BELLSOUTH CORP
Form 10-Q
May 04, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

(Mark One)

|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2006

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-8607

BELLSOUTH CORPORATION

(Exact name of registrant as specified in its charter)

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

Registrant's telephone number 404-249-2000

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer X Accelerated filer___ Non-accelerated filer___

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ___ No __X_

At April 28, 2006, 1,808,803,427 common shares were outstanding.

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PART I FINANCIAL INFORMATION

BELLSOUTH CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

(Unaudited)

	For the Three Months Ended March 31,	
	2005	**2006**
Operating Revenues:		
Communications Group	$ 4,593	**$ 4,653**
Advertising & Publishing Group	488	**503**
All other	10	**15**
Total Operating Revenues	5,091	**5,171**
Operating Expenses:		
Cost of services and products (excludes depreciation and amortization shown separately below)	1,920	**2,109**
Selling, general, and administrative expenses	894	**931**
Depreciation and amortization	918	**893**
Provisions (credits) for restructuring	7	**(8)**
Total Operating Expenses	3,739	**3,925**
Operating income	1,352	**1,246**
Interest expense	291	**279**
Net earnings (losses) of equity affiliates	(80)	**139**
Other income (expense), net	56	**55**
Income from Continuing Operations Before Income Taxes	1,037	**1,161**
Provision for Income Taxes	354	**377**
Income from Continuing Operations	683	**784**
Income from Discontinued Operations, net of tax	381	
Net Income	$ 1,064	**$ 784**
Weighted-Average Common Shares Outstanding:		
Basic	1,831	**1,797**
Diluted	1,836	**1,804**
Dividends Declared Per Common Share	$ 0.27	**$ 0.29**
Basic Earnings Per Share:		
Income from Continuing Operations	$ 0.37	**$ 0.44**
Discontinued Operations, net of tax	0.21	
Net Income	$ 0.58	**$ 0.44**

Diluted Earnings Per Share:		
Income from Continuing Operations	$ 0.37	**$ 0.43**
Discontinued Operations, net of tax	0.21	
Net Income	$ 0.58	**$ 0.43**

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

BELLSOUTH CORPORATION

CONSOLIDATED BALANCE SHEETS

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	December 31, 2005	**March 31, 2006** (unaudited)
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 427	**$ 247**
Short-term investments		**54**
Accounts receivable, net of allowance for uncollectibles of $289 and $281	2,555	**2,409**
Material and supplies	385	**412**
Other current assets	842	**982**
Total current assets	4,209	**4,104**
Investments in and advances to Cingular Wireless	21,274	**21,882**
Property, plant and equipment, net	21,723	**21,870**
Other assets	7,814	**8,199**
Intangible assets, net	1,533	**1,595**
Total assets	$ 56,553	**$ 57,650**
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Debt maturing within one year	$ 4,109	**$ 4,408**
Accounts payable	1,040	**1,041**
Other current liabilities	3,505	**3,686**
Total current liabilities	8,654	**9,135**
Long-term debt	13,079	**13,062**
Noncurrent liabilities:		
Deferred income taxes	6,607	**6,727**
Other noncurrent liabilities	4,679	**4,641**
Total noncurrent liabilities	11,286	**11,368**
Shareholders equity:		
Common stock, $1 par value (8,650 shares authorized; 1,798 and 1,807 shares outstanding)	2,020	**2,020**
Paid-in capital	7,960	**7,931**
Retained earnings	20,383	**20,612**
Accumulated other comprehensive income (loss)	(14)	**32**
Shares held in trust and treasury	(6,815)	**(6,510)**
Total shareholders equity	23,534	**24,085**
Total liabilities and shareholders equity	$ 56,553	**$ 57,650**

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

BELLSOUTH CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN MILLIONS)

(Unaudited)

	For the Three Months Ended March 31,	
	2005	**2006**
Cash Flows from Operating Activities:		
Net income	$ 1,064	**$ 784**
Less income from discontinued operations, net of tax	(381)	
Income from continuing operations	$ 683	**$ 784**
Adjustments to reconcile income to cash provided by operating activities from continuing operations:		
Depreciation and amortization	918	**893**
Provision for uncollectibles	85	**87**
Net losses (earnings) of equity affiliates	80	**(139)**
Deferred income taxes	(45)	**59**
Pension income	(133)	**(130)**
Stock-settled compensation expense	25	**17**
Net change in:		
Accounts receivable and other current assets	(84)	**(79)**
Accounts payable and other current liabilities	23	**78**
Deferred charges and other assets	20	**(23)**
Other liabilities and deferred credits	103	**78**
Other reconciling items, net	17	**7**
Net cash provided by operating activities from continuing operations	1,692	**1,632**
Cash Flows from Investing Activities:		
Capital expenditures	(750)	**(1,081)**
Investment in short-term instruments	(12)	**(308)**
Proceeds from sale of short-term instruments	28	**254**
Proceeds from sale of operations	919	
Investments in debt and equity securities	(32)	**(200)**
Proceeds from sale of debt and equity securities	10	**3**
Net repayments from (advances to) Cingular Wireless	400	**(466)**
Other investing activities, net	(3)	**(15)**
Net cash provided by (used for) investing activities from continuing operations	560	**(1,813)**
Cash Flows from Financing Activities:		
Net borrowings (repayments) of short-term debt	(1,074)	**713**
Repayments of long-term debt	(662)	**(417)**
Dividends paid	(494)	**(521)**
Purchase of treasury shares	(77)	**(50)**
Proceeds from issuing common stock	19	**260**
Other financing activities, net	(13)	**16**
Net cash (used in) provided by financing activities from continuing operations	(2,301)	**1**
Net decrease in cash and cash equivalents from continuing operations	(49)	**(180)**
Cash flows from discontinued operations:		
Net cash provided by operating activities	10	

Net cash used for investing activities	(125)	
Net cash used in financing activities		
Net decrease in cash and cash equivalents from discontinued operations	(115)	
Net (decrease) increase in cash and cash equivalents	(164)	**(180)**
Cash and cash equivalents at beginning of period	680	**427**
Cash and cash equivalents at end of period	$ 516	**$ 247**

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

BELLSOUTH CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME

(IN MILLIONS)

(Unaudited)

	Number of Shares		Amount					
	Common Stock	(a) Shares Held in Trust and Treasury	Common Stock	Paid-in Capital	Retained Earnings	Accum. Other Compre-hensive Income (Loss)	(a) Shares Held in Trust and Treasury	Total
Balance at December 31, 2004	**2,020**	**(189)**	**$ 2,020**	**$ 7,840**	**$ 19,267**	**$ (157)**	**$ (5,904)**	**$ 23,066**
Net Income					1,064			1,064
Other comprehensive income, net of tax						77		77
Total comprehensive income								1,141
Dividends declared					(494)			(494)
Purchase of treasury stock		(3)					(77)	(77)
Share issuances for employee benefit plans		3		(55)	(35)		105	15
Stock-based compensation				25				25
Balance at March 31, 2005	**2,020**	**(189)**	**$ 2,020**	**$ 7,810**	**$ 19,802**	**$ (80)**	**$ (5,876)**	**$ 23,676**
Balance at December 31, 2005	**2,020**	**(222)**	**$ 2,020**	**$ 7,960**	**$ 20,383**	**$ (14)**	**$ (6,815)**	**$ 23,534**
Net Income					784			784
Other comprehensive income, net of tax						46		46
Total comprehensive income								830
Dividends declared					(513)			(513)
Purchase of treasury stock		(2)					(50)	(50)
Share issuances for employee benefit plans		11		(52)	(42)		355	261
Stock-based compensation				17				17
Tax benefit related to stock options				6				6
Balance at March 31, 2006	**2,020**	**(213)**	**$ 2,020**	**$ 7,931**	**$ 20,612**	**$ 32**	**$ (6,510)**	**$ 24,085**

(a) Trust and treasury shares are not considered to be outstanding for financial reporting purposes.

	As of March 31,	
	2005	**2006**
Shares held in trust	26	**17**
Shares held in treasury	163	**196**
Total	189	**213**

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

BELLSOUTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)

(Unaudited)

NOTE A - PREPARATION OF INTERIM FINANCIAL STATEMENTS

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

The accompanying unaudited consolidated financial statements have been prepared based upon Securities and Exchange Commission (SEC) rules that permit reduced disclosure for interim periods. In our opinion, these statements include all adjustments necessary for a fair presentation of the results of the interim periods presented. All adjustments are of a normal recurring nature unless otherwise disclosed. Revenues, expenses, assets and liabilities can vary during each quarter of the year. Therefore, the results and trends in these interim financial statements may not be the same as those for the full year. For a more complete discussion of our significant accounting policies and other information, you should read this report in conjunction with the consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2005.

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

NOTE B - EARNINGS PER SHARE

Basic earnings per share are computed based on the weighted-average number of common shares outstanding during each year. Nonvested restricted stock carries dividend and voting rights and, in accordance with Generally Accepted Accounting Principles (GAAP), is not included in the weighted-average number of common shares outstanding used to compute basic earnings per share. Diluted earnings per share are based on the weighted-average number of common shares outstanding plus net incremental shares arising out of employee stock compensation and benefit plans. The earnings amounts used for per-share calculations are the same for both the basic and diluted methods. The following is a reconciliation of the weighted-average share amounts (in millions) used in calculating earnings per share:

	For the Three Months Ended March 31,	
	2005	**2006**
Basic common shares outstanding	1,831	**1,797**
Incremental shares from stock-based compensation and benefit plans	5	**7**
Diluted common shares outstanding	1,836	**1,804**
Common stock equivalents excluded from the computation	78	**71**

Options with an exercise price greater than the average market price of the common stock or that have an anti-dilutive effect on the computation are excluded from the calculation of diluted earnings per share. Restricted stock or restricted stock units that have an anti-dilutive effect on the computation are also excluded from the calculation of diluted earnings per share.

NOTE C DISCONTINUED OPERATIONS

In March 2004, we signed an agreement with Telefónica Móviles, S.A., the wireless affiliate of Telefónica, S.A., to sell all of our interests in Latin America. During 2004, we closed on the sale of 8 of the 10 properties. During January 2005, we closed on the sale of the operations in the remaining two Latin American countries for gross proceeds of $1,077 and a gain of $390, net of tax. The gain includes the recognition of cumulative foreign currency translation losses of $68.

Summarized results of operations for the discontinued operations for the three months ended March 31, 2005 are as follows:

	2005
Revenue	$ 66
Operating loss	(5)
Gain on sale of operations	629
Income before income taxes	616
Income tax expense	235
Income from discontinued operations	$ 381

NOTE D - MERGER OF BELLSOUTH AND AT&T

On March 4, 2006, we agreed to merge with AT&T Inc. (AT&T) in a transaction in which each share of BellSouth common stock will be exchanged for 1.325 shares of AT&T common stock. The stock consideration in the transaction is expected to be tax-free to our shareowners. The acquisition, which is subject to approval by our shareowners and regulatory

BELLSOUTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)

(Unaudited)

NOTE D - MERGER OF BELLSOUTH AND AT&T (Continued)

authorities, and other customary closing conditions, is currently expected to close by the end of 2006. However, it is possible that factors outside of our control could require us to complete the merger at a later time or not to complete it at all. While the merger agreement prohibits us from soliciting competing acquisition proposals, we may accept a superior proposal prior to approval of the merger agreement by BellSouth shareholders, subject to compliance with the terms of the merger agreement and payment of a $1.7 billion termination fee and all documented out-of-pocket fees incurred by AT&T, up to $120. The terms of certain of our agreements including contracts, employee benefit arrangements and debt instruments have provisions which could result in changes to the terms or settlement amounts of these agreements upon a change in control of BellSouth.

NOTE E - INVESTMENTS IN AND ADVANCES TO CINGULAR WIRELESS

Investment

We own a 40 percent economic interest in Cingular Wireless, a joint venture with AT&T. Because we exercise influence over the financial and operating policies of Cingular Wireless, we use the equity method of accounting for this investment. Under the equity method of accounting, we record our proportionate share of Cingular Wireless' earnings in our consolidated statements of income. These earnings are included in the caption "Net earnings (losses) of equity affiliates."

The following table displays the summary financial information of Cingular Wireless. These amounts are shown on a 100 percent basis.

	December 31, 2005	**March 31, 2006**
Balance Sheet Information:		
Current assets	$ 6,049	**$ 6,413**
Noncurrent assets	$ 73,270	**$ 72,931**
Current liabilities	$ 10,008	**$ 9,456**
Noncurrent liabilities	$ 23,790	**$ 23,982**
Minority interest	$ 543	**$ 574**
Members capital	$ 44,978	**$ 45,332**

For the Three Months

	Ended March 31, 2005	**2006**
Income Statement Information:		
Revenues	$ 8,229	**$ 8,980**
Operating income	$ 114	**$ 807**
Net income (loss)	$ (240)	**$ 354**

As of March 31, 2006, our book investment exceeded our proportionate share of the net assets of Cingular Wireless by $456.

Advance

We have an advance to Cingular Wireless that, with interest, totaled $2,622 at December 31, 2005 and March 31, 2006. This advance earns an interest rate of 6.0 percent per annum and matures on June 30, 2008.

Revolving Line of Credit

BellSouth and AT&T provide unsubordinated short-term financing on a pro rata basis for Cingular Wireless ordinary course of business cash requirements based upon Cingular Wireless budget and forecasted cash needs. Under the terms of the line of credit, Cingular Wireless available cash (as defined), if any, is applied first to repay amounts loaned to Cingular Wireless under the line of credit. Remaining available cash is applied to the repayment of the advance described above. Borrowings bear interest at 1-Month LIBOR plus 0.05 percent payable monthly. The line of credit terminates on July 31, 2007. Borrowings from BellSouth under the revolving credit line, including interest, were $204 at December 31, 2005 and $671 at March 31, 2006.

BELLSOUTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)

(Unaudited)

NOTE E - INVESTMENTS IN AND ADVANCES TO CINGULAR WIRELESS (Continued)

Provision of Services

We also generate revenues from Cingular Wireless in the ordinary course of business for the provision of local interconnection services, long distance services, sales agency fees and customer billing and collection fees.

Interest and Revenue Earned from Cingular Wireless:

	For the Three Months Ended March 31,	
	2005	**2006**
Revenues	$ 174	**$ 198**
Interest income on advances	$ 59	**$ 43**

Interest income on advances are offset by a like amount of interest expense recorded by Cingular Wireless and reported in our financial statements in the caption Net earnings (losses) of equity affiliates.

Receivables and payables incurred in the ordinary course of business are recorded on our balance sheets as follows:

	December 31,	**March 31,**
	2005	**2006**
Receivable from Cingular	$ 51	**$ 44**
Payable to Cingular	$ 54	**$ 59**

NOTE F - DEBT

On January 18, 2005, we redeemed $400 of 40-year, 6.75 percent debentures, due October 15, 2033. The redemption price was 103.33 percent of the principal amount, and resulted in recognition of a loss of $22, or $14 net of tax, which includes $9 associated with fully expensing remaining discount and deferred debt issuance costs.

NOTE G - WORKFORCE REDUCTION AND RESTRUCTURING

Based on competitive activity in the telecommunications industry, continued economic pressures, realignment of our business and productivity improvements, we have periodically initiated workforce reductions and recorded charges for early termination benefits.

In December 2005, we announced that we would reduce our management workforce by approximately 1,500 employees. The plan included a voluntary program offering a special termination benefit followed by an involuntary program to the extent necessary to achieve the targeted reductions. As a result of the pending merger of BellSouth Corporation and AT&T, we modified the terms of the fourth quarter 2005 announced workforce reduction by eliminating the involuntary component that was scheduled to follow the voluntary offer. Accordingly, in the first quarter of 2006 we reversed the minimum liability accrued (except with respect to the 60 employees who had already accepted under that program). Based on the number of acceptances of the voluntary offer through March 31, 2006, we accrued $54. Under the modified plan, we expect to reduce our management workforce by approximately 1,300 employees and expect substantially all of the reductions to be completed by the end of May 2006.

In addition, we recorded a restructuring charge of $16 for a non-management surplus announced in the first quarter of 2006.

The following table summarizes activity associated with the workforce reduction and restructuring liability for the three months ended March 31, 2006:

Balance at December 31, 2005	$ 100
Accruals	70
Cash payments	(14)
Adjustments	(78)
Balance at March 31, 2006	**$ 78**

Adjustments to the employee separations accrual are due to the reversal noted above as well as estimated demographics being different than actual demographics of employees that separated from the Company.

BELLSOUTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)

(Unaudited)

NOTE H - EMPLOYEE BENEFITS PLANS

Substantially all of our employees are covered by noncontributory defined benefit pension plans. We provide certain medical, dental and life insurance benefits to substantially all retired employees under various plans and accrue actuarially determined postretirement benefit costs as active employees earn these benefits. Management employees hired after January 1, 2001 are provided access to medical benefits at retirement but are required to pay 100 percent of the cost.

The following details pension and postretirement benefit costs included in operating expenses (in cost of sales and selling, general and administrative expenses) in the accompanying Consolidated Statements of Income. Approximately 10 percent of these costs are capitalized to property, plant and equipment with labor related to network construction. We account for these costs in accordance with Statement of Financial Accounting Standard (SFAS) No. 87, "Employers' Accounting for Pensions" and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." Components of net periodic benefit costs were as follows:

	Pension Benefits For the Three Months Ended March 31,		**Other Benefits** For the Three Months Ended March 31,	
	2005	**2006**	2005	**2006**
Service cost	$ 52	**$ 49**	$ 31	**$ 31**
Interest cost	147	**150**	146	**146**
Expected return on plan assets	(322)	**(319)**	(84)	**(87)**
Amortizations:				
Unrecognized net obligation			18	**13**
Unrecognized prior service cost	(10)	**(10)**	56	**45**
Unrecognized (gain) loss			26	**29**
Net periodic benefit cost (income)	$ (133)	**$ (130)**	$ 193	**$ 177**

Employer Contributions

Due to the funded status of our pension plans, we do not expect to make contributions to these plans in 2006. Consistent with prior years, we expect to contribute cash to the VEBA trusts to fund other benefit payments. During the three months ended March 31, 2006, we contributed $89 to fund these other benefits and expect to contribute approximately $250 to $300 during the remainder of 2006.

Cash Balance Pension Plan

In July 2003, a Federal district court in Illinois ruled that the benefit formula used in International Business Machines Corporation's (IBM) cash balance pension plan violated the age discrimination provisions of ADEA and ERISA. The IBM decision (and at least one subsequent decision)

conflicts with opinions of several other district courts. Congress is presently considering legislation that could clarify the legal status of cash balance plans under the applicable age discrimination rules. At this time, it is unclear what effect, if any, these decisions or possible Congressional action may have on our tax-qualified cash balance pension plans or our financial condition.

NOTE I - STOCK COMPENSATION PLANS

We have granted stock-based compensation awards to key employees under several plans. One share of BellSouth common stock is the underlying security for any award under these plans. The maximum number of shares available for future grants under the stock plan currently in effect is limited to 80 million reduced by awards granted and increased by shares tendered in option exercises. In 2003, we used the retroactive restatement method provided by SFAS No. 148 to adopt the expense recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, (SFAS No. 123) by restating all periods beginning on or after January 1, 1995 (the effective date of SFAS No. 123). Effective January 1, 2006, we adopted SFAS No. 123 (Revised 2004), Share-Based Payment, (SFAS No. 123R) using the modified prospective application of its provisions; therefore, our financial statements for prior periods will not be restated. The cumulative effect of adopting SFAS No. 123R was immaterial. Because we previously adopted the expense recognition provisions of SFAS No. 123, the impact of adopting SFAS No. 123R resulted in essentially three changes: (1) use of estimated forfeiture rates versus recognition of actual forfeitures as incurred, (2) use of fair value to measure expense for awards classified as liabilities, and (3) use of the alternative transition method to calculate the pool of excess tax benefits available to absorb tax deficiencies in future years, which increases the pool by $130. Effective with the adoption of SFAS No. 123R, we instituted a policy of recognizing expense for awards with graded vesting provisions using the straight-line method of expense attribution.

BELLSOUTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)

(Unaudited)

NOTE I - STOCK COMPENSATION PLANS (Continued)

Given trends in long-term compensation awards and market conditions, over the last few years we have moved toward granting a mix of restricted stock, restricted stock units, and performance share units in lieu of stock options. The table below summarizes the total compensation cost and the related total tax benefit included in our results of operations for each type of award:

	For the Three Months Ended March 31,	
Compensation cost:	2005	**2006**
Stock options	$ 14	**$ 5**
Restricted stock and restricted stock units	12	**12**
Performance share units	16	**38**
Total compensation cost	$ 42	**$ 55**
Income tax benefit	(15)	**(20)**
Compensation cost net of income tax benefit	$ 27	**$ 35**

Stock Option Awards

Stock options granted under the plans entitle recipients to purchase shares of BellSouth common stock within prescribed periods at a price either equal to, or in excess of, the fair market value on the date of grant. Options generally become exercisable at the end of three to five years, have a term of ten years, and provide for accelerated vesting if there is a change in control (as defined in the plans). The grant date fair value of each option granted, which is estimated using the Black-Scholes option-pricing formula, is expensed over the vesting period. A summary of option activity under the plans is presented below:

	Number of options	Weighted- average option prices per common share	Weighted- average remaining contractual term in years	Aggregate intrinsic value
Outstanding at December 31, 2005	96,802,789	$36.12		
Granted				
Exercised	(11,222,401)	$23.55		
Forfeited or expired	(489,604)	$29.50		
Outstanding at March 31, 2006	85,090,784	$37.82	4.37	$
Exercisable at March 31, 2006	82,447,826	$38.10	4.30	$

As of March 31, 2006, total compensation cost related to unvested stock options of $5 is expected to be amortized by the end of 2006. Information related to stock option exercises is provided below:

	For the Three Months Ended March 31,	
	2005	**2006**
Total value received by employees for options exercised	$ 10	**$ 90**
Tax benefit realized for options exercised	$ 4	**$ 34**
Cash received for options exercised	$ 19	**$ 260**

Restricted Stock and Restricted Stock Unit Awards

Restricted stock and restricted stock unit awards granted to key employees under the plans are settled by issuing shares of common stock at the vesting date. Generally, the restrictions lapse in full on the third anniversary of the grant date, or on a pro rata basis on each of the first three anniversaries of the grant date. The vesting of restricted stock and restricted stock units accelerates if there is a change in control (as defined in the plans) and the employee is terminated within two years of the change in control. The grant date fair value of the restricted stock and restricted stock units, which is the stock price on the grant date, is expensed over the period during which the restrictions lapse. The shares represented by restricted stock awards (but not restricted stock unit awards) are considered outstanding at the grant date, as the recipients are entitled to dividends and voting rights. A summary of restricted stock and restricted stock unit activity under the plans is presented below:

BELLSOUTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)

(Unaudited)

NOTE I - STOCK COMPENSATION PLANS (Continued)

	Number of shares & units	Weighted-average grant date fair value
Unvested at December 31, 2005	4,270,080	$27.02
Granted	1,574,500	$31.82
Vested	(682,612)	$27.07
Forfeited	(86,851)	$27.32
Unvested at March 31, 2006	5,075,117	$28.50

The weighted-average grant date fair value of restricted stock and restricted stock units granted during the quarters ended March 31, 2005 and 2006 was $26.04 and $31.82, respectively. As of March 31, 2006, the total unrecognized compensation cost for unvested restricted stock and restricted stock units of $89 is expected to be amortized over a weighted-average period of approximately 20 months. Information related to shares vested is provided below:

	For the Three Months Ended March 31,	
	2005	**2006**
Total value received by employees for shares vested	$ 14	**$ 22**
Tax benefit realized for shares vested	$ 4	**$ 7**

Performance Share Unit Awards

Performance share units granted to key employees are settled in cash based on an average stock price at the end of the three-year performance period multiplied by the number of units earned. The number of performance share units actually earned by recipients is based on the achievement of certain performance goals as defined by the terms of the awards, and can range from 0% to 150% of the number of units granted. At the end of the performance period, recipients also receive a cash payment equal to the dividends paid on a share of BellSouth stock during the performance period for each performance share unit earned. Vesting accelerates and the performance period is modified if there is a change in control (as defined in the plans). For awards granted prior to 2006, performance share unit expense is generally recognized over the performance period; for awards granted in 2006, performance share unit expense is recognized over the vesting period, which approximates the performance period. Since performance share units are settled in cash, our obligations related to these awards are classified as liabilities. A summary of performance share unit activity under the plans is presented below:

	Number of units
Unvested at December 31, 2005	5,857,605
Granted	2,251,925
Vested	

Forfeited	(12,960)
Unvested at March 31, 2006	8,096,570

Effective with the adoption of the provisions of SFAS No. 123R on January 1, 2006, the amount of expense recognized for all unvested performance share units is based on the fair value of the performance shares at each reporting date and, as applicable, the expected outcome of performance conditions. The fair value of each performance share unit is determined at the grant date and at each reporting date using a Monte Carlo simulation model. The simulation model includes ranges of assumptions for stock price volatility, risk-free interest rates, and expected dividends. Expected volatilities for the three unvested awards are estimated based on a blend of historical volatility of our stock and implied volatilities from traded options on our stock and currently range from 18% to 19%. The risk-free interest rate for periods within each performance period is based on the US Treasury yield curve in effect at the valuation date and currently ranges from 4.41% to 4.74%. Expected dividends are estimated based on historical patterns of increases.

The weighted-average fair value of unvested performance share units as of March 31, 2006 was $36.78, and the total unrecognized compensation cost of $191, based on this value, is expected to be amortized over a weighted-average period of approximately 21 months. Information related to performance share units vested and paid is provided below:

	For the Three Months Ended March 31,	
	2005	**2006**
Total value received by employees for units vested and paid	$ 7	**$ 21**
Tax benefit realized for units vested and paid	$ 2	**$ 8**

BELLSOUTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)

(Unaudited)

NOTE J - SEGMENT INFORMATION

We have three reportable operating segments: (1) Communications Group; (2) Wireless; and (3) Advertising & Publishing Group. We own a 40 percent economic interest in Cingular Wireless, and share joint control of the venture with AT&T. We account for the investment under the equity method. For management purposes we evaluate our Wireless segment based on our proportionate share of Cingular Wireless results. Accordingly, results for our Wireless segment reflect the proportional consolidation of 40 percent of Cingular Wireless results.

The Company s chief decision makers evaluate the performance of each business unit based on segment net income, exclusive of internal charges for use of intellectual property and adjustments for unusual items that may arise. Unusual items are transactions or events that are included in reported consolidated results but are excluded from segment results due to their nonrecurring or nonoperational nature.

The following table provides information for each operating segment:

	For the Three Months Ended March 31,	
	2005	**2006**
Communications Group		
External revenues	$ 4,593	**$ 4,653**
Intersegment revenues	25	**26**
Total segment revenues	4,618	**4,679**
Segment operating income	1,117	**1,105**
Segment net income	$ 664	$ **654**
Wireless		
Total segment revenues	$ 3,292	$ **3,592**
Segment operating income	284	**560**
Segment net income	$ 67	$ **243**
Advertising & Publishing Group		
External revenues	$ 488	$ **503**
Intersegment revenues	3	**3**
Total segment revenues	491	**506**
Segment operating income	231	**226**
Segment net income	$ 141	$ **140**

RECONCILIATION TO CONSOLIDATED FINANCIAL INFORMATION

	For the Three Months Ended March 31,	
	2005	**2006**
Operating revenues		
Total reportable segments	$ 8,401	$ **8,777**
Cingular proportional consolidation	(3,292)	**(3,592)**
Corporate, eliminations and other	(18)	**(14)**
Total consolidated	$ 5,091	$ **5,171**
Operating income		
Total reportable segments	$ 1,632	$ **1,891**
Cingular proportional consolidation	(284)	**(560)**
Hurricane Katrina-related expenses, net		**(94)**
Corporate, eliminations and other	4	**9**
Total consolidated	$ 1,352	$ **1,246**
Net Income		
Total reportable segments	$ 872	$ **1,037**
Wireless merger intangible amortization	(100)	**(85)**
Hurricane Katrina-related expenses, net		**(58)**
Wireless merger integration costs	(21)	**(56)**
Early extinguishment of debt	(14)	
Discontinued operations	381	
Corporate, eliminations and other	(54)	**(54)**
Total consolidated	$ 1,064	$ **784**

BELLSOUTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)

(Unaudited)

NOTE K - OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income (loss) is comprised of the following components:

	December 31, 2005	**March 31, 2006**
Cumulative foreign currency translation adjustments	$ (2)	**$ (2)**
Minimum pension liability adjustment	(133)	**(130)**
Net unrealized gains on derivatives	5	**5**
Net unrealized gains on securities	116	**159**
	$ (14)	**$ 32**

Total comprehensive income details are presented in the table below.

	For the Three Months Ended March 31,	
	2005	**2006**
Net Income	$ 1,064	**$ 784**
Other comprehensive income, net of tax:		
Foreign currency translation:		
Adjustments	13	
Sale of foreign entities	68	
	81	
Minimum pension liability adjustment, net of tax		**3**
Deferred gains on derivatives:		
Deferred gains	7	
Reclassification adjustment for (gains) losses included in net income		
	7	
Unrealized gains (losses) on securities:		
Unrealized holdings gains (losses)	(10)	**44**
Reclassification adjustment for (gains) losses included in net income	(1)	**(1)**
	(11)	**43**
Total comprehensive income	$ 1,141	**$ 830**

NOTE L - CONTINGENCIES

GUARANTEES

In most of our sale and divestiture transactions, we indemnify the purchaser for various items including labor and general litigation as well as certain tax matters. Generally, the terms last one to five years for general and specific indemnities and for the statutory review periods for tax matters. The events or circumstances that would require us to perform under the indemnity are transaction and circumstance specific. We regularly evaluate the probability of having to incur costs associated with these indemnifications and have accrued for expected losses that are probable. In addition, in the normal course of business, we indemnify counterparties in certain agreements. The nature and terms of these indemnities vary by transaction. Historically, we have not incurred significant costs related to performance under these types of indemnities.

REGULATORY MATTERS

In May 2005, we sued AT&T in the U.S. District Court for the Northern District of Georgia for unpaid access charges associated with AT&T s prepaid calling cards and its IP in the middle services that use Internet Protocol technology for internal call processing but use the public switched network to originate and terminate calls. The lawsuit follows two separate rulings by the Federal Communications Commission (FCC), one in April 2004 concerning IP in the middle services and one in February 2005 concerning prepaid card services, that each service was a telecommunications service subject to access charges. AT&T estimated in securities filings that it had saved $340 in access charges on its prepaid card services and $250 in access charges on its IP in the middle services. We believe that some of the improperly avoided access charges should have been paid to us for the use of our network. AT&T appealed the FCC s decision relating to the prepaid card services to the Court of Appeals for the D.C. Circuit, which has heard oral argument but has not issued a decision. If the U.S. District Court lawsuit in Georgia progresses, we expect to obtain information from AT&T and other sources that will determine the amount of BellSouth access charges AT&T avoided. In addition, AT&T has

BELLSOUTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)

(Unaudited)

NOTE L - CONTINGENCIES (Continued)

asserted certain defenses against BellSouth and has filed the New York lawsuit described below in an effort to reduce any amount it may owe to BellSouth. In April 2006, BellSouth and AT&T agreed to stay the U.S. District Court lawsuit in Georgia until the earlier of 12 months or the consummation or termination of the Merger Agreement between BellSouth and AT&T. At this time, the likely outcome of the case cannot be predicted, nor can a reasonable estimate of the amount of gain, if any, be made. Accordingly, no revenue has been recognized with respect to this matter in our consolidated financial statements.

On November 4, 2005, AT&T sued BellSouth Long Distance, Inc. (BSLD) and Qwest Communications Corporation (Qwest) in the U.S. District Court for the Southern District of New York. AT&T has asserted claims of breach of contract, fraudulent misrepresentation and unjust enrichment against BSLD and related claims against Qwest. AT&T s claims arise from a contract with BSLD pursuant to which BSLD purchased wholesale long distance minutes that it resold to Qwest. The complaint does not specify the amount of damages sought by AT&T. The parties have agreed to stay the New York lawsuit pending the arbitration of the dispute between AT&T and BSLD. To date, no arbitration has been initiated by AT&T. At this time, the likely outcome of the case cannot be predicted, nor can a reasonable estimate of the amount of loss, if any, be made.

LEGAL PROCEEDINGS

Employment claim

On April 29, 2002, five African-American employees filed a putative class action lawsuit, captioned *Gladys Jenkins et al. v. BellSouth Corporation,* against the Company in the U.S. District Court for the Northern District of Alabama. The complaint alleges that BellSouth discriminated against current and former African-American employees with respect to compensation and promotions in violation of Title VII of the Civil Rights Act of 1964 and 42 USC Section 1981. Plaintiffs purport to bring the claims on behalf of two classes: a class of all African-American hourly workers employed by BellSouth Telecommunications at any time since April 29, 1998, and a class of all African-American salaried workers employed by BellSouth Telecommunications at any time since April 29, 1998 in management positions at or below Job Grade 59/Level C. The plaintiffs are seeking unspecified amounts of back pay, benefits, punitive damages and attorneys fees and costs, as well as injunctive relief. At this time, the likely outcome of the case cannot be predicted, nor can a reasonable estimate of the amount of loss, if any, be made.

Securities and ERISA claims

From August through October 2002, several individual shareholders filed substantially identical class action lawsuits against BellSouth and three of its senior officers alleging violations of the federal securities laws. The cases have been consolidated in the U.S. District Court for the Northern District of Georgia and are captioned *In re BellSouth Securities Litigation*. Pursuant to the provisions of the Private Securities Litigation Reform Act of 1995, the court has appointed a Lead Plaintiff. The Lead Plaintiff filed a Consolidated and Amended Class Action Complaint in July 2003 on behalf of two putative classes: (1) purchasers of BellSouth stock during the period November 7, 2000 through February 19, 2003 (the class period) for alleged violations of Sections 10(b) and 20 of the Securities Exchange Act of 1934 and (2) participants

in BellSouth s Direct Investment Plan during the class period for alleged violations of Sections 11, 12 and 15 of the Securities Act of 1933. Four outside directors were named as additional defendants. The Consolidated and Amended Class Action Complaint alleged that during the class period the Company (1) overstated the unbilled receivables balance of its Advertising & Publishing subsidiary; (2) failed to properly implement Staff Accounting Bulletin (SAB) 101 with regard to its recognition of Advertising & Publishing revenues; (3) improperly billed competitive local exchange carriers (CLEC) to inflate revenues; (4) failed to take a reserve for refunds that ultimately came due following litigation over late payment charges; and (5) failed to properly writedown goodwill of its Latin American operations.

On February 8, 2005, the District Court dismissed the Exchange Act claims, except for those relating to the writedown of Latin American goodwill. On that date, the District Court also dismissed the Securities Act claims, except for those relating to the writedown of Latin American goodwill, the allegations relating to unbilled receivables of the Company s Advertising & Publishing subsidiary, the implementation of SAB 101 regarding recognition of Advertising & Publishing revenues and alleged improper billing of CLECs. The plaintiffs are seeking an unspecified amount of damages, as well as attorneys fees and costs. At this time, the likely outcome of the case cannot be predicted, nor can a reasonable estimate of the amount of loss, if any, be made.

In February 2003, a similar complaint was filed in the Superior Court of Fulton County, Georgia on behalf of participants in BellSouth s Direct Investment Plan alleging violations of Section 11 of the Securities Act. Defendants removed this action to federal court pursuant to the provisions of the Securities Litigation Uniform Standards Act of 1998. In July 2003, the federal court issued a ruling that the case should be remanded to Fulton County Superior Court. The Fulton County Superior Court has stayed the case pending resolution of the federal case. The plaintiffs are seeking an unspecified amount of damages,

BELLSOUTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)

(Unaudited)

NOTE L - CONTINGENCIES (Continued)

as well as attorneys fees and costs. At this time, the likely outcome of the case cannot be predicted, nor can a reasonable estimate of the amount of loss, if any, be made.

In September and October 2002, three substantially identical class action lawsuits were filed in the U.S. District Court for the Northern District of Georgia against BellSouth, its directors, three of its senior officers, and other individuals, alleging violations of the Employee Retirement Income Security Act (ERISA). The cases have been consolidated and on April 21, 2003, a Consolidated Complaint was filed. The plaintiffs, who sought to represent a putative class of participants and beneficiaries of BellSouth s 401(k) plans (the Plans), allege in the Consolidated Complaint that the company and the individual defendants breached their fiduciary duties in violation of ERISA, by among other things, (1) failing to provide accurate information to the Plans participants and beneficiaries; (2) failing to ensure that the Plans assets were invested properly; (3) failing to monitor the Plans fiduciaries; (4) failing to disregard Plan directives that the defendants knew or should have known were imprudent and (5) failing to avoid conflicts of interest by hiring independent fiduciaries to make investment decisions. In October 2005, plaintiffs motion for class certification was denied. The plaintiffs are seeking an unspecified amount of damages, injunctive relief, attorneys fees and costs. Certain underlying factual allegations regarding BellSouth s Advertising & Publishing subsidiary and its former Latin American operation are substantially similar to the allegations in the putative securities class action captioned *In re BellSouth Securities Litigation,* which is described above. Subject to approval of the court, the parties have reached a settlement of the ERISA lawsuits. The settlement is on behalf of the Plans and certain participants who brought claims individually and on behalf of the Plans pursuant to ERISA section 502(a)(2). BellSouth does not expect the settlement to have a material effect on the Company. The principal terms of the settlement increase the minimum levels below which Company matching contributions may not fall for a three-year period. The settlement does not require any other unreimbursed cash payments by the Company.

Antitrust claims

In December 2002, a consumer class action alleging antitrust violations of Section 1 of the Sherman Antitrust Act was filed against BellSouth, Verizon, AT&T (formerly known as SBC) and Qwest, captioned *William Twombly, et al v. Bell Atlantic Corp., et al,* in U.S. District Court for the Southern District of New York. The complaint alleged that defendants conspired to restrain competition by agreeing not to compete with one another and to impede competition with others. The plaintiffs are seeking an unspecified amount of treble damages and injunctive relief, as well as attorneys fees and expenses. In October 2003, the district court dismissed the complaint for failure to state a claim. In October 2005, the Second Circuit Court of Appeals reversed the District Court s decision and remanded the case to the District Court for further proceedings. At this time, the likely outcome of the case cannot be predicted, nor can a reasonable estimate of the amount of loss, if any, be made.

In June 2004, the U.S. Court of Appeals for the 11th Circuit affirmed the District Court s dismissal of most of the antitrust and state law claims brought by a plaintiff CLEC in a case captioned *Covad Communications Company, et al v. BellSouth Corporation, et al.* The appellate court, however, permitted a price squeeze claim and certain state tort claims to proceed. In November 2005, Covad dismissed with prejudice the civil action and then contemporaneously filed complaints with the public service commissions of Florida and Georgia and filed an informal complaint with the FCC. The commission complaints allege breaches of our interconnection contracts approved by the state commissions, including failure to provide collocation, mishandling of orders, ineffective support systems, and failure to provide unbundled loops. The complaints also allege

improper solicitation of Covad customers. These claims are similar to the claims raised in the civil action dismissed by Covad. The complaints seek credits and equitable relief. Covad has asked the state commissions to stay proceedings on its complaints pending resolutions of its FCC complaint. At this time, the likely outcome of the case cannot be predicted, nor can a reasonable estimate of the amount of loss, if any, be made.

Merger-related claims

On March 9, 2006, two putative class action lawsuits, entitled *Williams* v. *BellSouth Corporation, et al.*, Case No. 2006CV113858 (March 9, 2006) and *Jannett* v. *BellSouth Corporation, et al.*, Case No. 2006CV113861 (March 9, 2006), were filed against BellSouth and its directors in the Superior Court of Georgia, Fulton County. The complaints, which are substantially identical, purport to be brought on behalf of all BellSouth shareholders (excluding the defendants and their affiliates). The complaints allege that BellSouth s directors violated their fiduciary obligations to BellSouth s shareholders in approving the merger agreement. In that connection, the complaints allege that: (1) the merger consideration is inadequate and unfair in offering a very meager premium and not reflecting the intrinsic value of BellSouth; (2) the directors failed to properly inform themselves of BellSouth s value or its strategic alternatives because the proposed transaction is not the result of a pre-signing auction or market check process and the merger agreement does not provide a market check mechanism process; (3) the size of the termination fee, the no-shop and matching rights provisions of the merger agreement, which provides AT&T with information on any third party proposal but not

BELLSOUTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)

(Unaudited)

NOTE L - CONTINGENCIES (Continued)

information to a third party on any amended AT&T proposal, are impermissible steps to lock up the deal and will hinder and deter other potential acquirers from seeking to acquire BellSouth on better terms than the proposed merger; and (4) by agreeing to the merger, the BellSouth directors have served their own interests at the expense of shareholders, including the triggering of change in control agreements. The complaints seek various forms of relief, including injunctive relief that would, if granted, prevent the completion of the merger, unspecified compensatory damages, and attorneys fees and expenses. At this time, the likely outcome of the cases cannot be predicted, nor can a reasonable estimate of the amount of loss, if any, be made.

Other claims

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

NOTE M - SUBSIDIARY FINANCIAL INFORMATION

We have fully and unconditionally guaranteed all of the outstanding debt securities of BellSouth Telecommunications, Inc. (BST), which is a 100 percent owned subsidiary of BellSouth. In accordance with SEC rules, we are providing the following condensed consolidating financial information. BST is listed separately because it has debt securities, registered with the SEC, that we have guaranteed. The Other column represents all other wholly owned subsidiaries excluding BST and BST subsidiaries. The Adjustments column includes the necessary amounts to eliminate the intercompany balances and transactions between BST, Other and Parent and to consolidate wholly owned subsidiaries to reconcile to our consolidated financial information.

Condensed Consolidating Statements of Income

	For the Three Months Ended March 31, 2005				
	BST	Other	Parent	Adjustments	Total
Total operating revenues	$ 4,190	$ 1,711	$	$ (810)	$ 5,091
Total operating expenses	3,700	1,247	14	(1,222)	3,739
Operating income (loss)	490	464	(14)	412	1,352
Interest expense	118		225	(52)	291
Net earnings (losses) of equity affiliates	276	(78)	791	(1,069)	(80)
Other income (expense), net	(18)	48	57	(31)	56

Income (loss) from continuing operations before income taxes	630	434	609	(636)	1,037
Provision (benefit) for income taxes	121	148	(74)	159	354
Income (loss) from continuing operations	509	286	683	(795)	683
Income (loss) from discontinued operations, net of tax		381	381	(381)	381
Net income (loss)	$ 509	$ 667	$ 1,064	$ (1,176)	$ 1,064

	For the Three Months Ended March 31, 2006				
	BST	**Other**	**Parent**	**Adjustments**	**Total**
Total operating revenues	**$ 4,216**	**$ 1,896**	**$ -**	**$ (941)**	**$ 5,171**
Total operating expenses	**3,932**	**1,387**	**(64)**	**(1,330)**	**3,925**
Operating income (loss)	**284**	**509**	**64**	**389**	**1,246**
Interest expense	**147**	**8**	**233**	**(109)**	**279**
Net earnings (losses) of equity affiliates	**271**	**139**	**832**	**(1,103)**	**139**
Other income (expense), net	**2**	**50**	**71**	**(68)**	**55**
Income (loss) from continuing operations before income taxes	**410**	**690**	**734**	**(673)**	**1,161**
Provision (benefit) for income taxes	**37**	**231**	**(50)**	**159**	**377**
Net income (loss)	**$ 373**	**$ 459**	**$ 784**	**$ (832)**	**$ 784**

BELLSOUTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)

(Unaudited)

NOTE M - SUBSIDIARY FINANCIAL INFORMATION (Continued)

Condensed Consolidating Balance Sheets

	December 31, 2005					**March 31, 2006**				
	BST	Other	Parent	Adjust-ments	Total	**BST**	**Other**	**Parent**	**Adjust-ments**	**Total**
ASSETS										
Current assets:										
Cash and cash equivalents	$ 98	$ 141	$ 138	$ 50	$ 427	**$ 8**	**$ 143**	**$ 48**	**$ 48**	**$ 247**
Short-term investments								**54**		**54**
Accounts receivable, net	25	2,058	4,510	(4,038)	2,555	**59**	**1,415**	**3,983**	**(3,048)**	**2,409**
Other current assets	537	531	39	120	1,227	**606**	**638**	**25**	**125**	**1,394**
Total current assets	660	2,730	4,687	(3,868)	4,209	**673**	**2,196**	**4,110**	**(2,875)**	**4,104**
Investments in and advances to Cingular Wireless		21,069	205		21,274		**21,211**	**671**		**21,882**
Property, plant and equipment, net	21,045	644	3	31	21,723	**21,188**	**651**	**2**	**29**	**21,870**
Deferred charges and other assets	9,117	611	34,322	(36,236)	7,814	**9,302**	**625**	**35,258**	**(36,986)**	**8,199**
Intangible assets, net	1,040	400	3	90	1,533	**1,097**	**411**	**2**	**85**	**1,595**
Total assets	$ 31,862	$ 25,454	$ 39,220	$ (39,983)	$ 56,553	**$ 32,260**	**$ 25,094**	**$ 40,043**	**$ (39,747)**	**$ 57,650**
LIABILITIES AND SHAREHOLDERS EQUITY										
Current liabilities:										
Debt maturing within one year	$ 5,003	$ 270	$ 3,985	$ (5,149)	$ 4,109	**$ 4,156**	**$ 285**	**$ 4,072**	**$ (4,105)**	**$ 4,408**
Other current liabilities	3,307	1,437	1,113	(1,312)	4,545	**3,536**	**1,358**	**1,134**	**(1,301)**	**4,727**
Total current liabilities	8,310	1,707	5,098	(6,461)	8,654	**7,692**	**1,643**	**5,206**	**(5,406)**	**9,135**
Long-term debt	2,931	99	10,571	(522)	13,079	**2,916**	**97**	**10,558**	**(509)**	**13,062**
Noncurrent liabilities:										
Deferred income taxes	5,032	1,927	(574)	222	6,607	**4,946**	**1,939**	**(333)**	**175**	**6,727**
Other noncurrent liabilities	3,185	757	591	146	4,679	**3,216**	**742**	**527**	**156**	**4,641**
Total noncurrent liabilities	8,217	2,684	17	368	11,286	**8,162**	**2,681**	**194**	**331**	**11,368**
Shareholders equity	12,404	20,964	23,534	(33,368)	23,534	**13,490**	**20,673**	**24,085**	**(34,163)**	**24,085**
Total liabilities and shareholders equity	$ 31,862	$ 25,454	$ 39,220	$ (39,983)	$ 56,553	**$ 32,260**	**$ 25,094**	**$ 40,043**	**$ (39,747)**	**$ 57,650**

Condensed Consolidating Cash Flow Statements

	For the Three Months Ended March 31, 2005				
	BST	Other	Parent	Adjustments	Total
Cash flows from continuing operations:					
Cash flows from operating activities	$ 1,556	$ 373	$ 432	$ (669)	$ 1,692
Cash flows from investing activities	(716)	(207)	1,210	273	560
Cash flows from financing activities	(842)	(257)	(1,632)	430	(2,301)
Cash flows from discontinued operations		(115)			(115)
Net (decrease) increase in cash	$ (2)	$ (206)	$ 10	$ 34	$ (164)

	For the Three Months Ended March 31, 2006				
	BST	**Other**	**Parent**	**Adjustments**	**Total**
Cash flows from continuing operations:					
Cash flows from operating activities	**$ 1,330**	**$ 617**	**$ 565**	**$ (880)**	**$ 1,632**
Cash flows from investing activities	**(1,117)**	**(35)**	**(1,060)**	**399**	**(1,813)**
Cash flows from financing activities	**(303)**	**(580)**	**405**	**479**	**1**
Cash flows from discontinued operations					
Net (decrease) increase in cash	**$ (90)**	**$ 2**	**$ (90)**	**$ (2)**	**$ (180)**

Supplemental Data

	For the Three Months Ended March 31, 2005				
	BST	Other	Parent	Adjustments	Total
Depreciation and amortization expense	$ 845	$ 60	$ 1	$ 12	$ 918
Capital expenditures	$ 722	$ 22	$ 1	$ 5	$ 750

	For the Three Months Ended March 31, 2006				
	BST	**Other**	**Parent**	**Adjustments**	**Total**
Depreciation and amortization expense	**$ 820**	**$ 62**	**$ 1**	**$ 10**	**$ 893**
Capital expenditures	**$ 1,010**	**$ 70**	**$ --**	**$ 1**	**$ 1,081**

BELLSOUTH CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS

(Dollars in Millions, Except Per Share Amounts and as Otherwise Indicated)

For a more complete understanding of our industry, the drivers of our business and our current period results, you should read the following Management's Discussion and Analysis of Financial Condition and Results of Operations in conjunction with our annual report on Form 10-K for the year ended December 31, 2005 and our other filings with the SEC.

Overview

We are a Fortune 500 company with annual revenues of over $20 billion. Our core businesses are wireline and wireless communications and our largest customer segment is the retail consumer. We have interests in wireless communications through our ownership of 40 percent of Cingular Wireless, the nation s largest wireless company based on number of customers and revenue. We also operate one of the largest directory advertising businesses in the United States. The great majority of our revenues are generated based on monthly recurring services.

We operate much of our wireline business in one of the country s strongest regional economies, where the population is increasing, real income growth is outpacing the national average and a diverse mix of businesses require advanced information and communication technology solutions. The Southeast is a positive net migration region, with net migration averaging almost 500,000 annually. The region s real income growth is expected to exceed the national average over the next five years.

INDUSTRY DYNAMICS

Demand in the traditional voice business has been negatively impacted by the proliferation of wireless services led by one-rate pricing plans that include a large bucket of minutes and free roaming and long-distance, the popularity of e-mail and instant messaging, and technological advances such as broadband. After a period of significant growth in the 1990s, access lines, a key driver of our business, have declined steadily since 2001.

While the last mile connectivity to the customer remains essential, the communications industry is beginning a transition from a network-centric circuit-based infrastructure to an applications-centric IP infrastructure, which could create uncertainty around traditional business models. Further, industry consolidation, such as the recent combinations of SBC and AT&T, Verizon and MCI, and Sprint and Nextel, and the announced merger of BellSouth and AT&T, are creating large competitors with global reach and economies of scale.

Based on comparisons to penetration rates in other parts of the world, there is still significant growth potential in the wireless market in the United States. There are currently four national wireless companies engaging in aggressive competition in a growing market. The intense competition has driven down pricing, increased costs due to customer churn and increased wireless usage as companies attempt to differentiate their service plans. Meanwhile, significant capital is being invested in networks to meet increasing demand and to upgrade capabilities in anticipation of the development of new data applications.

REGULATION AND COMPETITION

Our core businesses are subject to regulation, and all of our businesses are subject to vigorous competition.

Changes to federal law in the early 1990s generally preempted states from regulating the market entry or rates of a wireless carrier, while allowing states to regulate other terms and conditions of wireless service. Wireless carriers are also subject to regulation by the Federal Communications Commission (FCC), which allocates and enforces the spectrum used by wireless carriers, and adopts and enforces other policies relating to wireless services.

Our wireline business is subject to dual state and federal regulation. The FCC has historically engaged in heavy regulation of our interstate services. In recent years, it has granted increasing pricing flexibility for our interstate telecommunications services because of the additional competition to which those services are subject, though nearly all of the services remain subject to tariffing requirements. Separately, in response to the Telecommunications Act of 1996, the FCC initially required us to share our network extensively with local service competitors, and prescribed a pricing policy (TELRIC) that has not permitted fair cost recovery. These sharing (unbundling) rules were invalidated by the courts on three separate occasions, but not before the invalid policies had been generally implemented in our contracts with competitors. In February 2005, the FCC issued rules that cut back significantly on some of the anticompetitive sharing requirements. The new rules essentially eliminated the unbundled network platform, or UNE-P, a combination of unbundled elements that replicate local service at unfairly low prices.

During 2005 and early 2006, we transitioned most former UNE-P customers to a similar platform service at commercially negotiated terms and prices. Our completion of the FCC-ordered phase out is being litigated before certain state commissions.

(Dollars in Millions, Except Per Share Amounts and as Otherwise Indicated)

The FCC provided additional relief when it released new broadband rules effective in November 2005 that responded to a recent U.S. Supreme Court decision. The new rules are designed to provide our high speed Internet access services with regulation equivalent to that of our competition, particularly cable modem providers. The new rules are scheduled to be fully phased in by the third quarter of 2006, although the FCC reserved the right to extend the transition.

The states in our region continue to exert economic regulation over much of the revenue generated by our traditional narrowband wireline telecommunications services, though that regulation has been lessening. During the past two years, state legislatures and state regulatory commissions have taken action that moved regulation toward equivalence with our telecommunications competitors by prohibiting state regulation of broadband services, rebalancing rates, and reducing regulation of service bundles.

Despite these successes, our wireline business remains more regulated than competing businesses that use cable, wireless or non-facilities based technologies. While we welcome the reforms, the transition of our wireline business regulation from the comprehensive, utility-like regulation of previous years to standard business regulation is not complete, and adjusting to each individual change requires significant management attention. We will accordingly continue to encourage regulatory reform in every appropriate forum.

Competition in the yellow pages industry continues to intensify. Major markets are seeing multiple competitors, with many different media competing for advertising revenue. We continue to respond to the increasing competition and the dynamic media environment with investments in product enhancements, multiple delivery options, local promotions, customer value plans, increased advertising and sales execution.

MERGERS, ACQUISITIONS AND DISPOSITIONS

On March 4, 2006, we agreed to merge with AT&T. In the merger, shareholders of BellSouth will receive 1.325 shares of AT&T common stock for each share of BellSouth common stock. The transaction has been approved by the Board of Directors of each company and must be approved by the shareowners of each company. The transaction is subject to review by the Department of Justice (DOJ) and approval by the FCC and various other regulatory authorities. We currently expect the transaction to close by the end of 2006. We expect the combined company will be a more effective and efficient provider in the wireless, broadband, video, voice and data markets. It will also put control of Cingular Wireless in one company.

Over the last 18 to 24 months, we completed the exit of our international operations and increased our investment in the wireless market through Cingular Wireless acquisition of AT&T Wireless. The addition of AT&T Wireless filled in Cingular Wireless national coverage footprint, added depth to its licensed spectrum position, and added size and scale to compete more effectively. Cingular Wireless new advertising campaigns combined with improvements in customer service and network coverage are driving customer loyalty and growth. Customer churn has reduced appreciably, integration efforts are well underway and cost synergies are contributing to margin expansion. This acquisition substantially increases BellSouth s participation in the wireless industry, bringing wireless to over 40 percent of our proportional revenues including Cingular Wireless. As Cingular completes its integration of AT&T Wireless and executes its strategy, we expect its contribution to BellSouth s earnings to increase.

HIGHLIGHTS AND OUTLOOK

Consolidated revenues, which do not include our share of Cingular, increased 1.6 percent in the first quarter of 2006 compared to the same quarter of 2005 driven by growth in both the Communications Group and Advertising & Publishing Group. Revenue growth in DSL and long distance as well as in electronic media and print services effectively offset revenue declines from residential and wholesale access line loss. We added a record 263,000 net new DSL customers during the first quarter of 2006 while 179,000 long distance customers were added. We served more than 3.1 million total DSL customers and nearly 7.4 million long distance customers at March 31, 2006.

Wireless substitution continued to drive access line losses in the first three months of 2006. Retail access lines were down 101,000, which included positive retail business line growth of 21,000. Wholesale access lines were down 137,000 compared to year-end 2005 influenced by the change in regulatory position towards UNE-P.

Our cost structure is heavily weighted towards labor and fixed asset related costs. We have adjusted our workforce due to shifts in market share of access lines. Since the beginning of 2001, we have reduced our domestic workforce by slightly more than 17,000 employees, or 22 percent. Further by the end of May 2006, we expect to have reduced our workforce by 1,300 employees in connection with a voluntary force reduction program. Excluding the impacts of hurricanes, we have improved wireline operating margins year-over-year. Sustaining our margins will require continued improvements in productivity to manage our costs as competition intensifies.

Operating cash flow from continuing operations of $1,632 for the first three months of 2006 was $60 lower than the same period in 2005. Capital expenditures were $1,081 for the first three months of 2006 and $750 for the first three months of 2005. The increase in capital expenditures was driven by accelerated broadband investments in infrastructure and

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systems and storm restoration efforts. Operating cash flows in 2006 will be negatively impacted by higher federal income tax payments as the timing of accelerated tax depreciation in recent years continues to reverse.

Cingular Wireless

Cingular Wireless added nearly 1.7 million net customers in the first quarter of 2006, bringing its nationwide customer base to 55.8 million customers. Customer churn of 1.9 percent in the first quarter of 2006 decreased 30 basis points compared to the same period in the prior year. Year-over-year revenue growth exceeded 9 percent driven by subscriber growth partially offset by a decline in average revenue per user (ARPU). Operating margin has been improving due to revenue growth and operating efficiencies from an improved acquisition cost structure, headcount reductions, systems rationalization and declining customer list amortization.

Consolidated Results of Operations

Key financial and operating data for BellSouth Corporation for the three months ended March 31, 2005 and 2006 are set forth below. All references to earnings per share are on a diluted basis. The discussion of consolidated results should be read in conjunction with the discussion of results by segment directly following this section.

Following Generally Accepted Accounting Principles (GAAP), we use the equity method of accounting for our investment in Cingular Wireless. We record and present our proportionate share of Cingular Wireless earnings as net earnings of equity affiliates in our consolidated income statements. Additionally, our financial statements reflect results for our former Latin American operations and other associated activities as Discontinued Operations.

	For the Three Months Ended March 31,		
	2005	**2006**	Percent Change
Results of operations:			
Operating revenues	$ 5,091	**$ 5,171**	1.6
Operating expenses			
Cost of services and products	1,920	**2,109**	9.8
Selling, general, and administrative expenses	894	**931**	4.1
Depreciation and amortization	918	**893**	(2.7)
Provisions (credits) for restructuring	7	**(8)**	*
Total operating expenses	3,739	**3,925**	5.0
Operating income	1,352	**1,246**	(7.8)
Interest expense	291	**279**	(4.1)
Net (losses) earnings of equity affiliates	(80)	**139**	*
Other income (expense), net	56	**55**	(1.8)
Income from continuing operations before income taxes	1,037	**1,161**	12.0
Provision for income taxes	354	**377**	6.5
Income from continuing operations	683	**784**	14.8
Income from discontinued operations, net of tax	381		*
Net income	$ 1,064	**$ 784**	(26.3)

* Not meaningful

Operating revenues

Consolidated operating revenues increased $80 in the first quarter of 2006 compared to the same period in 2005 reflecting growth in DSL, long distance and electronic media and print services. These increases were partially offset by the impact of revenue declines associated with competitive access line losses in the retail and wholesale sectors. Combined revenues from DSL and long distance increased $150 in the first quarter compared to the same period last year. Electronic media and print revenues were $15 higher year over year. Access line-related revenues declined $78 year over year.

Revenue trends are discussed in more detail in the Communications Group and Advertising & Publishing Group segment results sections.

Operating expenses

Total operating expenses increased $186 in the first quarter of 2006 compared to the same period of the prior year. Expenses were significantly impacted by $171 of incremental service restoration and network repair costs from damage caused by Hurricanes Katrina and Wilma. A long distance volume-driven increase of $18 also contributed to the year-over-year growth as well as $20 of higher expenses primarily related to the Advertising & Publishing Group s expanding electronic media business and new print offers. The year-over-year operating expense comparison benefited from $25 lower depreciation and amortization associated with reduced depreciation rates and a $15 decline associated with accruals for workforce reduction activity.

(Dollars in Millions, Except Per Share Amounts and as Otherwise Indicated)

Operating expense trends are discussed in more detail in the Communications Group and Advertising & Publishing Group segment results sections.

Interest expense

	For the Three Months Ended March 31,		
	2005	**2006**	Change
Interest expense debt	$263	**$ 252**	(11)
Interest expense other	28	**27**	(1)
Total interest	$291	**$ 279**	(12)
Average debt balances	$ 19,644	**$ 17,384**	(2,260)
Effective rate	5.4%	**5.8%**	40 bps

Interest expense associated with interest-bearing debt was lower in the first quarter of 2006 compared to the same period in the prior year. This was primarily the result of lower average debt balances, partially offset by higher interest rates on variable rate debt. The higher average debt balances in the first quarter of 2005 were due to the incremental borrowings in late 2004 associated with our equity contributions to Cingular to fund its acquisition of AT&T Wireless.

Net earnings (losses) of equity affiliates

	For the Three Months Ended March 31,		
	2005	**2006**	Change
Cingular Wireless	$ (94)	**$ 142**	$ 236
Other equity investees	14	**(3)**	(17)
Total	$ (80)	**$ 139**	$ 219

The increase in earnings from Cingular Wireless in 2006 was attributable to growth in the customer base and merger synergies associated with its increased scale and integration of the former AT&T Wireless operations. See the Wireless segment results section for a further discussion of operational drivers. The decline in earnings from other equity investees is due to the sale of our interest in Cellcom in the third quarter of 2005.

Other income (expense), net

For the Three Months

	Ended March 31,		
	2005	**2006**	Change
Interest income	$ 4	**$ 5**	$ 1
Interest income on advances to Cingular	59	**43**	(16)
Loss on early extinguishment of debt	(22)		22
Other, net	15	**7**	(8)
Total other income (expense), net	$ 56	**$ 55**	$ (1)

The decline in interest on advances to Cingular was attributable to principal repayments. Interest income on advances to Cingular is offset by a like amount of interest expense recorded by Cingular and reported in our financial statements in the caption Net earnings (losses) of equity affiliates.

Provision for income taxes

	For the Three Months Ended March 31,		
	2005	**2006**	Change
Provision for income taxes	$ 354	**$ 377**	$ 23
Effective tax rate	34.1%	**32.5%**	(160 bps)

The lower effective rate in the first quarter of 2006 reflects the benefit of a dividends received deduction related to our investment in Cingular, release of a valuation allowance against state net operating losses and a tax benefit recorded in connection with production activities conducted within the US.

Income from discontinued operations, net of tax

In the first quarter of 2005, we sold the final two of the ten Latin American properties, which resulted in a $390 gain, net of tax.

(Dollars in Millions, Except Per Share Amounts and as Otherwise Indicated)

Results by Segment

Our reportable segments reflect strategic business units that offer similar products and services and/or serve similar customers. We have three reportable operating segments:

- Communications Group;
- Wireless; and
- Advertising & Publishing Group.

The Company s chief decision makers evaluate the performance of each business unit based on net income, exclusive of internal charges for use of intellectual property and adjustments for unusual items that may arise. Unusual items are transactions or events that are included in reported consolidated results but are excluded from segment results due to their nonrecurring or nonoperational nature. Such items are listed in the table of summary results for each segment. In addition, when changes in our business affect the comparability of current versus historical results, we adjust historical operating information to reflect the current business structure. See Note J to our consolidated financial statements for a reconciliation of segment results to the consolidated financial information.

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

Communications Group

The Communications Group is our core domestic business and it includes all domestic wireline voice, data, broadband, long distance, Internet services and advanced voice features. The Communications Group provides these services to an array of customers, including residential, business and wholesale.

BellSouth continues to focus its marketing on long distance and BellSouth® FastAccess® DSL, encouraging customers to purchase packages containing multiple telecommunications services. We also continue to experience access line market share loss due to competition and technology substitution, and we expect these overall trends to continue throughout 2006.

	For the Three Months Ended March 31,		
	2005	**2006**	Percent Change
Segment operating revenues:			
Voice	$ 3,154	**$ 3,129**	(0.8)

Data	1,160	**1,264**	9.0
Other	304	**286**	(5.9)
Total segment operating revenues	4,618	**4,679**	1.3
Segment operating expenses:			
Cost of services and products	1,853	**1,946**	5.0
Selling, general, and administrative expenses	738	**742**	0.5
Depreciation and amortization	910	**886**	(2.6)
Total segment operating expenses	3,501	**3,574**	2.1
Segment operating income	1,117	**1,105**	(1.1)
Segment net income			

(c) In connection with and without limiting the generality of Section 5.03(a) and subject to Section 5.03(e), each of the Company and Parent shall, and, to the extent applicable, the Company shall cause its Subsidiaries and Parent shall cause NV, PLC and their respective Subsidiaries to:

(i) duly and promptly file (A) with the U.S. Federal Trade Commission and the Antitrust Division of the Department of Justice the notification and report form (the HSR Filing) required under the HSR Act with respect to the transactions contemplated by this Agreement and (B) in any other jurisdiction where a registration, declaration, notice or filing may be necessary or advisable (including the jurisdictions set forth on Annex II) the appropriate registration, declaration, notice or filing, in each case as promptly as practicable and in substantial compliance with the requirements of the HSR Act and any other applicable law;

(ii) promptly provide any supplemental information requested by a Governmental Entity, including participating in meetings with officials thereof in the course of its review of this Agreement, the Merger or the other transactions contemplated hereby;

(iii) cooperate with the other party to the extent necessary to assist the other party in the preparation of its HSR Filing and, if requested, to promptly amend or furnish additional information thereunder;

(iv) cooperate with the other party to determine whether any filings are required to be made with, or consents, waivers or approvals are required to be obtained from, any Governmental Entities or other third parties;

(v) use its reasonable best efforts to furnish to the other party as promptly as practicable all assistance, cooperation and information required for any registration, declaration, notice or filing described in this Section 5.03(c) and in order to achieve the effects set forth in Section 5.03(b);

(vi) give the other party reasonable prior notice of any registration, declaration, notice or filing and, to the extent reasonably practicable, of any communication with any Governmental Entity regarding the Merger (including with respect to any of the actions referred to in Section 5.03(b) and in this Section 5.03(c)), and permit the other party to review and discuss in advance, and consider in good faith the views of, and use reasonable best efforts to secure the participation of, the other party in connection with any such registration, declaration, notice, filing or communication; and

(vii) unless prohibited by applicable law or by the applicable Governmental Entity, (A) to the extent reasonably practicable, allow the other party or persons nominated by such other party (including such other

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party s outside counsel) to participate in or attend any meeting, or engage in any substantive conversation, with any Governmental Entity in respect of the Merger (including with respect to any of the actions referred to in Section 5.03(b) and in this Section 5.03(c)), (B) to the extent reasonably practicable, give the other party reasonable prior notice of any such meeting or conversation, (C) in the event one party is prohibited by applicable law or by the applicable Governmental Entity from participating in or attending any such meeting, or engaging in any such conversation, keep such party reasonably apprised with respect thereto, (D) cooperate in the filing of any substantive memoranda, white papers, filings, correspondence or other written communications explaining or defending this Agreement and the Merger, articulating any regulatory or competitive argument or responding to requests or objections made by any Governmental Entity and (E) furnish the other party with copies of all correspondence, filings and communications (and memoranda setting forth the substance thereof) between it and its Affiliates and its and their respective Representatives, on the one hand, and any Governmental Entity or members of any Governmental Entity s staff, on the other hand, with respect to this Agreement and the Merger.

(d) The Company and its Board of Directors shall (1) take all action necessary to ensure that no state takeover statute or similar statute or regulation is or becomes applicable to this Agreement, the Merger or any of the other transactions contemplated by this Agreement and (2) if any state takeover statute or similar statute becomes applicable to this Agreement, the Merger or any of the other transactions contemplated by this Agreement, take all action necessary to ensure that the Merger and the other transactions contemplated by this Agreement may be consummated as promptly as practicable on the terms contemplated by this Agreement and otherwise to minimize the effect of such statute or regulation on this Agreement, the Merger and the other transactions contemplated by this Agreement.

(e) Notwithstanding anything else contained herein, the provisions of this Section 5.03 shall not be construed to (i) require Parent or any of its Affiliates or (ii) permit the Company or any of its Affiliates without the prior written consent of Parent, to undertake any efforts or to take any action if the taking of such efforts or action would or would reasonably be expected to result in a Substantial Detriment; provided, however, that reasonable best efforts of Parent under this Section 5.03 shall include agreeing to requirements to dispose of or hold separate brands of the Company, Parent or any of their respective Affiliates and assets primarily related to such brands that do not constitute a Substantial Detriment.

SECTION 5.04. Company Stock Options; Company Restricted Shares; Company Performance Units. (a) As soon as practicable following the date of this Agreement, the Board of Directors of the Company (or, if appropriate, any committee thereof administering the Company Stock Plans) shall adopt such resolutions or take such other actions as may be required to effect the following:

(i) at the Effective Time, each outstanding Company Stock Option, whether vested or unvested, shall be cancelled and the holder thereof shall then be entitled, and have a fully vested right, to receive in consideration for such cancellation an amount in cash equal to the product of (A) the number of shares of Company Common Stock that

are subject to such Company Stock Option immediately prior to the Effective Time and (B) the excess, if any, of the Merger Consideration over the exercise price per share of Company Common Stock subject to such Company Stock Option;

(ii) at the Effective Time, each Company Restricted Share outstanding immediately prior to the Effective Time will be converted into the fully vested right to receive the Merger Consideration pursuant to Section 2.01(c);

(iii) at the Effective Time, each outstanding Company Performance Unit will be converted into an amount in cash equal to $1,000, multiplied by a fraction, (A) the numerator of which is the number of full calendar months during the applicable performance period that have elapsed prior to the Effective Time, provided that if at least six full calendar months of the Company's fiscal year have elapsed prior to the Effective Time, then all calendar months during such fiscal year will be deemed to have elapsed prior to the Effective Time, and (B) the denominator of which is the total number of months during the applicable

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performance period; provided, however, that, in accordance with the terms of the Company SVI Plan, any such payments described in this Section 5.04(a)(iii) will be reduced to the extent that they, when combined with any other payments, benefits or other economic entitlements to the recipient, would cause the recipient to be subject to the excise tax under Section 4999 of the Code;

(iv) at the Effective Time, all Company Common Stock units credited to the account of each Participant under the Company s Deferred Compensation Plans for Non-Employee Directors shall be converted into the right to receive a cash payment in an amount equal to the product of (A) the number of such Company Common Stock units credited to such account and (B) the Merger Consideration, and such payment shall be made in accordance with the terms of such plans; and

(v) make such other changes to the Company Stock Plans as the Company and Parent may agree are appropriate to give effect to the Merger.

(b) All amounts payable pursuant to Section 5.04(a) shall be subject to any required withholding of taxes and shall be paid without interest as soon as practicable following the Effective Time.

(c) The Company shall ensure that following the Effective Time, no holder of a Company Stock Option, Company Restricted Share, Company Performance Unit or Company Stock-Based Award (or former holder of a Company Stock Option, Company Restricted Share, Company Performance Unit or Company Stock-Based Award) or any current or former participant in any Company Stock Plan, Company Benefit Plan or Company Benefit Agreement shall have any right thereunder to acquire any shares of capital stock or voting securities of, or other equity interests (including phantom stock or stock appreciation rights) in, the Company, the Surviving Corporation or any of their Subsidiaries.

(d) Prior to the Effective Time, the Company shall take all actions necessary in order to cause any dispositions of shares of Company Common Stock (including derivative securities with respect to shares of Company Common Stock) resulting from the transactions contemplated by this Agreement by each individual who is subject to the reporting requirements of Section 16(a) of the Exchange Act with respect to the Company to be exempt under Rule 16b-3 promulgated under the Exchange Act.

SECTION 5.05. Indemnification; Advancement of Expenses; Exculpation and Insurance. (a) Parent shall cause the Surviving Corporation to assume the obligations with respect to all rights to indemnification, advancement of expenses and exculpation from liabilities for acts or omissions occurring at or prior to the Effective Time now existing in favor of the current or former directors or officers of the Company as provided in the Company Certificate and the Company Bylaws (in each case, as in effect on the date of this Agreement), without further action, as of the Effective Time and such obligations shall survive the Merger and shall continue in full force and effect in accordance with their terms.

(b) In the event that the Surviving Corporation or any of its successors or assigns (i) consolidates with or merges into any other person and is not the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfers or conveys all or substantially all of its properties and other assets to any person, then, and in each such case, Parent shall cause proper provision to be made so that the successors and assigns of the Surviving Corporation shall expressly assume the obligations set forth in this Section 5.05.

(c) Prior to the Effective Time, the Company shall obtain and fully pay the premium for the extension of the Company s current directors and officers liability insurance policies (complete and accurate copies of which have been heretofore made available to Parent) (the Existing D&O Policy) in respect of acts or omissions occurring at or prior to the Effective Time, covering each person currently covered by the Existing D&O Policy for a period of six years after the Effective Time, on terms with respect to such coverage (including as coverage relates to deductibles and exclusions) and amounts no less favorable to such persons than those of the Existing D&O Policy; provided that the Company shall not be permitted to pay more than $2,500,000 in the aggregate to obtain such coverage. If the Company shall fail to obtain such extension of the Existing D&O

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Policy, Parent or one of its Affiliates shall maintain the Existing D&O Policy for a period of six years after the Effective Time; provided that Parent or one of its Affiliates may (i) substitute therefor policies of Parent or one of its Affiliates or (ii) obtain such extended reporting period coverage through a tail insurance policy (to be effective as of the Effective Time), in each case containing terms with respect to coverage (including as coverage relates to deductibles and exclusions) and amounts no less favorable to such directors and officers from an insurance carrier with the same or better credit rating than the carrier of the Existing D&O Policy as the date of this Agreement.

(d) Notwithstanding anything to the contrary in Section 5.05(c), Parent or its Affiliate shall not be obligated to pay in the aggregate an annual premium for insurance that exceeds 150% of the annual premiums payable by the Company for coverage during calendar year 2009 under the Existing D&O Policy (which premiums for such year are set forth in Section 5.05(d) of the Company Disclosure Schedule). It is understood and agreed that in the event the annual premium for the coverage set forth in Section 5.05(c) would at any time exceed such 150% amount, Parent or its Affiliate shall be obligated to provide the maximum available coverage as may be obtained for such 150% amount from an insurance carrier with the same or better credit rating than the carrier of the Existing D&O Policy as of the date of this Agreement.

(e) The provisions of this Section 5.05 (i) are intended to be for the benefit of, and will be enforceable by, each indemnified party, his or her heirs and his or her representatives and (ii) are in addition to, and not in substitution for, any other rights to indemnification or contribution that any such person may have by contract or otherwise.

SECTION 5.06. Fees and Expenses. (a) Except as provided in paragraphs (b) and (c) of this Section 5.06, all fees and expenses incurred in connection with this Agreement, the Merger and the other transactions contemplated by this Agreement shall be paid by the party incurring such fees or expenses, whether or not the Merger is consummated.

(b) In the event that (i) this Agreement is terminated by (A) Parent pursuant to Section 7.01(e) or (B) the Company pursuant to 7.01(f) or (ii) (A) on or after the date of this Agreement and prior to the obtaining of the Stockholder Approval, a Takeover Proposal shall have been made to the Company or shall have been made directly to the stockholders of the Company generally or shall have otherwise become publicly known or any person shall have publicly announced an intention to make a Takeover Proposal, (B) thereafter this Agreement is terminated by (1) either Parent or the Company pursuant to Section 7.01(b)(i) (but only if a vote to obtain the Stockholder Approval or the Stockholders Meeting has not been held) or Section 7.01(b)(iii) or (2) Parent pursuant to Section 7.01(c)(i) and (C) within 15 months after such termination, the Company enters into a Contract to consummate, or consummates, any Acquisition Transaction, then the Company shall pay Parent a termination fee equal to $125,000,000 by wire transfer of same-day funds (x) in the case of a payment required by clause (i)(A) above, on the first business day following the date of termination of this Agreement, (y) in the case of a payment required by clause (i)(B) above, immediately upon the termination of this Agreement and (z) in the case of a payment required

by clause (ii) above, on the date of the first to occur of the events referred to in clause (ii)(C).

(c) In the event that (i) this Agreement is terminated by (A) Parent or the Company pursuant to Section 7.01(b)(i) or 7.01(b)(ii) (in the case of Section 7.01(b)(ii), as a result of any Restraint arising under any competition, merger control, antitrust or similar law or regulation), (B) the Company pursuant to Section 7.01(d) or (C) Parent pursuant to Section 7.01(c)(ii) and (ii) as of the date of termination, (A) the condition set forth in Section 6.01(b) or Section 6.01(c) (in the case of Section 6.01(c), as a result of any Restraint or any pending or threatened suit, action or proceeding by any Governmental Entity, in each case arising under any competition, merger control, antitrust or similar law or regulation) has not been satisfied and (B) all other conditions to Closing shall have been satisfied or waived (or, in the case of conditions that by their nature are to be satisfied at the Closing, shall be capable of being satisfied on such date), then Parent shall pay the Company a termination fee equal to $125,000,000 by wire transfer of same-day funds on the second business day following the date of termination of this Agreement.

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(d) The Company and Parent acknowledge and agree that the agreements contained in Sections 5.06(b) and 5.06(c) are an integral part of the transactions contemplated by this Agreement and that, without these agreements, the Company and Parent would not enter into this Agreement; accordingly, if either party fails promptly to pay the amount due pursuant to Sections 5.06(b) and 5.06(c) and, in order to obtain such payment, the other party commences a suit that results in a judgment against such non-paying party for the applicable termination fee, such non-paying party shall pay to such other party its costs and expenses (including attorneys fees and expenses) in connection with such suit, together with interest on the amount of the applicable termination fee from the date such payment was required to be made until the date of payment at the prime rate of JPMorgan Chase Bank, N.A. in effect on the date such payment was required to be made.

SECTION 5.07. Public Announcements. Except with respect to any Company Adverse Recommendation Change made in accordance with the terms of this Agreement, Parent and the Company shall consult with each other before issuing, and give each other the opportunity to review and comment upon, any press release or other public statements with respect to the transactions contemplated by this Agreement, including the Merger, and shall not issue any such press release or make any such public statement prior to such consultation, except as such party may reasonably conclude may be required by applicable law, court process or by obligations pursuant to any listing agreement with any domestic or foreign national securities exchange or domestic or foreign national securities quotation system. The parties agree that all formal Company employee communication programs or announcements with respect to the transactions contemplated by this Agreement shall be in the forms mutually agreed to by the parties (such agreement not to be unreasonably withheld or delayed). The parties agree that the initial press release to be issued with respect to the transactions contemplated by this Agreement shall be in the form heretofore agreed to by the parties.

SECTION 5.08. Stockholder Litigation. The Company shall give Parent the opportunity to participate in the defense or settlement of any stockholder litigation against the Company or its directors relating to the transactions contemplated by this Agreement, and no such settlement shall be agreed to without Parent s prior written consent, which consent shall not be unreasonably withheld or delayed.

SECTION 5.09. Employee Matters. (a) From the Effective Time through the first anniversary of the Effective Time, each employee of the Company or any of its Subsidiaries (but excluding those employees covered by any applicable collective bargaining agreement) who remains in the employment of the Surviving Corporation, Parent or any of their respective Affiliates (each, a Continuing Employee) shall receive (i) base compensation that is not less than the base compensation paid to such Continuing Employee immediately prior to the Effective Time, (ii) bonus and equity compensation opportunities under annual, long-term and other bonus and incentive plans that are no less favorable in the aggregate than the bonus and equity compensation opportunities provided to similarly situated employees of Parent and (iii) employee benefits (other than bonus and equity compensation opportunities) that are no less favorable in the aggregate than the employee benefits (other than bonus and equity compensation

opportunities) provided to such Continuing Employee immediately prior to the Effective Time; provided that, except as provided in clause (ii), none of Parent and its Affiliates and the Surviving Corporation and its Subsidiaries shall have any obligation to issue, or adopt any plans or arrangements providing for the issuance of, (A) shares of capital stock or voting securities of, or other equity interests in, any entity, (B) warrants, options, stock appreciation rights or other rights in respect of such shares of capital stock, voting securities or other equity interests or (C) securities convertible or exchangeable into such shares of capital stock, voting securities or other equity interests pursuant to any such plans or arrangements.

(b) Parent shall, and shall cause the Surviving Corporation and the Affiliates of Parent and the Surviving Corporation, to recognize the service of each Continuing Employee as if such service had been performed with Parent, the Surviving Corporation or such Affiliates for all purposes (including eligibility, participation, vesting and benefit accrual (other than under a defined benefit pension plan)) under each employee benefit plan, policy, program, arrangement or agreement of Parent, the Surviving Corporation or such Affiliates solely to the extent that Parent, the Surviving Corporation or such Affiliates make such plan, policy, program, arrangement or agreement available to such Continuing Employee and except as would result in any duplication of benefits for the same period of service.

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(c) With respect to any welfare plan maintained by Parent and its Affiliates in which Continuing Employees are eligible to participate after the Effective Time, Parent and its Affiliates shall, and Parent shall cause the Surviving Corporation to, (i) use reasonable best efforts to waive all limitations as to preexisting conditions and exclusions with respect to participation and coverage requirements applicable to such employees to the extent such conditions and exclusions were satisfied or did not apply to such employees under the welfare plans of the Company and its Subsidiaries prior to the Effective Time and (ii) provide each Continuing Employee with credit for any co-payments and deductibles paid prior to the Effective Time in satisfying any analogous deductible or out-of-pocket requirements to the extent applicable under any such plan.

(d) With respect to the employees of the Company or any of its Subsidiaries who are employed primarily outside the United States, following the Effective Time, Parent and its Affiliates will provide such employees with employee benefits in accordance with applicable law.

(e) With respect to the employees of the Company or any of its Subsidiaries who are covered by an applicable collective bargaining agreement, Parent and its Affiliates will provide such employees with employee benefits in accordance with the applicable collective bargaining agreement.

(f) Parent shall, and shall cause the Surviving Corporation and the Affiliates of Parent and the Surviving Corporation to, honor all Company Benefit Plans and Company Benefit Agreements. Notwithstanding the foregoing, within ten days following the Effective Time, Parent shall, or shall cause the Surviving Corporation to, pay to each participant in the Company Management Bonus Plan an amount equal to the sum of (i) such participant s annual bonus earned under the Company Management Bonus Plan for the Company s last fiscal year that ended prior to the Effective Time (to the extent such bonus has not been paid as of the Effective Time) and (ii) a bonus under the Company Management Bonus Plan for the Company s fiscal year during which the Effective Time occurs, prorated to take into account the portion of such fiscal year occurring prior to the Effective Time.

(g) Without limiting the scope of Section 8.07, no provision of this Section 5.09 shall create any third-party beneficiary rights in any employee or former employee (including any beneficiary or dependent thereof) of the Company or any of its Subsidiaries in any respect, including in respect of continued employment (or resumed employment) with Parent, the Surviving Corporation or its Subsidiaries or any other Affiliates of Parent, and no provision of this Section 5.09 shall create such rights in any such persons in respect of any benefits that may be provided, directly or indirectly, under any Company Benefit Plan, Company Benefit Agreement or any employee program or any plan or arrangement of Parent or any of its Affiliates. No provision of this Agreement shall constitute a limitation on the rights to amend, modify or terminate after the Effective Time any such plans or arrangements of Parent, the Company or its Subsidiaries or any other Affiliates of Parent in accordance with the terms of such plans or arrangements.

SECTION 5.10. NV and PLC Guarantee. NV and PLC hereby, jointly and severally, irrevocably, absolutely and unconditionally guarantee to the Company the prompt and complete performance when and as due of (a) the obligations of Parent set forth in Section 5.03 and (b) all monetary obligations of Parent and Sub under this Agreement (the Guarantee). Each of NV and PLC represent that (i) it has all requisite power and authority to undertake the Guarantee, (ii) the Guarantee has been duly authorized by all necessary corporate action on the part of NV and PLC and no other corporate proceedings on the part of NV or PLC are necessary to authorize the Guarantee, (iii) the Guarantee does not require approval of the holders of any shares of capital stock or voting securities of, or other equity interests in, NV or PLC, (iv) the Guarantee has been duly executed and delivered by each of NV and PLC and, assuming the due authorization, execution and delivery of this Agreement by Parent, the Company and Sub, the Guarantee constitutes a legal, valid and binding obligation of each of NV and PLC, enforceable against NV or PLC, as applicable, in accordance with its terms, subject to bankruptcy, insolvency, moratorium, reorganization or similar laws affecting the rights of creditors generally and the availability of equitable remedies and (v) the Guarantee does not conflict with, or result in any violation or breach of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of, or result in, termination,

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cancellation or acceleration of any obligation, any obligation to make an offer to purchase or redeem any indebtedness or shares of capital stock, voting securities or other equity interests or any loss of a benefit under, or result in the creation of any Lien in or upon any of the properties or other assets of NV or PLC under, (A) the organizational documents of NV or PLC, (B) any Contract to which NV or PLC is a party or any of their respective properties or other assets is subject or (C) any (1) statute, law, ordinance, rule or regulation applicable to NV or PLC or their respective properties or other assets or (2) order, writ, injunction, decree, judgment or stipulation, in each case applicable to NV or PLC or their respective properties or other assets, other than, in the case of clauses (B) and (C), any such conflicts, violations, breaches, defaults, rights, losses or Liens that individually or in the aggregate have not had and would not reasonably be expected to have a material adverse effect on the ability of NV or PLC to perform the Guarantee.

ARTICLE VI

Conditions Precedent

SECTION 6.01. Conditions to Each Party s Obligation to Effect the Merger. The respective obligation of each party to effect the Merger is subject to the satisfaction or (to the extent permitted by law) waiver on or prior to the Closing Date of the following conditions:

(a) Stockholder Approval. The Stockholder Approval shall have been obtained.

(b) Antitrust. The waiting period (and any extension thereof) applicable to the Merger under the HSR Act and any agreement with any Governmental Entity not to consummate the Merger shall have been terminated or shall have expired, and all waivers, consents, approvals and waiting periods under any competition, merger control, antitrust or similar law or regulation in each jurisdiction set forth in Annex II and as may be necessary in any other jurisdiction shall have been obtained, expired or been terminated, as applicable.

(c) No Consummation Restraints. No temporary restraining order, preliminary or permanent injunction or other judgment or order issued by any court of competent jurisdiction or other statute, law, rule, legal restraint or prohibition (collectively, Restraints) shall be in effect that would, and there shall not be pending or threatened any suit, action or proceeding by any Governmental Entity that would reasonably be expected to, prevent, make illegal or prohibit the consummation of the Merger.

SECTION 6.02. Conditions to Obligations of Parent and Sub. The obligations of Parent and Sub to effect the Merger are further subject to the satisfaction or (to the extent permitted by law) waiver by Parent on or prior to the Closing Date of the following conditions:

(a) Representations and Warranties. The representations and warranties of the Company contained in (i) Section 3.01(g)(i) shall be true and correct, (ii) Sections 3.01(b), 3.01(c)(i), 3.01(c)(ii), 3.01(c)(iv), 3.01(d)(i), 3.01(q), 3.01(r) and 3.01(s), disregarding any exception or qualification as to materiality or Company Material Adverse Effect, shall be true and correct in all material respects and (iii) this

Agreement (other than those referenced in the immediately preceding clauses (i) and (ii)), disregarding any exception or qualification as to materiality or Company Material Adverse Effect, shall be true and correct, except where the failure to be so true and correct individually or in the aggregate has not had and would not reasonably be expected to have a Company Material Adverse Effect, in each case as of the date of this Agreement and as of the Closing Date as though made on the Closing Date, except to the extent such representations and warranties are expressly made as of an earlier date, in which case as of such earlier date. Parent shall have received a certificate signed on behalf of the Company by the chief executive officer and the chief financial officer of the Company to such effect.

(b) Performance of Obligations of the Company. The Company shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Closing Date, and Parent shall have received a certificate signed on behalf of the Company by the chief executive officer and the chief financial officer of the Company to such effect.

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(c) No Ownership or Operation Restraints. No Restraint shall be in effect, and there shall not be pending or threatened any suit, action or proceeding by any Governmental Entity, that would reasonably be expected to result in a Substantial Detriment.

SECTION 6.03. Conditions to Obligation of the Company. The obligation of the Company to effect the Merger is further subject to the satisfaction or (to the extent permitted by law) waiver by the Company on or prior to the Closing Date of the following conditions:

(a) Representations and Warranties. The representations and warranties of Parent and Sub contained in (i) Sections 3.02(b)(i) and 3.02(f) shall be true and correct in all material respects and (ii) this Agreement (other than those referenced in the immediately preceding clause (i)), disregarding any exception or qualification as to materiality or Parent Material Adverse Effect, shall be true and correct, except where the failure to be so true and correct individually or in the aggregate has not had and would not reasonably be expected to have a Parent Material Adverse Effect, in each case as of the date of this Agreement and as of the Closing Date as though made on the Closing Date, except to the extent such representations and warranties are expressly made as of an earlier date, in which case as of such earlier date. The Company shall have received a certificate signed on behalf of Parent by the chief executive officer and the chief financial officer of Parent to such effect.

(b) Performance of Obligations of Parent and Sub. Parent and Sub shall have performed in all material respects all obligations required to be performed by them under this Agreement at or prior to the Closing Date, and the Company shall have received a certificate signed on behalf of Parent by the chief executive officer and the chief financial officer of Parent to such effect.

ARTICLE VII

Termination, Amendment and Waiver

SECTION 7.01. Termination. This Agreement may be terminated at any time prior to the Effective Time, whether before or after receipt of the Stockholder Approval:

(a) by mutual written consent of Parent and the Company;

(b) by either Parent or the Company:

(i) if the Merger shall not have been consummated on or before the End Date; provided, however, that the right to terminate this Agreement under this Section 7.01(b)(i) shall not be available to any party if such failure of the Merger to occur on or before the End Date is the result of such party having breached or failed to perform any of its representations, warranties, covenants or agreements set forth in this Agreement;

(ii) if any Restraint having the permanent effect set forth in Section 6.01(c) shall be in effect and shall have become final and nonappealable; or

(iii) if the Stockholder Approval shall not have been obtained at the Stockholders Meeting duly convened therefor (unless such Stockholders Meeting has been adjourned, in which case at the final adjournment thereof);

(c) by Parent (i) if the Company shall have breached or failed to perform any of its representations, warranties, covenants or agreements set forth in this Agreement, which breach or failure to perform (A) would give rise to the failure of a condition set forth in Section 6.02(a) or 6.02(b) and (B) is incapable of being cured, or is not cured, by the Company within 30 calendar days following receipt of written notice of such breach or failure to perform from Parent (provided that Parent or Merger Sub has not breached or failed to perform any of its representations, warranties, covenants or agreements set forth in this Agreement such that the conditions set forth in Section 6.03(a) or 6.03(b) could not then be satisfied) or (ii) if any Restraint having the permanent effect set forth in Section 6.02(c) shall be in effect and shall have become final and nonappealable;

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(d) by the Company, if Parent shall have breached or failed to perform any of its representations, warranties, covenants or agreements set forth in this Agreement, which breach or failure to perform (A) would give rise to the failure of a condition set forth in Section 6.03(a) or 6.03(b) and (B) is incapable of being cured, or is not cured, by Parent within 30 calendar days following receipt of written notice of such breach or failure to perform from the Company (provided that the Company has not breached or failed to perform any of its representations, warranties, covenants or agreements set forth in this Agreement such that the conditions set forth in Section 6.02(a) or 6.02(b) could not then be satisfied);

(e) by Parent, if (i) a Company Adverse Recommendation Change shall have occurred, (ii) the Board of Directors of the Company fails publicly to reaffirm its recommendation of this Agreement, the Merger or the other transactions contemplated by this Agreement within 10 business days of receipt of a written request by Parent to provide such reaffirmation following a publicly known Takeover Proposal or (iii) the Company shall have entered into a definitive agreement with respect to a Superior Proposal; or

(f) by the Company, in accordance with the provisions of Section 4.02(b)(iii) (provided that the Company has complied with all of the requirements of Section 4.02(b)(iii)).

SECTION 7.02. Effect of Termination. In the event of termination of this Agreement by either the Company or Parent as provided in Section 7.01, this Agreement shall forthwith become void and have no effect, without any liability or obligation on the part of Parent, Sub or the Company under this Agreement, other than the provisions of Section 3.01(s), the penultimate sentence of Section 5.02, Section 5.06, this Section 7.02 and Article VIII, which provisions shall survive such termination, and except in the case of fraud by a party or the willful breach by a party of any of its representations, warranties, covenants or agreements set forth in this Agreement.

SECTION 7.03. Amendment. This Agreement may be amended by the parties hereto at any time before or after receipt of the Stockholder Approval; provided, however, that after receipt of the Stockholder Approval, there shall be made no amendment that by law requires further approval by the stockholders of the Company without such approval having been obtained. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

SECTION 7.04. Extension; Waiver. At any time prior to the Effective Time, the parties may (a) extend the time for the performance of any of the obligations or other acts of the other parties, (b) to the extent permitted by law, waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto or (c) subject to the proviso to the first sentence of Section 7.03 and to the extent permitted by law, waive compliance with any of the covenants or agreements, or satisfaction of any of the conditions, contained herein. Any agreement on the part of a party to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. The failure of any party to this Agreement to assert any of its rights under this Agreement or otherwise

shall not constitute a waiver of such rights.

SECTION 7.05. Procedure for Termination, Amendment, Extension or Waiver. A termination of this Agreement pursuant to Section 7.01, an amendment of this Agreement pursuant to Section 7.03 or an extension or waiver pursuant to Section 7.04 shall, in order to be effective, require, in the case of the Company, action by its Board of Directors or the duly authorized designee of its Board of Directors.

ARTICLE VIII

General Provisions

SECTION 8.01. Nonsurvival of Representations and Warranties. None of the representations and warranties in this Agreement or in any instrument delivered pursuant to this Agreement shall survive the Effective Time. This Section 8.01 shall not limit Section 7.02 or any covenant or agreement of the parties which by its terms contemplates performance after the Effective Time.

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SECTION 8.02. Notices. Except for notices that are specifically required by the terms of this Agreement to be delivered orally, all notices, requests, claims, demands and other communications hereunder shall be in writing and shall be deemed given if delivered personally, telecopied (which is confirmed) or sent by overnight courier (providing proof of delivery) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

if to Parent or Sub, to:

Conopco, Inc.

800 Sylvan Avenue

Englewood Cliffs, NJ 07632

Telecopy No.: (201) 894-2727

Attn: General Counsel

with a copy to:

Conopco, Inc.

800 Sylvan Avenue

Englewood Cliffs, NJ 07632

Telecopy No.: (201) 894-2727

Attn: Paul McMahon

David Schwartz

and a copy to:

Cravath, Swaine & Moore LLP

Worldwide Plaza

825 Eighth Avenue

New York, NY 10019

Telecopy No.: (212) 474-3700

Attention: Mark I. Greene, Esq.

if to the Company, to:

Alberto-Culver Company

2525 Armitage Avenue

Melrose Park, Illinois 60160

Telecopy No.: (708) 450-2511

Attention: General Counsel

with a copy to:

Sidley Austin LLP

One South Dearborn

Chicago, IL 60603

Telecopy No.: (312) 853-7036

Attention: Thomas A. Cole

Frederick C. Lowinger

Robert L. Verigan

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SECTION 8.03. Definitions. For purposes of this Agreement:

(a) Acquisition Transaction shall have the meaning ascribed to the term Takeover Proposal, except that references in the definition of Takeover Proposal to 15% shall be replaced by 50%.

(b) an Affiliate of any specified person means another person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such specified person;

(c) Commonly Controlled Entity means any person or entity that, together with the Company, is treated as a single employer under Section 414(b), (c), (m) or (o) of the Code;

(d) Company Benefit Agreement means (1) any employment, deferred compensation, consulting, severance, change of control, termination, retention, indemnification, employee benefit, loan, stock repurchase or similar agreement between the Company or any of its Subsidiaries, on the one hand, and any Participant, on the other hand, or (2) any agreement between the Company or any of its Subsidiaries, on the one hand, and any Participant, on the other hand, the benefits of which are contingent, or the terms of which are materially altered, upon the occurrence of a transaction involving the Company of a nature contemplated by this Agreement;

(e) Company Benefit Plan means any employment, bonus, pension, profit sharing, deferred compensation, incentive compensation, stock ownership, stock purchase, stock appreciation, restricted stock, stock option, phantom stock, other equity or equity-based compensation performance, retirement, thrift, savings, stock bonus, paid time off, perquisite, fringe benefit, vacation, change of control, severance, retention, termination, disability, death benefit, hospitalization, medical, welfare benefit or other plan, program, policy, arrangement, agreement or understanding (whether or not legally binding) sponsored, maintained, contributed to or required to be sponsored, maintained or contributed to by the Company or any of its Subsidiaries or any Commonly Controlled Entity, in each case providing benefits to any Participant, but not including any Company Benefit Agreement;

(f) Company Material Adverse Effect means any change, event, occurrence, fact, circumstance or development that (i) has a material adverse effect on the business, financial condition, properties, assets, liabilities (contingent or otherwise) or results of operations of the Company and its Subsidiaries, taken as a whole, excluding any effect to the extent that it results from or arises out of (A) any change relating to the United States economy or securities markets in general (provided, however, that such exclusion only applies to the extent such effect does not disproportionately affect the Company and its Subsidiaries, taken as a whole, relative to others in the industries in which the Company and its Subsidiaries operate), (B) any change or condition generally affecting the industries in which the Company and its Subsidiaries operate (provided, however, that such exclusion only applies to the extent such effect does not disproportionately affect the Company and its Subsidiaries, taken as a whole, relative to others in such industries), (C) any failure, in and of itself, by the Company to meet any internal or published projections, forecasts or revenue or earnings predictions for any period ending on or after the date of this

Agreement (it being understood that this clause (C) shall not affect whether the facts or occurrences giving rise to or contributing to such failure may be taken into account in determining whether there has been or would reasonably be expected to be, a Company Material Adverse Effect), (D) any change in GAAP or in the accounting rules and regulations of the SEC (provided, however, that such exclusion only applies to the extent such effect does not disproportionately affect the Company and its Subsidiaries, taken as a whole, relative to others in the industries in which the Company and its Subsidiaries operate), and (E) any act of war, terrorism or armed hostilities or (ii) would prevent or materially delay the consummation by the Company of the Merger or any of the other transactions contemplated by this Agreement;

(g) Company Stock Plans means the Company SVI Plan, the Company Employee Stock Option Plan of 2006 (as amended through September 17, 2008), the Company 2006 Stock Option Plan for Non-Employee Directors (as amended through October 24, 2007), the Company 2006 Restricted Stock Plan (as amended through January 28, 2010), the Company Management Incentive Plan (as amended through November 30, 2009), the Company Management Bonus Plan (as amended through October 1, 2009), the 2006 Company Deferred Compensation Plan for Non-Employee Directors (as amended through October 26, 2006) and the 2008 Company Deferred Compensation Plan for Non-Employee Directors (as amended through October 23, 2008);

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(h) End Date means June 27, 2011; provided, however, that if on June 27, 2011, the conditions to Closing set forth in Section 6.01(b) or 6.01(c) (in the case of Section 6.01(c), as a result of any Restraint or any pending or threatened suit, action or proceeding by any Governmental Entity, in each case arising under any competition, merger control, antitrust or similar law or regulation) shall not have been satisfied or waived but all other conditions to Closing shall have been satisfied or waived (or, in the case of conditions that by their nature are to be satisfied at the Closing, shall be capable of being satisfied on such date), then the End Date may be extended by either Parent or the Company to September 27, 2011;

(i) Knowledge of any person that is not an individual means, with respect to any fact, circumstance or condition in question, the knowledge of such person s executive officers;

(j) Permitted Liens means (i) Liens for taxes and governmental assessments (x) not yet due and payable or (y) which are being contested in good faith by appropriate proceedings and for which reasonable reserves have been established, (ii) Liens for warehousemen, mechanics and materialmen and other similar Liens incurred in the ordinary course of business with respect to obligations which are not delinquent or are being contested in good faith by appropriate proceedings for which reasonable reserves have been established and (iii) imperfections of title, easements, covenants, conditions and restrictions, the existence of which do not and would not reasonably be expected to materially interfere with the continued use and operation of the assets to which they relate in the conduct of the business as presently conducted or as currently proposed to be conducted;

(k) person means an individual, corporation, partnership, limited liability company, joint venture, association, trust, unincorporated organization or other entity;

(l) a Subsidiary of any specified person means another person, an amount of the voting securities, other voting rights or voting partnership interests of which is sufficient to elect at least a majority of its board of directors or other governing body (or, if there are no such voting interests, 50% or more of the equity interests of which) is owned directly or indirectly by such specified person; and

(m) Substantial Detriment means (i) any prohibition or limitation on the ownership or operation by the Company, Parent or any of their respective Affiliates of any portion of the business, properties or assets of the Company, Parent or any of their respective Affiliates, (ii) the Company, Parent or any of their respective Affiliates being compelled to dispose of or hold separate any portion of the business, properties or assets of the Company, Parent or any of their respective Affiliates, in each case as a result of the Merger, (iii) any prohibition or limitation on the ability of Parent or any of its Affiliates to acquire or hold, or exercise full right of ownership of, any shares of the capital stock or voting securities of, or other equity interests in, the Company and its Subsidiaries, including the right to vote or (iv) any prohibition or limitation on Parent or any of its Affiliates effectively controlling the business or operations of the Company and its Subsidiaries, except, in the case of each of clauses (i) through (iv), for any requirements to

dispose of or hold separate brands of the Company, Parent or any of their respective Affiliates and assets primarily related to such brands that collectively had revenues in the applicable party s 2009 fiscal year in the aggregate of $125,000,000 or less. For the avoidance of doubt, any requirement or combination of requirements to dispose of or hold separate brands of the Company, Parent or any of their respective Affiliates and assets primarily related to such brands that collectively had revenues in the applicable party s 2009 fiscal year in the aggregate in excess of $125,000,000 constitutes a Substantial Detriment for all purposes under this Agreement.

SECTION 8.04. Interpretation. When a reference is made in this Agreement to an Article, Section, Exhibit or Schedule, such reference shall be to an Article or Section of, or an Exhibit or Schedule to, this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words include , includes or including are used in this Agreement, they shall be deemed to be followed by the words without limitation . The words hereof , herein and hereunder and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision

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of this Agreement. The term or is not exclusive. The word extent in the phrase to the extent shall mean the degree to which a subject or other thing extends, and such phrase shall not mean simply if . All terms defined in this Agreement shall have the defined meanings when used in any Exhibit or Schedule or any certificate or other document made or delivered pursuant hereto unless otherwise defined therein. The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such term. Unless otherwise specifically indicated, any Contract or statute defined or referred to herein or in any Contract that is referred to herein means such Contract or statute as from time to time amended, modified or supplemented, including (in the case of Contracts) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and references to all attachments thereto and instruments incorporated therein. References to a person are also to its permitted successors and assigns. Unless otherwise specifically indicated, all references to dollars and $ will be deemed to be references to the lawful money of the United States of America.

SECTION 8.05. Consents and Approvals. For any matter under this Agreement requiring the consent or approval of any party to be valid and binding on the parties hereto, such consent or approval must be in writing.

SECTION 8.06. Counterparts. This Agreement may be executed in one or more counterparts (including by facsimile or PDF), all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties.

SECTION 8.07. Entire Agreement; No Third-Party Beneficiaries. This Agreement and the Confidentiality Agreement (a) constitute the entire agreement, and supersede all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter of this Agreement and the Confidentiality Agreement and (b) except for the provisions of Article II and Section 5.05, are not intended to and do not confer upon any person other than the parties any legal or equitable rights or remedies.

SECTION 8.08. GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF DELAWARE, REGARDLESS OF THE LAWS THAT MIGHT OTHERWISE GOVERN UNDER APPLICABLE PRINCIPLES OF CONFLICTS OF LAWS THEREOF.

SECTION 8.09. Assignment. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned, in whole or in part, by operation of law or otherwise by any of the parties without the prior written consent of the other parties, and any assignment without such consent shall be null and void, except that Parent or Sub, upon prior written notice to the Company, may assign, in its sole discretion, this Agreement or any or all of its rights, interests and obligations under this Agreement to NV or PLC or to any, direct or indirect, at least 99% owned Subsidiary of NV or PLC or both of them together. Subject to the preceding sentence, this Agreement will be

binding upon, inure to the benefit of, and be enforceable by, the parties and their respective successors and assigns.

SECTION 8.10. Specific Enforcement; Consent to Jurisdiction. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that, prior to the termination of this Agreement pursuant to Article VII, the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any federal court located in the State of Delaware or in the Delaware Court of Chancery, this being in addition to any other remedy to which they are entitled at law or in equity. In addition, each of the parties hereto (a) hereby submits itself to the personal jurisdiction of any federal court located in the State of Delaware or of any state court located in the State of Delaware in the event any dispute arises out of this Agreement or the transactions contemplated by this Agreement, (b) agrees that it shall not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court and (c) agrees that it shall not bring any action relating to this Agreement

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or the transactions contemplated by this Agreement in any court other than a federal court located in the State of Delaware or the Delaware Court of Chancery. NV and PLC shall at all times maintain an agent for service of process and any other documents in proceedings in the United States or any other proceedings in connection with this Agreement. The agent for service for NV and PLC shall be Parent (or such other person as notified in writing to the Company) and any claim form, judgment or other notice of legal process shall be sufficiently served on NV or PLC if delivered to such agent at its address for the time being.

SECTION 8.11. Waiver of Jury Trial. Each party hereto hereby waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in respect of any suit, action or other proceeding arising out of this Agreement or the transactions contemplated hereby. Each party hereto (a) certifies that no representative, agent or attorney of any other party has represented, expressly or otherwise, that such party would not, in the event of any action, suit or proceeding, seek to enforce the foregoing waiver and (b) acknowledges that it and the other parties hereto have been induced to enter into this Agreement, by, among other things, the mutual waiver and certifications in this Section 8.11.

SECTION 8.12. Severability. If any term or other provision of this Agreement is held to be invalid, illegal or incapable of being enforced by any court of competent jurisdiction, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible to the fullest extent permitted by applicable law in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the extent possible.

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IN WITNESS WHEREOF, Parent, Sub and the Company have caused this Agreement to be signed by their respective officers hereunto duly authorized, all as of the date first written above.

CONOPCO, INC.,

by /s/ Paul McMahon
Name: Paul McMahon
Title: Vice President

ACE MERGER, INC.,

by /s/ Paul McMahon
Name: Paul McMahon
Title: Vice President

UNILEVER N.V.

(solely with respect to
Section 5.10 hereof),

by /s/ Paul McMahon
Name: Paul McMahon
Title: Authorized
Signatory

UNILEVER PLC

(solely with respect to
Section 5.10 hereof),

by /s/ Paul McMahon
Name: Paul McMahon
Title: Authorized
Signatory

ALBERTO-CULVER
COMPANY,

by /s/ Carol L. Bernick
Name: Carol L. Bernick
Title: Executive
Chairman of the
Board of Directors

by /s/ V. James Marino

Name: V. James Marino
Title: President and
Chief Executive Officer

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ANNEX I

TO THE MERGER AGREEMENT

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EXHIBIT A

TO THE MERGER AGREEMENT

Certificate of Incorporation of Surviving Corporation

AMENDED AND RESTATED

CERTIFICATE OF INCORPORATION

OF

Alberto-Culver Company

(a Delaware corporation)

FIRST. The name of the corporation is Alberto-Culver Company.

SECOND. The address of the corporation s registered office in the State of Delaware is:

Corporation Trust Center

1209 Orange Street

Wilmington, New Castle County, Delaware 19801

The name of the corporation s registered agent at such address is The Corporation Trust Company.

THIRD. The purpose of the corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

FOURTH. The total number of shares of stock which the corporation shall have authority to issue is 1000 shares. All such shares are to be Common Stock with no par value and are to be of one class.

FIFTH. Unless and except to the extent that the bylaws of the corporation shall so require, the election of directors of the corporation need not be by written ballot.

SIXTH. In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware, the Board of Directors of the corporation is expressly authorized to make, alter and repeal the bylaws of the corporation.

SEVENTH. A director of the corporation shall not be liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the General Corporation Law of the State of Delaware as the same exists or may hereafter be amended. Any amendment, modification or repeal of the foregoing sentence shall not adversely affect any right or protection of

a director of the corporation hereunder in respect of any act or omission occurring prior to the time of such amendment, modification or repeal.

EIGHTH. The corporation reserves the right at any time, and from time to time, to amend, alter, change or repeal any provision contained in this Amended and Restated Certificate of Incorporation, and other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted, in the manner now or hereafter prescribed by law; and all rights, preferences and privileges of any nature conferred upon stockholders, directors or any other persons by and pursuant to this Amended and Restated Certificate of Incorporation in its present form or as hereafter amended are granted subject to the rights reserved in this article.

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Annex B

EXECUTION VERSION

STOCKHOLDER AGREEMENT (this Agreement) dated as of September 27, 2010, by and among CONOPCO, INC., a New York corporation (Parent), and the individuals and other parties listed under the caption Stockholders on the signature pages hereto (each, a Stockholder and, collectively, the Stockholders).

WHEREAS Unilever N.V., a Netherlands corporation, solely with respect to Section 5.10 thereof, Unilever PLC, a company incorporated under the laws of and registered in England, solely with respect to Section 5.10 thereof, Parent, ACE Merger, Inc., a Delaware corporation (Sub), and Alberto-Culver Company, a Delaware corporation (the Company), propose to enter into an Agreement and Plan of Merger dated as of the date hereof (as the same may be amended or supplemented, the Merger Agreement ; capitalized terms used but not defined herein shall have the meanings set forth in the Merger Agreement);

WHEREAS, the Stockholders own, beneficially or of record, and are entitled to vote (or cause to be voted), an aggregate of 11,842,778 shares of Company Common Stock (such shares of Company Common Stock of each Stockholder, together with any other shares of capital stock or voting securities of, or other equity interests in, the Company or any of its Subsidiaries acquired by such Stockholder after the date hereof and during the term of this Agreement, being collectively referred to herein as the Subject Shares of such Stockholder); and

WHEREAS, as a condition to its willingness to enter into the Merger Agreement, Parent has requested that each Stockholder enter into this Agreement, and the Stockholders desire to enter into this Agreement to induce Parent and Sub to enter into the Merger Agreement.

NOW, THEREFORE, the parties hereto agree as follows:

SECTION 1.01. Representations and Warranties of Each Stockholder. Each Stockholder hereby represents and warrants to Parent as of the date hereof as follows:

(a) Organization. If such Stockholder is a trust, such Stockholder is a trust duly formed and validly existing under the laws of its jurisdiction of formation, pursuant to a declaration of trust or similar trust formation document currently in effect and the person executing this Agreement on behalf of such Stockholder is the trustee or other authorized representative of such Stockholder and is authorized to act on behalf of such Stockholder. If such Stockholder is not a natural person or a trust, such Stockholder is duly organized and is validly existing and in good standing under the laws of its jurisdiction of formation.

(b) Authority; Execution and Delivery. Such Stockholder has all requisite power and authority (including, if such Stockholder is a trust, the requisite power under its trust documents and, if such Stockholder is a partnership or a foundation, the requisite power under its governing

documents), and, if such Stockholder is a natural person, is competent, to execute and deliver this Agreement, to consummate the transactions contemplated hereby and to comply with the provisions of this Agreement. If such Stockholder is not a natural person, the execution and delivery by such Stockholder of this Agreement, consummation by such Stockholder of the transactions contemplated hereby and compliance by such Stockholder with the provisions of this Agreement have been duly authorized by all necessary action on the part of such Stockholder (including, if such Stockholder is a trust, all necessary approvals of this Agreement by any trustee and any beneficiary of such Stockholder and, if such Stockholder is a partnership or a foundation, all necessary approvals of this Agreement by any partner or under its governing documents), and no other action or proceeding on the part of such Stockholder (including, if such Stockholder is a trust, on the part of any trustee or beneficiary of such Stockholder and, if such Stockholder is a partnership or a foundation, on the part of any partner or under its governing documents) is necessary to authorize this Agreement or to consummate the transactions contemplated hereby. Such Stockholder has duly executed and delivered this Agreement and, assuming the due authorization, execution and delivery by Parent, this Agreement constitutes the legal, valid and binding obligation of such Stockholder, enforceable against such

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Stockholder in accordance with its terms. If such Stockholder is a natural person and is married and the Subject Shares of such Stockholder constitute community property or spousal or other approval is otherwise required for this Agreement to be legal, valid and binding, this Agreement has been duly authorized, executed and delivered by, and constitutes a valid and binding agreement of, such Stockholder s spouse, enforceable against such spouse in accordance with its terms.

(c) Enforceability. The execution and delivery by such Stockholder of this Agreement does not, and the consummation by such Stockholder of the transactions contemplated hereby (alone or in combination with any other event) and compliance by such Stockholder with the terms hereof will not, conflict with, or result in any violation or breach of, or a default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation, any obligation to make an offer to purchase or redeem any indebtedness or shares of capital stock, voting securities or other equity interests or any loss of a benefit under, or result in the creation of any Lien in or upon any of the properties or assets of such Stockholder (including the Subject Shares) under, any provision of (i) such Stockholder s organizational documents, if applicable, (ii) any Contract to which such Stockholder is a party or any of the properties or assets of such Stockholder is subject or (iii) subject to the governmental filings and other matters referred to in the immediately following sentence, any (A) statute, law, ordinance, rule or regulation applicable to such Stockholder or the properties or other assets of such Stockholder (including the Subject Shares) or (B) order, writ, injunction, decree, judgment or stipulation, in each case applicable to such Stockholder or the properties or other assets of such Stockholder (including the Subject Shares). No consent, approval, order or authorization of, action by or in respect of, or registration, declaration or filing with, any Governmental Entity is required by or with respect to such Stockholder in connection with the execution and delivery by such Stockholder of this Agreement or the consummation by such Stockholder of the transactions contemplated hereby (alone or in combination with any other event) or the compliance by such Stockholder with the provisions of this Agreement, other than such reports under Sections 13(d) and 16 of the Exchange Act as may be required in connection with this Agreement and the transactions contemplated hereby.

(d) The Subject Shares. The Stockholders are the record and beneficial owners of, and have good and marketable title to, the Subject Shares, free and clear of any Liens. No Stockholder owns, of record or beneficially, (i) any shares of capital stock or voting securities of, or other equity interests in, the Company or any of its Subsidiaries, (ii) any securities of the Company or any of its Subsidiaries convertible into or exchangeable or exercisable for shares of capital stock or voting securities of, or other equity interests in, the Company or any of its Subsidiaries, (iii) any warrants, calls, options or other rights to acquire from the Company or any of its Subsidiaries any shares of capital stock or voting securities of, or other equity interests in, the Company or any of its Subsidiaries or (iv) any rights issued by, or other obligations of, the Company or any of its Subsidiaries that are linked in any way to the price of any shares of capital stock or voting securities of, or other equity interests in, the Company or any of its Subsidiaries, the value of the Company or any of its Subsidiaries or any part of the Company or

any of its Subsidiaries or any dividends or other distributions declared or paid on any shares of capital stock or voting securities of, or other equity interests in, the Company or any of its Subsidiaries, other than (A) the Subject Shares, (B) options to purchase 1,489,553 shares of Company Common Stock and (C) 13,459 shares of Company Common Stock held as a participant in the Company 401(k) and Profit Sharing Plan. The Stockholders have the sole right to vote (or cause to be voted) the Subject Shares and none of such Subject Shares is subject to any voting trust or other agreement, arrangement or restriction with respect to the voting of such Subject Shares, except as contemplated by this Agreement.

SECTION 1.02. Representations and Warranties of Parent. Parent hereby represents and warrants to the Stockholders as follows:

(a) Authority; Execution and Delivery. Parent has all requisite power and authority to execute and deliver this Agreement, to consummate the transactions contemplated hereby and to comply with the provisions of this Agreement. The execution and delivery by Parent of this Agreement and consummation by Parent of the transactions contemplated hereby have been duly authorized by all necessary action on the part of Parent and no

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other action or proceeding on the part of Parent is necessary to authorize this Agreement or to consummate the transactions contemplated hereby. Parent has duly executed and delivered this Agreement and, assuming the due authorization, execution and delivery by each of the Stockholders, this Agreement constitutes the legal, valid and binding obligation of Parent, enforceable against Parent in accordance with its terms.

(b) Enforceability. The execution and delivery by Parent of this Agreement do not, and the consummation by Parent of the transactions contemplated hereby (alone or in combination with any other event) and compliance by Parent with the terms hereof will not, conflict with, or result in any violation or breach of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation, any obligation to make an offer to purchase or redeem any indebtedness or shares of capital stock, voting securities or other equity interests or any loss of a benefit under, or result in the creation of any Lien upon any of the properties or other assets of Parent under, any provision of (i) Parent s organizational documents, (ii) any Contract to which Parent is a party or any of the properties or assets of Parent is subject or (iii) subject to the governmental filings and other matters referred to in the immediately following sentence, any statute, law, ordinance, rule or regulation or order, writ, injunction, decree, judgment or stipulation applicable to Parent or the properties or other assets of Parent. No consent, approval, order or authorization of, action by or in respect of, or registration, declaration or filing with, any Governmental Entity is required by or with respect to Parent in connection with the execution and delivery by Parent of this Agreement or the consummation of the transactions contemplated hereby, other than such reports under Section 13(d) and 16 of the Exchange Act as may be required in connection with this Agreement and the transactions contemplated hereby.

SECTION 1.03. Covenants of Each Stockholder. Each Stockholder covenants and agrees as follows:

(a) (i) At any meeting of the stockholders of the Company called to seek the Stockholder Approval or in any other circumstances upon which a vote, consent or other approval with respect to the Merger Agreement, the Merger or any other transaction contemplated by the Merger Agreement is sought, such Stockholder shall vote (or cause to be voted) all of the Subject Shares of such Stockholder in favor of granting the Stockholder Approval and any other actions presented to stockholders of the Company that are necessary and desirable in furtherance of the Merger, the Stockholder Approval or any other transactions contemplated by the Merger Agreement.

(ii) Each Stockholder hereby grants to, and appoints, Parent and Sub, or any of them, and any individual designated in writing by any of them, and each of them individually, as such Stockholder s proxy and attorney-in-fact (with full power of substitution), for and in the name, place and stead of such Stockholder, to vote such Stockholder s Subject Shares, or grant a consent or approval in respect of such Subject Shares, in a manner consistent with this Section 1.03. Such Stockholder understands and acknowledges that Parent is entering into the Merger Agreement in reliance upon such Stockholder s execution and delivery of this Agreement. Such Stockholder hereby affirms that the proxy set

forth in this Section 1.03(a)(ii) is given in connection with the execution of the Merger Agreement, and that such proxy is given to secure the performance of the duties of such Stockholder under this Agreement. Such Stockholder hereby further affirms that this proxy is coupled with an interest and may under no circumstances be revoked (except that such proxy is automatically revoked and terminated upon termination of this Agreement in accordance with Section 1.04). Such Stockholder hereby ratifies and confirms all that such proxy may lawfully do or cause to be done by virtue hereof. Such proxy is executed and intended to be irrevocable in accordance with the provisions of Section 212(e) of the DGCL (except that such proxy is automatically revoked and terminated upon termination of this Agreement in accordance with Section 1.04). Such Stockholder hereby represents that any proxies heretofore given by it in respect of the Subject Shares with respect to the matters covered by this Section 1.03(a)(ii), if any, are revocable, and hereby revokes such proxies. Upon delivery of written request to do so by Parent, such Subject Stockholder shall as promptly as practicable execute and deliver to Parent a separate written instrument or proxy that embodies the terms of the proxy set forth in this Section 1.03(a)(ii).

(b) At any meeting of stockholders of the Company or at any adjournment thereof or in any other circumstances upon which their vote, consent or other approval is sought, such Stockholder shall vote (or cause

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to be voted) its Subject Shares against (i) any merger agreement or merger (other than the Merger Agreement and the Merger), consolidation, combination, sale of substantial assets, reorganization, recapitalization, dissolution, liquidation or winding up of or by the Company or any other similar transaction, (ii) any Takeover Proposal or any action which is a component of any Takeover Proposal and (iii) any amendment of the Company Certificate or the Company Bylaws or other proposal or transaction involving the Company or any Subsidiary, which amendment or other proposal or transaction would in any manner impede, frustrate, prevent or nullify any provision of the Merger Agreement or any of the other transactions contemplated by the Merger Agreement or change in any manner the voting rights of any class of Company Common Stock. Such Stockholder shall not commit or agree to take any action inconsistent with the foregoing.

(c) Such Stockholder hereby agrees that, in the event (i) of any stock dividend, stock split, recapitalization, reclassification, combination or exchange of shares of capital stock or other equity interests or voting securities of the Company of, or affecting, the Subject Shares, (ii) such Stockholder purchases or otherwise acquires beneficial ownership of or an interest in any shares of capital stock or other equity interests or voting securities of the Company after the execution of this Agreement (including by conversion, exercise or exchange) or (iii) such Stockholder voluntarily acquires the right to vote or share in the voting of any shares of capital stock or other equity interests or voting securities of the Company other than the Subject Shares (collectively, the New Shares), such Stockholder shall deliver promptly to Parent written notice of its acquisition of New Shares which notice shall state the number of New Shares so acquired. Such Stockholder agrees that any New Shares acquired or purchased by such Stockholder shall be subject to the terms of this Agreement, including the representations and warranties set forth in Section 1.01 and the covenants set forth in Section 1.03, and shall constitute Subject Shares to the same extent as if those New Shares were owned by such Stockholder on the date of this Agreement.

(d) Except pursuant to this Agreement, prior to the receipt of the Stockholder Approval, such Stockholder shall not, directly or indirectly: (i) sell, transfer, pledge, assign or otherwise dispose of (including by gift), hedge or utilize a derivative to transfer the economic interest in (collectively, Transfer), or enter into any Contract, option or other arrangement or understanding (including any profit sharing arrangement) with respect to the Transfer of, any Subject Shares to any person other than pursuant to the Merger, except for a Permitted Transfer (as defined below), (ii) enter into any voting arrangement, whether by proxy, voting agreement or otherwise, with respect to any Subject Shares, (iii) take any other action that would make any representation or warranty of such Stockholder herein untrue or incorrect or would in any way restrict, limit or interfere with the performance of such Stockholder s obligations hereunder or the transactions contemplated hereby or (iv) commit or agree to take any of the foregoing actions. For purposes hereof, a Permitted Transfer is any Transfer made by a Stockholder (including any Transfer resulting from death) to a person who executes a joinder to this Agreement agreeing to become a Stockholder hereunder; provided, however, that, except in the case that such person is a Stockholder as of the date of this Agreement, notwithstanding anything to the contrary contained in this Agreement, (i) the Subject Shares of such person shall consist only of

the Subject Shares transferred to such person in such Permitted Transfer and any shares described in Section 1.03(c)(i) that are issued on account of the Subject Shares so transferred, (ii) the representations and warranties contained in the second sentence of Section 1.01(d) shall not be applicable to such person, (iii) such person makes the other representations and warranties contained in Section 1.01(d) only as to the Subject Shares transferred to such person in such Permitted Transfer and (iv) such person shall not be liable for the act or omission of any other Stockholder hereunder. For purposes of this Agreement, the term person shall have the meaning set forth in the Merger Agreement.

(e) Each Stockholder shall not (nor shall it authorize or permit any of its directors, officers, employees, investment bankers, financial advisors, attorneys, accountants or other advisors, agents or representatives (collectively, Representatives), acting on such Stockholder s behalf, to), directly or indirectly through another person, (i) solicit, initiate or knowingly encourage, induce or facilitate any Takeover Proposal or any inquiry or proposal that could reasonably be expected to lead to a Takeover Proposal or (ii) enter into, continue or otherwise participate in any discussions or negotiations regarding, or furnish to any person any information with respect to, or otherwise cooperate in any way with, any Takeover Proposal or any inquiry or proposal that could reasonably

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be expected to lead to a Takeover Proposal. Such Stockholder shall, and shall cause its Representatives to, immediately cease and cause to be terminated all existing discussions or negotiations, on such Stockholder s behalf, with any person conducted heretofore with respect to any Takeover Proposal or any inquiry or proposal that could reasonably be expected to lead to a Takeover Proposal. Notwithstanding anything to the contrary contained in this Section 1.03(e), nothing contained in this Section 1.03(e) shall limit the ability of the Company or its Representatives (as defined in the Merger Agreement) to act, including their ability to act in accordance with Section 4.02 of the Merger Agreement.

(f) Such Stockholder shall consult with Parent before issuing, and give Parent the opportunity to review and comment upon, any press release or other public statements with respect to the transactions contemplated by this Agreement or the Merger Agreement, including the Merger, and shall not issue any such press release or make any such public statement prior to such consultation, except as such Stockholder may reasonably conclude may be required by applicable law, court process or by obligations pursuant to any listing agreement with any national securities exchange or national securities quotation system.

(g) Such Stockholder hereby waives, and agrees not to exercise or assert, any appraisal rights under Section 262 of the DGCL in connection with the Merger.

SECTION 1.04. Termination. This Agreement, including the proxy contained in Section 1.03(a)(ii), (a) shall automatically terminate upon the earlier of (i) the Effective Time and (ii) the termination of the Merger Agreement in accordance with its terms and (b) may be terminated by the Stockholder Rep (as defined below) within ten days of the date of any modification, waiver or amendment of the Merger Agreement in accordance with its terms that decreases the Merger Consideration (as defined in the Merger Agreement on the date of this Agreement), in each case other than with respect to the liability of any party for breach hereof prior to such termination. Notwithstanding the foregoing, the provisions of Section 1.06(j) shall survive termination.

SECTION 1.05. Additional Matters. (a) Each Stockholder shall, from time to time, execute and deliver, or cause to be executed and delivered, such additional or further consents, documents and other instruments as Parent may reasonably request for the purpose of effectively carrying out the transactions contemplated by this Agreement.

(b) No person executing this Agreement (as a Stockholder, trustee or partner or in any other capacity) who is or becomes during the term hereof a director, officer or other fiduciary of the Company, any of its Subsidiaries, any foundation or any employee benefit plan of the Company or any of its Subsidiaries makes any agreement or understanding herein in his or her capacity as such director, officer or other fiduciary. Each Stockholder signs solely in his, her or its capacity as the record holder and beneficial owner of, or the trustee or other authorized representative of a trust whose beneficiaries are the beneficial owners of, such Stockholder s Subject Shares and nothing herein shall limit or affect any actions taken by any Stockholder (or signatory hereto) in his or her capacity as an officer, director or other

fiduciary of the Company, any of its Subsidiaries, any foundation or any employee benefit plan of the Company or any of its Subsidiaries.

SECTION 1.06. General Provisions.

(a) Amendment. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

(b) Notice. Except for notices that are specifically required by the terms of this Agreement to be delivered orally, all notices, requests, claims, demands and other communications hereunder shall be in writing and shall be deemed given if delivered personally, telecopied (which is confirmed) or sent by overnight courier (providing proof of delivery) to Parent in accordance with Section 8.02 of the Merger Agreement and to each of the Stockholders at c/o the Stockholder Rep, 909 Ashland Avenue, River Forest, Illinois 60305 with a copy to: Neal Gerber & Eisenberg LLP, Two North LaSalle Street, Suite 2200, Chicago, Illinois 60602, Attention: Marshall E. Eisenberg, Facsimile No.: 312-269-1747 (or at such other address for a party as shall be specified by like notice).

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(c) Interpretation. When a reference is made in this Agreement to a Section or Schedule, such reference shall be to a Section of or Schedule to this Agreement unless otherwise indicated. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words include , includes or including are used in this Agreement, they shall be deemed to be followed by the words without limitation . The words hereof , herein and hereunder and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. The term or is not exclusive. The word extent in the phrase to the extent shall mean the degree to which a subject or other thing extends, and such phrase shall not mean simply if . The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such term. Unless otherwise specifically indicated, any Contract or statute defined or referred to herein or in any Contract that is referred to herein means such Contract or statute as from time to time amended, modified or supplemented, including (in the case of Contracts) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and references to all attachments thereto and instruments incorporated therein. References to a person are also to its permitted successors and assigns.

(d) Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule or law, or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as neither the economic nor legal substance of the transactions contemplated hereby is affected in any manner materially adverse to any party or such party waives its rights under this Section 1.06(d) with respect thereto. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible to the fullest extent permitted by applicable law in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the extent possible.

(e) Counterparts. This Agreement may be executed in one or more counterparts (including by facsimile or PDF), all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties.

(f) Entire Agreement; No Third-Party Beneficiaries. This Agreement (i) constitutes the entire agreement and supersedes all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof and (ii) is not intended to and does not confer upon any person other than the parties any legal or equitable rights or remedies.

(g) GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF DELAWARE, REGARDLESS OF THE LAWS THAT MIGHT OTHERWISE GOVERN UNDER APPLICABLE PRINCIPLES OF CONFLICTS OF LAWS THEREOF.

(h) Assignment. Except as may be required in connection with a Permitted Transfer, neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned, in whole or in part, by operation of law or otherwise by any of the parties without the prior written consent of the other parties, and any assignment without such consent shall be null and void, except that Parent, upon prior written notice to the Company, may assign, in its sole discretion, this Agreement or any or all of its rights, interests and obligations under this Agreement to NV or PLC or to any, direct or indirect, at least 99% owned Subsidiary of NV or PLC or both of them together. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of, and be enforceable by, the parties and their respective successors and assigns.

(i) Specific Enforcement; Consent to Jurisdiction. The parties agree that irreparable damage would occur and that the parties would not have an adequate remedy at law in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached, and that

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monetary damages, even if available, would not be an adequate remedy therefor. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any Federal court located in the State of Delaware or in any state court in the State of Delaware, this being in addition to any other remedy to which they are entitled at law or in equity. In addition, each of the parties hereto (i) consents to submit itself to the personal jurisdiction of any Federal court located in the State of Delaware or of any state court located in the State of Delaware in the event any dispute arises out of this Agreement or the transactions contemplated by this Agreement, (ii) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court and (iii) agrees that it will not bring any action relating to this Agreement or the transactions contemplated by this Agreement in any court other than a Federal court located in the State of Delaware or a state court located in the State of Delaware.

(j) Disclosure Concerning Stockholders. Parent will not make any disclosures regarding the Stockholders in any press release, public announcement or publicly available securities filing without the prior written approval of Carol L. Bernick, acting on behalf of the Stockholders (the Stockholder Rep), such approval not to be unreasonably withheld, conditioned or delayed (for this purpose, it will not be unreasonable if Stockholder Rep objects to disclosure of the specific names or identity of the Stockholders or the ownership of the Subject Shares on a per Stockholder basis); provided that, in advance of any such disclosure, the Stockholder Rep shall be afforded an opportunity to review such disclosure. Notwithstanding the foregoing, Parent may make any disclosures regarding the Stockholders that may be required by applicable law, court process or by obligations pursuant to any listing agreement with any domestic or foreign national securities exchange or domestic or foreign national securities quotation system; provided that, to the extent practicable and permitted by applicable law, court process or listing agreement, Parent shall provide the Stockholder Rep with prior notice of such disclosures.

(k) Trustee Exculpation. When this Agreement is executed by the trustee of any trust in his or her capacity as trustee, such execution is by the trustee not individually but solely as trustee in the exercise of and under the power and authority conferred upon and invested in such trustee. It is expressly understood and agreed that the execution of this Agreement by the trustee of a trust in his or her capacity as a trustee shall not create any liability on any such trustee personally to pay any amounts required to be paid hereunder, or to perform any covenant, either express or implied, contained herein, all such liability, if any, being expressly waived by the parties hereto by their execution hereof. Any liability of any party which is a trust shall be only that of such trust to the full extent of its trust estate and shall not be a personal liability of any trustee, grantor or beneficiary thereof.

[Signatures are on the following pages]

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IN WITNESS WHEREOF, each party has duly executed this Agreement, all as of the date first written above.

CONOPCO, INC.,

By: /s/ Paul McMahon
Name: Paul McMahon
Title: Vice President

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IN WITNESS WHEREOF, each party has duly executed this Agreement, all as of the date first written above.

STOCKHOLDERS:

/s/ Carol L. Bernick
Carol L. Bernick

/s/ Leonard H. Lavin
Leonard H. Lavin

1947 LIMITED PARTNERSHIP

By: /s/ Carol L. Bernick
Carol L. Bernick,
Trustee of the

Carol L. Bernick
Revocable Trust,

its General Partner

BERNICE E. LAVIN TRUST

By: /s/ Leonard H. Lavin
Leonard H. Lavin,
Co-Trustee

By: /s/ Carol L. Bernick
Carol L. Bernick,
Co-Trustee

OCTOBER 2008 LHL ACV GRANTOR

ANNUITY TRUST

By: /s/ Leonard H. Lavin
Leonard H. Lavin,
Co-Trustee

By: /s/ Carol L. Bernick
Carol L. Bernick,
Co-Trustee

FEBRUARY 2009 LHL
ACV GRANTOR
ANNUITY TRUST

By: /s/ Leonard H. Lavin
Leonard H. Lavin,
Co-Trustee

By: /s/ Carol L. Bernick
Carol L. Bernick,
Co-Trustee

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SEPTEMBER 2009 LHL ACV GRANTOR ANNUITY TRUST

By: /s/ Leonard H. Lavin
Leonard H. Lavin, Co-Trustee

By: /s/ Carol L. Bernick
Carol L. Bernick, Co-Trustee

NOVEMBER 2009 LHL ACV GRANTOR ANNUITY TRUST

By: /s/ Leonard H. Lavin
Leonard H. Lavin, Co-Trustee

By: /s/ Carol L. Bernick
Carol L. Bernick, Co-Trustee

APRIL 2010 LHL ACV GRANTOR

ANNUITY TRUST

By: /s/ Leonard H. Lavin
Leonard H. Lavin, Co-Trustee

By: /s/ Carol L. Bernick
Carol L. Bernick, Co-Trustee

OCTOBER 2008 CLB ACV GRANTOR

ANNUITY TRUST

By: /s/ Carol L. Bernick
Carol L. Bernick, Trustee

FEBRUARY 2009 CLB
ACV GRANTOR
ANNUITY TRUST

By: /s/ Carol L. Bernick
Carol L. Bernick,
Trustee

SEPTEMBER 2009 CLB
ACV GRANTOR
ANNUITY TRUST

By: /s/ Carol L. Bernick
Carol L. Bernick,
Trustee

NOVEMBER 2009 CLB
ACV GRANTOR
ANNUITY TRUST

By: /s/ Carol L. Bernick
Carol L. Bernick,
Trustee

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APRIL 2010 CLB ACV GRANTOR

ANNUITY TRUST

By: /s/ Carol L. Bernick
Carol L. Bernick,
Trustee

CLB GRAT TRUST

By: /s/ Carol L. Bernick
Carol L. Bernick,
Co-Trustee

CAROL L. BERNICK AND CHILDREN

GRAT TRUST

By: /s/ Carol L. Bernick
Carol L. Bernick,
Co-Trustee

CLB CHILDREN GRAT TRUST

By: /s/ Carol L. Bernick
Carol L. Bernick,
pursuant to delegation of authority

KSL PROPERTY TRUST II

By: /s/ Carol L. Bernick
Carol L. Bernick,
Co-Trustee

LEONARD H. LAVIN TRUST U/A/D 10/20/1972 FBO CAROL MARIE LAVIN

By: /s/ Carol L. Bernick
Carol L. Bernick,
Trustee

CAROL L. BERNICK
INVESTMENT TRUST

By: /s/ Marshall E. Eisenberg
Marshall E. Eisenberg,
Co-Trustee

CRAIG LAVIN BERNICK
TRUST U/A/D 11/14/1989

By: /s/ Carol L. Bernick
Carol L. Bernick,
Trustee

PETER ANDREW
BERNICK TRUST U/A/D
11/14/1989

By: /s/ Carol L. Bernick
Carol L. Bernick,
Trustee

ELIZABETH CLAIRE
BERNICK TRUST U/A/D
11/14/1989

By: /s/ Carol L. Bernick
Carol L. Bernick,
Trustee

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PRESTON JAY LAVIN
TRUST U/A/D 11/14/1989

By: /s/ Carol L. Bernick
Carol L. Bernick,
Trustee

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Annex C

September 26, 2010

Board of Directors

Alberto-Culver Company

2525 Armitage Avenue

Melrose Park, Illinois 60160

Members of the Board:

You have asked us to advise you with respect to the fairness to the holders of common stock, par value $0.01 per share (Company Common Stock), of Alberto-Culver Company (the Company), from a financial point of view, of the Consideration (as defined below) to be received by such stockholders pursuant to the terms of the Agreement and Plan of Merger, dated as of September 27, 2010 (the Merger Agreement), among the Company, Conopco, Inc. (the Acquiror), Ace Merger, Inc., a wholly owned subsidiary of the Acquiror (the Merger Sub), Unilever N.V. (NV) and Unilever PLC (PLC), with NV and PLC executing the Merger Agreement solely with respect to Section 5.10 thereof in their respective capacities as guarantors pursuant thereto. The Merger Agreement provides for, among other things, the merger (the Merger) of the Company with the Merger Sub pursuant to which the Company will become a wholly owned subsidiary of the Acquiror and each outstanding share of Company Common Stock will be converted into the right to receive $37.50 in cash (the Consideration).

In arriving at our opinion, we have reviewed drafts of the Merger Agreement and certain related agreements dated September 25, 2010 and certain publicly available business and financial information relating to the Company. We have also reviewed certain other information relating to the Company, including financial forecasts, provided to or discussed with us by the Company and have met with the Company s management to discuss the business and prospects of the Company. We have also considered certain financial and stock market data of the Company, and we have compared that data with similar data for other publicly held companies in businesses we deemed similar to that of the Company and we have considered, to the extent publicly available, the financial terms of certain other business combinations and other transactions which have recently been effected or announced. We also considered such other information, financial studies, analyses and investigations and financial, economic and market criteria which we deemed relevant.

In connection with our review, we have not independently verified any of the foregoing information and have assumed and relied on such information being complete and accurate in all material respects. With respect to the financial forecasts for the Company, the management of the Company has advised us, and we have assumed, that such forecasts have been reasonably prepared on bases reflecting the best currently available estimates and judgments of the Company s management as to

the future financial performance of the Company. We also have assumed, with your consent, that, in the course of obtaining any regulatory or third party consents, approvals or agreements in connection with the Merger, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on the Company and that the Merger will be consummated in accordance with the terms of the Merger Agreement without waiver, modification or amendment of any material term, condition or agreement thereof. We have also assumed, with your consent, that the executed Merger Agreement and related agreements will be in substantially the same form as the drafts reviewed by us. In addition, we have not been requested to make, and have not made, an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of the Company, nor have we been furnished with any such evaluations or appraisals.

Our opinion addresses only the fairness, from a financial point of view, to the holders of Company Common Stock of the Consideration to be received in the Merger and does not address any other aspect or implication of

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the Merger or any other agreement, arrangement or understanding entered into in connection with the Merger or otherwise including, without limitation, the fairness of the amount or nature of, or any other aspect relating to, any compensation to any officers, directors or employees of any party to the Merger, or class of such persons, relative to the Consideration or otherwise. The issuance of this opinion was approved by our authorized internal committee.

Our opinion is necessarily based upon information made available to us as of the date hereof and financial, economic, market and other conditions as they exist and can be evaluated on the date hereof. Our opinion does not address the merits of the Merger as compared to alternative transactions or strategies that may be available to the Company nor does it address the Company s underlying decision to proceed with the Merger. We were not requested to, and did not, solicit third party indications of interest in acquiring all or any part of the Company.

We have acted as financial advisor to the Company in connection with the Merger and we became entitled to receive a fee upon the rendering of our opinion. In addition, the Company has agreed to indemnify us and certain related parties for certain liabilities and other items arising out of or related to our engagement. We and our affiliates have in the past provided and in the future we may provide, investment banking and other financial services to the Company and its affiliates, for which we and our affiliates have received, and would expect to receive, compensation, including having acted as a financial advisor to the Company in connection with the Company s acquisition of Simple Health & Beauty Group Limited in December 2009; and in connection with the Company s sale of Cederroth International AB in July 2008. We and our affiliates may have provided other financial advice and services, and may in the future provide financial advice and services, to the Company, the Acquiror and their respective affiliates for which we and our affiliates have received, and would expect to receive, compensation. We are a full service securities firm engaged in securities trading and brokerage activities as well as providing investment banking and other financial services. In the ordinary course of business, we and our affiliates may acquire, hold or sell, for our and our affiliates own accounts and the accounts of customers, equity, debt and other securities and financial instruments (including bank loans and other obligations) of the Company, the Acquiror and any other company that may be involved in the Merger, as well as provide investment banking and other financial services to such companies.

It is understood that this letter is for the information of the Board of Directors of the Company in connection with its consideration of the Merger and does not constitute advice or a recommendation to any stockholder as to how such stockholder should vote or act on any matter relating to the proposed Merger.

Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, the Consideration to be received by the holders of Company Common Stock in the Merger is fair, from a financial point of view, to such stockholders.

Very truly yours,

CREDIT SUISSE
SECURITIES (USA) LLC

By: /s/ Robert S. Murley
Vice Chairman

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Annex D

Delaware General Corporation Law § 262. Appraisal rights [Effective Aug. 2, 2010]

(a) Any stockholder of a corporation of this State who holds shares of stock on the date of the making of a demand pursuant to subsection (d) of this section with respect to such shares, who continuously holds such shares through the effective date of the merger or consolidation, who has otherwise complied with subsection (d) of this section and who has neither voted in favor of the merger or consolidation nor consented thereto in writing pursuant to § 228 of this title shall be entitled to an appraisal by the Court of Chancery of the fair value of the stockholder s shares of stock under the circumstances described in subsections (b) and (c) of this section. As used in this section, the word stockholder means a holder of record of stock in a corporation; the words stock and share mean and include what is ordinarily meant by those words; and the words depository receipt mean a receipt or other instrument issued by a depository representing an interest in 1 or more shares, or fractions thereof, solely of stock of a corporation, which stock is deposited with the depository.

(b) Appraisal rights shall be available for the shares of any class or series of stock of a constituent corporation in a merger or consolidation to be effected pursuant to § 251 (other than a merger effected pursuant to § 251(g) of this title), § 252, § 254, § 255, § 256, § 257, § 258, § 263 or § 264 of this title:

(1) Provided, however, that no appraisal rights under this section shall be available for the shares of any class or series of stock, which stock, or depository receipts in respect thereof, at the record date fixed to determine the stockholders entitled to receive notice of the meeting of stockholders to act upon the agreement of merger or consolidation, were either (i) listed on a national securities exchange or (ii) held of record by more than 2,000 holders; and further provided that no appraisal rights shall be available for any shares of stock of the constituent corporation surviving a merger if the merger did not require for its approval the vote of the stockholders of the surviving corporation as provided in § 251(f) of this title.

(2) Notwithstanding paragraph (1) of this subsection, appraisal rights under this section shall be available for the shares of any class or series of stock of a constituent corporation if the holders thereof are required by the terms of an agreement of merger or consolidation pursuant to §§ 251, 252, 254, 255, 256, 257, 258, 263 and 264 of this title to accept for such stock anything except:

a. Shares of stock of the corporation surviving or resulting from such merger or consolidation, or depository receipts in respect thereof;

b. Shares of stock of any other corporation, or depository receipts in respect thereof, which shares of stock (or depository receipts in respect thereof) or depository receipts at the effective date of the merger or consolidation will be either listed on a national securities exchange or held of record by more than 2,000 holders;

c. Cash in lieu of fractional shares or fractional depository receipts described in the foregoing subparagraphs a. and b. of this paragraph; or

d. Any combination of the shares of stock, depository receipts and cash in lieu of fractional shares or fractional depository receipts described in the foregoing subparagraphs a., b. and c. of this paragraph.

(3) In the event all of the stock of a subsidiary Delaware corporation party to a merger effected under § 253 or § 267 of this title is not owned by the parent immediately prior to the merger, appraisal rights shall be available for the shares of the subsidiary Delaware corporation.

(c) Any corporation may provide in its certificate of incorporation that appraisal rights under this section shall be available for the shares of any class or series of its stock as a result of an amendment to its certificate of incorporation, any merger or consolidation in which the corporation is a constituent corporation or the sale of all or substantially all of the assets of the corporation. If the certificate of incorporation contains such a provision, the procedures of this section, including those set forth in subsections (d) and (e) of this section, shall apply as nearly as is practicable.

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(d) Appraisal rights shall be perfected as follows:

(1) If a proposed merger or consolidation for which appraisal rights are provided under this section is to be submitted for approval at a meeting of stockholders, the corporation, not less than 20 days prior to the meeting, shall notify each of its stockholders who was such on the record date for notice of such meeting (or such members who received notice in accordance with § 255(c) of this title) with respect to shares for which appraisal rights are available pursuant to subsection (b) or (c) of this section that appraisal rights are available for any or all of the shares of the constituent corporations, and shall include in such notice a copy of this section and, if 1 of the constituent corporations is a nonstock corporation, a copy of § 114 of this title. Each stockholder electing to demand the appraisal of such stockholder s shares shall deliver to the corporation, before the taking of the vote on the merger or consolidation, a written demand for appraisal of such stockholder s shares. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of such stockholder s shares. A proxy or vote against the merger or consolidation shall not constitute such a demand. A stockholder electing to take such action must do so by a separate written demand as herein provided. Within 10 days after the effective date of such merger or consolidation, the surviving or resulting corporation shall notify each stockholder of each constituent corporation who has complied with this subsection and has not voted in favor of or consented to the merger or consolidation of the date that the merger or consolidation has become effective; or

(2) If the merger or consolidation was approved pursuant to § 228, § 253, or § 267 of this title, then either a constituent corporation before the effective date of the merger or consolidation or the surviving or resulting corporation within 10 days thereafter shall notify each of the holders of any class or series of stock of such constituent corporation who are entitled to appraisal rights of the approval of the merger or consolidation and that appraisal rights are available for any or all shares of such class or series of stock of such constituent corporation, and shall include in such notice a copy of this section and, if 1 of the constituent corporations is a nonstock corporation, a copy of § 114 of this title. Such notice may, and, if given on or after the effective date of the merger or consolidation, shall, also notify such stockholders of the effective date of the merger or consolidation. Any stockholder entitled to appraisal rights may, within 20 days after the date of mailing of such notice, demand in writing from the surviving or resulting corporation the appraisal of such holder s shares. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of such holder s shares. If such notice did not notify stockholders of the effective date of the merger or consolidation, either (i) each such constituent corporation shall send a second notice before the effective date of the merger or consolidation notifying each of the holders of any class or series of stock of such constituent corporation that are entitled to appraisal rights of the effective date of the merger or consolidation or (ii) the surviving or resulting corporation shall send such a second notice to all such holders on or within 10 days after such effective date; provided, however, that if such second notice is sent more than 20 days following the sending of the first notice, such second notice need only be sent to each stockholder who is entitled to appraisal rights and who has demanded appraisal of such holder s shares in accordance with this

subsection. An affidavit of the secretary or assistant secretary or of the transfer agent of the corporation that is required to give either notice that such notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein. For purposes of determining the stockholders entitled to receive either notice, each constituent corporation may fix, in advance, a record date that shall be not more than 10 days prior to the date the notice is given, provided, that if the notice is given on or after the effective date of the merger or consolidation, the record date shall be such effective date. If no record date is fixed and the notice is given prior to the effective date, the record date shall be the close of business on the day next preceding the day on which the notice is given.

(e) Within 120 days after the effective date of the merger or consolidation, the surviving or resulting corporation or any stockholder who has complied with subsections (a) and (d) of this section hereof and who is otherwise entitled to appraisal rights, may commence an appraisal proceeding by filing a petition in the Court of Chancery demanding a determination of the value of the stock of all such stockholders. Notwithstanding the foregoing, at any time within 60 days after the effective date of the merger or consolidation, any stockholder who

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has not commenced an appraisal proceeding or joined that proceeding as a named party shall have the right to withdraw such stockholder s demand for appraisal and to accept the terms offered upon the merger or consolidation. Within 120 days after the effective date of the merger or consolidation, any stockholder who has complied with the requirements of subsections (a) and (d) of this section hereof, upon written request, shall be entitled to receive from the corporation surviving the merger or resulting from the consolidation a statement setting forth the aggregate number of shares not voted in favor of the merger or consolidation and with respect to which demands for appraisal have been received and the aggregate number of holders of such shares. Such written statement shall be mailed to the stockholder within 10 days after such stockholder s written request for such a statement is received by the surviving or resulting corporation or within 10 days after expiration of the period for delivery of demands for appraisal under subsection (d) of this section hereof, whichever is later. Notwithstanding subsection (a) of this section, a person who is the beneficial owner of shares of such stock held either in a voting trust or by a nominee on behalf of such person may, in such person s own name, file a petition or request from the corporation the statement described in this subsection.

(f) Upon the filing of any such petition by a stockholder, service of a copy thereof shall be made upon the surviving or resulting corporation, which shall within 20 days after such service file in the office of the Register in Chancery in which the petition was filed a duly verified list containing the names and addresses of all stockholders who have demanded payment for their shares and with whom agreements as to the value of their shares have not been reached by the surviving or resulting corporation. If the petition shall be filed by the surviving or resulting corporation, the petition shall be accompanied by such a duly verified list. The Register in Chancery, if so ordered by the Court, shall give notice of the time and place fixed for the hearing of such petition by registered or certified mail to the surviving or resulting corporation and to the stockholders shown on the list at the addresses therein stated. Such notice shall also be given by 1 or more publications at least 1 week before the day of the hearing, in a newspaper of general circulation published in the City of Wilmington, Delaware or such publication as the Court deems advisable. The forms of the notices by mail and by publication shall be approved by the Court, and the costs thereof shall be borne by the surviving or resulting corporation.

(g) At the hearing on such petition, the Court shall determine the stockholders who have complied with this section and who have become entitled to appraisal rights. The Court may require the stockholders who have demanded an appraisal for their shares and who hold stock represented by certificates to submit their certificates of stock to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings; and if any stockholder fails to comply with such direction, the Court may dismiss the proceedings as to such stockholder.

(h) After the Court determines the stockholders entitled to an appraisal, the appraisal proceeding shall be conducted in accordance with the rules of the Court of Chancery, including any rules specifically governing appraisal proceedings. Through such proceeding the Court shall determine the fair value of the shares exclusive of any element of value arising from the accomplishment or expectation of the merger or

consolidation, together with interest, if any, to be paid upon the amount determined to be the fair value. In determining such fair value, the Court shall take into account all relevant factors. Unless the Court in its discretion determines otherwise for good cause shown, interest from the effective date of the merger through the date of payment of the judgment shall be compounded quarterly and shall accrue at 5% over the Federal Reserve discount rate (including any surcharge) as established from time to time during the period between the effective date of the merger and the date of payment of the judgment. Upon application by the surviving or resulting corporation or by any stockholder entitled to participate in the appraisal proceeding, the Court may, in its discretion, proceed to trial upon the appraisal prior to the final determination of the stockholders entitled to an appraisal. Any stockholder whose name appears on the list filed by the surviving or resulting corporation pursuant to subsection (f) of this section and who has submitted such stockholder s certificates of stock to the Register in Chancery, if such is required, may participate fully in all proceedings until it is finally determined that such stockholder is not entitled to appraisal rights under this section.

(i) The Court shall direct the payment of the fair value of the shares, together with interest, if any, by the surviving or resulting corporation to the stockholders entitled thereto. Payment shall be so made to each such stockholder, in the case of holders of uncertificated stock forthwith, and the case of holders of shares represented

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by certificates upon the surrender to the corporation of the certificates representing such stock. The Court s decree may be enforced as other decrees in the Court of Chancery may be enforced, whether such surviving or resulting corporation be a corporation of this State or of any state.

(j) The costs of the proceeding may be determined by the Court and taxed upon the parties as the Court deems equitable in the circumstances. Upon application of a stockholder, the Court may order all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorney s fees and the fees and expenses of experts, to be charged pro rata against the value of all the shares entitled to an appraisal.

(k) From and after the effective date of the merger or consolidation, no stockholder who has demanded appraisal rights as provided in subsection (d) of this section shall be entitled to vote such stock for any purpose or to receive payment of dividends or other distributions on the stock (except dividends or other distributions payable to stockholders of record at a date which is prior to the effective date of the merger or consolidation); provided, however, that if no petition for an appraisal shall be filed within the time provided in subsection (e) of this section, or if such stockholder shall deliver to the surviving or resulting corporation a written withdrawal of such stockholder s demand for an appraisal and an acceptance of the merger or consolidation, either within 60 days after the effective date of the merger or consolidation as provided in subsection (e) of this section or thereafter with the written approval of the corporation, then the right of such stockholder to an appraisal shall cease. Notwithstanding the foregoing, no appraisal proceeding in the Court of Chancery shall be dismissed as to any stockholder without the approval of the Court, and such approval may be conditioned upon such terms as the Court deems just; provided, however that this provision shall not affect the right of any stockholder who has not commenced an appraisal proceeding or joined that proceeding as a named party to withdraw such stockholder s demand for appraisal and to accept the terms offered upon the merger or consolidation within 60 days after the effective date of the merger or consolidation, as set forth in subsection (e) of this section.

(l) The shares of the surviving or resulting corporation to which the shares of such objecting stockholders would have been converted had they assented to the merger or consolidation shall have the status of authorized and unissued shares of the surviving or resulting corporation.

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PRELIMINARY PROXY CARD, SUBJECT TO COMPLETION, OCTOBER 15, 2010

000004

000000000.000000 ext
000000000.000000 ext

MR A SAMPLE

DESIGNATION (IF ANY)

000000000.000000 ext
000000000.000000 ext

ADD 1

ADD 2

000000000.000000 ext
000000000.000000 ext

ADD 3

ADD 4

ADD 5

ADD 6

Electronic Voting Instructions

You can vote by Internet or telephone!

Available 24 hours a day, 7 days a week!

Instead of mailing your proxy, you may choose one of the two voting methods outlined below to vote your proxy.

VALIDATION DETAILS ARE LOCATED BELOW IN THE TITLE BAR.

Proxies submitted by the Internet or telephone must be received by 1:00 a.m., Central Time, on [ ], 2010.

Vote by Internet

Log on to the Internet and go to

www.[ ]

Follow the steps outlined on the secured website.

Vote by telephone

Call toll free [ ] within the USA, US territories & Canada any time on a touch tone telephone. There is NO CHARGE to you for the call.

Follow the instructions provided by the recorded message.

Using a **black ink** pen, mark your votes with an **X** as shown in this example. Please do not write outside the designated areas. **X**

Special Meeting Proxy Card

q IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION,

DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. q

A Proposals The Board of Directors recommends a vote FOR all of the following Proposals.

	FOR	AGAINST	ABSTAIN
1. The proposal to adopt the Agreement and Plan of Merger, dated as of September 27, 2010, by and among Unilever N.V., a Netherlands corporation, solely with respect to Section 5.10 thereof, Unilever PLC, a company incorporated under the laws of and registered in England, solely with respect to Section 5.10 thereof, Conopco, Inc., a New York corporation, ACE Merger, Inc., a Delaware corporation, and Alberto-Culver Company, a Delaware corporation, as such agreement may be amended from time to time.	..	..	..
2. The proposal to adjourn the special meeting to a later date or time, if necessary or appropriate, to solicit additional proxies in the event there are not sufficient votes in favor of adoption of the merger agreement at the time of the special meeting.	..	..	..

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B Non-Voting Items

Change of Address Please print new address below.

C Authorized Signatures This section must be completed for your vote to be counted. Date and Sign Below

Please sign below exactly as your name (or names) appear on this proxy. Persons signing as executors, administrators, trustees, guardians or attorneys should so indicate when signing. Where there is more than one owner, each must sign. Please return this proxy to Proxy Services, c/o Computershare Investor Services, [ ].

Date (mm/dd/yyyy) Please print date below.	Signature 1 Please keep signature within the box.	Signature 2 Please keep signature within the box.
/ /		

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q **IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.** q

Proxy ALBERTO-CULVER COMPANY

Special Meeting, [ ], 2010

Proxy Solicited by the Board of Directors

The undersigned hereby appoints each of Ralph J. Nicoletti, Gary P. Schmidt and Paul W. Hoelscher, each with power of substitution (the Proxies), to vote all shares which the undersigned stockholder would be entitled to vote if personally present, and, if applicable, hereby directs (i) the trustee of each of the Alberto-Culver Company 401(k) and Profit Sharing Plan and Sally Beauty 401(k) and Profit Sharing Plan and (ii) the Recordkeeper of the Alberto-Culver Company Employee Stock Purchase Plan to vote the shares of stock of Alberto-Culver Company allocated to the account of the undersigned which the undersigned is entitled to vote pursuant to such employee benefit plan, at the Annual Meeting of Stockholders of Alberto-Culver Company to be held on [ ], 2010 at [ ] A.M. CT, and at any adjournment or postponement thereof. The plan trustee or Recordkeeper, as applicable, will vote the shares in the undersigned s account in accordance with the instructions provided. The instructions must be provided by proxy card, telephone or via the Internet by [ ] Time, on [ ], 2010. If the instructions are not timely provided, the plan trustee will vote the shares in the same proportion as the shares for which timely instructions were received, unless to do so would be inconsistent with the Employee Retirement Income Security Act of 1974, as amended.

WHEN PROPERLY EXECUTED, THIS PROXY WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED STOCKHOLDER. IF NO DIRECTION IS GIVEN, THIS PROXY WILL BE VOTED FOR THE ADOPTION OF THE MERGER AGREEMENT AND FOR THE ADJOURNMENT OF THE SPECIAL MEETING, IF NECESSARY OR APPROPRIATE, FOR THE PURPOSE OF

SOLICITING ADDITIONAL PROXIES.

In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the special meeting by or at the direction of the Board of Directors or any adjournment or postponement of the special meeting.

SEE REVERSE SIDE **(CONTINUED AND TO BE SIGNED ON REVERSE SIDE)** SEE REVERSE SIDE

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[ ], 2010

Dear Benefit Plan Participant:

A Special Meeting of Stockholders of Alberto Culver Company (the Company or Alberto Culver) will be held on [ ], 2010. The record date for determining stockholders entitled to vote at the meeting was [ ], 2010.

If you are a participant in the Alberto Culver 401(k) and Profit Sharing Plan (the Plan) you are the beneficial owner of the Company s common stock and may instruct Wells Fargo Bank N.A., the trustee of the Plan, how to vote the shares allocated to your account.

If you are a participant in the Alberto Culver Company Employee Stock Purchase Plan (the ESPP), you are the beneficial owner of the Company s common stock and may vote your shares directly through Computershare Investor Services, the tabulator of the ESPP.

The number of shares in your benefit plan(s) appears at the top of the enclosed proxy card and is identified by a suffix with the following letters: ACK (Alberto Culver 401(k) and Profit Sharing Plan) or ESP (Alberto Culver Company Employee Stock Purchase Plan). If you are the registered shareholder of common stock outside of the plans, these shares will be identified on your proxy card beginning with the suffix ACV .

Please read the enclosed Notice of Meeting and Proxy Statement carefully. The Board of Directors recommends a vote FOR the adoption of the Agreement and Plan of Merger dated September 27, 2010, described in the Proxy Statement and FOR the adjournment of the Special Meeting, if necessary or appropriate, for the purpose of soliciting additional proxies. Please mark your choices, sign the enclosed proxy card and return the card in the enclosed postage-paid envelope to the Company s transfer agent, Computershare Investor Services, Proxy Services, [ ] so that the card is received before [ ], 2010. Alternatively, you may vote by following the Electronic Voting Instructions provided on the enclosed proxy card.

The trustee of each plan will have the voting instructions of participants in the plans tabulated and will vote the shares of the participants by submitting a final proxy card for inclusion in the tally at the Special Meeting of Stockholders.

Sincerely,

[ ]
Kent E. Madlinger
Director, Compensation and Benefits