the highest outstanding loan principal balance over the previous twelve months or 50 percent of their before-tax account balances as defined by the Plan document and any amounts rolled over to the Plan from other qualified plans. Loan balances are secured by the assets allocated to the participants' accounts and bear interest at various rates which ranged from 5.25% to 10.5% at December 31, 2002. Principal and interest are paid ratably through periodic payroll deductions for active employees and by coupon for nonactive employees. As discussed earlier, amounts held in BrokerageLink accounts are not directly available for loans.

Service Providers

State Street Bank & Trust Company serves as the Trustee for the Master Savings Trust. Effective April 30, 2002, Fidelity Investments, Inc. became the record keeper and service center for the Plan, replacing Metropolitan Life Insurance Company. Fidelity Investments, Inc. provides brokerage services for BrokerageLink.

BellSouth Employee Stock Ownership Plan Merger

Effective May 1, 2002, the BellSouth Employee Stock Ownership Plan (PAYSOP) merged with the BellSouth Savings Plans. Participant accounts have been moved to the BellSouth Retirement Savings Plan (for management employees) or to the BellSouth Savings and Security Plan (for non-management employees) where each participant's allocated shares have been placed in the BellSouth Stock Fund. The total assets transferred into the Plan was \$105,064.

Cingular Wireless Transfer

Effective February 1, 2002, participant balances for employees were transferred from the Plan to the Cingular Wireless joint venture via a trust to trust transfer to State Street Bank as trustee for the Cingular Wireless 401(k) Savings Plan. The total asset transfer was \$266,432.

Table of Contents

BELLSOUTH RETIREMENT SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS (Continued)

(Dollars in Thousands, Except Per-Participant Amounts)

2. Accounting Policies

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

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

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

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

- Shares of BellSouth Common Stock and equity securities underlying the Indexed Stock Fund are valued on the basis of the closing price per share on December 31, 2002 and 2001 as reported on the New York Stock Exchange or, if no sales were made on that date, at the closing price on the next preceding day on which sales were made;
- The values of mutual funds, all of which are traded on a national securities exchange, are based on published daily closing net asset values as reported by the respective securities exchanges;
- Over-the-counter securities and government obligations are valued based on the bid prices on December 31, 2002 and 2001 from published sources where available and, if not available, from other sources considered reliable;
- Common trusts are valued at amounts determined from published reports of the funds;

Edgar Filing: BELLSOUTH CORP - Form 11-K

- Securities in BrokerageLink are valued by methods which are consistent with the methods discussed above;
- Annuity contracts with insurance companies and synthetic contracts (derivatives) are fully benefit responsive and are valued at principal plus reinvested interest; and
- Future and forward contracts (derivatives) are carried at fair value and reflect the amount that the Master Savings Trust would receive or pay to terminate the contracts at the reporting date.

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

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

Table of Contents

BELLSOUTH RETIREMENT SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS (Continued)

(Dollars in Thousands, Except Per-Participant Amounts)

3. Contributions

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

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

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

Effective November 1, 2002, BellSouth implemented a catch-up contribution feature which allowed eligible participants to contribute an additional \$1,000 in 2002. This amount increases by \$1,000 each year until it reaches \$5,000 in 2006 after which it may be adjusted for inflation in \$500 increments.

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

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

Contribution Type	%	Company Match
Basic	2	100%
Basic	3-6	Varies by Company
Supplemental	7-15	None

Edgar Filing: BELLSOUTH CORP - Form 11-K

The matching percentage is based on company financial performance and the performance of BellSouth stock. The match percentage remains in effect for a twelve-month period from April 1 through March 31. The range of effective match rates on Basic Contributions for the three years ended December 31, 2002 were as follows:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
January-March	85% - 100%	100%	25% - 100%
April-December	70%	85% - 100%	100%

4. Plan Expenses

Each participant in the Plan is charged a flat annual fee for Plan administrative expenses, including recordkeeping, trustee and other expenses considered reasonable by the Plan administrator. The fee is divided on a pro rata basis among each investment option of the participant. The per-participant fee was \$36.00 for 2002 and 2001, and \$35.25 for 2000. Additional fees are charged to individual participants for various services provided by the Plan's recordkeeper.

Participants who open a BrokerageLink account are charged a quarterly fee of \$12.50 for each quarter that the participant maintains a BrokerageLink balance.

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

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

	For the Year Ended December 31,		
	2002	2001	2000
BellSouth Stock Fund	\$ 208	\$ 305	\$ 329
Indexed Stock Fund	98	122	(93)
Interest Income Fund	480	437	405
Balanced Fund	107	196	119
Bond Fund	375	345	228
Allocated ESOP	98	198	179
	<u>\$ 1,366</u>	<u>\$ 1,603</u>	<u>\$ 1,167</u>

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

	For the Year Ended December 31,		
	2002	2001	2000
Vanguard Growth Index-Institutional	0.10%	0.12%	0.12%
Fidelity Growth & Income Portfolio	0.69%	0.66%	0.67%
T. Rowe Price Mid-Cap Growth	0.89%	0.89%	0.87%
DFA U.S. Small Cap Value II Fund	0.32%	0.41%	0.44%
DFA International Value II Fund	0.41%	0.53%	0.50%

DFA U.S. Large Cap Value II Fund

0.26%

0.31%

0.37%

5. Tax Status

The Plan was amended and restated effective July 1, 2001 to comply with the provisions of the GUST amendment to ERISA. The following acts are collectively referred to as the GUST amendment: the Retirement Protection Act of 1994, Uniformed Services Employment and Reemployment Rights Act of 1994, Small Business Job Protection Act of 1996, Taxpayer Relief Act of 1997, and the Internal Revenue Service Restructuring and Reform Act of 1998.

The Internal Revenue Service has determined and informed BellSouth by a favorable determination letter dated August 6, 2002 that the Plan and related Trust meet the requirements of Section 401(a) of the Code and are exempt from federal income taxes under Section 501(a) of the Code.

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

Table of Contents**BELLSOUTH RETIREMENT SAVINGS PLAN****NOTES TO FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per-Participant Amounts)****6. Termination Priorities**

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

7. Interest in BellSouth Master Savings Trust

The assets of the Plan are held in the Master Savings Trust and are commingled with the assets of the SSP. The assets of the Master Savings Trust are allocated to the Plan based upon the total of each individual plan participant's share of the Master Savings Trust's assets. The Plan's allocated share of the total net assets of all funds in the Master Savings Trust was 67.00256% at December 31, 2002 and 69.62748% at December 31, 2001. The Plan's allocated share of the net assets of each fund in the Master Savings Trust at December 31, 2002 and 2001 were as follows:

	<u>2002</u>	<u>2001</u>
BellSouth Stock Fund	53.70089%	56.16645%
Indexed Stock Fund	86.66467%	87.34937%
Interest Income Fund	71.79488%	74.06593%
Vanguard Growth Index-Institutional	72.04981%	74.63545%
Fidelity Growth & Income Portfolio	73.01977%	74.83263%
Balanced Fund	79.20204%	81.79995%
Bond Fund	79.41772%	85.61237%
T. Rowe Price Mid-Cap Growth	74.61040%	