Law Offices

HOLLAND & KNIGHT LLP

315 South Calhoun Street
Suite 600
P.O. Drawer 810 (ZIP 32302-0810)
Tallahassee, Florida 32301

850-224-7000
FAX 850-224-8832
www.hklaw.com

Atlanta
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Fort Lauderdale
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Mexico City
Miami
New York
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San Francisco
St. Petersburg
Tallahassee
Tampa
Washington, D.C.
West Palm Beach

KAREN D. WALKER
850-425-5612

Internet Address:
kwalker@hklaw.com

March 23, 2000

VIA HAND DELIVERY

Blanca S. Bayo
Director, Division of Records & Reporting
Florida Public Service Commission
Capital Circle Office Center
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

000345-TI

Re: Application for Authority to Provide Interexchange Telecommunications Service Within the State of Florida by SBC National, Inc. d/b/a SBC Telecom, Inc.

Dear Ms. Bayo:

Enclosed for filing on behalf of SBC National, Inc. d/b/a SBC Telecom, Inc. are the original and 12 copies of its Application for Authority to Provide Interexchange Telecommunications Service Within the State of Florida.

For our records, please acknowledge your receipt of this filing on the enclosed copy of this letter. Thank you for your consideration.

Check received with filing and forwarded to Fiscal for deposit. Fiscal to forward a copy of check to RAR with proof of deposit.

Initials of person who forwarded check:

Sincerely,

HOLLAND & KNIGHT LLP

Karen D. Walker

KDW:kjg
Enclosure

cc: Thomas E. Williams, III (w/enclosure)

LAW OFFICES

HOLLAND & KNIGHT LLP

TL 2510872

March 23, 2000 19____ 63-751/631

Pay Two Hundred Fifty Dollars and 00/100------------------ DOLLARS $ 250.00

VOID AFTER 180 DAYS

HOLLAND & KNIGHT LLP

TO THE ORDER OF Florida Public Service Commission

FIRST UNION NATIONAL BANK OF FLORIDA
ST. PETERSBURG, FLORIDA

AUTHORIZED REPRESENTATIVES

TWO SIGNATURES REQUIRED FOR AMOUNTS OVER $1000.00

⑈2510872⑈

HOLLAND & KNIGHT LLP

DETACH AND RETAIN THIS STATEMENT
THE ATTACHED CHECK IS IN PAYMENT OF ITEMS DESCRIBED BELOW.
IF NOT CORRECT PLEASE NOTIFY US PROMPTLY. NO RECEIPT DESIRED.

TL 2510872

DATE	DESCRIPTION	AMOUNT
03/23/00	Florida Public Service Commission May (TALL) Filing Fee for IXC Application 61042-1	250.00
LA		

** **FLORIDA PUBLIC SERVICE COMMISSION** **

DIVISION OF COMMUNICATIONS
BUREAU OF SERVICE EVALUATION

APPLICATION FORM
for

000345-TI

AUTHORITY TO PROVIDE
INTEREXCHANGE TELECOMMUNICATIONS SERVICE
WITHIN THE STATE OF FLORIDA

Instructions

- This form is used as an application for an original certificate and for approval of the assignment or transfer of an existing certificate. In case of an assignment or transfer, the information provided shall be for the assignee or transferee (See Appendix A).

- Print or type all responses to each item requested in the application and appendices. If an item is not applicable, please explain why.

- Use a separate sheet for each answer which will not fit the allocated space.

- Once completed, submit the original and six (6) copies of this form along with a non-refundable application fee of **$250.00** to:

  Florida Public Service Commission
  Division of Records and Reporting
  2540 Shumard Oak Boulevard
  Tallahassee, Florida 32399-0850
  (850) 413-6770

  Note: **No filing fee is required** for an assignment or transfer of an existing certificate to another certificated company.

- If you have any questions about completing the form, contact:

  Florida Public Service Commission
  Division of Communications
  Bureau of Certification and Evaluation
  2540 Shumard Oak Boulevard
  Tallahassee, Florida 32399-0850
  (850) 413-6600

DOCUMENT NUMBER-DATE
03688 MAR 23 8
FPSC-RECORDS/REPORTING

1. This is an application for √ (check one):

   (√) **Original certificate** (new company)

   ( ) **Approval of transfer of existing certificate:**
   Example, a non-certificated company purchases an existing certificated company and desires to retain the authority of both certificates.

   ( ) **Approval of assignment of existing certificate:**
   Example, a non-certificated company purchases an existing company and desires to retain the certificate of authority rather than apply for a new certificate.

   ( ) **Approval for transfer of control:**
   Example, a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

2. Name of company:

   SBC National, Inc. d/b/a SBC Telecom, Inc.

3. Name under which the applicant will do business (fictitious name, etc.):

   SBC Telecom, Inc.

4. Official mailing address (including street name & number, post office box, city, state, zip code):

   SBC Telecom, Inc.
   175 E. Houston Street
   San Antonio, Texas 78205
   Attn: Vice President and General Counsel

5. Florida address (including street name & number, post office box, city, state, zip code):

   None at this time.

6. Select type of business your company will be conducting ✓ (check all that apply):

(✓) **Facilities-based carrier** - company owns and operates or plans to own and operate telecommunications switches and transmission facilities in Florida.

( ) **Operator Service Provider** - company provides or plans to provide alternative operator services for IXCs; or toll operator services to call aggregator locations; or clearinghouse services to bill such calls.

(✓) **Reseller** - company has or plans to have one or more switches but primarily leases the transmission facilities of other carriers. Bills its own customer base for services used.

( ) **Switchless Rebiller** - company has no switch or transmission facilities but may have a billing computer. Aggregates traffic to obtain bulk discounts from underlying carrier. Rebills end users at a rate above its discount but generally below the rate end users would pay for unaggregated traffic.

( ) **Multi-Location Discount Aggregator** - company contracts with unaffiliated entities to obtain bulk/volume discounts under multi-location discount plans from certain underlying carriers, then offers resold service by enrolling unaffiliated customers.

( ) **Prepaid Debit Card Provider** - any person or entity that purchases 800 access from an underlying carrier or unaffiliated entity for use with prepaid debit card service and/or encodes the cards with personal identification numbers.

7. Structure of organization:

( ) Individual
(✓) Corporation
( ) Foreign Corporation
( ) Foreign Partnership
( ) General Partnership
( ) Limited Partnership
( ) Other, ____________________

8. **If individual**, provide:

Name: *Not applicable*

Title: ______________________

Address: ______________________

City/State/Zip: ______________________

Telephone No: ______________ **Fax No.:** ______________

Internet E-Mail Address: ______________________

Internet Website Address: ______________________

9. **If incorporated in Florida**, please provide proof of authority to operate in Florida:

   (a) **The Florida Secretary of State corporate registration number:**

   Not applicable

10. **If foreign corporation,** provide proof of authority to operate in Florida:

   (b) **The Florida Secretary of State corporate registration number:**

   F99000000276

11. **If using fictitious name-d/b/a,** provide proof of compliance with fictitious name statute (Chapter 865.09, FS) to operate in Florida:

   (a) **The Florida Secretary of State fictitious name registration number:**

   G99340900047 See Exhibit A.

12. **If a limited liability partnership**, provide proof of registration to operate in Florida:

   (a) **The Florida Secretary of State registration number:**

   Not applicable

13. **<u>If a partnership</u>**, provide name, title and address of all partners and a copy of the partnership agreement.

Name: ***Not Applicable***

Title: ______

Address: ______

City/State/Zip: ______

Telephone No: ______ **Fax No.:** ______

Internet E-Mail Address: ______

Internet Website Address: ______

14. **<u>If a foreign limited partnership,</u>** provide proof of compliance with the foreign limited partnership statute (Chapter 620.169, FS), if applicable.

(a) **The Florida registration number:** ***Not applicable***

15. Provide **FEID Number** (if applicable): ***74-2899863***

16. Provide the following (if applicable):

(a) Will the name of your company appear on the bill for your services?

(✓) Yes ( ) No

(b) If not, who will bill for your services?

Name: ***Not applicable***

Title: ______

Address: ______

City/State/Zip: ______

Telephone No: ______ **Fax No.:** ______

(c) How is this information provided?

____

____

17. Who will receive the bills for your service?

(✓) Residential Customers	(✓) Business Customers
( ) PATs providers	( ) PATs station end-users
( ) Hotels & motels	( ) Hotel & motel guests
( ) Universities	( ) Universities dormitory residents

( ) Other: (specify)__________________

18. Who will serve as liaison to the Commission with regard to the following?

(a) The application:

Bruce May, Esq.
HOLLAND & KNIGHT LLP
315 Calhoun Street, Suite 600
Tallahassee, FL 32301
(850) 224-7000 (telephone)
(850) 224-8832 (fax)
dbmay@hklaw.com (e-mail)

OF COUNSEL:
William A. Adams, Esq.
ARTER & HADDEN LLP
One Columbus
10 West Broad Street, Suite 2100
Columbus, Ohio 43215
(614) 221-3155 (telephone)
(614) 221-0479 (fax)
wadams@arterhadden.com (e-mail)

Thomas W. Hartmann, Esq.
Vice President, General Counsel
and Secretary
SBC Telecom, Inc.
175 E. Houston Street, Room 1256
San Antonio, Texas 78205
(210) 351-3427 (telephone)
(210) 351-3630 (fax)
thartma@corp.sbc.com (e-mail)

(b) Official point of contact for the ongoing operations of the company:

Kevin M. Chapman
Director-Regulatory Relations
SBC Telecom, Inc.
175 E. Houston Street
Room 4-R-06
San Antonio, Texas 78205
(210) 351-5093 (telephone)
(210) 554-7136 (fax)
kchapma@corp.sbc.com (e-mail)

(c) Complaints/Inquiries from customers:

Jacqueline Luzier
Executive Director-Customer Care
SBC Telecom, Inc.
5850 W. Las Positas
Room 756
Pleasanton, California 94588
(925) 468-5390 (telephone)
(925) 468-4724 (fax)
jl1758@pbcomm.com (e-mail)

19. List the states in which the applicant:

(a) has operated as an interexchange telecommunications company:

None at this time.

(b) has applications pending to be certificated as an interexchange telecommunications company.

Arizona, Georgia, Kentucky, Louisiana, Maryland, Minnesota, Mississippi, New Hampshire, New Jersey, North Carolina, Oregon, Pennsylvania, South Carolina, Tennessee, and Utah

(c) is certificated to operate as an interexchange telecommunications company.

Colorado, District of Columbia, Massachusetts, New York, Virginia, Washington and West Virginia

(d) has been denied authority to operate as an interexchange telecommunications company and the circumstances involved.

None

(e) has had regulatory penalties imposed for violations of telecommunications statutes and the circumstances involved.

None

(f) has been involved in civil court proceedings with an interexchange carrier, local exchange company or other telecommunications entity, and the circumstances involved.

None

20. Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:

(a) adjudged, bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceeding. If so, please explain.

No

(b) an officer, director, partner or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, give reason why not.

No

21. The applicant will provide the following interexchange carrier services ✓ (check all that apply):

a._______ **MTS with distance sensitive per minute rates**

_______Method of access is FGA
_______Method of access is FGB
_______Method of access is FGD
_______Method of access is 800

b._______ **MTS with route specific rates per minute**

_______Method of access is FGA
_______Method of access is FGB
_______Method of access is FGD
_______Method of access is 800

c._______ **MTS with statewide flat rates per minute (i.e. not distance sensitive)**

_______Method of access is FGA
_______Method of access is FGB
_______Method of access is FGD

______Method of access is 800

d.______ **MTS for pay telephone service providers**

e.______ **Block-of-time calling plan (Reach Out Florida, Ring America, etc.)**

f.______ **800 service (toll free)**

g.______ **WATS type service (bulk or volume discount)**

______Method of access is via dedicated facilities
______Method of access is via switched facilities

h.__√__ **Private line services (Channel Services)**
(For ex. 1.544 mbs., DS-3, etc.)

i.______ **Travel service**

______Method of access is 950
______Method of access is 800

j.______ **900 service**

k.______ **Operator services**

______Available to presubscribed customers
______Available to non presubscribed customers (for example, to patrons of hotels, students in universities, patients in hospitals).
______Available to inmates

l. **Services included are:**

______Station assistance
______Person-to-person assistance
______Directory assistance
______Operator verify and interrupt
______Conference calling

22. Submit the proposed tariff under which the company plans to begin operation. Use the format required by Commission Rule 25-24.485 (example enclosed).

See Exhibit B.

23. Submit the following:

A. Financial capability.

The application **<u>should contain</u>** the applicant's audited financial statements for the most recent 3 years. If the applicant does not have audited financial statements, it shall so be stated.

The unaudited financial statements should be signed by the applicant's chief executed officer <u>affirming that the financial statements are true and correct</u> and should include:

1. the balance sheet;
2. the income statement; and
3. statement of retained earnings.

See Exhibit C.

NOTE: *This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.*

Further, the following (which includes supporting documentation) should be provided:

1. **<u>written explanation</u>** that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.

See Exhibit C.

2. **<u>written explanation</u>** that the applicant has sufficient financial capability to maintain the requested service.

See Exhibit C.

3. **<u>written explanation</u>** that the applicant has sufficient financial capability to meet its lease or ownership obligations.

See Exhibit C.

B. **Managerial capability;** give resumes of employees/officers of the company that would indicate sufficient managerial experiences of each.

See Exhibit D.

C. **Technical capability;** give resumes of employees/officers of the company that would indicate sufficient technical experiences or indicate what company has been contracted to conduct technical maintenance.

See Exhibit E.

** APPLICANT ACKNOWLEDGMENT STATEMENT **

1. **REGULATORY ASSESSMENT FEE:** I understand that all telephone companies must pay a regulatory assessment fee in the amount of .15 of one percent of its gross operating revenue derived from intrastate business. Regardless of the gross operating revenue of a company, a minimum annual assessment fee of $50 is required.

2. **GROSS RECEIPTS TAX:** I understand that all telephone companies must pay a gross receipts tax of two and one-half percent on all intra and interstate business.

3. **SALES TAX:** I understand that a seven percent sales tax must be paid on intra and interstate revenues.

4. **APPLICATION FEE:** I understand that a non-refundable application fee of $250.00 must be submitted with the application.

UTILITY OFFICIAL:

Kevin M. Chapman
Signature

3/22/00
Date

Kevin M. Chapman
Director-Regulatory Relations
SBC Telecom, Inc.
175 E. Houston Street
Room 4-R-06
San Antonio, Texas 78205

Telephone No. ***(210) 351-5093***
Fax No. ***(210) 554-7136***

ATTACHMENTS:

A - CERTIFICATE SALE, TRANSFER, OR ASSIGNMENT STATEMENT
B - CUSTOMER DEPOSITS AND ADVANCE PAYMENTS
C - CURRENT FLORIDA INTRASTATE NETWORK
D - AFFIDAVIT

**** APPENDIX A ****

CERTIFICATE SALE, TRANSFER, OR ASSIGNMENT STATEMENT

I, (Name) ***Not applicable*** ____________________________,

(Title) ____ of

____

(Name of Company)

and current holder of Florida Public Service Commission Certificate Number # ________

__________, have reviewed this application and join in the petitioner's request for a:

(   ) transfer

(   ) assignment

of the above-mentioned certificate.

UTILITY OFFICIAL:

______________________________ ______________________

Signature Date

______________________________ ______________________

Title Telephone No.

Address: ______________________________ ______________________

Fax No.

____

____

<u> APPENDIX B **</u>**

CUSTOMER DEPOSITS AND ADVANCE PAYMENTS

A statement of how the Commission can be assured of the security of the customer's deposits and advance payments may be provided in one of the following ways (applicant, please √ check one):

( ) The applicant will **not** collect deposits nor will it collect payments for service more than one month in advance.

(√) The applicant intends to collect deposits and/or advance payments for more than one month's service and will file and maintain a surety bond with the Commission in an amount equal to the current balance of deposits and advance payments in excess of one month.
(The bond must accompany the application.)

See Exhibit F.

UTILITY OFFICIAL:

Kevin M. Chapman
Signature

3/22/00
Date

Kevin M. Chapman
Director-Regulatory Relations
SBC Telecom, Inc.
175 E. Houston Street
Room 4-R-06
San Antonio, Texas 78205

Telephone No. ***(210) 351-5093***
Fax No. ***(210) 554-7136***

CURRENT FLORIDA INTRASTATE SERVICES

Applicant **has** (   ) or **has not** (√) previously provided intrastate telecommunications in Florida.

If the answer is <u>has</u>, fully describe the following:

a) What services have been provided and when did these services begin?

____

____

____

____

b) If the services are not currently offered, when were they discontinued?

____

____

____

____

UTILITY OFFICIAL:

Kevin M. Chapman 3/22/00

Signature Date

Kevin M. Chapman
Director-Regulatory Relations
SBC Telecom, Inc.
175 E. Houston Street
Room 4-R-06
San Antonio, Texas 78205

Telephone No. ***(210) 351-5093***
Fax No. ***(210) 554-7136***

AFFIDAVIT

By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange company service in the State of Florida. I have read the foregoing and declare that, to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

> **Further, I am aware that, pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775.083".**

UTILITY OFFICIAL:

Kevin M. Chapman
Signature

3/22/00
Date

Kevin M. Chapman
Director-Regulatory Relations
SBC Telecom, Inc.
175 E. Houston Street
Room 4-R-06
San Antonio, Texas 78205

Telephone No. *(210) 351-5093*
Fax No. *(210) 554-7136*

156379.7
66271/85130

EXHIBIT A

Registration of Fictitious Name

Law Offices
HOLLAND & KNIGHT LLP

315 South Calhoun Street
Suite 600
P.O. Drawer 810 (ZIP 32302-0810)
Tallahassee, Florida 32301

850-224-7000
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Orlando
Providence
San Francisco
St. Petersburg
Tallahassee
Tampa
Washington, D.C.
West Palm Beach

March 2, 2000

D. BRUCE MAY
850-425-5607

Internet Address:
dbmay@hklaw.com

VIA HAND DELIVERY

Blanca S. Bayo
Director, Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: SBC National, Inc. - Name Change on ALEC Certificate No. 7030 to SBC National, Inc. d/b/a SBC Telecom, Inc.

Dear Ms. Bayo:

SBC National, Inc. is the holder of alternative local exchange company ("ALEC") Certificate of Public Convenience and Necessity No. 7030. On December 6, 1999, SBC National, Inc. registered the fictitious name SBC Telecom, Inc. with the Florida Secretary of State. A copy of the registration is attached hereto as Exhibit "A."

The company will do business in Florida under its fictitious name, SBC Telecom, Inc. The use of this fictitious name is only a name change, and does not involve any change in majority organizational control or other change in ownership.

Please acknowledge the use of the name, SBC National, Inc. d/b/a SBC Telecom, Inc. on ALEC Certificate of Public Convenience and Necessity No. 7030. The company is not yet providing service in Florida, and therefore, has not filed a price list with the Florida Public Service Commission. When the company files its price list, it will do so under the name SBC National, Inc. d/b/a SBC Telecom, Inc.

Thank you for your assistance. Please let us know if you have any questions.

Very truly yours,

HOLLAND & KNIGHT LLP

D. Bruce May

DBM/kdw

cc: Thomas E. Williams, III
Mark Ortlieb, Esq.
William A. Adams, Esq.

TAL1 #213434 v1

REGISTRATION OF FICTITIOUS NAME

FILED
99 DEC -6 PM 12:35
SECRETARY OF STATE
TALLAHASSEE, FLORIDA

This space for office use only

Section 1

1. SBC Telecom, Inc.
Fictitious Name to be Registered

2. 175 East Houston Street
Mailing Address of Business
San Antonio — Texas — 78205
City — State — Zip Code

3. Florida County of principal place of business: Multiple

4. FEI Number: 74-2899863

Section 2

A. Owner(s) of Fictitious Name If Individual(s): (Use an attachment if necessary):

1. Last First M.I. / Address / City State Zip Code / SS#___ - ___ - ___

2. Last First M.I. / Address / City State Zip Code / SS#___ - ___ - ___

B. Owner(s) of Fictitious Name if other than an individual: (Use an attachment if necessary):

1. SBC National, Inc.
Entity Name
175 East Houston Street
Address
San Antonio — Texas — 78205
City — State — Zip Code
Florida Registration Number F99 000 000 276
FEI Number: 74-2899863
☐ Applied for ☐ Not Applicable

2. Entity Name
Address
City State Zip Code
Florida Registration Number
FEI Number:
☐ Applied for ☐ Not Applicable

Section 3

I (we) the undersigned, being the sole (all the) party(ies) owning interest in the above fictitious name, certify that the information indicated on this form is true and accurate. I (we) further certify that the fictitious name shown in Section 1 of this form will be advertised at least once in a newspaper as defined in chapter 50, Florida Statutes, in the county where the applicant's principal place of business is located. I (we) understand that the signature(s) below shall have the same legal effect as if made under oath. (At Least One Signature Required)

Thomas H. Lashman 11/30/99
Signature of Owner — Date

Signature of Owner — Date

Phone Number:

Phone Number:

Section 4

FOR CANCELLATION COMPLETE SECTION 4 ONLY:
FOR FICTITIOUS NAME OWNERSHIP CHANGE COMPLETE SECTIONS 1 THROUGH 4:

I (we) the undersigned, hereby cancel the fictitious name ________, which was registered on ________ and was assigned registration number ________

G99340900047--5
-12/06/99--01053--035
*****50.00

Signature of Owner — Date

Signature of Owner — Date

Mark the applicable boxes ☐ Certificate of Status – $10 ☐ Certified Copy – $30
FILING FEE: $50

Note: Acknowledgments/certificates will be sent to the address in Section 1 only. CR4E-001 (5/96)

SP

FL008 - 11/4/99 CT System Online

Exhibit A

<u>EXHIBIT B</u>

Tariff

SBC NATIONAL, INC. D/B/A
SBC TELECOM, INC.

FLORIDA TELECOMMUNICATIONS TARIFF

This Tariff ("Tariff") contains the descriptions, regulations, and rates applicable to the furnishing of service and facilities for interexchange telecommunications services provided by SBC National, Inc. d/b/a SBC Telecom, Inc., with principal offices at 175 East Houston Street, San Antonio, Texas 78205. This Tariff applies for services furnished within the State of Florida. This Tariff is on file with the Florida Public Service Commission, and copies may be inspected, during normal business hours, at the Company's principal place of business.

CHECK SHEET

The sheets listed below, which are inclusive of this Tariff, are effective as of the date shown at the bottom of the respective sheet(s). Original and revised sheets as named below comprise all changes from the original Tariff and are currently in effect as of the date on the bottom of the respective sheet.

SHEET	REVISION	SHEET	REVISION
1.	Original*	31.	Original*
2.	Original*	32.	Original*
3.	Original*	33.	Original*
4.	Original*	34.	Original*
5.	Original*	35.	Original*
6.	Original*	36.	Original*
7.	Original*	37.	Original*
8.	Original*	38.	Original*
9.	Original*	39.	Original*
10.	Original*	40.	Original*
11.	Original*	41.	Original*
12.	Original*	42.	Original*
13.	Original*	43.	Original*
14.	Original*		
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25.	Original*		
26.	Original*		
27.	Original*		
28.	Original*		
29.	Original*		
30.	Original*		

TABLE OF CONTENTS

ALPHABETICAL TABLE OF CONTENTS

APPLICATION OF THE TARIFF

A. This Tariff sets forth the service offerings, rates, terms and conditions applicable to the furnishing of intrastate interexchange private line communications Services by the Company to Customers within the Service Areas defined herein.

B. The rates and regulations contained in this Tariff apply only to the Services furnished by Company and do not apply, unless otherwise specified, to the lines, facilities, or services provided by a Local Exchange Carrier or other common Carrier for use in accessing the Services of Company.

C. The Company shall not be deemed to have waived or impaired any right, power, requirement or option reserved by this Tariff (including, but not limited to, the right to demand exact compliance with every term and condition herein), by virtue of any custom or practice of the Company at variance with the terms hereof, or any failure, refusal or neglect of Company to exercise any right under this Tariff or to insist upon exact compliance with its terms, or any waiver, forbearance, delay, failure or omission by Company to exercise any right, power or option hereunder.

D. The provision of Services are subject to existing regulations and terms and conditions specified in this Tariff and may be revised, added to or supplemented by superseding Tariffs.

E. The Company reserves the right to offer its Customers a variety of Services as deemed appropriate by the Company.

EXPLANATION OF SYMBOLS

The following are the only symbols used for the purposes indicated below:

D - Delete or Discontinue

I - Change resulting in an increase to a Customer's bill

M- Moved from another Tariff location

N - New

R - Change resulting in a reduction to a Customer's bill

T - Change in text or regulation but no change in rate or charge

TARIFF FORMAT

A. Sheet Numbering - Sheet numbers appear in the upper right corner of the page. Sheets are numbered sequentially. However, new sheets are occasionally added to the Tariff. When a new sheet is added between sheets already in effect, a decimal is added. For example, a new sheet added between sheets 14 and 15 would be 14. 1.

B . Sheet Revision Numbers - Revision numbers also appear in the upper right corner of each page. These numbers are used to determine the most current sheet version on file with the FPSC. For example, the 4th revised sheet 14 cancels the 3rd revised sheet 14. Because of various suspension periods, deferrals, *etc.* the FPSC follows in their Tariff approval process, the most current sheet number on file with the FPSC is not always the Tariff sheet in effect.

C. Paragraph Numbering Sequence - There are nine levels of paragraph coding. Each level of coding is subservient to its next higher level:

2.
2.1
2.1.1
2.1.1 (A)
2.1.1 (A).1
2.1.1 (A).1.a
2.1.1 (A).1.a.I
2.1.1 (A).1.a.I.(i)
2.1.1 (A).1.a.I.(i).(1).

D. Check Sheets - When a Tariff filing is made with the FPSC, an updated check sheet accompanies the Tariff filing. The check sheet lists the sheets contained in the Tariff with a cross-reference to the current revision number. When new sheets are added, the check sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk (*). There will be no other symbols used on this page if these are the only changes made to it (*i.e.,* the format, etc. remains the same, just revised revision levels on some pages). The Tariff user should refer to the latest check sheet to find out if a particular sheet is the most current on file with the FPSC.

SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS

1. Definitions

Certain terms used generally throughout this Tariff are defined below:

Advance Payment: Part or all of a payment required before the start of Service.

Applicant: Any entity or individual who applies for Service under this Tariff.

Authorized User: An end user authorized by the Customer to use the Service.

Bellcore: An independent telecommunications research company, and its successors.

Carrier: A company registered by the Commission to provide telecommunications services.

Central Office: A local exchange switching unit that is used to interconnect Exchange Access Lines within a specified area.

Channel or Circuit: A path for transmission between two (2) or more points having a bandwidth and termination of Customer's own choosing.

Commission or FPSC: The Florida Public Service Commission.

Company: SBC National, Inc. d/b/a SBC Telecom, Inc.

Contract: An agreement between Customer and Company in which the two (2) parties agree upon specifications, terms, pricing, and other conditions of Service. The Contract may or may not accompany an associated Service Order.

Customer: A person, firm, corporation or other entity which orders or uses Service and, has agreed by signature or otherwise to honor the terms of the Service herein, and is responsible for the payment of rates and charges for Service to all Customer locations and for compliance with Tariff regulations.

Customer Premises Equipment ("CPE"): Equipment located at the Customer's Premises for use with the Company's Services. CPE can include, for example, a station set, facsimile machine, key system, private branch exchange ("PBX"), or other voice and data communication equipment.

Demarcation Point: Denotes the point of interconnection between the Company's facilities and the wiring at the Customer's Premises.

Deposit: Refers to a cash or equivalent of cash security held as a guarantee for payment of the charges for Services.

Digital: A method of storing, processing and transmitting information through the use of distinct electronic or optical pulses that represent binary digits (bits) 0 and 1. Digital transmission/switching technologies employ a sequence of discrete, individually distinct pulses to represent information, as opposed to the continuously variable signal of analog technologies.

DS-1: Digital Service, Level 1. A 1.544 Mbps dedicated Digital transmission connection furnished by the Company that may either be a connection between a Customer's Premises and the Company's Premises or a connection between two (2) Customer Premises.

E-911: An emergency Service whereby a Customer dials a 911 emergency code and is then connected to a emergency agency responsible for the dispatch of emergency assistance.

End User: The person or legal entity which uses the Service provided by the Company.

FCC: Federal Communications Commission.

Holidays: New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, Christmas Day, or any day which is a legally observed federal government holiday. TBD

Individual Case Basis ("ICB"): A Service arrangement in which the regulations, rates and charges are developed based on the specific circumstances of the Customer's requirements.

Interexchange Carrier ("IXC"): A long distance telecommunications services provider.

InterLATA: An InterLATA call is any call that originates and terminates in a different LATA.

IntraLATA: An IntraLATA call is any call that originates in one LATA and terminates within the same LATA.

LATA: LATA stands for Local Access Transport Area which is a geographic boundary established for the provision and administration of communications services.

Local Exchange Carrier ("LEC"): A provider of local telephone service.

LERG: Local Exchange Routing Guide. A Bellcore document which lists all North American Class 5 Offices (Central Offices; or end offices) and which describes their relationships to Class 4 Offices (Tandem Offices).

Mbps: Megabits per second or millions of bits per second.

Non-Recurring Charge ("NRC"): The initial charge, usually assessed on a one-time basis, to initiate and establish Service. NRC includes, but is not limited to, charges for construction, installation, or special fees for which the Customer becomes liable at the time the Service Order is executed.

NPA: Numbering plan area or area code.

NXX: The first three digits of a seven-digit telephone number.

Premises: Denotes a building, a portion of a building in a multitenant building, or buildings on contiguous property (except railroad rights-of-way, etc.) not separated by a public thoroughfare.

Private Line: A Private Line is a dedicated transmission Channel for full-time Customer use that is furnished to a Customer without an intermediate switching arrangement.

Private Line Service: Denotes non-switched point-to-point Service over fully dedicated lines.

Rate Center: Denotes a geographically specified point used to determine distance dependent rates.

Recurring Charges: Charges that are assessed for Services included within this Tariff on a recurring, monthly basis.

Service: The telecommunications Services offered by the Company.

Service Area: The area in which the Company provides Service.

Service Connection Charge: A one-time charge, which applies for Company work associated with activities to set up/change accounts, including, but not limited to, Service Order issuance, programming, billing, etc., for installations, moves, changes, or rearrangements of Services and/or equipment.

Service Order: The request for facilities or Service by an Applicant or Customer. The request may be in writing, or orally, at the Company's discretion. Acceptance by the Company initiates the respective obligations of the parties as set forth therein and pursuant to this Tariff, but the duration of the Service is calculated from the Services Start Date.

Station: Telephone equipment from or to which calls are placed.

Telecommunications Relay Service ("TRS"): Enables deaf, hard-of-hearing or speech-impaired persons who use a text telephone or similar devices, to communicate freely with the hearing population not using text telephone and visa versa.

Termination of Service: Discontinuance of both incoming and outgoing Service.

Trunk: A communications path, connecting two (2) switching systems in a network, used in the establishment of an end-to-end connection.

Two-Way: A Service attribute that includes dial capabilities for outbound calls and can also be used to carry inbound calls to a central point for further processing.

Underlying Carrier: Any Carrier that provides services resold by the Company pursuant to this Tariff.

V & H: Vertical and horizontal geographic coordinates.

Working Day: Any day on which the Company's business office is open and the U.S. Mail is delivered.

SECTION 2 - RULES AND REGULATIONS

2.1 Undertaking of the Company

2.1.1 Scope

(A) The Company undertakes to provide and is only responsible for the Services offered in this Tariff on the terms and conditions and at the rates and charges specified herein. The Company may offer various unregulated Services in conjunction with or ancillary to its regulated Services. The Company is not responsible to any other entity or its respective customers for any service provided by the other entity that purchases access to the Company network or uses any of the Company's facilities or Services, in order to originate or terminate its own services, or to communicate with its own customers.

(B) The Company may rely on Underlying Carriers or other third parties to provide a portion of the Company's Services. The Company reserves the right to change Underlying Carriers at any time.

2.1.2 Shortage of Equipment and Facilities

Service is offered subject to the availability of facilities, equipment, or systems; the Company's ability to fulfill the request for Service; and the provisions of this Tariff. Service is not offered where operating conditions do not permit. The Company reserves the right, without incurring liability, to refuse to provide or to limit Service to or from any location where the necessary facilities, equipment, systems, interconnection arrangements, billing arrangements, and/or switch software are not available.

2.1.3 Terms and Conditions

(A) Minimum Contracts

1. Except as otherwise provided herein, Service is provided and billed on the basis of a minimum period of at least one (1) month, and shall continue to be provided on a monthly basis until canceled by the Customer. Unless otherwise specified herein, for the purpose of computing charges in this Tariff, a month is considered to have thirty (30) calendar days. All calculations of dates set forth in this

Tariff will be based on calendar days, unless otherwise specified herein.

2. The Company may require a minimum Contract period longer than one (1) month at the same location in connection with special (non-standard) types or arrangements of equipment, or for unusual construction or special Service terms, necessary to meet special demands and involving extra cost or expense.

(B) Customers may be required to enter into written Service Orders which will contain or reference the name of the Customer, a specific description of the Service ordered, the rates to be charged, and the duration of the Services. Customers will also be required to execute any other documents as may be requested by the Company.

(C) Except as otherwise stated in the Tariff or by Contract, at the expiration of the initial term specified in the applicable Service Order, or in any extension thereof, Service shall continue on a month to month basis at the then current Tariff rates until terminated by either party. The Company and Customer may agree that the Service shall automatically renew for the term of the initial Contract. Any termination shall not relieve Customer of its obligation to pay any charges incurred under the Service Order and this Tariff prior to termination. The rights and obligations that by their nature extend beyond the termination of the term of the Service Order shall survive such termination.

(D) Another telephone company or provider of telecommunications service must not interfere with the right of any person or entity to obtain Service directly from the Company. The Customer is absolutely prohibited from reselling the Company's Services unless done in compliance with state and federal laws, rules and regulations, and with written permission from the Company.

(E) The Customer has no property right to the telephone number or any other call number designation associated with Services furnished by the Company. Except as provided by state or federal requirements, the Company reserves the right to change such numbers, or the Central Office designation associated with such numbers, or both, assigned to the Customer, whenever the Company deems it necessary to do so in the conduct of its business.

2.1.4 Notification of Service-Affecting Activities

Where possible, the Company may, at its sole discretion, provide the Customer reasonable notification of Service affecting activities that may occur in normal operation of its business.

2.1.5 Taxes, Surcharges, and Fees

(A) The Customer is responsible for the payment of any sales, use, gross receipts, universal service, excise, access, 911/E911, Telephone Relay Service, subscriber line, franchise, occupation, business, license, privilege or other local, state, or federal charges or surcharges, however designated, including whether assessed directly on the Company or assessed on another company or carrier and passed on to the Company (hereinafter individually or collectively referred to as "Fees"), as determined and billed by the Company. All Fees imposed by state or local governments are listed as a separate line item on the Customer's bill. The rates for Services provided in this Tariff, unless otherwise specified herein, do not include Fees. Fees imposed by a particular jurisdiction (*e.g.*, county or municipality) will be billed only to those Customers with lines in the affected jurisdiction. When the Company by virtue of collecting Fees incurs significant costs that would not otherwise normally be incurred, all such costs shall be determined by the Company and billed, insofar as practical, to the Customers with lines in the affected jurisdiction. The Customer is responsible for any Fees that become applicable retroactively.

(B) Should a local, state or federal jurisdiction assert a right to impose Fees on the Company's operations, the Company may elect to bill the Customer and collect such Fees or it may elect not to do so, pending the conclusion of any challenges to such jurisdiction's right to impose Fees. If it has billed and collected the Fees and the Fees later are found to have been invalid and unenforceable, the Company shall credit or refund such amounts to affected Customers, less a reasonable administrative fee, only if the Fees collected were retained by the Company or the Fees delivered to the jurisdiction in question were later returned to the Company. If the Fees were paid to the jurisdiction in question and not returned to the Company, the Customer agrees that his/her/its recourse is against the jurisdiction in question and not against the Company. The Customer specifically agrees to hold the Company harmless from any and all liability for Fees that were delivered to the jurisdiction in question and not returned to the Company.

2.1.6 Interconnection with Other Carriers

Interconnection with the facilities or service of other carriers shall be under applicable terms and conditions of an interconnection agreement. Any special interface equipment or facilities necessary to achieve compatibility between facilities of the Company and other participating Carriers will be provided at the Customer's expense.

2.2 Limitations on Liability/Indemnity

2.2.1 The Company shall not be liable to the Customer or Authorized User for, and the Customer and any Authorized User, jointly and severally, shall indemnify, defend and hold harmless the Company from, any allegation, claim, loss, damage, liability, defect, cost or expense resulting from or involving:

(A) Libel, slander, or invasion of privacy from material, data, information or other content transmitted over the Company's facilities; or

(B) Patent or trademark infringement or other infringement of intellectual property rights including, but not limited to, copyrights, trademarks, and trade secrets, arising from (1) combining (or using in connection with) Company-provided Services and equipment with any facilities, services, functions, or products provided by the Customer or Authorized User or (2) use of Services, functions, or products the Company furnished in a manner the Company did not contemplate and over which the Company exercises no control. In the event that any such infringing use is enjoined, the Customer or Authorized User at its expense, shall obtain immediately a dismissal or stay of such injunction, obtain a license or other agreement so as to extinguish the claim of infringement, terminate the claimed infringing use, or modify such combination so as to avoid any such infringement; or

(C) A breach in the privacy or security of communications transmitted over its facilities; or

(D) Acts, mistakes, omissions, interruptions, delays, errors or defects in transmission over Company's facilities or equipment; or

(E) Injuries to persons or property from voltages or currents transmitted over Company-provided facilities caused by Customer-provided equipment or Premises wire; or

(F) The disconnection of Service for failure to pay the charges billed to Customer, including but not limited to, any direct, indirect, incidental, special, consequential, exemplary or punitive damages, so long as such disconnection of Service complied with the applicable Commission rules and regulations; or

(G) Violations of the Obligations of the Customer section of this Tariff; or

(H) Defacement of or damage to Customer Premises resulting from the furnishing of Services or equipment on such Premises or the installation, maintenance, repair or removal thereof, unless such defacement or damage is caused by negligence or willful misconduct of the Company's agents or employees; or

(I) The interruption of a call to any party or any other person in conjunction with use of the Busy Line Verification and Interrupt Service as set forth in this Tariff; or

(J) Any loss, destruction or damage to property of the Company, the Company's agent, distributors or any third party, or the death of or injury to persons, including, but not limited to, employees or invitees of either the Company or the Customer, to the extent caused by or resulting from the negligent or intentional act or omission of the Customer, its employees, agents, representatives, invitees or Authorized Users; or

(K) Any delay or failure of performance or equipment due to causes beyond the Company's control, including but not limited to: acts of God, fire, flood, explosion or other catastrophes; any law, order, regulation, direction, action or request of the United States Government, or of any other government, including state and local governments having or claiming jurisdiction over the Company, or of any department, agency, commission, bureau, corporation, or other instrumentality of any one or more of these federal, state, or local governments, or of any civil or military authority; national emergencies; insurrection; riots; wars; unavailability of rights-of-way or materials; or strikes, lock-outs, work stoppages, or other labor difficulties; or

(L) Misrepresentation of, or the failure to disclose, the lawful rates and charges published in this Tariff, so long as the Company has complied with any applicable Commission rules and regulations related thereto; or

(M) Fees the Company delivered to a jurisdiction in question and not returned to the Company as provided in the Taxes, Surcharges, and Fees section of this Tariff; or

(N) Any act, mistake, omission, interruption, delay, error, or defect caused by or contributed to by:

1. Another company or Carrier, or their agents or employees, when the facilities or equipment of the other company or Carrier are used for or with the Services the Company offers. This includes the provision of a signaling system or other database by another company; or

2. The Customer, or any third party acting as its agent, in connection with Company-provided or Customer-provided facilities or equipment including, but not limited to, the Customer's failure to take all necessary steps to obtain, install and maintain all necessary equipment, materials and supplies, for interconnecting the terminal equipment or communications system of the Customer to the Company's network; or

2.2.2 The liability of the Company for damages arising out of the furnishing of, or failing to furnish, its Services, including but not limited to mistakes, omissions, interruptions, delays, errors, defects, or representations, whether caused by acts or omissions shall be limited to the extension of allowances for interruption as set forth herein. The extension of such allowances for interruptions shall be the sole remedy of the Customer and the sole liability of the Company. The Company will not be liable for any direct, indirect, incidental, special, consequential, exemplary or punitive damages to Customer as a result of any Company Service, equipment or facilities, or the acts or omissions or negligence of the Company, its employees or agents.

2.2.3 The entire liability of the Company for any claim, loss, damage or expense from any cause whatsoever shall in no event exceed sums actually paid to the Company by the Customer for the specific services giving rise to the claim, and no action or proceeding against the company shall be commenced more than one (1) year after the Service is rendered.

2.2.4 THE COMPANY MAKES NO WARRANTIES OR REPRESENTATIONS, EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO, ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR

PURPOSE, WITH RESPECT TO ITS SERVICE, EXCEPT THOSE EXPRESSLY SET FORTH IN THIS TARIFF.

2.2.5 The liability of the Company for errors in billing that result in overpayment by the Customer shall be limited to a credit equal to the dollar amount erroneously billed or, in the event that payment has been made and Service has been discontinued, to a refund of the amount erroneously billed.

2.2.6 The Company makes no warranty or representation of any kind whatsoever with respect to installations it provides for use in an explosive atmosphere. The Customer indemnifies and holds the Company harmless from any and all loss, claims, demands, suits, or other action, or any liability whatsoever, whether suffered, made, instituted, or asserted by any entity or person(s), and for any loss, damage, or destruction of any property, whether owned by the Customer or others, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, removal, presence, condition, location, or use of any installation so provided. The Company reserves the right to require each Customer to sign an agreement acknowledging acceptance of the provisions of this section as a condition precedent to such installations.

2.3 Provision of Equipment and Facilities

2.3.1 General

(A) The Company shall use reasonable efforts to make Services available to a Customer on or before a particular date, subject to the provisions of and compliance by the Customer with, the regulations contained in this Tariff. The Company does not guarantee availability by any such date and shall not be liable for any delays in commencing service to any Customer.

(B) The Company shall use reasonable efforts to maintain facilities that it furnishes to the Customer. The Customer may not, nor may the Customer permit others to, rearrange, disconnect, remove, attempt to repair or otherwise interfere with any of the facilities installed by the Company or an agent designated by the Company, except upon the written consent of the Company. The Company will have control over the installation, rearrangement, repair, maintenance, and disconnection of all network elements owned, headed or otherwise obtained to ensure the required level of Service. The Company may substitute, change or rearrange any equipment or facility at any time and from time to time, but shall not thereby alter the technical parameters of the Service provided to the Customer.

(C) Equipment installed at the Customer's Premises for use in connection with the Services the Company offers will not be used for any purpose other than that for which the Company has provided it.

(D) Unless otherwise set forth in this Tariff, the Company will not be responsible for the installation, operation, or maintenance of any CPE. Where such equipment is connected to the facilities furnished pursuant to this Tariff, the responsibility of the Company shall be limited to the furnishing of facilities offered under this Tariff and to the maintenance and operation of such facilities. Beyond this responsibility, the Company shall not be responsible for:

1. The transmission of signals by Customer-provided equipment or for the quality of, or defects in, such transmission; or

2. The reception of signals by Customer-provided equipment; or

3. Network control signaling where such signaling is performed by Customer-provided network control signaling equipment; or

4. The electric power consumed by CPE which shall be provided by, and maintained at the expense of, the Customer; or

5. For ensuring that CPE connected to Company equipment and facilities is compatible with such equipment and facilities (the Customer is responsible for ensuring such compatibility).

(E) Any CPE attached to the Company's network shall be in conformance with all FCC requirements, rules and regulations.

2.3.2 Special Construction

Subject to the arrangement of the Company and to all of the regulations contained in this Tariff, special construction of facilities may be undertaken on a reasonable efforts basis at the request of the Customer. Special construction is that construction undertaken:

(A) where facilities are not presently available, and there is no other requirements for facilities so constructed;

(B) of a type other than that which the Company would normally utilize in the furnishing of its Services;

(C) over a route other than that which the Company would normally utilize in the furnishing of its Services;

(D) in a quantity greater than that which the company would normally construct;

(E) on an expedited basis;

(F) on a temporary basis until permanent facilities are available;

(G) involving abnormal costs; or

(H) in advance of its normal construction.

Special construction charges will be determined on a case by case basis.

2.3.3 Interconnection of Facilities

Any special interface equipment necessary to achieve compatibility between the facilities and equipment of the Company used for furnishing interexchange Service and the channels, facilities, or equipment of others may be provided at the Customer's expense.

2.3.4 Non-routine Installation

At the Customer's request, non-routine installation and/or maintenance may be performed outside of the Company's regular business hours and at the Company's discretion in hazardous locations. In such cases, additional charges may apply. If installation is started during regular business hours but at the Customer's request extends beyond regular business hours into time periods including, but not limited to, weekends, Holidays, and/or night hours, additional charges may apply.

2.3.5 Ownership of Facilities

Title to all facilities provided in accordance with this Tariff for provision of Service to the Customer remains with the Company or third party vendor providing facilities on behalf of the Company.

2.3.6 Use of Service

Service is furnished for use by the Customer and may be used by others only as specifically provided elsewhere in this Tariff.

(A) Service shall not be used to transmit a message, to locate a person, or to otherwise give or obtain information, without payment of the charges applicable to such use. A Customer shall use no device with the Service or facilities of the Company for the purpose of avoiding payment of the applicable charge or defrauding the Company.

(B) Service shall not be used in any manner that interferes with other persons in the use of their Service, prevents other persons from using their Service, or otherwise impairs the quality of Service to other Customers. The Company may require a Customer to immediately cease use of Service if such use is causing interference with or impairing the Service of others.

(C) If a Customer's use of Service interferes unreasonably with the Service of other Customers and that interference is believed by the Company to be related to the quantity or grade of service that the Customer has purchased, the interfering Customer may be required to take Service in sufficient quantity, or of a different class or grade, or to cooperate with the Company to eliminate such interference.

2.4 Obligations of the Customer

2.4.1 General

The Customer shall be responsible for:

(A) Payment of all applicable charges pursuant to this Tariff, Contracts, or special assembly or special construction; and

(B) Reimbursing the Company for damage to, or loss of, the Company's facilities or equipment caused by the acts or omissions of the Customer; the noncompliance by the Customer with these regulations; or by fire, theft or other casualty on the Customer's Premises; and

(C) Providing at reasonable charge, as specified from time to time by the Company, any needed personnel, equipment, space and power to operate Company facilities and equipment installed on the Premises of the Customer, and the level of heating and air conditioning necessary to maintain the proper operating environment on such Premises; and

(D) Obtaining, maintaining, and otherwise having full responsibility for all rights-of-way and conduit necessary for installation of all cable and associated equipment used to provide interexchange Service to the Customer from the Premises entrance or property line to the location of the equipment space. Any costs associated with obtaining and maintaining the rights-of-way described herein, including the costs of altering the structure to permit installation of the Company facilities, shall be borne entirely by, or may be charged by the Company to, the Customer. The Company may require the Customer to demonstrate its compliance with this section prior to accepting an order for Service; and

(E) Ensuring that its equipment and/or system or that of its agent is properly interfaced with the Company's Service; that the signals emitted into the Company's network are of the proper mode, bandwidth, power, data speed, and signal level for the intended use of the Customer and in compliance with the criteria set forth in this Tariff; and that the signals do not damage Company equipment, injure its personnel or degrade service to other Customers. If the Customer or its agent fails to maintain and operate its equipment and/or system or that of its agent properly, with resulting imminent harm to Company equipment, personnel, or the quality of service to other Customers, the Company may, upon written notice, require the use of protective equipment at the Customer's expense. If this fails to produce satisfactory quality and safety, the Company may, upon written notice, terminate the Customer's service without liability; and

(F) Providing a safe place to work and complying with all laws and regulations regarding the working conditions on the Premises at which Company employees and agents will be installing or maintaining the Company's facilities and equipment. The Customer may be required to install and maintain Company's facilities and equipment within a hazardous area if, in the Company's opinion, injury or damage to the Company's or third party vendor's employees or property might result from installation or maintenance by the Company or third party vendor. The Customer shall be responsible for identifying, monitoring, removing and disposing of any hazardous material prior to any construction or installation work; and

(G) Complying with all laws and regulations applicable to, and obtaining all consents, approvals, licenses and permits as may be required with respect to, the location of Company's facilities and equipment in any Customer Premises or the rights-of-way for which Customer is responsible; and

(H) Granting or obtaining permission for Company agents or employees to enter the Premises of the Customer at any time for the purpose of installing, inspecting, maintaining, repairing, or, upon Termination of Service as stated herein, removing the facilities or equipment; and

(I) Preventing liens or other encumbrances from being placed or maintained on the Company's equipment or facilities or CPE leased by the Customer from the Company; and

(J) Making the Company facilities and equipment available periodically for maintenance purposes at a time agreeable to both the Company and the Customer. No allowance for interruptions in Service will be made for the period during which Service is interrupted for such purposes; and

(K) Promptly notifying the Company in writing, of any allegation, claim, loss, damage, liability, defect, cost or expense for which the Company may be responsible and cooperating in every reasonable way to facilitate defense or settlement of such allegation, claim, loss, damage, liability, defect, cost or expense.

2.4.2 Claims

The Customer shall indemnify, defend and hold harmless the Company as set forth in the Limitation of Liability/Indemnity section of this Tariff or as provided elsewhere in this Tariff.

2.4.3 Inspections

(A) Upon reasonable notification to the Customer, and at a reasonable time, the Company may make such tests and inspections as may be necessary to determine that the Customer is complying with the requirements set forth in this Tariff for the installation, operation, and maintenance of Customer-provided facilities and equipment connected to Company-owned facilities and equipment. No credit will be allowed for any interruptions occurring during such inspections.

(B) The Company will, upon request, provide the Customer with a statement of technical parameters that the Customer's equipment must meet. If the protective requirements for CPE are not being complied with, the Company may take such action as it deems necessary to protect its facilities, equipment, and personnel. The Company will notify the Customer promptly if there is any need for corrective action. Within three (3) days of receiving this notice a Customer must take this corrective action and notify the Company of the action taken. If the Customer fails to do this, the Company may take whatever additional action is deemed necessary, including the suspension of Service, to protect its facilities, equipment and personnel from harm.

2.4.4 The Customer shall not assert any claim against any other Customer or user of the Company's Services for damages resulting in whole or in part from or arising in connection with the furnishing of Service under this Tariff including but not limited to mistakes, omissions, interruptions, delays, errors or other defects or misrepresentations, whether or not such other Customer or user contributed in any way to the occurrence of the damages, unless such damages were caused solely by the negligent or intentional act or omission of the other Customer or user and not by any act or omission of the Company.

2.4.5 Fraud and Unauthorized Use of the Network.

(A) The Customer is liable for the unauthorized use of the network obtained through the fraudulent use of a Company calling card, if such a card is offered by the Company, or an accepted credit card, provided that the unauthorized use occurs before the Company has been notified.

(B) A Company calling card is a telephone calling card issued by the Company at the Customer's request, which enables the Customer or any Authorized User to place calls over the network and to have the charges for such calls billed to the Customer's account.

(C) An accepted credit card is any credit card that a cardholder has requested or applied for and received, or has signed, used or authorized another person to use to obtain credit. Any credit card issued as a renewal or substitute in accordance with this paragraph is an accepted credit card when received by the cardholder.

(D) The Customer must give the Company written or oral notice that an unauthorized use of a Company calling card or an accepted credit card has occurred or may occur as a result of loss and/or theft.

(E) The Customer is responsible for payment of all charges for calling card Services furnished to the Customer or any Authorized User, unless due to the negligence of the Company. This responsibility is not changed due to any use, misuse or abuse of the Customer's Service by third parties, the Customer's employees or the public.

(F) The liability of the Customer for unauthorized use of the network by credit card fraud is equal to the amount of money, property, labor or Services obtained by the unauthorized user before notification to the Company.

2.5 Establishment of Service

2.5.1 Application for Service/Service Order

(A) An Applicant for Service may be required to sign an application form requesting the Company to furnish facilities or Service in accordance with the rates, charges, rules and regulations as set forth in this Tariff. This application for Service, together with the provisions of this Tariff, establishes the Contract between the Company and the Customer, which may not be assigned or transferred in any manner.

(B) Payment of all unpaid, undisputed charges, as well as a Deposit and Advance Payment for all connection charges, may be required prior to re-establishing Service.

2.5.2 Establishment of Credit

(A) The Company may conduct a credit investigation of each new Customer or Applicant prior to accepting a Service Order.

(B) The Company may, in order to assure payment of its charges for Service, require Applicants and existing Customers to establish and maintain credit acceptable to the Company.

(C) The establishment and reestablishment of acceptable credit does not relieve the Applicant or Customer from compliance with other provisions in this Tariff as to Advance Payments and the payment of charges due, and will in no way modify the provisions regarding disconnection and Termination of Service for failure to pay bills due for Service or facilities furnished.

(D) A Customer may be required to reestablish credit in accordance with this Tariff when the amount of Service furnished or the basis on which credit was formerly established, in the sole discretion of the Company, has significantly changed.

2.5.3 Advance Payments

To safeguard its interests, the Company may require an Applicant or Customer to make an Advance Payment prior to the provision or restoration of Service or facilities. The Advance Payment will not exceed the amount equal to the Non-Recurring Charge(s) and three (3) months Recurring Charges for the Services or facility. In addition, where special construction is involved, the Advance Payment may also include an amount equal to the estimated Non-Recurring Charges for the special construction and Recurring Charges, if any, for a period to be set by the Company and the Customer. The Advance payment will be credited to the Customer's initial bill. An Advance Payment may be required in addition to a Deposit.

2.5.4 Deposits

(A) General

Applicants for Service or an existing Customer whose financial condition is not acceptable, or not known, to the Company may be required at any time to provide the Company a security Deposit. The Deposit requested will be in cash or the equivalent of cash, and will be held as a guarantee for the payment of charges. A Deposit does not relieve the Customer of the responsibility for the timely payment of bills. The Deposit will not exceed an amount equal to:

1. two twelfths (2/12) of the Customer's actual or estimated annual bill for a Service or facility which has a minimum payment period of one month; or

2. the charges that would apply for the minimum payment period for a Service or facility which has a minimum payment period of more than one month; except that the Deposit may include an additional amount in the event that a Termination charge is applicable.

The Company reserves the right to cease accepting and processing Service Orders after it has requested a security Deposit and prior to the Customer's compliance with this request.

(B) A Deposit may be required in addition to an Advance Payment.

(C) Interest on Deposits

Deposits held will accrue interest at a rate specified by the Commission.

(D) Inadequacy of Deposits

If the amount of a Deposit is proven to be less than required to meet the requirements specified herein, the Customer shall be required to pay an additional Deposit upon request.

(E) Refunds

When a Service or facility is discontinued, the amount of a Deposit, if any, will be applied to the Customer's account and any credit balance remaining will be refunded. Before the Service or facility is discontinued, the Company may, at its option, return the Deposit or credit it to the Customer's account.

2.6 Billing and Collection of Charges

2.6.1 Bills will be rendered monthly to the Customer.

2.6.2 All Service, installation, Recurring, and Non-Recurring Charges are due and payable upon receipt.

2.6.3 The Company shall present invoices for Recurring Charges monthly to the Customer, in advance of the month in which the Service is provided.

2.6.4 For new Customers, or existing Customers whose Service is disconnected, the charge for the fraction of the month in which Service was furnished will be calculated on a pro rata basis. For this purpose, every month is considered to have 30 days.

2.6.5 Payment of all bills is due 25 days after the date of invoice printed on the bill. Amounts not paid by this date (the "due date") will be considered past due.

2.6.6 Dedicated access circuits may be provided and billed by the LEC. Dedicated access channels may be purchased from carriers other than the LEC only in accordance with FPSC rules or if the special access channel is jurisdictionally interstate. Charges for the dedicated access channel are determined by the access provider.

2.7 Disputed Bills

Customer inquiries or complaints regarding Service or accounting may be made in writing or by telephone to the Company at:

SBC National, Inc. d/b/a
SBC Telecom, Inc.
175 Houston Street
San Antonio, Texas 78201
(877) 430-7228 (English)
(877) 418-7228 (Spanish)

The Customer is responsible for notifying the Company in person, by telephone, or in writing, within thirty days of the invoice date printed on the bill, of any charges in dispute and the specific basis of such dispute by the due date.

2.7.1 All charges not in dispute will be paid by the Customer by the due date. Telephone Service may be Suspended or Terminated for nonpayment of the undisputed portion of a disputed bill or Deposit if the Customer does not pay the undisputed portion as required in this Tariff.

2.7.2 Upon notification of a dispute, the Company will undertake an investigation of the disputed charges. At the conclusion of the investigation, the Company will notify the Customer of any amount determined by the Company to be correctly charged and such amount will become immediately due and owing. Amounts determined by the Company to be correctly charged also will be subject to the late payment charge specified in this Tariff. The Company may Suspend/Terminate Service if the Customer fails to pay the amount determined by the Company to be properly charged within 10 days of the Customer's notification of the Company's determination of the dispute.

2.8 Late Payment Charges

2.8.1 Customers will be assessed a late fee on past due amounts in the amount of the lesser of 1.5% per month or a maximum lawful rate under applicable state law.

2.8.2 Late payment charges do not apply to those portions (and only those portions) of unpaid balances that are associated with disputed amounts. Undisputed amounts on the same bill are subject to late payment charges if unpaid and carried forward to the next bill.

2.8.3 Late payment charges do not apply to final accounts.

2.8.4 Collection procedures and the requirement for a Deposit or Advance Payment are not affected by the application of a late payment charge.

2.9 Cancellation of Service By Customer

Cancellation of Service by the Customer can be made either verbally or in writing.

2.9.1 Cancellation Prior to Start of Design of Work or Installation of Facilities

If, prior to cancellation by the Customer, the Company incurs any expenses in installing Service or preparing to install Service that it would not otherwise have incurred, a charge equal to the cost the Company incurred will apply. In no case will this charge exceed the charge for the minimum period of Services ordered, including installation charges, and all amounts others may charge the Company that would have been chargeable to the Customer had Service been initiated.

2.9.2 Cancellation Associated with Special Construction

Where the Company incurs an expense in connection with special construction before it receives a cancellation notice, or where special arrangements of facilities or equipment have begun before the Company receives a cancellation notice, a charge equal to the costs incurred applies. In such cases, the charge applies to allow the Company to recover the otherwise non-recoverable costs of engineering, labor, material, equipment and other related expenses.

2.9.3 Cancellation During Installation

If cancellation occurs between start and completion of installation, the Customer will be responsible for the estimated cost incurred, not to exceed the total Non-Recurring Charges, including termination charges, applicable to the entire Service, equipment and facilities ordered.

2.9.4 Cancellation After Installation but Prior to Service Start-up

If cancellation notice is provided after completion of installation but prior to connection for Service, the Customer is responsible for the charges applicable as if the items involved were actually connected for Service and immediately ordered disconnected, including;

(A) All regularly applicable Service Connection Charges and Non-Recurring Charges, and

(B) All regularly applicable basic termination charges in full, and

(C) All regularly applicable minimum service charges, and

(D) Any other amounts as may be specified in the Tariff covering the items involved, and

(E) Any other amounts that were incurred as a result of expedited orders, or as a result of the cancellation, modification or deferral at the Applicant/Customer's request.

2.9.5 Cancellation of Service After Service Start-up

A Customer who wishes to have Service discontinued shall give at least 5 days oral or written notice to the telephone company, specifying the date on which it is desired that Service be discontinued. The Customer shall retain responsibility for Service and equipment charges until the day and time on which Service is requested to be discontinued. If the Customer fails to provide the Company with proper notice or access to the premises, the Customer shall continue to be responsible for equipment and Service rendered.

2.9.6 Subsequent Order Charges Due to Modification

In the case of modification, charges for the subsequent order are in addition to the costs incurred before the Applicant/Customer changed the original order.

2.10 Refusal or Termination of Service

The Company may refuse or discontinue Service under the following conditions. Unless otherwise stated, the Customer will be provided five (5) Working Days written notice from the date of mailing prior to discontinuance.

2.10.1 For non-compliance with and/or violation of any law, ordinance or regulation pertaining to Service.

2.10.2 For use of the Company's Services for any purpose other than that described in this Tariff or a Contract.

2.10.3 For failure or refusal to provide the Company with a Deposit or Advance Payment to insure payment of bills in accordance with the Company's requirements or failure to meet the Company's credit requirements.

2.10.4 For neglect or refusal to provide reasonable access to the Company for the purpose of inspection and maintenance of equipment owned by the Company.

2.10.5 For non-compliance with and/or violation of the Commission's regulations or the Company's rules and regulations on file with the Commission.

2.10.6 For non-payment of bills for Service.

2.10.7 Without notice in the event of Customer use of equipment in such a manner as to adversely affect the Company's equipment, an Underlying Carrier's equipment, or the Service to others.

2.10.8 Without notice in the event of tampering with the equipment furnished and owned by the Company or an Underlying Carrier.

2.10.9 Without notice in the event of unauthorized or fraudulent use of Service. Whenever Service is discontinued for fraudulent use of Service, the Company may, before restoring service, require Customers to make, at their own expense, all changes in facilities or equipment necessary to eliminate unlawful uses and to pay an amount reasonably estimated as the loss in revenues resulting from such fraudulent use.

2.10.10 For failure of the Customer to make proper application for Service.

2.10.11 For Customer's breach of the Contract for Service between the Company and the Customer.

2.10.12 When necessary for the Company to comply with any order or request of any governmental authority having jurisdiction.

2.11 <u>Reconnection of Customer's Service</u>

Service shall be restored when the causes of discontinuance have been removed and when payment or satisfactory arrangements for payment of all proper charges due from the Applicant, including any proper Deposit, have been made as provided for in the Tariff; or as the Commission may order pending resolution of any bona fide dispute between the Company and the Customer or Applicant over the propriety of disconnection.

A restoral fee will be required pursuant to contract between the Customer and the Company when Service is restored for Customers who had been suspended for non-payment.

2.12 Miscellaneous

2.12.1 Special Conditions or Requirements

Where special conditions or special requirements of a Customer involve unusual construction or installation cost, the Customer may be required to pay a reasonable proportion of such costs or expense.

2.12.2 Telephone Numbers

Unless otherwise required by state or federal requirements, the Company may change any telephone number of a Customer that has been provided by the Company for engineering, technical, or other reasons. In the event of a dispute between two (2) or more parties regarding ownership of a number, the decision of the Company will be final and binding on all parties, unless otherwise required by federal or state law.

2.12.3 Ownership and Access to Facilities

Facilities furnished by the Company are the property of the Company or a third-party vendor. The Customer will provide employees, distributors and agents of the Company access to such facilities, at all reasonable times, for the purpose of installing, rearranging, repairing, maintaining, inspecting, disconnecting, removing or otherwise servicing such facilities.

2.12.4 Installation, Rearrangement, Repair, Maintenance, Disconnection and Removal of Facilities

Company will have control over the installation, rearrangement, repair, maintenance, and disconnection of all network elements, owned, leased or otherwise obtained to ensure the required level of Service.

2.12.5 Transfer and Assignments

Customer may not assign or transfer its rights or duties in connection with the Services and facilities provided by the Company without the written consent of the Company and payment of the applicable charges.

2.12.6 Notices and Communications

(A) The Customer will designate an address to which the Company will mail or deliver all notices and other communications. The Customer may also designate a separate address to which the Company's bills for Service will be mailed.

(B) The Company will designate on the bills an address to which the Customer will mail or deliver all notices and other communications. The Company may designate a separate address on each bill for Service to which the Customer will mail payment on that bill.

(C) All notices or other communications required to be given pursuant to this Tariff will be in writing, unless otherwise provided.

(D) The Company or the Customer will advise the other party of any changes to the addresses designated for notices, other communications or billing, by following the procedures for giving notice set forth herein.

2.13 Interruptions of Service

2.13.1 General

(A) The Company may temporarily interrupt Service when necessary to effect repairs or maintenance; to eliminate an imminent threat to life, health, safety or substantial property damage; or for reasons of local, state or national emergency. Company shall establish procedures to be followed by its employees to prevent or mitigate interruption or impairment and provide prompt notification to affected Customers.

(B) It is the obligation of the Customer to notify the Company of any interruptions in Service. Before giving such notice, the Customer will ascertain that the trouble is not being caused by any action or omission of the Customer, not within the Customer's control, or is not in wiring or equipment connected to the terminal of the Company.

(C) A credit allowance will not be given unless otherwise specified in this Tariff. A Service is interrupted when it becomes inoperative to the Customer, *e.g.*, the Customer is unable to transmit or receive because of a failure of a component furnished by the Company under this Tariff.

(D) If the Customer reports to the Company that a Service, facility or Circuit is inoperative but declines to release it for testing and repair, or refuses access to Customer Premises for test and repair by the Company or an agent of the Company, the Service, facility or Circuit is considered to be impaired but not interrupted. No credit allowance will be made for a Service, facility or Circuit considered by the Company to be impaired.

(E) The Customer will be responsible for the payment of Service charges as set forth herein when the Service difficulty or trouble report results from the use of equipment or facilities provided by any party other than the Company, including, but not limited, to the Customer.

2.13.2 Limitations of Allowances

No credit allowance will be made for any interruption in Service:

(A) Due to the negligence of, willful act of, or noncompliance with the provisions of this Tariff by the Customer; or

(B) Due to the malfunction of Customer-owned telephone equipment; or

(C) Due to circumstances or causes beyond the reasonable control of the Company, including but not limited to, acts of God, military action, wars, insurrections, riots or strikes; or

(D) During any period in which the Company is not given full and free access to Company-provided facilities and equipment for the purposes of investigating and correcting interruptions; or

(E) During any period when the Customer has released Service to the Company for maintenance purposes or for implementation of a Customer order for a change in Service arrangements; or

(F) That occurs or continues due to the Customer's failure to authorize placement of any element of special construction.

(G) That occurs when the Company, under the terms of a Contract for Service, suspends or terminates Services for nonpayment of charges.

(H) For the unlawful or improper use of the facilities or Service.

2.13.3 Use of Another Means of Communications

If the Customer elects to use another means of communications during the period of interruption, the Customer must pay the charges for the alternative Service used.

2.13.4 Application of Credits for Interruptions in Service

(A) Credits for interruptions in Service that is provided and billed on a flat rate basis for a minimum period of at least one (1) month, beginning on the date that billing becomes effective, will in no event exceed an amount equivalent to the proportionate charge to the Customer for the period of Service during which the event that gave rise to the claim for a credit occurred. A credit allowance is applied on a pro rata basis against the rates specified hereunder and is dependent upon the length of the interruption. Credit will be given only for that portion of the Customer's Service affected by the interruption.

(B) For calculating allowances, every month is considered to have thirty (30) days.

2.13.5 Credit Allowance for Interruptions in Service

If the interruption is for more than twenty four (24) hours, an allowance, at the rate for that portion of the Customer's Service affected by the interruption, will be made upon request for the time such interruption continues after the fact is reported by the Customer or detected by the Company as follows:

(A) If the interruption is for twenty four (24) hours or less, no allowance will be made.

(B) If the interruption continues for more than twenty-four (24) hours, the allowance will be equal to one thirtieth ($1/30^{th}$) of the monthly rates for the first full twenty four (24) hour period and for each succeeding twenty four (24) hour period or fraction thereof.

2.14 Returned Check Charge

When a check which has been presented to the Company by a Customer in payment for charges, including Deposits and Advance Payments, is returned by a financial institution which refuses to honor it for insufficient funds or a closed or non-existent account, the Customer will be assessed a twenty dollar ($20.00) charge.

2.15 Customer Service

Correspondence from the Customer to the Company must be addressed to the attention of the Company's Customer Service department and sent to the appropriate office as listed on the Customer bill. The Customer may also contact the Company's Customer Service department by calling a toll free number provided on the Customer bill.

2.16 Sale of Telecommunications Services to Uncertified IXCs Prohibited

Any Customer reselling or rebilling the Company's Florida intrastate telecommunications services must have a Certificate of Public Convenience and Necessity as an interexchange carrier issued by the FPSC.

2.17 Contract Service Arrangements

When economically practicable, customer specific contract service arrangements may be furnished in lieu of any existing tariff offerings. Rates, charges, terms and additional regulations, if applicable, for the contract service arrangements will be developed on an Individual Case Basis. Unless otherwise specified, the regulations for contract service arrangements are in addition to the applicable regulations and rates specified in this Tariff.

SECTION 3 - DESCRIPTION OF SERVICES

3.1 Charges Based on Duration of Use

Where charges for a Service are specified based on the duration of use, such as the duration of a telephone call, the following rules apply:

3.1.1 Calls are measured in duration increments consisting of initial period and additional periods.

(A) Initial Period – The initial period is the length of a call for minimum billing purposes. If the duration of the Customer's call does not continue for the entire initial period, the Customer is charged for the entire initial period. The initial period varies by rate schedule and is specified in individual product rate sections of this Tariff.

(B) Additional Period – The additional period is the rate element used to bill chargeable time when a call continues beyond the initial period. The additional period starts when initial period ends. Additional period rates apply to any fraction of the time period for chargeable time beyond the initial period. If the duration of the Customer's call does not continue for the entire additional period, the Customer is charged for the entire additional period. Additional periods vary by rate schedule and are specified in the individual product rates section of this Tariff.

3.1.2 Timing for all calls begins when the called party answers the call (*i.e.*, when two way communications are established). Answer detection is based on standard industry answer detection methods, including hardware and software answer detection. Chargeable time for all calls ends when one of the parties disconnects from the call.

3.1.3 There shall be no charge for uncompleted calls.

3.1.4 Calls originating in one time period and concluding in another will be billed in proportion to the rates in effect during different segments of the call.

3.2 Rates Based Upon Distance

Where charges for a Service are specified based upon distance, the following rules apply:

3.2.1 "V and H Coordinates"

Distance between two (2) points is measured as airline distance between the Rate Centers of the originating and terminating telephone lines. The Rate Center is a set of geographic "V" and "H" coordinates associated with each NPA-NXX combination (where NPA is the area code and NXX is the first three digits of a seven-digit telephone number). The "V" and "H" coordinates for each Rate Center are found in the Local Exchange Routing Guide (LERG) issued by Bellcore. Where there is no telephone number associated with an access line on the Company's network (such as a dedicated 800 or WATS access line), the Company will apply the Rate Center of the Customer's main billing telephone number.

The airline distance between any two (2) rate centers is determined as follows:

(A) Obtain the "V" (vertical) and "H" (horizontal) coordinates for each Rate Center from the LERG.

(B) Compute the difference between the "V" coordinates of the two (2) Rate centers; and the difference between the two (2) "H" coordinates.

(C) Square each difference obtained in step (B) above.

(D) Add the square of the "V" difference and the square of the "H" difference obtained in step (C) above.

(E) Divide the sum of the squares by 10. Round to the next higher whole number if any fraction is obtained.

(F) Obtain the square root of the whole number result obtained above. Round to the next higher whole number if any fraction is obtained. This is the airline mileage.

(G) FORMULA

$$\sqrt{\frac{(V1-V2)^2 + (H1-H2)^2}{10}}$$

3.3 Premises Work Charge

Premises work charges are measured in duration increments consisting of an initial period and additional periods.

3.3.1 Initial Period – The initial period is the length of the work period for minimum billing purposes. If the duration of the work period does not continue for the entire initial period, the Customer is charged for the entire initial period.

3.3.2 Additional Period – The additional period is the rate element used to bill chargeable time when a work period continues beyond the initial period. The additional period starts when initial period ends. Additional period rates apply to any fraction of the time period for chargeable time beyond the initial period. If the duration of the work period does not continue for the entire additional period, the Customer is charged for the entire additional period.

3.4 Description

Service Connection Charges include but are not limited to the following:

3.4.1 Service Connection Charge

A one-time charge, which applies for Company work associated with activities to set up/change accounts, including, but not limited to, Service Order issuance, programming, billing, etc. for installations, moves, changes, or rearrangements of Services and/or equipment.

3.4.2 Non-Recurring Charge

The initial charge, usually assessed on a one-time basis, to initiate and establish Service. NRC includes, but is not limited to, charges for construction, installation, or special fees for which the Customer becomes liable at the time the Service Order is executed.

3.4.3 Premise Work Charge

A Non-Recurring Charge related to work performed on the Company side of the Demarcation Point at the Customer's Premises by the Company or a Company representative.

3.4.4 Maintenance of Service Charge

A Non-Recurring Charge that applies in instances where, at the Customer's request, the Company or a Company representative makes a repair visit to the Customer's Premises and the Service difficulty or trouble is on the Customer's side of the Demarcation Point.

3.5 General Regulations

3.5.1 Provisioning Hours

The Service Connection Charges specified for the connection, move or change of Service contemplate work being performed by the Company, or an agent of the Company or on behalf of the Company, during normal working hours. If the Customer requests that overtime labor be performed at hours of the day or days of the week other than normal work hours or day, or on Holidays, or interrupts work once begun, additional charges will apply as appropriate. This Service is subject to the availability of resources.

3.5.2 Additional Charges

Service Connection Charges are in addition to other rates and Non-Recurring Charges normally applying under the Tariff. Non-Recurring Charges associated with specific Services are identified under each Tariff section where the rate is applied. Service Connection Charges also apply in addition to construction charges.

3.5.3 Non-Applicability

Service Connection Charges do not apply to:

(A) Moves or changes required for the proper maintenance of Service.

(B) Changes of telephone numbers for Company initiated reasons or Service reasons.

3.6 Service Offerings

3.6.1 Territory

Interexchange Services are available for origination and termination within the State of Florida

3.6.2 Private Line Service

Private Line Service provides non-switched point-to-point Service over fully dedicated lines at a fixed monthly rate. These Circuits are dedicated to the Customer for the Customer's exclusive use twenty-four (24) hours per day. Facilities are offered in numerous configuration to meet the particular transmission needs of Customer. Private Line Service is offered through contract service arrangements. Unless otherwise specified, the regulations for contract service arrangements are in addition to the applicable regulations specified in this Tariff.

(A) DS-1 Private Line Service

DS-1 Service is a Digital transmission facility of 1.544 Mbps with a capacity of up to twenty-four (24) analog or Digital channels. This Service supports voice, analog data, Digital data and video.

(B) This Service consists of making DS-1 capacity available twenty four (24) hours per day, seven (7) days per week.

SECTION 4 - RATES

4.1 DS-1 Service

DS-1 Private Line Service, and all Service Connection Charges associated therewith, will be offered through a Contract entered into on an Individual Case Basis to meet the specialized needs of the Customer. The terms of the Contract will be mutually agreed upon between the Customer and the Company. Unless otherwise specified, the regulations for such Contracts will be in addition to the regulations specified in the Company's applicable Tariffs.

4.2 Special Rates for the Handicapped

4.2.1 Discounts for Hearing Impaired Customers

Intrastate toll message rates for TDD users, which is communicated using a telecommunications device for the deaf (TDD) by properly certified business establishments or individuals equipped with TDDs for communications with hearing or speech impaired persons, shall be evening rates for daytime calls and night rates for evening and night calls.

4.2.2 Directory Assistance Charges for Handicapped Persons

Pursuant to Commission rules and regulations, Company will not charge for the first 50 directory assistance calls made each month by a handicapped person.

4.2.3 Operation of Telecommunications Relay Service.

Intrastate toll calls received from the relay service, each local exchange and interexchange telecommunications company billing relay call will be discounted by 50 percent of the applicable rate for a voice nonrelay call except that where either the calling or called party indicates that either party is both hearing and visually impaired, the call will be discounted 60 percent off the applicable rate for voice nonrelay call. The above discounts apply only to time-sensitive elements of a charge for the call and shall not apply to per call charges such as a credit card surcharge.

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Issued by: Kevin M. Chapman, Director-Regulatory Relations
175 E. Houston Street
San Antonio, Texas 78205

<u>EXHIBIT C</u>

Statement of Financial Ability,
SBC Communications Inc.'s 10-Q Report for the
Third Quarter of 1999 which includes <u>Pro</u> <u>Forma</u>
Combined SBC/Ameritech Financial Information and
SBC Communications Inc.'s 1998 Annual Report

SBC Telecom has the financial resources to provide competitive local exchange and interexchange service in the State of Florida. SBC Telecom will receive funding to begin operations in Florida from its parent company, SBC. Attached hereto is the SBC 10-Q report for the third quarter of 1999, which includes <u>pro</u> <u>forma</u> combined SBC/Ameritech financial information. SBC's <u>pro</u> <u>forma</u> consolidated 1998 operating revenues, including the results from Ameritech, were approximately $46 billion, with a net income of over $7.6 billion. SBC's <u>pro</u> <u>forma</u> income statements and balance sheets appear beginning on page 27 of that report. SBC financial information exclusive of Ameritech results is contained in SBC's 1998 Annual Report which is also hereto attached.

FORM 10-Q

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 1999

or

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

Commission File Number 1-8610

SBC COMMUNICATIONS INC.

Incorporated under the laws of the State of Delaware
I.R.S. Employer Identification Number 43-1301883

175 E. Houston, San Antonio, Texas 78205
Telephone Number: (210) 821-4105

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

At October 29, 1999, 3,411,380,009 common shares were outstanding.

PART I – FINANCIAL INFORMATION

On October 8, 1999, SBC Communications Inc. (SBC) and Ameritech Corporation (Ameritech) completed the merger of an SBC subsidiary with Ameritech. With the merger, Ameritech became a wholly-owned subsidiary of SBC. The transaction was accounted for as a pooling of interests and a tax-free reorganization.

Because the merger was completed after September 30, 1999, the financial information of SBC for the period ended September 30, 1999 is required to be presented on a pre-merger basis. This information follows as Item 1a. Financial Statements and Item 2a. Management's Discussion and Analysis of Financial Condition and Results of Operations. Supplemental pro forma financial information giving effect to the merger and discussing the pro forma results of operations for the combined company is included subsequent to these items as Item 1b. Supplemental Pro Forma Financial Statements and Item 2b. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 1a. Financial Statements

SBC COMMUNICATIONS INC.

CONSOLIDATED STATEMENTS OF INCOME

Dollars in millions except per share amounts

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	1999	1998	**1999**	1998
Operating Revenues				
Landline local service	**$ 2,940**	$ 2,832	**$ 8,667**	$ 8,291
Wireless subscriber	**1,299**	975	**3,391**	2,797
Network access	**1,713**	1,614	**5,116**	4,861
Long distance service	**522**	608	**1,631**	1,791
Directory advertising	**546**	503	**1,537**	1,489
Other	**745**	684	**2,135**	1,872
Total operating revenues	**7,765**	7,216	**22,477**	21,101
Operating Expenses				
Operations and support	**4,280**	4,072	**12,532**	11,929
Depreciation and amortization	**1,378**	1,241	**3,898**	3,677
Total operating expenses	**5,658**	5,313	**16,430**	15,606
Operating Income	**2,107**	1,903	**6,047**	5,495
Other Income (Expense)				
Interest expense	**(205)**	(244)	**(641)**	(760)
Equity in net income of affiliates	**97**	55	**251**	181
Other income (expense) - net	**6**	287	**(74)**	209
Total other income (expense)	**(102)**	98	**(464)**	(370)
Income Before Income Taxes and Cumulative Effect of Accounting Change	**2,005**	2,001	**5,583**	5,125
Income Taxes	**727**	739	**2,014**	1,873
Income Before Cumulative Effect of Accounting Change	**1,278**	1,262	**3,569**	3,252
Cumulative Effect of Accounting Change, net of tax	**-**	-	**-**	15
Net Income	**$ 1,278**	$ 1,262	**$ 3,569**	$ 3,267
Earnings Per Common Share:				
Income Before Cumulative Effect of Accounting Change	**$ 0.65**	$ 0.65	**$ 1.82**	$ 1.66
Net Income	**$ 0.65**	$ 0.65	**$ 1.82**	$ 1.67
Earnings Per Common Share - Assuming Dilution:				
Income Before Cumulative Effect of Accounting Change	**$ 0.64**	$ 0.64	**$ 1.79**	$ 1.64
Net Income	**$ 0.64**	$ 0.64	**$ 1.79**	$ 1.65
Weighted Average Number of Common Shares Outstanding (in millions)	**1,967**	1,955	**1,965**	1,956
Dividends Declared Per Common Share	**$ 0.24375**	$ 0.23375	**$ 0.73125**	$ 0.70125

See Notes to Consolidated Financial Statements.

SBC COMMUNICATIONS INC.

CONSOLIDATED BALANCE SHEETS

Dollars in millions except per share amounts

	September 30, 1999	December 31, 1998
Assets	(Unaudited)	
Current Assets		
Cash and cash equivalents	$ 267	$ 460
Accounts receivable - net of allowances for uncollectibles of $487 and $472	5,524	5,790
Prepaid expenses	628	414
Deferred income taxes	663	489
Other current assets	451	385
Total current assets	7,533	7,538
Property, Plant and Equipment - at cost	76,832	73,466
Less: Accumulated depreciation and amortization	45,635	43,546
Property, Plant and Equipment – Net	31,197	29,920
Intangible Assets - Net of Accumulated Amortization of $893 and $741	5,758	3,087
Investments in Equity Affiliates	2,510	2,514
Other Assets	2,138	2,007
Total Assets	$ 49,136	$ 45,066
Liabilities and Shareowners' Equity		
Current Liabilities		
Debt maturing within one year	$ 2,622	$ 1,551
Accounts payable and accrued liabilities	6,332	6,774
Accrued taxes	1,809	1,206
Dividends payable	480	458
Total current liabilities	11,243	9,989
Long-Term Debt	11,266	11,612
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	2,745	1,990
Postemployment benefit obligation	5,117	5,220
Unamortized investment tax credits	311	359
Other noncurrent liabilities	2,170	2,116
Total deferred credits and other noncurrent liabilities	10,343	9,685
Corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts*	1,000	1,000
Shareowners' Equity		
Common shares issued ($1 par value)	1,988	1,988
Capital in excess of par value	9,229	9,139
Retained earnings	5,529	3,396
Guaranteed obligations of employee stock ownership plans	(91)	(147)
Deferred compensation - LESOP	(78)	(82)
Treasury shares (at cost)	(692)	(882)
Accumulated other comprehensive income (loss)	(601)	(632)
Total shareowners' equity	15,284	12,780
Total Liabilities and Shareowners' Equity	$ 49,136	$ 45,066

* The trusts contain $1,030 in principal amount of the Subordinated Debentures of Pacific Telesis Group.

See Notes to Consolidated Financial Statements.

SBC COMMUNICATIONS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in millions, increase (decrease) in cash and cash equivalents

(Unaudited)

	Nine months ended September 30, 1999	1998
Operating Activities		
Net income	$ 3,569	$ 3,267
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,898	3,677
Undistributed earnings from investments in equity affiliates	(181)	(26)
Provision for uncollectible accounts	374	373
Amortization of investment tax credits	(48)	(54)
Deferred income tax expense	442	344
Cumulative effect of accounting change, net of tax	-	(15)
Other - net	(588)	(1,510)
Total adjustments	3,897	2,789
Net Cash Provided by Operating Activities	7,466	6,056
Investing Activities		
Construction and capital expenditures	(4,741)	(4,191)
Investments in affiliates	(45)	(54)
Purchase of short-term investments	(26)	(41)
Proceeds from short-term investments	6	324
Dispositions	475	733
Acquisitions	(1,134)	-
Other	2	6
Net Cash Used in Investing Activities	(5,463)	(3,223)
Financing Activities		
Net change in short-term borrowings with original maturities of three months or less	948	(197)
Issuance of other short-term borrowings	-	2
Repayment of other short-term borrowings	-	(8)
Issuance of long-term debt	6	394
Repayment of long-term debt	(1,909)	(1,019)
Issuance of common shares	-	57
Purchase of treasury shares	(21)	(497)
Issuance of treasury shares	197	176
Dividends paid	(1,417)	(1,350)
Net Cash Used in Financing Activities	(2,196)	(2,442)
Net increase (decrease) in cash and cash equivalents	(193)	391
Cash and cash equivalents beginning of period	460	410
Cash and Cash Equivalents End of Period	$ 267	$ 801
Cash paid during the nine months ended September 30 for:		
Interest	$ 684	$ 861
Income taxes, net of refunds	$ 1,045	$ 1,084

See Notes to Consolidated Financial Statements.

SBC COMMUNICATIONS INC.

CONSOLIDATED STATEMENT OF SHAREOWNERS' EQUITY

Dollars in millions
(Unaudited)

	Common Shares	Capital in Excess of Par Value	Retained Earnings	Guaranteed Obligations of Employee Stock Ownership Plans	Deferred Compensation - LESOP	Treasury Shares	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 1998	$ 1,988	$ 9,139	$ 3,396	$ (147)	$ (82)	$ (882)	$ (632)
Net income	-	-	3,569	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	31
Dividends to shareowners	-	-	(1,437)	-	-	-	-
Reduction of debt associated with Employee Stock Ownership Plans	-	-	-	56	-	-	-
Cost of LESOP trust shares allocated to employee accounts	-	-	-	-	4	-	-
Purchase of treasury shares	-	-	-	-	-	(21)	-
Issuance of treasury shares	-	(11)	-	-	-	211	-
Other	-	101	1	-	-	-	-
Balance, September 30, 1999	**$ 1,988**	**$ 9,229**	**$ 5,529**	**$ (91)**	**$ (78)**	**$ (692)**	**$ (601)**

See Notes to Consolidated Financial Statements.

SELECTED FINANCIAL AND OPERATING DATA

At September 30, or for the nine months then ended:	1999	1998
Debt ratio	**46.03%**	51.42%
Network access lines in service (000)	**38,132**	36,944
Resold lines (000)	**972**	748
Access minutes of use (000,000)	**116,115**	110,869
Wireless customers (000)	**8,885**	6,467
Number of employees	**133,260**	129,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
Dollars in millions except per share amounts

1. **BASIS OF PRESENTATION** The consolidated financial statements have been prepared by SBC Communications Inc. (SBC) pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, in the opinion of management, include all adjustments (consisting only of normal recurring accruals) necessary to present fairly the results for the interim periods shown. Certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been condensed or omitted pursuant to such SEC rules and regulations. The results for the interim periods are not necessarily indicative of results for the full year. The consolidated financial statements contained herein should be read in conjunction with the consolidated financial statements and notes thereto included in SBC's 1998 Annual Report to Shareowners.

2. **CONSOLIDATION** The consolidated financial statements include the accounts of SBC and its majority-owned subsidiaries. All significant intercompany transactions are eliminated in the consolidation process. Investments in partnerships, joint ventures and less than majority-owned subsidiaries are principally accounted for under the equity method. Earnings from foreign investments accounted for under the equity method are included for periods ended within three months of the date of SBC's Consolidated Statements of Income.

3. **CUMULATIVE EFFECT OF CHANGE IN DIRECTORY ACCOUNTING** Prior to January 1, 1998, SNET Information Services, Inc. recognized revenues and expenses related to publishing directories using the "amortization" method, under which revenues and expenses were recognized over the lives of the directories, generally one year. Effective January 1, 1998, the accounting was changed to the "issue basis" method of accounting, which recognizes the revenues and expenses at the time the related directory is published. The change in methodology was made because the issue basis method is generally followed in the publishing industry, including Southwestern Bell Yellow Pages, Inc. and Pacific Bell Directory, and better reflects the operating activity of the business.

   The cumulative after-tax effect of applying the change in method to prior years was recognized as of January 1, 1998 as a one-time, non-cash gain applicable to continuing operations of $15, or $0.01 per share. The gain is net of deferred taxes of $11.

Dollars in millions except per share amounts

4. **COMPREHENSIVE INCOME** The components of SBC's comprehensive income for the third quarter and nine months ended September 30, 1999 and 1998 include net income and adjustments to shareowners' equity for the foreign currency translation adjustment and net unrealized gain on securities.

Following is SBC's comprehensive income:

	Three months ended September 30,		Nine months ended September 30,	
	1999	1998	1999	1998
Net income	**$ 1,278**	$ 1,262	**$ 3,569**	$ 3,267
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	**11**	15	**31**	(61)
Net unrealized gain on securities:				
Unrealized gain on available for sale securities	**-**	83	**-**	83
Less: reclassification adjustment for gains included in net income	**-**	(1)	**-**	(1)
Net unrealized gain on securities	**-**	82	**-**	82
Other comprehensive income	**11**	97	**31**	21
Total comprehensive income	**$ 1,289**	**$ 1,359**	**$ 3,600**	**$ 3,288**

5. **MERGER AGREEMENT WITH AMERITECH CORPORATION** On October 8, 1999, SBC and Ameritech Corporation (Ameritech) completed the merger of an SBC subsidiary with Ameritech, in a transaction in which each share of Ameritech common stock was exchanged for 1.316 shares of SBC common stock (equivalent to approximately 1,450 million shares). Ameritech became a wholly-owned subsidiary of SBC effective with the merger, and the transaction has been accounted for as a pooling of interests and a tax-free reorganization. The financial statements giving effect to the merger are presented in Item 1b. Supplemental Pro Forma Financial Statements.

The Federal Communications Commission (FCC) approved the merger in October 1999, subject to certain conditions, including accelerated entry into new markets, so that SBC will offer wireline services in 30 new markets within 30 months after the merger closes. In addition, SBC established a separate subsidiary to provide advanced services such as Asymmetrical Digital Subscriber Line and agreed not to charge residential customers minimum monthly long distance fees for at least three years after entering the long distance market. The FCC conditions require specific performance and reporting provisions and contain enforcement provisions that could potentially trigger more than $2 billion in payments if certain goals are not met, including among other items, failure to achieve entrance into the 30 markets within 30 months could result in a violation of $40 per market missed.

SBC estimates additional costs of approximately $500 will be incurred in 2000 to comply with these conditions.

As a condition of the merger, Ameritech sold on October 8, 1999, 20 Midwestern cellular properties including the competing cellular licenses in several markets, including, but not limited to, Chicago, Illinois, and St. Louis, Missouri. The after-tax gain from this sale totals approximately $1.4 billion and will be recognized in the fourth quarter of 1999.

6. **COMPLETION OF MERGERS** On April 1, 1997, SBC and Pacific Telesis Group (PAC) completed the merger of an SBC subsidiary with PAC, in a transaction in which each outstanding share of PAC common stock was exchanged for 1.4629 shares of SBC common stock (equivalent to approximately 626 million shares). With the merger, PAC became a wholly-owned subsidiary of SBC. The transaction has been accounted for as a pooling of interests and a tax-free reorganization.

On October 26, 1998, SBC and Southern New England Telecommunications Corporation (SNET) completed the merger of an SBC subsidiary with SNET, in a transaction in which each share of SNET common stock was exchanged for 1.7568 shares of SBC common stock (equivalent to approximately 120 million shares). SNET became a wholly-owned subsidiary of SBC effective with the merger, and the transaction has been accounted for as a pooling of interests and a tax-free reorganization.

Post-merger initiatives
During the second quarter of 1997, SBC announced after-tax charges of $1.6 billion related to several strategic decisions resulting from the merger integration process that began with the April 1, 1997 closing of its merger with PAC, which included $165 ($101 after tax) of charges related to several regulatory rulings during the second quarter of 1997 and $281 ($176 after tax) for merger approval costs. The decisions resulted from an extensive review of operations throughout the merged company and include significant integration of operations and consolidation of some administrative and support functions.

During the fourth quarter of 1998, SBC again performed a complete review of all operations affected by the merger with SNET to determine the impact on ongoing merger integration processes. Review teams examined operational functions and evaluated all strategic initiatives. As a result of this review, SBC announced net after-tax charges of $268 related to strategic decisions arising from the review and expensing of merger-related costs incurred by SNET.

One-time charges related to the strategic decisions reached by the review teams totaled $403 ($249 after tax) in the fourth quarter of 1998 and $2 billion ($1.3 billion after tax) in the second quarter of 1997. Remaining accruals for anticipated cash expenditures related to these decisions were approximately $136 at September 30, 1999 and $323 at December 31, 1998.

In addition, SBC is currently conducting a review of best practices and strategic initiatives in the merged company. Review teams have been formed and are conducting comprehensive reviews of all phases of SBC's operations. The review teams may determine significant charges are required from those reviews. The teams are expected to conclude their reviews in the fourth quarter of 1999. Management anticipates the previous initiatives from the PAC and SNET mergers will be assimilated into the current review process, and amounts, if appropriate, will be adjusted.

In October 1999, SBC launched an initiative to provide advanced broadband services to many of its U.S. wireline customers (Project Pronto). As part of Project Pronto, SBC expects to make Digital Subscriber Line (DSL) available to approximately 80% of its customers over the next three years. With the launch of Project Pronto and the FCC's recent rulings on data services and unbundled network element pricing, SBC began reviewing and evaluating the carrying value of its network plant in its traditional wireline operations. SBC is assessing whether these changes, including the associated migration of certain customers to the new network envisioned by Project Pronto, affects the net book values of the existing network elements. SBC anticipates concluding this assessment in the fourth quarter of 1999 and accounting charges, if any, could be material.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Dollars in millions except per share amounts

7. **SUBSIDIARY FINANCIAL INFORMATION** The following tables present summarized financial information for PAC:

	September 30, 1999	December 31, 1998
Balance Sheets		
Current assets	$ 3,280	$ 3,037
Noncurrent assets	$ 15,193	$ 15,428
Current liabilities	$ 4,829	$ 5,278
Noncurrent liabilities	$ 10,178	$ 10,482

Nine months ended September 30,	1999	1998
Income Statements		
Operating revenues	$ 8,846	$ 8,368
Operating income	$ 2,338	$ 2,029
Net income	$ 1,254	$ 984

SBC has not provided separate financial statements and other disclosures for PAC as management has determined that such information is not material to the holders of the Trust Originated Preferred Securities, which have been guaranteed by SBC.

The following tables present summarized financial information for Southwestern Bell Telephone Company (SWBell):

	September 30, 1999	December 31, 1998
Balance Sheets		
Current assets	$ 2,554	$ 2,538
Noncurrent assets	$ 13,795	$ 13,241
Current liabilities	$ 5,390	$ 4,679
Noncurrent liabilities	$ 7,715	$ 7,838

Nine months ended September 30,	1999	1998
Income Statements		
Operating revenues	$ 8,375	$ 8,044
Operating income	$ 2,400	$ 2,204
Net income	$ 1,340	$ 1,207

SBC has not provided separate financial statements and other disclosures for SWBell as management has determined that such information is not material to the holders of SWBell's certain outstanding debt securities, which have been guaranteed by SBC.

Dollars in millions except per share amounts

The following tables present summarized financial information for Pacific Bell (PacBell):

	September 30, 1999	December 31, 1998
Balance Sheets		
Current assets	$ 2,610	$ 2,431
Noncurrent assets	$ 13,104	$ 12,662
Current liabilities	$ 4,379	$ 4,445
Noncurrent liabilities	$ 7,423	$ 7,388

Nine months ended September 30,	1999	1998
Income Statements		
Operating revenues	$ 7,245	$ 6,981
Operating income	$ 1,852	$ 1,788
Net income	$ 968	$ 893

SBC has not provided separate financial statements and other disclosures for PacBell as management has determined that such information is not material to the holders of PacBell's certain outstanding debt securities, which have been guaranteed by SBC.

8. **EARNINGS PER SHARE** A reconciliation of the numerators and denominators of basic earnings per share and diluted earnings per share for income before cumulative effect of accounting change for the third quarter and nine months ended September 30, 1999 and 1998 are shown in the table below.

	Three months ended September 30,		Nine months ended September 30,	
	1999	1998	**1999**	1998
Numerators				
Numerator for basic earnings per share:				
Income before cumulative effect of accounting change	**$ 1,278**	$ 1,262	**$ 3,569**	$ 3,252
Dilutive potential common shares:				
Other stock-based compensation	**1**	1	**3**	2
Numerator for diluted earnings per share	**$ 1,279**	$ 1,263	**$ 3,572**	$ 3,254
Denominators				
Denominator for basic earnings per share:				
Weighted average number of common shares outstanding (000)	**1,967,403**	1,954,616	**1,964,511**	1,956,498
Dilutive potential common shares (000):				
Stock options	**24,255**	20,014	**24,860**	20,792
Other stock-based compensation	**6,750**	5,651	**6,329**	5,488
Denominator for diluted earnings per share	**1,998,408**	1,980,281	**1,995,700**	1,982,778
Basic earnings per share:				
Income before cumulative effect of accounting change	**$ 0.65**	$ 0.65	**$ 1.82**	$ 1.66
Cumulative effect of accounting change	**-**	-	**-**	0.01
Net income	**$ 0.65**	$ 0.65	**$ 1.82**	$ 1.67
Diluted earnings per share:				
Income before cumulative effect of accounting change	**$ 0.64**	$ 0.64	**$ 1.79**	$ 1.64
Cumulative effect of accounting change	**-**	-	**-**	0.01
Net income	**$ 0.64**	$ 0.64	**$ 1.79**	$ 1.65

9. **SEGMENT INFORMATION** SBC has four reportable segments: Wireline, Wireless, Directory and Other. The Wireline segment provides landline telecommunications services, including local, network access and long distance services, messaging and Internet services and sells customer premise and private business exchange equipment. The Wireless segment provides wireless telecommunications services, including local and long distance services, and sells wireless equipment. The Directory segment includes advertising, yellow pages, white pages and electronic publishing. The Other segment includes SBC's international investments and other domestic operating subsidiaries.

SBC evaluates performance of these segments based on income before income taxes, adjusted for normalizing (i.e., one-time) items. There were no normalizing items for the quarter and first nine months ended September 30, 1999. Normalized results for the quarter and first nine months ended September 30, 1998 exclude an after-tax gain of $219 from the sale of certain non-core businesses, principally the required disposition of SBC's investment in Mobile Telephone Networks, a cellular company in South Africa.

Dollars in millions except per share amounts

The following tables present segment information for SBC.

For the three months ended September 30, 1999	Revenues from external customers	Intersegment revenues	Income before income taxes
Wireline	$ 5,769	$ 32	$ 1,228
Wireless	1,415	1	274
Directory	535	15	267
Other	46	-	75
Corporate, Adjustments & Eliminations	-	(48)	161
Normalizing adjustments	-	-	-
Total	$ 7,765	$ -	$ 2,005

For the three months ended September 30, 1998	Revenues from external customers	Intersegment revenues	Income before income taxes
Wireline	$ 5,647	$ 21	$ 1,211
Wireless	1,073	(1)	149
Directory	461	13	212
Other	24	-	30
Corporate, Adjustments & Eliminations	11	(33)	41
Normalizing adjustments	-	-	358
Total	$ 7,216	$ -	$ 2,001

At September 30, 1999 or for the nine months ended	Revenues from external customers	Intersegment revenues	Income before income taxes	Segment assets
Wireline	$ 17,132	$ 101	$ 3,826	$ 34,643
Wireless	3,740	1	639	9,569
Directory	1,496	65	693	1,111
Other	91	-	311	3,654
Corporate, Adjustments & Eliminations	18	(167)	114	159
Normalizing adjustments	-	-	-	-
Total	$ 22,477	$ -	$ 5,583	$ 49,136

At September 30, 1998 or for the nine months ended	Revenues from external customers	Intersegment revenues	Income before income taxes	Segment assets
Wireline	$ 16,456	$ 105	$ 3,501	$ 33,302
Wireless	3,064	1	392	7,004
Directory	1,409	60	625	1,080
Other	63	-	226	3,352
Corporate, Adjustments & Eliminations	109	(166)	23	633
Normalizing adjustments	-	-	358	-
Total	$ 21,101	$ -	$ 5,125	$ 45,371

10. **SOFTWARE COSTS** The American Institute of Certified Public Accountants issued a Statement of Position (SOP) that requires capitalization of certain computer software expenditures beginning in 1999. The SOP, which has been adopted prospectively as of January 1, 1999, requires the capitalization of certain costs incurred in connection with developing or obtaining internal use software. Prior to the adoption of the SOP, the costs of computer software purchased or developed for internal use were

expensed as incurred. However, initial operating system software costs were, and continue to be, capitalized.

With comparable levels of software expenditures, the SOP would tend to increase net income in comparison with SBC's former method of accounting for software costs. However, the increases would be largest in the year of adoption with diminishing levels of increases compared with current accounting throughout the amortization period. Consequently, given otherwise comparable income levels excluding software, and otherwise comparable software expenditures, the effect of the SOP would be to increase income in the first year and decrease income in each subsequent year until the number of years affected by the SOP equals the amortization period. The effect of adopting the SOP was to increase net income by approximately $72, or $0.04 per share assuming dilution, for the third quarter of 1999, and by $159, or $0.08 per share assuming dilution, for the first nine months of 1999.

11. **WIRELESS ACQUISITION** On July 8, 1999, SBC completed the acquisition of Comcast Cellular Corporation (Comcast), the wireless subsidiary of Comcast Corporation, in a transaction valued at $1.8 billion including assumption of $1.4 billion in debt. The transaction has been accounted for under the purchase method of accounting. Results of operations are included in the consolidated financial statements from the date of the acquisition. With the acquisition, SBC added approximately 862,000 subscribers in Pennsylvania, Delaware, New Jersey and Illinois.

    In July 1999, subsequent to the completion of the acquisition, SBC retired virtually all of Comcast's outstanding Senior Notes.

SBC COMMUNICATIONS INC.

Item 2a. Management's Discussion and Analysis of Financial Condition and Results of Operations
Dollars in millions except per share amounts

RESULTS OF OPERATIONS

Overview Financial results for SBC Communications Inc. (SBC) for the third quarter and first nine months of 1999 and 1998 are summarized as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	**1999**	1998	Percent Change
Operating revenues	**$ 7,765**	$ 7,216	7.6%	**$ 22,477**	$ 21,101	6.5%
Operating expenses	**$ 5,658**	$ 5,313	6.5%	**$ 16,430**	$ 15,606	5.3%
Operating income	**$ 2,107**	$ 1,903	10.7%	**$ 6,047**	$ 5,495	10.0%
Income before income taxes and cumulative effect of accounting change	**$ 2,005**	$ 2,001	0.2%	**$ 5,583**	$ 5,125	8.9%
Income before cumulative effect of accounting change	**$ 1,278**	$ 1,262	1.3%	**$ 3,569**	$ 3,252	9.7%
Cumulative effect of accounting change	**-**	-	-	**-**	$ 15	-
Net income	**$ 1,278**	$ 1,262	1.3%	**$ 3,569**	$ 3,267	9.2%

In the first quarter of 1998, SBC's results reflected a cumulative effect of accounting change related to accounting for directory revenues and expenses (see Note 3 of Notes to Consolidated Financial Statements).

SBC reported net income of $1,278, or $0.64 per share assuming dilution, for the third quarter of 1999 and $3,569, or $1.79 per share assuming dilution, for the first nine months compared to $1,262, or $0.64 per share assuming dilution, in the third quarter of 1998 and $3,267, or $1.65 per share assuming dilution, for the first nine months of 1998. SBC's results for the third quarter and nine months of 1998 include after-tax gains of $219 on sales of certain non-core businesses, principally the required disposition of SBC's investment in Mobile Telephone Networks (MTN), a cellular company in South Africa.

Excluding the 1998 gains, SBC's net income for the third quarter of 1999 increased $235, or 22.5%, and increased $521, or 17.1%, for the first nine months of 1999. The primary factors contributing to this increase were growth in demand for services and products in SBC's wireline and wireless operations and a reduction in operating expenses due to merger-related initiatives and benefits.

Segment Results SBC has four reportable segments: Wireline, Wireless, Directory and Other. The Wireline segment provides landline telecommunications services, including local, network access and long distance services, messaging and Internet services and sells customer premise and private business exchange equipment. The Wireless segment provides wireless telecommunications services, including local and long distance services, and sells wireless equipment. The Directory segment includes advertising, yellow pages, white pages and electronic publishing. The Other segment includes SBC's international investments and other domestic operating subsidiaries.

Item 2a. Management's Discussion and Analysis of Financial Condition and Results of Operations
Dollars in millions except per share amounts

RESULTS OF OPERATIONS - Continued

SBC evaluates performance of these segments based on income before income taxes, adjusted for normalizing items (see Note 9 of Notes to Consolidated Financial Statements). Income before income taxes includes operating income, interest expense, equity in net income of affiliates and other income (expense) - net. Operating income includes operating revenues, operations and support and depreciation and amortization expense. There were no SBC pre-merger normalizing items for the quarter and first nine months ended September 30, 1999. Normalizing items for the third quarter and first nine months of 1998 included $358 ($219 after tax) of gains on the sales of certain non-core businesses, principally the required disposition of MTN. The effect of normalizing adjustments was to increase income before income taxes for the third quarter of 1998 in Other by $268 and Corporate, adjustments and eliminations by $90. Components of income before income taxes by segment for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Wireline	$ 1,228	$ 1,211	1.4%	$ 3,826	$ 3,501	9.3%
Wireless	274	149	83.9	639	392	63.0
Directory	267	212	25.9	693	625	10.9
Other	75	30	-	311	226	37.6
Corporate, adjustments & eliminations	161	41	-	114	23	-
Total Income Before Income Taxes	$ 2,005	$ 1,643	22.0%	$ 5,583	$ 4,767	17.1%

Changes in income before income taxes in the Wireline, Wireless and Directory segments primarily reflect increases in operating income discussed below. Changes in income before income taxes for the operations included in the Other segment result primarily from the changes in equity in net income of affiliates and other income (expense) - net discussed below; changes in this line also impacted the Wireline segment.

Operating Income Components of operating income by segment for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Wireline	$ 1,417	$ 1,427	(0.7)%	$ 4,399	$ 4,153	5.9%
Wireless	367	244	50.4	876	642	36.4
Directory	268	212	26.4	699	628	11.3
Other	(7)	(6)	16.7	(29)	(18)	61.1
Corporate, adjustments & eliminations	62	26	-	102	90	-
Total Operating Income	$ 2,107	$ 1,903	10.7%	$ 6,047	$ 5,495	10.0%

Components of segment operating revenues and expenses and discussion of the segment results for the third quarter and first nine months of 1999 and 1998 follow.

Item 2a. Management's Discussion and Analysis of Financial Condition and Results of Operations
Dollars in millions except per share amounts

RESULTS OF OPERATIONS - Continued

Operating Revenues SBC's operating revenues increased $549, or 7.6%, in the third quarter of 1999 and $1,376, or 6.5%, for the first nine months of 1999. Components of operating revenues by segment for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	**1999**	1998	Percent Change
Wireline	**$ 5,801**	$ 5,668	2.3%	**$ 17,233**	$ 16,561	4.1%
Wireless	**1,416**	1,072	32.1	**3,741**	3,065	22.1
Directory	**550**	474	16.0	**1,561**	1,469	6.3
Other	**46**	24	91.7	**91**	63	44.4
Corporate, adjustments & eliminations	**(48)**	(22)	-	**(149)**	(57)	-
Total Operating Revenues	**$ 7,765**	$ 7,216	7.6%	**$ 22,477**	$ 21,101	6.5%

Wireline

Wireline operating revenues increased $133, or 2.3%, in the third quarter of 1999 and $672, or 4.1%, for the first nine months of 1999. Components of Wireline operating revenues for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	**1999**	1998	Percent Change
Local service	**$ 2,953**	$ 2,829	4.4%	**$ 8,711**	$ 8,337	4.5%
Network access:						
Interstate	**1,253**	1,140	9.9	**3,740**	3,439	8.8
Intrastate	**463**	482	(3.9)	**1,386**	1,430	(3.1)
Long distance service	**523**	608	(14.0)	**1,634**	1,789	(8.7)
Other	**609**	609	-	**1,762**	1,566	12.5
Total Wireline	**$ 5,801**	$ 5,668	2.3%	**$ 17,233**	$ 16,561	4.1%

Local service revenues increased $124, or 4.4%, in the third quarter and $374, or 4.5%, in the first nine months of 1999 due primarily to increases in demand which totaled approximately $127 for the third quarter and $450 for the first nine months of 1999, including increases in access lines, vertical services and data-related services revenues. The number of access lines increased by 3.2% since September 30, 1998. Approximately 36% of access line growth was due to sales of additional access lines to existing residential customers. Approximately 47% of the access line growth was in California and 27% was in Texas. Access lines in Texas and California account for approximately 75% of SBC's access lines. Vertical services revenues, which include custom calling services, such as Caller ID, Call Waiting, voice mail and other enhanced services, increased by approximately 15% and totaled approximately $1.6 billion for the first nine months of 1999.

Local service revenues also increased as a result of regulatory actions that decreased one or more other types of operating revenues. In 1999, the introduction of extended area service plans, the California High Cost Fund (CHCFB) and the Texas Universal Service Fund (TUSF) collectively

RESULTS OF OPERATIONS - Continued

increased local service revenues by approximately $75 for the third quarter and $133 for the first nine months. Also, long distance revenues decreased by approximately $29 for the third quarter and $88 for the first nine months and intrastate network access revenues decreased by approximately $22 for the third quarter and $48 for the first nine months. The net effect on Wireline operating revenues was an increase of approximately $24 for the third quarter and a reduction of approximately $3 for the first nine months of 1999. The state public utility commissions (PUCs) have stated that the CHCFB and the TUSF, implemented in September 1999, are intended to directly subsidize the provision of service to high cost areas and allow Pacific Bell (PacBell) and Southwestern Bell Telephone Company (SWBell) to set competitive rates for other services. The increases in local services revenues were partially offset by decreases due to rate reductions under PUC price cap orders of approximately $29 for the third quarter and $88 for the first nine months of 1999 and a decline in the public telephone business totaling nearly $36 for the third quarter and approximately $102 for the first nine months of 1999.

Network access Interstate network access revenues increased $113, or 9.9%, in the third quarter and $301, or 8.8%, in the first nine months of 1999 due largely to increases in special access, demand for access services by interexchange carriers and growth in revenues from end-user charges attributable to an increasing access line base, which collectively resulted in an increase of approximately $138 for the third quarter and $386 for the first nine months of 1999. In addition, customer number portability cost recovery, net of a Federal Communications Commission (FCC) rate decrease, contributed approximately $31 for the third quarter and $80 for the first nine months of 1999. Partially offsetting these increases were the effects of rate reductions related to the FCC's productivity factor adjustment, access reform and other changes totaling approximately $55 for the third quarter and $171 for the first nine months of 1999.

Intrastate network access revenues decreased $19, or 3.9%, in the third quarter and $44, or 3.1%, in the first nine months of 1999. Increases in demand totaled approximately $39 for the third quarter and $92 for the first nine months of 1999, including usage by alternative intraLATA toll carriers. These increases were offset by state regulatory rate reductions totaling approximately $26 for the third quarter and $68 for the first nine months of 1999 and the effects of the CHCFB and the TUSF described above in local service totaling approximately $22 for the third quarter and $48 for the first nine months of 1999.

Long distance service revenues decreased $85, or 14.0%, in the third quarter and $155, or 8.7%, in the first nine months of 1999. Long distance service revenues decreased due to the effects of regulatory shifts of approximately $29 in the third quarter and $88 for the first nine months of 1999, discussed above in local service, related to CHCFB, the TUSF and the introduction of extended area service. Also contributing to the decrease were price competition from alternative intraLATA toll carriers and competition from the introduction of intraLATA dialing parity of approximately $44 in the third quarter and $50 in the first nine months of 1999 and regulatory rate orders of approximately $6 in the third quarter and $38 in the first nine months of 1999. Partially offsetting these decreases were increased revenues related to the net effect of local exchange carrier billing settlements of approximately $4 in the third quarter and $23 in the first nine months of 1999 and increased customer migration to SNET All Distance totaling approximately $8 in the third quarter and $19 in the first nine months of 1999.

Item 2a. Management's Discussion and Analysis of Financial Condition and Results of Operations
Dollars in millions except per share amounts

RESULTS OF OPERATIONS - Continued

Other operating revenues increased by $196, or 12.5%, in the first nine months of 1999 due to increased equipment sales, primarily consumer equipment, of approximately $4 in the third quarter and $75 in the first nine months of 1999, increased sales from other nonregulated products and services of approximately $25 in the third quarter and $91 in the first nine months of 1999, revenues from new business initiatives, primarily Internet services, of approximately $11 in the third quarter and $50 for the nine months of 1999 and the deregulation of 911 revenues shifted to other revenues from local service of approximately $10 in the third quarter and $33 in the first nine months of 1999. These increases were partially offset by the transfer of directory operations at Nevada Bell to the Directory segment in the first quarter of 1999 totaling $30 in the third quarter and $68 in the first nine months.

Wireless

Wireless operating revenues increased $344, or 32.1%, in the third quarter of 1999 and $676, or 22.1%, for the first nine months of 1999. Components of Wireless operating revenues for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Subscriber	$ 1,281	$ 974	31.5%	$ 3,373	$ 2,797	20.6%
Other	135	98	37.8	368	268	37.3
Total Wireless	$ 1,416	$ 1,072	32.1%	$ 3,741	$ 3,065	22.1%

Subscriber revenues consist of local service and wireless long distance. Wireless subscriber revenues increased $307, or 31.5%, in the third quarter and $576, or 20.6%, for the first nine months of 1999 due primarily to growth in the number of customers of 31.6%, including approximately 862,000 customers related to Comcast Cellular Corporation (Comcast) acquired in July 1999. These increases were partially offset by declines in average revenue per customer. At September 30, 1999, SBC had 8,510,000 domestic wireless customers.

Other wireless revenues relate primarily to equipment sales and increased $37, or 37.8%, in the third quarter and $100, or 37.3%, for the first nine months of 1999. The increase was primarily attributable to growth in the number of Personal Communication Services customers in California.

Item 2a. Management's Discussion and Analysis of Financial Condition and Results of Operations

Dollars in millions except per share amounts

RESULTS OF OPERATIONS - Continued

Directory

Directory operating revenues increased $76, or 16.0%, in the third quarter and $92, or 6.3%, for the first nine months of 1999. Directory operating revenues for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Total Directory	$ 550	$ 474	16.0%	$ 1,561	$ 1,469	6.3%

Directory operating revenues increased in the third quarter of 1999 due mainly to a change in the schedule of published directories. Also, directory operating revenues increased in the first nine months of 1999 due primarily to increased demand, including benefits from sales initiatives developed in the merger integration process.

Operating Expenses SBC's operating expenses increased $345, or 6.5%, in the third quarter and $824, or 5.3%, for the first nine months of 1999. Components of operating expenses by segment for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Wireline	$ 4,384	$ 4,241	3.4%	$ 12,834	$ 12,408	3.4%
Wireless	1,049	828	26.7	2,865	2,423	18.2
Directory	282	262	7.6	862	841	2.5
Other	53	30	76.7	120	81	48.1
Corporate, adjustments & eliminations	(110)	(48)	-	(251)	(147)	-
Total Operating Expenses	$ 5,658	$ 5,313	6.5%	$ 16,430	$ 15,606	5.3%

Dollars in millions except per share amounts

RESULTS OF OPERATIONS - Continued

Operations and support SBC's operations and support increased $208, or 5.1%, in the third quarter and $603, or 5.1%, for the first nine months of 1999. Components of operations and support expenses by segment for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	**1999**	1998	Percent Change
Wireline	**$ 3,250**	$ 3,163	2.8%	**$ 9,520**	$ 9,246	3.0%
Wireless	**828**	682	21.4	**2,338**	1,992	17.4
Directory	**274**	255	7.5	**839**	817	2.7
Other	**46**	30	53.3	**113**	81	39.5
Corporate, adjustments & eliminations	**(118)**	(58)	-	**(278)**	(207)	-
Total operations and support	**$ 4,280**	$ 4,072	5.1%	**$ 12,532**	$11,929	5.1%

Wireline operations and support increased $87, or 2.8%, in the third quarter and $274, or 3.0%, in the first nine months of 1999. The increase includes costs of approximately $109 in the third quarter and $254 in the first nine months of 1999 associated with new business initiatives and other products, primarily Asymmetrical Digital Subscriber Lines (ADSL), Internet, long distance and voice mail. Additionally, operations and support increased approximately $63 in the third quarter and $196 in the first nine months of 1999 as a result of increased wages, salaries and materials. Operations and support also increased by $74 in the third quarter and $102 in the first nine months related to costs associated with software right-to-use fees, including digital network deployment initiatives, and by approximately $27 in the third quarter and $103 in first nine months of 1999 as a result of costs associated with reciprocal compensation for the termination of Internet traffic.

Operations and support cost increases were partially offset by approximately $44 in the third quarter related to declining merger initiative costs at SWBell and PacBell. Also partially offsetting these increased costs were reductions of approximately $50 in the third quarter and $143 in the first nine months of 1999 primarily due to lower contract labor costs, costs associated with customer number portability and benefit costs. These reductions primarily resulted from the realization of merger initiative benefits, partially offset by normal growth in operations and support expenses. Also partially offsetting the increases in operations and support was the change in accounting for software costs (see Note 10 of Notes to Consolidated Financial Statements) which resulted in approximately $73 in the third quarter and $170 in the first nine months of 1999 being capitalized rather than expensed.

Wireless expenses increased $146, or 21.4%, in the third quarter and $346, or 17.4%, for the first nine months of 1999 due primarily to growth in the number of customers, including the acquisition of Comcast discussed in subscriber revenues above.

Directory expenses increased $19, or 7.5%, in the third quarter and $22, or 2.7%, for the first nine months of 1999. These increases are primarily due to a net change in directories published as discussed in directory operating revenues above and increased employee-related costs associated with increased demand. The increases were partially offset by decreased product-related costs due to benefits from merger initiatives.

Item 2a. Management's Discussion and Analysis of Financial Condition and Results of Operations
Dollars in millions except per share amounts

RESULTS OF OPERATIONS - Continued

Depreciation and amortization SBC's depreciation and amortization expense increased $137, or 11.0%, in the third quarter and $221, or 6.0%, for the first nine months of 1999. Components of depreciation and amortization expense by segment for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	**1999**	1998	Percent Change
Wireline	**$ 1,134**	$ 1,078	5.2%	**$ 3,314**	$ 3,162	4.8%
Wireless	**221**	146	51.4	**527**	431	22.3
Directory	**8**	7	14.3	**23**	24	(4.2)
Other	**7**	-	-	**7**	-	-
Corporate, adjustments & eliminations	**8**	10	-	**27**	60	-
Total depreciation and amortization	**$ 1,378**	$ 1,241	11.0%	**$ 3,898**	$ 3,677	6.0%

Depreciation and amortization expense is primarily in the Wireline and Wireless segments. Depreciation and amortization increased in the Wireline segment by approximately $56 in the third quarter and $152 in the first nine months of 1999 due primarily to overall higher plant levels. Increases of approximately $75 in the third quarter and $96 in the first nine months of 1999 in the Wireless segment include $57 from the acquisition of Comcast in July 1999. The remainder of the Wireless increases resulted from overall higher plant levels. The increases were partially offset by reduced depreciation expense of $11 in the third quarter and $31 in the first nine months of 1999 primarily related to retirements of analog switching equipment and rate variances. In addition, the third quarter 1998 sale of SBC Media Ventures reduced depreciation expense by approximately $28 in the first nine months of 1999.

Interest expense decreased $39, or 16.0%, for the third quarter and $119, or 15.7%, for the first nine months of 1999. This decrease was due primarily to reductions in interest expense resulting from lower average debt levels due to 1998 debt retirements.

Equity in net income of affiliates increased $42, or 76.4%, in the third quarter of 1999 due primarily to increases from investments in Teléfonos de Mexico, S.A. de C.V. (Telmex), Israeli telecommunications and wireless companies in Switzerland and France totaling approximately $37. These increases were partially offset by reduced equity in net income from Telkom SA Limited (Telkom) in South Africa. Equity in net income of affiliates increased $70, or 38.7%, in the first nine months of 1999 due primarily to increased equity in net income of approximately $89 from investments in Telmex, Israel and France, and SBC's domestic wireless partnerships. These increases were partially offset by a lower contribution from SBC's investment in Telkom, resulting from the impact of the decline in the value of the rand and higher maintenance expenses.

Other income (expense) - net for the third quarter and first nine months of 1998 includes $358 for gains on sales of certain non-core businesses, principally the required disposition of MTN. Excluding these gains, other income (expense) - net was income of $6 for the third quarter and net expense of $74 for the first nine months of 1999 and net expense of $71 for the third quarter and $149 for the first nine months of 1998. The first nine months of 1999 include a gain from the sale of a portion of one of SBC's international investments, in Amdocs Limited (Amdocs), of approximately $92 and gains of $52 representing market

RESULTS OF OPERATIONS - Continued

adjustments on Amdocs shares used for contributions to the SBC Foundation and deferred compensation. Results for the first nine months of 1999 also include a gain of approximately $59 from the sale of SBC's investment in an international investment and a gain of approximately $24 from the sale of certain discontinued plant related to Advanced Communications Network. The third quarter of 1999 includes income of $59 related to depreciation in the market value of Telmex L shares underlying certain SBC debt redeemable either in cash or Telmex L shares and gains recognized from the sale of certain Telmex L shares.

The first nine months of 1999 include increased expenses related to higher appreciation in the market value of Telmex L shares underlying certain SBC debt redeemable either in cash or Telmex L shares than in the comparable periods of 1998, net of gains from the sale of certain Telmex L shares of approximately $153 for the first nine months of 1999. Also affecting comparisons in the first nine months of 1998 was receipt of a special dividend of approximately $158 from Amdocs, and approximately $133 of other expense related to the impairment of an international investment and investments in certain wireless technologies, primarily wireless video.

Income Taxes for the third quarter and first nine months of 1998 include amounts related to the sale of certain non-core businesses discussed in other income. Excluding these items, income taxes increased $127, or 21.2%, in the third quarter and $280, or 16.1%, in the first nine months of 1999, primarily due to higher income before income taxes.

COMPETITIVE AND REGULATORY ENVIRONMENT

Ameritech Merger On October 8, 1999, SBC and Ameritech Corporation (Ameritech) completed the merger of an SBC subsidiary with Ameritech. See Note 5 of Notes to Consolidated Financial Statements for a discussion of the merger with Ameritech.

The FCC issued an order approving the transaction, subject to certain conditions, including fostering out-of-region competition, promoting advanced services, opening local markets to competition and improving residential services. These FCC conditions require specific performance and reporting provisions and contain enforcement provisions that could potentially trigger more than $2 billion in payments if certain goals are not met. The following is a brief summary of the major conditions.

- Out-of-Region Competition - Within 30 months from the merger closing, SBC must enter 30 new markets as a facilities-based competitive provider of local services to business and residential customers. Failure to achieve entrance into 30 markets within the 30 month timeframe could result in a fine of $40 for each market missed.

- Promoting Advanced Services - As a condition of the merger, SBC established separate subsidiaries to provide advanced services such as ADSL. These subsidiaries are required to use the same processes as competitors and pay an equivalent price for facilities and services as well as locate at least 10% of their advanced service facilities in low-income areas. In addition, SBC will provide data competitive local exchange companies (CLECs) the economic equivalent of line sharing by providing them a second line at a 50% discount for the purposes of providing advanced services.

- Opening Local Markets to Competition - SBC will file performance measurement data reflecting 20 different categories for each of the 13 states in which it provides local services (13 in-region states) with the FCC and relevant state commissions on a monthly basis. These performance measurements

COMPETITIVE AND REGULATORY ENVIRONMENT - Continued

address functions that may have a particularly direct effect on SBC's local competitors and their customers such as SBC's response to competitors' requests for information and interconnection. If these performance goals are not met, payments of up to $1.1 billion over three years could be triggered.

SBC will develop and deploy, with CLEC input, uniform electronic Operator Support Services (OSS) throughout its 13 in-region state service area that support the pre-ordering, ordering, provisioning, maintenance, repair and billing of resold local services and unbundled network elements. The OSS will include uniform application-to-application interfaces, graphical user interfaces and change management processes that could trigger payments of up to $20 if deployment targets are not met. SBC will restructure OSS charges to eliminate any flat rate up-front charge for the right to use SBC's standard interfaces for accessing OSS. In addition, SBC will provide free training and OSS expert teams for CLECs with annual revenues under $300.

- Improving Residential Service - SBC will not charge residential customers minimum monthly long distance fees for at least three years after entering the long distance market. In addition, SBC will offer a low-income Lifeline universal service plan to low-income residential customers in each of its 13 in-region states.

The effects of these conditions on results of operations is still being evaluated, however SBC expects to incur approximately $500 in additional costs in 2000 to comply with these conditions.

Unbundled Network Elements In January 1999, the United States Supreme Court ordered the FCC to review its rules, arising out of the Telecommunications Act of 1996, that required major local telephone carriers, such as SBC's subsidiaries, to lease to competitors, at a discount, parts of their phone networks, including the telephone lines that run to customers' homes, switching equipment that routes calls and directory and operator assistance. In November 1999, the FCC adopted an order providing that the major local telephone carriers must continue leasing certain parts of their phone network to competitors at a discount. This order provides revised rules that expand the definitions of certain unbundled network elements. The FCC did rule that directory and operator assistance no longer has to be leased at a discount. The order also limits discounted access to switches serving business customers under certain conditions. In addition, the FCC declined to expand its regulation to include mandatory leasing of high speed Internet and data equipment. SBC is currently evaluating the impact of this order. Although the effect of this order on SBC's results of operations and financial position cannot be determined at this time, it is expected to be unfavorable.

Pricing Flexibility In August 1999, the FCC adopted an order and a further notice of proposed rulemaking (FNPR) on interstate access charge reform issues. Under the order, Phase I flexibility will permit a local exchange company (LEC), such as SBC's Wireline subsidiaries, to offer volume and term discounts under contract for certain access services after the LEC has demonstrated that competitors have invested in facilities in the LEC's market areas. Phase II flexibility will permit a LEC to have special access and dedicated transport services removed from price caps entirely after the LEC demonstrates that a much greater level of competition exists. Although the effect of this order and FNPR on SBC's results of operations and financial position cannot be determined at this time, it is expected to be favorable.

OTHER BUSINESS MATTERS

Cumulative Effect of Change in Accounting See Note 3 of Notes to Consolidated Financial Statements for a discussion of the change in directory accounting at SNET Information Services, Inc. in the first quarter of 1998.

New Accounting Standards In June 1998, the Financial Accounting Standards Board (FASB) issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133), which will require all derivatives to be recorded on the balance sheet at fair value and changes in the fair value of the derivatives to be recorded in net income or comprehensive income. In June 1999, the FASB issued Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of the FASB Statement No. 133" (FAS 137) that, among other items, defers the date that FAS 133 must be adopted to years beginning after June 15, 2000. Earlier adoption is permitted. SBC is currently evaluating the impact of the change in accounting required by FAS 133, as amended, but is not able to quantify the effect at this time.

See Note 10 of Notes to Consolidated Financial Statements for a discussion of the new accounting standard on software costs.

Acquisitions See Note 11 of Notes to Consolidated Financial Statements for a discussion of the acquisition of Comcast.

In May 1999, SBC and Telmex announced an agreement to acquire Cellular Communications of Puerto Rico, Inc. (Cellular Communications). In August 1999, SBC acquired Cellular Communications in a transaction valued at $827, including assumption of approximately $370 in debt. In October 1999, following approval by the FCC, Telmex acquired 50% of Cellular Communications from SBC. SBC now owns a direct 50% interest in Cellular Communications. The transaction was accounted for as a purchase, and therefore, results of operations have been included in the consolidated financial statements from the date of acquisition. Cellular Communications offers wireless services under the Cellular One brand name to approximately 375,000 subscribers in Puerto Rico and the U.S. Virgin Islands. The company also offers paging and long distance service in Puerto Rico and is planning to offer wireline phone service in San Juan as a CLEC.

In November 1999, SBC announced it has agreed to acquire Radiofone, Inc. (Radiofone) for approximately eight million shares of SBC common stock. The transaction will be accounted for as a purchase and is expected to be completed in the second quarter of 2000, pending regulatory approvals. Radiofone serves more than 200,000 wireless customers in Louisiana and Michigan, and approximately 300,000 paging customers in 11 states.

In October 1999, SBC acquired approximately 4% of Williams Communications Group, Inc., a subsidiary of Williams Cos., Inc. for an investment of approximately $439.

SBC's Year 2000 Project SBC operates numerous date-sensitive computer applications and systems throughout its businesses. Since 1996, SBC has been addressing these applications and systems and has conducted thousands of tests and a thorough drill of its contingency plans. SBC believes its system and networks are ready for the Year 2000. SBC assigned nearly 400 employees and has spent $214 through September 30, 1999 to upgrade it systems. SBC expects to spend a total of $235 by year-end 1999. The scope of SBC's project included 340 million lines of software code, 1,200 central office switches, 7,000 company buildings, 124,000 personal computers and 15,000 vendor products.

OTHER BUSINESS MATTERS - Continued

SBC's systems and network components have been put through a rigorous process that included several phases, inventory, assessment, remediation, testing and implementation, to ensure their readiness for the date change. In addition to these efforts, from November, 1999 to March, 2000, SBC will also implement freeze periods for our network and operational support systems. A freeze period for software code is being implemented between November 1, 1999 and March 1, 2000. A freeze period for network element hardware and software configurations is being implemented between December 13, 1999 until January 8, 2000. This means that during these timeframes the only changes authorized are for FCC and PUC mandates. These freeze periods are designed to reduce the possibility of year-end problems.

To further ensure that the Year 2000 is a non-event for its customers, SBC has strengthened its business continuity plans to prepare for potential outside situations that could affect services. These plans call for increasing staffing at SBC's network support centers and repair bureaus having additional fuel on hand to power SBC's backup generators and opening command centers throughout the company.

SBC has significant minority investments in large telecommunications carriers in several countries, the most significant of which are in Mexico, South Africa and France. Each of those carriers has plans in place and activities under way to address Year 2000 issues. Based on information reported to SBC, the estimated proportionate share of these companies' Year 2000 conversion costs that will flow through to our earnings is not expected to be material. There is no assurance that Year 2000 readiness preparations for some carriers, as well as the countries in which they operate, will be adequately completed by the end of the year. Therefore, we are unable to determine the full impact Year 2000 may have to those international interests.

LIQUIDITY AND CAPITAL RESOURCES

SBC had $267 in cash and cash equivalents available at September 30, 1999. During the first nine months of 1999, as in 1998, SBC's primary source of funds continued to be cash provided by operating activities. SBC has agreements in place with several banks for lines of credit totaling $1,460, all of which may be used to support commercial paper borrowings. SBC had no borrowings outstanding under these lines of credit at September 30, 1999. Commercial paper borrowings as of September 30, 1999 totaled $1,993. Increases in commercial paper borrowings from prior periods resulted from the acquisitions of and repayments of long-term debt associated with Comcast and Cellular Communications.

SBC's investing activities are primarily related to construction and capital expenditures. During the first nine months of 1999, SBC invested $4,741 for construction and capital expenditures, primarily in the Wireline and Wireless segments. Investing activities during the first nine months of 1999 also included asset dispositions of $475, primarily related to foreign operations, and acquisitions of $1,134, including acquisitions of Comcast and Cellular Communications. Capital expenditures for 1999 are estimated to be approximately $6,400 to $6,800.

SBC plans to spend approximately $6 billion, including costs related to Ameritech, in additional fixed capital over the next three years to accelerate the deployment of broadband capabilities in its network (Project Pronto). This incremental spending is expected to be funded by cash from operations.

In February 1998, SBC retired $630 of long-term debt, including $175 at PacBell and $425 at SWBell, and issued approximately $200 in debentures at PacBell due February 2008 and approximately $200 in debentures at SWBell due March 2048. In September 1998, SBC called $175 of SWBell long-term debt for retirement. Cash paid for dividends in the first nine months of 1999 was $1,417, or 5.0% higher than

LIQUIDITY AND CAPITAL RESOURCES - Continued

in the first nine months of 1998 due to an increase in dividends paid per share to $0.73125 from $0.70125.

In 1999, subsequent to the completion of the acquisitions of Comcast and Cellular Communications, SBC retired virtually all of Comcast's and Cellular Communications' long-term debt.

In September and November 1999, the Board of Directors approved the repurchase of up to a total of approximately 23 million shares of SBC's common stock. These shares will be used for the Radiofone acquisition and to offset dilution caused by stock option exercises or pursuant to other employee benefit plans. As of November 9, 1999, approximately 10.6 million shares have been repurchased.

Item 1b. Supplemental Pro Forma Financial Statements

SBC COMMUNICATIONS INC.

SUPPLEMENTAL PRO FORMA CONSOLIDATED STATEMENTS OF INCOME

Dollars in millions except per share amounts

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	1999	1998	**1999**	1998
Operating Revenues				
Landline local service	**$ 4,843**	$ 4,362	**$ 14,112**	$ 12,795
Wireless subscriber	**1,706**	1,408	**4,564**	4,056
Network access	**2,535**	2,382	**7,596**	7,164
Long distance service	**860**	949	**2,658**	2,773
Directory advertising	**926**	868	**2,746**	2,588
Other	**1,664**	1,637	**4,916**	4,666
Total operating revenues	**12,534**	11,606	**36,592**	34,042
Operating Expenses				
Operations and support	**7,629**	6,696	**21,474**	19,685
Depreciation and amortization	**2,443**	1,916	**6,378**	5,661
Total operating expenses	**10,072**	8,612	**27,852**	25,346
Operating Income	**2,462**	2,994	**8,740**	8,696
Other Income (Expense)				
Interest expense	**(365)**	(383)	**(1,069)**	(1,223)
Equity in net income of affiliates	**220**	134	**574**	441
Other income (expense) - net	**(29)**	292	**(129)**	1,721
Total other income (expense)	**(174)**	43	**(624)**	939
Income Before Income Taxes and Cumulative Effect of Accounting Change	**2,288**	3,037	**8,116**	9,635
Income Taxes	**1,153**	1,111	**3,270**	3,491
Income Before Cumulative Effect of Accounting Change	**1,135**	1,926	**4,846**	6,144
Cumulative Effect of Accounting Change, net of tax	**-**	-	**207**	15
Net Income	**$ 1,135**	$ 1,926	**$ 5,053**	$ 6,159
Earnings Per Common Share:				
Income Before Cumulative Effect of Accounting Change	**$ 0.33**	$ 0.57	**$ 1.42**	$ 1.80
Net Income	**$ 0.33**	$ 0.57	**$ 1.48**	$ 1.81
Earnings Per Common Share - Assuming Dilution:				
Income Before Cumulative Effect of Accounting Change	**$ 0.33**	$ 0.56	**$ 1.40**	$ 1.78
Net Income	**$ 0.33**	$ 0.56	**$ 1.46**	$ 1.79
Weighted Average Number of Common Shares Outstanding (in millions)	**3,414**	3,406	**3,411**	3,406
Dividends Declared Per Common Share	**$ 0.24375**	$ 0.23375	**$ 0.73125**	$ 0.70125

See Notes to Supplemental Pro Forma Consolidated Financial Statements.

SBC COMMUNICATIONS INC.

SUPPLEMENTAL PRO FORMA CONSOLIDATED BALANCE SHEETS

Dollars in millions except per share amounts

(Unaudited)

	September 30, 1999	December 31, 1998
Assets		
Current Assets		
Cash and cash equivalents	$ 532	$ 599
Accounts receivable - net of allowances for uncollectibles of $1,043 and $810	8,903	9,783
Prepaid expenses	868	843
Deferred income taxes	922	685
Other current assets	752	787
Total current assets	11,977	12,697
Property, Plant and Equipment - at cost	115,375	109,778
Less: Accumulated depreciation and amortization	69,335	65,584
Property, Plant and Equipment – Net	46,040	44,194
Intangible Assets - Net of Accumulated Amortization of $1,308 and $1,111	7,197	5,161
Investments in Equity Affiliates	10,632	7,412
Other Assets	6,000	5,517
Total Assets	$ 81,846	$ 74,981
Liabilities and Shareowners' Equity		
Current Liabilities		
Debt maturing within one year	$ 6,424	$ 4,178
Accounts payable and accrued liabilities	10,292	10,642
Accrued taxes	2,509	2,611
Dividends payable	831	809
Total current liabilities	20,056	18,240
Long-Term Debt	17,418	17,170
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	4,933	2,861
Postemployment benefit obligation	9,265	9,193
Unamortized investment tax credits	410	474
Other noncurrent liabilities	3,456	3,269
Total deferred credits and other noncurrent liabilities	18,064	15,797
Corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts*	1,000	1,000
Shareowners' Equity		
Common shares issued ($1 par value)	3,433	3,434
Capital in excess of par value	12,430	12,439
Retained earnings	11,518	8,948
Guaranteed obligations of employee stock ownership plans	(128)	(261)
Deferred compensation - LESOP	(78)	(82)
Treasury shares (at cost)	(692)	(882)
Accumulated other comprehensive income (loss)	(1,175)	(822)
Total shareowners' equity	25,308	22,774
Total Liabilities and Shareowners' Equity	$ 81,846	$ 74,981

* The trusts contain $1,030 in principal amount of the Subordinated Debentures of Pacific Telesis Group.

See Notes to Supplemental Pro Forma Consolidated Financial Statements.

SBC COMMUNICATIONS INC.

SUPPLEMENTAL PRO FORMA CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in millions, increase (decrease) in cash and cash equivalents

(Unaudited)

	Nine months ended September 30, 1999	1998
Operating Activities		
Net income	$ 5,053	$ 6,159
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,378	5,661
Undistributed earnings from investments in equity affiliates	(343)	(108)
Provision for uncollectible accounts	824	629
Amortization of investment tax credits	(64)	(73)
Deferred income tax expense	662	482
Gain on sale of Telecom Corporation of New Zealand Limited shares	-	(1,543)
Cumulative effect of accounting change, net of tax	(207)	(15)
Other - net	(804)	(1,548)
Total adjustments	6,446	3,485
Net Cash Provided by Operating Activities	11,499	9,644
Investing Activities		
Construction and capital expenditures	(7,006)	(6,317)
Investments in affiliates	(32)	(48)
Purchase of short-term investments	(26)	(41)
Proceeds from short-term investments	6	324
Dispositions	1,448	2,316
Acquisitions	(4,792)	(3,182)
Other	2	6
Net Cash Used in Investing Activities	(10,400)	(6,942)
Financing Activities		
Net change in short-term borrowings with original maturities of three months or less	2,214	(1,758)
Issuance of other short-term borrowings	-	2
Repayment of other short-term borrowings	-	(8)
Issuance of long-term debt	738	2,880
Repayment of long-term debt	(2,140)	(1,341)
Issuance of common shares	307	395
Issuance of preferred shares in subsidiaries	3	322
Purchase of treasury shares	(21)	(497)
Issuance of treasury shares	197	176
Dividends paid	(2,464)	(2,339)
Net Cash Used in Financing Activities	(1,166)	(2,168)
Net increase (decrease) in cash and cash equivalents	(67)	534
Cash and cash equivalents beginning of period	599	649
Cash and Cash Equivalents End of Period	$ 532	$ 1,183
Cash paid during the nine months ended September 30 for:		
Interest	$ 1,200	$ 1,305
Income taxes, net of refunds	$ 1,929	$ 1,753

See Notes to Supplemental Pro Forma Consolidated Financial Statements.

SBC COMMUNICATIONS INC.

NOTES TO SUPPLEMENTAL PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Dollars in millions except per share amounts

1. **BASIS OF PRESENTATION** The supplemental pro forma consolidated financial statements have been prepared by SBC Communications Inc. (SBC) pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, in the opinion of management, include all adjustments necessary to present fairly the results for the interim periods shown. The combined results include the effects of changes applied retroactively to conform accounting methodologies between SBC and Ameritech Corporation (Ameritech) for, among other items, pensions, postretirement benefits, sales commissions and merger transaction costs. Certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been condensed or omitted pursuant to such SEC rules and regulations. The results for the interim periods are not necessarily indicative of results for the full year. The supplemental pro forma consolidated financial statements contained herein are not necessarily indicative of the results of operations or financial position that would have occurred had the merger been consummated prior to September 30, 1999 and should be read in conjunction with the consolidated financial statements and notes thereto included in SBC's 1998 Annual Report to Shareowners and Ameritech's 1998 Annual Report to Shareowners.

   SBC reclassified, among other items, payphone revenue to other from landline local service. The reclassifications were made to better reflect revenue in the appropriate segments. Also, SBC reclassified certain Ameritech revenues, expenses and income to reflect consistent treatment among the companies and segments.

2. **CONSOLIDATION** The supplemental pro forma consolidated financial statements include the accounts of SBC and its majority-owned subsidiaries. All significant intercompany transactions are eliminated in the consolidation process. Investments in partnerships, joint ventures and less than majority-owned subsidiaries are principally accounted for under the equity method. Earnings from foreign investments accounted for under the equity method are included for periods ended within three months of the date of SBC's Consolidated Statements of Income.

3. **CUMULATIVE EFFECT OF CHANGE IN DIRECTORY ACCOUNTING** Prior to January 1, 1999, Ameritech's directory publishing subsidiary recognized revenues and expenses related to publishing directories using the "amortization" method, under which revenues and expenses were recognized over the lives of the directories, generally one year. Effective January 1, 1999, the accounting was changed to the "issue basis" method of accounting, which recognizes the revenues and expenses at the time the related directory is published. The change in methodology was made because the issue basis method is generally followed in the publishing industry, including Southwestern Bell Yellow Pages, Inc. and Pacific Bell Directory, and better reflects the operating activity of the business.

   The cumulative after-tax effect of applying the change in method to prior years was recognized as of January 1, 1999 as a one-time, non-cash gain applicable to continuing operations of $207, or $0.06 per share. The gain is net of deferred taxes of $125. See Note 3 of Notes to Consolidated Financial Statements of Item 1a. Financial Statements for a discussion of SNET Information Services, Inc.'s change in method of accounting for directory in 1998.

NOTES TO SUPPLEMENTAL PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Dollars in millions except per share amounts

4. **COMPREHENSIVE INCOME** The components of SBC's comprehensive income for the third quarter and nine months ended September 30, 1999 and 1998 include net income and adjustments to shareowners' equity for foreign currency translation adjustments and net unrealized gains on securities.

Following is SBC's comprehensive income:

	Three months ended September 30,		Nine months ended September 30,	
	1999	1998	1999	1998
Net income	$ 1,135	$ 1,926	$ 5,053	$ 6,159
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	122	344	(366)	225
Reclassification adjustment to net income for cumulative translation adjustment on securities sold	-	-	-	56
Net unrealized gains on securities:				
Unrealized gains on available for sale securities	18	67	18	90
Less: reclassification adjustment for gains included in net income	-	(2)	(5)	(2)
Net unrealized gains on securities	18	65	13	88
Other comprehensive income (loss)	140	409	(353)	369
Total comprehensive income	$ 1,275	$ 2,335	$ 4,700	$ 6,528

5. **COMPLETION OF MERGERS** On October 8, 1999, SBC and Ameritech completed the merger of an SBC subsidiary with Ameritech, in a transaction in which each share of Ameritech common stock was exchanged for 1.316 shares of SBC common stock (equivalent to approximately 1,450 million shares). Ameritech became a wholly-owned subsidiary of SBC effective with the merger and the transaction has been accounted for as a pooling of interests and a tax-free reorganization. Financial statements for prior periods have been restated to include the accounts of Ameritech. Transaction costs related to the merger were $77 ($48 net of tax). Of this total $25 ($16 net of tax) is included in expenses in the first nine months of 1999 and $52 ($32 net of tax) in the first nine months of 1998 as merger costs were incurred from May 1998.

Dollars in millions except per share amounts

Operating revenues, income before extraordinary loss and cumulative effect of accounting change and net income of the separate companies on a pre-merger basis for the last three periods are presented below:

	Nine Months Ended September 30,	Year Ended December 31,	
	1999	1998	1997
Operating revenues:			
SBC	$ 22,477	$ 28,777	$ 26,681
Ameritech	13,912	17,154	15,998
Adjustments	203	276	427
Combined	$ 36,592	$ 46,207	$ 43,106
Income before extraordinary loss and cumulative effect of accounting change:			
SBC	$ 3,569	$ 4,068	$ 1,674
Ameritech	1,438	3,606	2,296
Adjustments	(161)	61	117
Combined	$ 4,846	$ 7,735	$ 4,087
Net income:			
SBC	$ 3,569	$ 4,023	$ 1,674
Ameritech	1,645	3,606	2,296
Adjustments	(161)	61	117
Combined	$ 5,053	$ 7,690	$ 4,087

Combined pro forma results include the effect of retroactively conforming accounting methodologies between SBC and Ameritech. Among other items, non-cash adjustments were made to conform accounting for pension and postretirement benefits between the companies and to immediately expense certain items routinely deferred and amortized by Ameritech, including sales commissions and leased customer security and paging equipment. The pension and postretirement adjustments include the effects of conforming the adoption date for postretirement accounting, methods of recognizing actuarial gains and synchronization of estimates related to the current year's benefit plans. The effects of all of these conforming changes decreased third quarter 1999 net income by approximately $48 and increased third quarter 1998 net income by $19.

Post-merger initiatives
In the third quarter of 1999, SBC recorded after tax charges of $883 including charges to apply SBC's accounting estimates and valuations to similar items in Ameritech's financial statements. These charges include, among other items, recognition of impairment of long-lived assets, adjustments to the estimate of allowance for doubtful accounts and other items and estimates of other obligations. Following is a discussion of the most significant of these charges.

Impairments/asset valuation SBC reviewed the carrying values of the long-lived assets. This review included estimating remaining useful lives and cash flows and identifying assets to be abandoned. Where this review indicated impairment, discounted cash flows related to those assets were analyzed to determine the amount of the impairment. As a result of these reviews, SBC wrote off certain assets and recognized impairments to the value of other assets with a combined charge of $454 ($322 after tax). Included in these adjustments was an impairment of $300 ($224 after tax) related to Ameritech's security business. The impairment adjustment, taken as a reduction in goodwill of $300, reflects a reduction of the investment to fair market value. In connection with this adjustment, SBC shortened the estimated life of the remaining goodwill from 40 to 15 years. As a result of these adjustments, SBC estimates amortization expense will increase by $10-$15 annually for the remaining life of the goodwill. Other items consisted primarily of valuation adjustments on certain analog switching equipment at Ameritech and certain cost investments.

Estimates to allowance for doubtful accounts SBC performed a review of the allowance for doubtful accounts at the Ameritech subsidiaries and recognized a charge of $212 ($135 after tax). This charge resulted from synchronizing the estimation methods between SBC and Ameritech for the allowance for doubtful accounts.

Other items and estimates of other obligations SBC performed a review of Ameritech's accounting operations and applied consistent accounting techniques between SBC and Ameritech. As a result, SBC recognized charges related to the impact of several regulatory and legal rulings of $136 ($84 after tax), deferred taxes on international investments of $289, net charges related to the routine deferral of certain costs and revenues by Ameritech of $62 ($40 after tax) and other miscellaneous items of $17 ($13 after tax).

As previously disclosed, strategic reviews and initiatives for the Pacific Telesis Group (PAC) and Southern New England Telecommunications (SNET) mergers were conducted following those mergers and certain charges were recognized upon completion of the reviews. See Note 6 of Notes to Consolidated Financial Statements in Item 1a for further discussion of these charges. Remaining accruals for anticipated cash expenditures related to the PAC and SNET merger were approximately $136 at September 30, 1999 and $323 at December 31, 1998 and approximately $376 at September 30, 1999 related to the Ameritech merger.

In addition, SBC is currently conducting a review of best practices and strategic initiatives in the merged company. Review teams have been formed and are conducting comprehensive reviews of all phases of SBC's operations. The review teams may determine significant charges are required from those reviews. The teams are expected to conclude their reviews in the fourth quarter of 1999. Management anticipates the previous initiatives form the PAC and SNET mergers will be assimilated into the current review process, and amounts, if appropriate, will be adjusted.

In October 1999, SBC launched an initiative to provide advanced broadband services to many of its U.S. wireline customers (Project Pronto). As part of Project Pronto, SBC expects to make Digital Subscriber Line (DSL) available to approximately 80% of its customers over the next three years. With the launch of Project Pronto and the FCC's recent rulings on data services and unbundled network element pricing, SBC began reviewing and evaluating the carrying value of its network plant in its traditional wireline operations. SBC is assessing whether these changes, including the associated migration of certain customers to the new network envisioned by Project Pronto, affects the net book values of the existing network elements. SBC anticipates concluding this assessment in the fourth quarter of 1999 and accounting charges, if any, could be material.

NOTES TO SUPPLEMENTAL PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Dollars in millions except per share amounts

6. **SUBSIDIARY FINANCIAL INFORMATION** The following tables present summarized financial information for PAC:

	September 30, 1999	December 31, 1998
Balance Sheets		
Current assets	$ 3,280	$ 3,037
Noncurrent assets	$ 14,777	$ 15,428
Current liabilities	$ 4,829	$ 5,278
Noncurrent liabilities	$ 9,996	$ 10,482

Nine months ended September 30,	1999	1998
Income Statements		
Operating revenues	$ 8,853	$ 8,370
Operating income	$ 2,309	$ 2,029
Income before cumulative effect of accounting change	$ 1,237	$ 984
Net income	$ 1,019	$ 984

SBC has not provided separate financial statements and other disclosures for PAC as management has determined that such information is not material to the holders of the Trust Originated Preferred Securities, which have been guaranteed by SBC.

The following tables present summarized financial information for Southwestern Bell Telephone Company (SWBell):

	September 30, 1999	December 31, 1998
Balance Sheets		
Current assets	$ 2,554	$ 2,538
Noncurrent assets	$ 13,795	$ 13,241
Current liabilities	$ 5,390	$ 4,679
Noncurrent liabilities	$ 8,047	$ 7,838

Nine months ended September 30,	1999	1998
Income Statements		
Operating revenues	$ 8,375	$ 8,044
Operating income	$ 2,306	$ 2,204
Income before cumulative effect of accounting change	$ 1,281	$ 1,207
Net income	$ 1,009	$ 1,207

SBC has not provided separate financial statements and other disclosures for SWBell as management has determined that such information is not material to the holders of SWBell's certain outstanding debt securities, which have been guaranteed by SBC.

Dollars in millions except per share amounts

The following tables present summarized financial information for Pacific Bell (PacBell):

	September 30, 1999	December 31, 1998
Balance Sheets		
Current assets	$ 2,610	$ 2,431
Noncurrent assets	$ 13,171	$ 12,662
Current liabilities	$ 4,379	$ 4,445
Noncurrent liabilities	$ 8,475	$ 7,388

Nine months ended September 30,	1999	1998
Income Statements		
Operating revenues	$ 7,245	$ 6,981
Operating income	$ 1,895	$ 1,788
Income before cumulative effect of accounting change	$ 993	$ 893
Net income	$ (17)	$ 893

SBC has not provided separate financial statements and other disclosures for PacBell as management has determined that such information is not material to the holders of PacBell's certain outstanding debt securities, which have been guaranteed by SBC.

SBC COMMUNICATIONS INC.

NOTES TO SUPPLEMENTAL PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Dollars in millions except per share amounts

7. **EARNINGS PER SHARE** A reconciliation of the numerators and denominators of basic earnings per share and diluted earnings per share for income before cumulative effect of accounting change for the third quarter and nine months ended September 30, 1999 and 1998 are shown in the table below.

	Three months ended September 30,		Nine months ended September 30,	
	1999	1998	1999	1998
Numerators				
Numerator for basic earnings per share:				
Income before cumulative effect of accounting change	**$ 1,135**	$ 1,926	**$ 4,846**	$ 6,144
Dilutive potential common shares:				
Other stock-based compensation	**1**	1	**3**	2
Numerator for diluted earnings per share	**$ 1,136**	$ 1,927	**$ 4,849**	$ 6,146
Denominators				
Denominator for basic earnings per share:				
Weighted average number of common shares outstanding (000)	**3,413,896**	3,405,956	**3,410,929**	3,405,712
Dilutive potential common shares (000):				
Stock options	**42,299**	35,551	**43,344**	36,437
Other stock-based compensation	**6,750**	5,651	**6,329**	5,488
Denominator for diluted earnings per share	**3,462,945**	3,447,158	**3,460,602**	3,447,637
Basic earnings per share:				
Income before cumulative effect of accounting change	**$ 0.33**	$ 0.57	**$ 1.42**	$ 1.80
Cumulative effect of accounting change	**-**	-	**0.06**	0.01
Net income	**$ 0.33**	$ 0.57	**$ 1.48**	$ 1.81
Diluted earnings per share:				
Income before cumulative effect of accounting change	**$ 0.33**	$ 0.56	**$ 1.40**	$ 1.78
Cumulative effect of accounting change	**-**	-	**0.06**	0.01
Net income	**$ 0.33**	$ 0.56	**$ 1.46**	$ 1.79

8. **SEGMENT INFORMATION** To better reflect the broadened scope of its operations, SBC has adjusted its segment reporting structure announced at the beginning of 1999. SBC now has four reportable segments: Wireline, Wireless, Information and Entertainment, and International. The Information and Entertainment segment expands on what was previously the Directory segment, and includes all directory operations of the combined company plus the Ameritech electronic security and cable television operations. All international investment operations have been removed from the Other segment and are shown separately in the International segment. The miscellaneous items that formerly were included in the Other segment have been moved to Corporate, Adjustments, and Eliminations.

The Wireline segment provides landline telecommunications services, including local, network access and long distance services, messaging and Internet services and sells customer premise and private business exchange equipment. The Wireless segment provides wireless telecommunications services, including local and long distance services, and sells wireless equipment. The Information and Entertainment segment includes advertising, yellow pages, white pages, electronic publishing, electronic security services, and cable television services. The International segment includes all international investments.

NOTES TO SUPPLEMENTAL PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Dollars in millions except per share amounts

The segment results include the 1999 effects of conforming accounting methodologies between SBC and Ameritech. Among other items, non-cash adjustments were made to conform accounting for pension and postretirement benefits between the companies and to immediately expense certain items routinely deferred and amortized by Ameritech, including sales commissions and leased customer security and paging equipment. The pension and postretirement adjustments include the effects on conforming the adoption date for postretirement accounting, methods of recognizing actuarial gains and synchronization of estimates related to the current year's benefit plans. These conforming accounting changes for 1998 and prior were recorded as a cumulative effect of accounting changes at the segment. These cumulative effect of accounting changes were retroactively restated to the appropriate year in SBC's results. Segment results for periods after 1999 will also include these conforming entries and be comparable to 1999 results.

SBC evaluates performance of these segments based on income before income taxes, adjusted for normalizing (i.e. one-time) items. SBC's consolidated pro forma third quarter results in both 1999 and 1998 exclude normalizing items.

Normalized results in 1999 include adjustments for a third quarter after-tax charge of $883 including, among other items, recognition of impairment of long-lived assets, adjustments to the estimate of allowance for doubtful accounts, estimation of deferred taxes on international investments and other items as discussed in Note 5 of Notes to Supplemental Pro Forma Consolidated Financial Statements, offset by $47 from the incremental impacts of overlapping wireless properties required to be sold in October 1999. The nine months ended September 30, 1999 exclude $114 from the incremental impacts of overlapping wireless properties required to be sold in October 1999, and $27 related to reduction of a first quarter 1998 charge to cover the cost of consolidating security monitoring centers and company-owned retail stores.

Normalized results in 1998 exclude third quarter 1998 after-tax gains of $219 from the sale of certain non-core businesses, principally the required disposition of SBC's investment in Mobile Telephone Networks, a cellular company in South Africa, and $28 from the incremental impacts of overlapping wireless properties required to be sold in October 1999. The nine months ended September 30, 1998 excludes after-tax gains of $1,012 for the sale of Telecom Corporation of New Zealand Limited shares, $77 from the incremental impacts of overlapping wireless properties required to be sold in October 1999, and a $64 after-tax charge to cover the cost of consolidating security monitoring centers and company-owned cellular retail stores.

The following tables present segment information for SBC.

For the three months ended September 30, 1999	Revenues from external customers	Intersegment revenues	Income before income taxes
Wireline	$ 9,464	$ 80	$ 2,193
Wireless	1,860	1	319
Information and entertainment	1,055	16	352
International	47	2	149
Corporate, Adjustments & Eliminations	24	(99)	86
Normalizing adjustments	84	-	(811)
Total	$ 12,534	$ -	$ 2,288

NOTES TO SUPPLEMENTAL PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Dollars in millions except per share amounts

For the three months ended September 30, 1998	Revenues from external customers	Intersegment revenues	Income before income taxes
Wireline	$ 8,918	$ 68	$ 1,928
Wireless	1,465	(1)	176
Information and entertainment	947	16	313
International	25	5	44
Corporate, Adjustments & Eliminations	26	(88)	164
Normalizing adjustments	225	-	412
Total	$ 11,606	$ -	$ 3,037

At September 30, 1999 or for the nine months ended	Revenues from external customers	Intersegment revenues	Income before income taxes	Segment assets
Wireline	$ 27,860	$ 239	$ 6,575	$ 52,914
Wireless	4,923	1	722	11,741
Information and entertainment	3,060	72	940	3,638
International	129	9	500	14,445
Corporate, Adjustments & Eliminations	92	(321)	27	(892)
Normalizing adjustments	528	-	(648)	-
Total	$ 36,592	$ -	$ 8,116	$ 81,846

At September 30, 1998 or for the nine months ended	Revenues from external customers	Intersegment revenues	Income before income taxes	Segment assets
Wireline	$ 26,119	$ 232	$ 5,834	$ 50,636
Wireless	4,159	1	409	8,973
Information and entertainment	2,826	65	955	3,778
International	101	13	286	11,514
Corporate, Adjustments & Eliminations	167	(311)	214	4
Normalizing adjustments	670	-	1,937	-
Total	$ 34,042	$ -	$ 9,635	$ 74,905

9. **SOFTWARE COSTS** The American Institute of Certified Public Accountants issued a Statement of Position (SOP) that requires capitalization of certain computer software expenditures beginning in 1999. The SOP, which has been adopted prospectively as of January 1, 1999, requires the capitalization of certain costs incurred in connection with developing or obtaining internal use software. Prior to the adoption of the SOP, the costs of computer software purchased or developed for internal use were expensed as incurred. However, initial operating system software costs were, and continue to be, capitalized.

With comparable levels of software expenditures, the SOP would tend to increase net income in comparison with SBC's former method of accounting for software costs. However, the increases would be largest in the year of adoption with diminishing levels of increases compared with current accounting throughout the amortization period. Consequently, given otherwise comparable income levels excluding software, and otherwise comparable software expenditures, the effect of the SOP would be to increase income in the first year and decrease income in each subsequent year until the number of years affected by the SOP equals the amortization period. The effect of adopting the SOP was to increase net income by approximately $98, or $0.03 per share assuming dilution, for the third quarter of 1999, and by $224, or $0.06 per share assuming dilution, for the first nine months of 1999.

NOTES TO SUPPLEMENTAL PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Dollars in millions except per share amounts

10. **WIRELESS ACQUISITION** On July 8, 1999, SBC completed the acquisition of Comcast Cellular Corporation (Comcast), the wireless subsidiary of Comcast Corporation, in a transaction valued at $1.8 billion including assumption of $1.4 billion in debt. The transaction has been accounted for under the purchase method of accounting. Results of operations are included in the consolidated financial statements from the date of the acquisition. With the acquisition, SBC added approximately 862,000 subscribers in Pennsylvania, Delaware, New Jersey and Illinois.

    In July 1999, subsequent to the completion of the acquisition, SBC retired virtually all of Comcast's outstanding Senior Notes.

11. **INVESTMENT IN BELL CANADA** On June 1, 1999, SBC acquired 20% of Bell Canada, a subsidiary of BCE Inc., a publicly traded Canadian communications company, for approximately $3.4 billion.

12. **SUBSEQUENT EVENTS** In October 1999, SBC completed the required disposition, as a condition of the merger, of 20 Midwestern cellular properties including the competing cellular licenses in several markets, including, but not limited to, Chicago, Illinois, and St. Louis, Missouri. The after-tax gain from this sale totals approximately one and one-quarter billion dollars and will be recognized in the fourth quarter of 1999.

    In the fourth quarter of 1999 SBC will also recognize expenses of approximately $200 to $250 related to certain contractual and regulatory obligations triggered by the completion of the merger.

Item 2b. Management's Discussion and Analysis of Financial Condition and Results of Operations
Dollars in millions except per share amounts

SUPPLEMENTAL PRO FORMA RESULTS OF OPERATIONS

Overview Financial results for SBC Communications Inc. (SBC) for the third quarter and first nine months of 1999 and 1998 are summarized as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Operating revenues	$ 12,534	$ 11,606	8.0%	$ 36,592	$ 34,042	7.5%
Operating expenses	$ 10,072	$ 8,612	17.0%	$ 27,852	$ 25,346	9.9%
Operating income	$ 2,462	$ 2,994	(17.8)%	$ 8,740	$ 8,696	0.5%
Income before income taxes and cumulative effect of accounting change	$ 2,288	$ 3,037	(24.7)%	$ 8,116	$ 9,635	(15.8)%
Income before cumulative effect of accounting change	$ 1,135	$ 1,926	(41.1)%	$ 4,846	$ 6,144	(21.1)%
Cumulative effect of accounting change	-	-	-	$ 207	$ 15	-
Net income	$ 1,135	$ 1,926	(41.1)%	$ 5,053	$ 6,159	(18.0)%

In the first quarters of 1999 and 1998, SBC reflected a cumulative effect of accounting change related to accounting for directory revenues and expenses (see Note 3 of Notes to Consolidated Financial Statements and Note 3 of Notes to Supplemental Pro Forma Consolidated Financial Statements).

SBC reported net income for the third quarter of 1999 of $1,135, or $0.33 per share assuming dilution, and for the nine months ended of $5,053, or $1.46 per share assuming dilution, compared to $1,926, or $0.56 per share assuming dilution, in the third quarter of 1998 and $6,159, or $1.79 per share assuming dilution, for the first nine months of 1998.

The third quarter and the first nine months of 1999 and 1998 include several items that SBC normalizes for management purposes. For 1999, normalizing items included: (i) third quarter after-tax charges including, among other items, recognition of impairment of long-lived assets, adjustments to the estimate of allowance for doubtful accounts, estimation of deferred taxes on international investments and other items and estimates of other obligations of $883 (ii) the after-tax incremental impacts of overlapping wireless properties required to be sold in October 1999 of $47 for the third quarter and $114 for the first nine months and (iii) a first quarter reduction of a first quarter 1998 charge to cover the costs of consolidating security monitoring centers and company owned cellular retail stores.

For 1998, normalizing items included: (i) third quarter after-tax gains of $219 on sales of certain non-core businesses, principally the required disposition of Mobile Telephone Networks (MTN), a cellular company in South Africa, (ii) the after-tax incremental impacts of overlapping properties required to be sold in October 1999 of $28 for the third quarter and $77 for the first nine months, (iii) the second quarter 1998 after-tax gain on the sale of Telecom Corp of New Zealand Limited (TCNZ) shares of $1,012 and (iv) the first quarter after-tax charge to cover the cost of consolidating security monitoring centers and company-owned cellular retail stores of $64.

Excluding the 1999 and 1998 normalizing items, SBC's net income for the third quarter of 1999 was $1,971 compared to $1,679 for the third quarter of 1998, an increase of $292, or 17.4%. SBC's net income for the first nine months of 1999 was $5,795 compared to $4,915 for the first nine months of 1999, an increase of $880, or 17.9%.

SUPPLEMENTAL PRO FORMA RESULTS OF OPERATIONS - Continued

The primary factors contributing to these increases were growth in demand for services and products in SBC's wireline telephone, cellular and Personal Communication Services (PCS) operations and a reduction in operating expenses due to merger related initiatives and benefits.

Segment Results SBC has four reportable segments: Wireline, Wireless, Information and Entertainment, and International. The Wireline segment provides landline telecommunications services, including local, network access and long distance services, messaging and Internet services and sells customer premise and private business exchange equipment. The Wireless segment provides wireless telecommunications services, including local and long distance services, and sells wireless equipment. The Information and Entertainment segment includes advertising, yellow pages, white pages, electronic publishing, electronic security services and cable television services. The International segment includes SBC's international investments. SBC evaluates performance of these segments based on income before income taxes, adjusted for normalizing items (see Note 8 of Notes to Supplemental Pro Forma Consolidated Financial Statements). Income before income taxes includes operating income, interest expense, equity in net income of affiliates and other income (expense) - net. Operating income includes operating revenues, operations and support and depreciation and amortization expense.

The segment results include the 1999 effects of conforming accounting methodologies between SBC and Ameritech Corporation (Ameritech). Among other items, non-cash adjustments were made to conform accounting for pension and postretirement benefits between the companies and to immediately expense certain items routinely deferred and amortized by Ameritech, including sales commissions and leased customer security and paging equipment. The pension and postretirement adjustments include the effects of conforming the adoption date for postretirement accounting, methods of recognizing actuarial gains and synchronization of estimates related to the current year's benefit plans. These conforming accounting changes for 1998 and prior were recorded as a cumulative effect of accounting changes at the segment. This cumulative effect of accounting changes was retroactively restated to the appropriate year in SBC's results. Segment results for periods after 1999 will also include these conforming entries and be comparable to 1999 results.

Dollars in millions except per share amounts

SUPPLEMENTAL PRO FORMA RESULTS OF OPERATIONS - Continued

Normalizing items for the quarters and nine months ended September 30, 1999 and 1998 are described above. Components of income before income taxes by segment for the third quarters and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Wireline	$ 2,193	$ 1,928	13.7%	$ 6,575	$ 5,834	12.7%
Wireless	319	176	81.3	722	409	76.5
Information and entertainment	352	313	12.5	940	955	(1.6)
International	149	44	-	500	286	74.8
Corporate, adjustments & eliminations	86	164	-	27	214	-
Total Income Before Income Taxes	$ 3,099	$ 2,625	18.1%	$ 8,764	$ 7,698	13.8%

Changes in income before income taxes in the Wireline, Wireless and Information and Entertainment segments primarily reflect increases in operating income discussed below. Changes in income before income taxes for the operations included in the International segment result primarily from the changes in equity in net income of affiliates and other income (expense) - net discussed below; changes in this line also impacted the Wireline segment.

The normalizing items impacting the Wireline segment include the third quarter 1999 one-time adjustments to the estimate of allowance for doubtful accounts and other items and the first quarter 1998 charge to consolidate certain operations. The Wireless segment normalizing items include the third quarter 1999 one-time charge, adjustments to the estimate of allowance for doubtful accounts and other items, the 1999 and 1998 quarterly incremental impacts of the overlapping cellular properties, the first quarter 1998 charge to cover the costs of consolidating company-owned cellular retail stores and the first quarter 1999 reduction of this charge. The Information and Entertainment segment includes the third quarter 1999 one-time charges, including recognition of impairment of long-lived assets, adjustments to the estimate of allowance for doubtful accounts and other items, the first quarter 1998 charge to cover the costs of consolidating security monitoring centers and the first quarter 1999 reduction of this charge. The International segment's normalizing items include the third quarter 1998 gains on sales of certain non-core businesses, principally the required disposition of SBC's MTN investment, and the second quarter sale of TCNZ shares.

Item 2b. Management's Discussion and Analysis of Financial Condition and Results of Operations
Dollars in millions except per share amounts

SUPPLEMENTAL PRO FORMA RESULTS OF OPERATIONS - Continued

The following table provides a summary by segment of increase (decrease) on income before income taxes and cumulative effect accounting change for the normalizing items for the third quarter and first nine months of 1999 and 1998.

	Third Quarter		Nine-Month Period	
	1999	1998	1999	1998
Wireline	$ (346)	$ -	$ (335)	$ (20)
Wireless	76	55	224	67
Information and Entertainment	(498)	-	(493)	(11)
International	-	268	-	1,810
Corporate, adjustments & eliminations	(43)	89	(44)	91
Total Normalizing Impacts	$ (811)	$ 412	$ (648)	$ 1,937

Operating Income Components of operating income by segment for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Wireline	$ 2,464	$ 2,231	10.4%	$ 7,385	$ 6,748	9.4%
Wireless	428	278	54.0	996	687	45.0
Information and entertainment	363	321	13.1	969	979	(1.0)
International	(15)	(13)	15.4	(32)	(22)	45.5
Corporate, adjustments & eliminations	2	111	-	15	237	-
Total Operating Income	$ 3,242	$ 2,928	10.7%	$ 9,333	$ 8,629	8.2%

Components of segment operating revenues and expenses and discussion of the segment results for the third quarter and first nine months of 1999 and 1998 follow.

Operating Revenues SBC's operating revenues increased $1,069, or 9.4%, in the third quarter of 1999 and $2,692, or 8.1%, for the first nine months of 1999. Components of operating revenues by segment for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Wireline	$ 9,544	$ 8,986	6.2%	$ 28,099	$26,351	6.6%
Wireless	1,861	1,464	27.1	4,924	4,160	18.4
Information and entertainment	1,071	963	11.2	3,132	2,891	8.3
International	49	30	63.3	138	114	21.1
Corporate, adjustments & eliminations	(75)	(62)	-	(229)	(144)	-
Total Operating Revenues	$ 12,450	$ 11,381	9.4%	$ 36,064	$33,372	8.1%

Dollars in millions except per share amounts

SUPPLEMENTAL PRO FORMA RESULTS OF OPERATIONS - Continued

Wireline

Wireline operating revenues increased $558, or 6.2%, in the third quarter of 1999 and $1,748, or 6.6%, for the first nine months of 1999. Components of Wireline operating revenues for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Local service	$ 4,913	$ 4,375	12.3%	$ 14,204	$ 12,775	11.2%
Network access:						
Interstate	1,887	1,718	9.8	5,646	5,195	8.7
Intrastate	684	676	1.2	2,029	2,048	(0.9)
Long distance service	864	952	(9.2)	2,669	2,778	(3.9)
Other	1,196	1,265	(5.5)	3,551	3,555	(0.1)
Total Wireline	$ 9,544	$ 8,986	6.2%	$ 28,099	$ 26,351	6.6%

Local service revenues increased $538, or 12.3%, in the third quarter and $1,429, or 11.2%, in the first nine months of 1999 due primarily to increases in demand which totaled approximately $338 for the third quarter and $1,053 for the first nine months of 1999, including increases in access lines, vertical services and data-related services revenues. The data-related services increase includes the acquisition of two network integration companies by Ameritech in 1998 and 1999. The number of access lines increased by 3.1% since September 30, 1998. Approximately 38% of access line growth was due to sales of additional access lines to existing residential customers. Approximately 31% of the access line growth was in California, 19% was in Texas and 11% was in Illinois. Access lines in Illinois, Texas and California account for approximately 60% of SBC's access lines. Vertical services revenues, which include custom calling services, such as Caller ID, Call Waiting, voice mail and other enhanced services, increased by approximately 15% and totaled more than $2.5 billion for the first nine months of 1999.

Local service revenues also increased as a result of regulatory actions that decreased one or more other types of operating revenues. In 1999, the introduction of extended area service plans, the introduction of the California High Cost Fund (CHCFB) and the September 1999 Texas Universal Service Fund (TUSF) rate rebalancing collectively increased local service revenues by approximately $63 for the third quarter and $134 for the first nine months and decreased long distance revenues by approximately $29 for the third quarter and $88 for the first nine months and intrastate network access revenues by approximately $22 for the third quarter and $48 for the first nine months. The net effect on Wireline operating revenues was an increase of approximately $12 for the third quarter and a decrease of approximately $2 for the first nine months of 1999. The state public utility commissions (PUCs) have stated that the CHCFB and the TUSF are intended to directly subsidize the provision of service to high cost areas and allow Pacific Bell and Southwestern Bell Telephone Company to set competitive rates for other services. The increases in local services revenues were partially offset by decreases due to rate reductions under various PUC price cap orders of approximately $38 for the third quarter and $114 for the first nine months of 1999.

SUPPLEMENTAL PRO FORMA RESULTS OF OPERATIONS - Continued

Network access Interstate network access revenues increased $169, or 9.8%, in the third quarter and $451, or 8.7%, in the first nine months of 1999. Included in the results is a conforming item of $28 in the third quarter and $51 in the first nine months of 1999 related to costs routinely deferred by Ameritech (see discussion under Segment Results above for further information of the effect of these conforming items on segment results). Excluding this conforming item, interstate network access revenues increased $197, or 11.5%, in the third quarter and $502, or 9.7%, in the first nine months of 1999 due largely to increases in special access, demand for access services by interexchange carriers and growth in revenues from end-user charges attributable to an increasing access line base, which collectively resulted in an increase of approximately $231 for the third quarter and $608 for the first nine months of 1999. In addition, customer number portability cost recovery, net of a Federal Communications Commission (FCC) retroactive rate decrease in the second quarter of 1999, effective February 1999, contributed approximately $49 for the third quarter and $126 to the increase for the first nine months of 1999. Partially offsetting these increases were the effects of rate reductions related to the FCC's productivity factor adjustment, access reform and other charges totaling approximately $82 for the third quarter and $233 for the first nine months of 1999.

Intrastate network access revenues increased $8, or 1.2%, in the third quarter and decreased $19, or 0.9%, in the first nine months of 1999. Increases in demand at the telephone companies totaled approximately $84 for the third quarter and $196 for the first nine months of 1999, including usage by alternative intraLATA toll carriers. These increases were offset by state regulatory rate reductions and other charges totaling approximately $60 for the third quarter and $177 for the first nine months of 1999 and the effects of the CHCFB and the TUSF described above in local service totaling approximately $22 for the third quarter and $48 for the first nine months of 1999.

Long distance service revenues decreased $88, or 9.2%, in the third quarter and $109, or 3.9%, in the first nine months of 1999. Long distance service revenues decreased due to the effects of regulatory shifts of approximately $29 in the third quarter and $88 for the first nine months of 1999, discussed above in local service, related to the TUSF, CHCFB and the introduction of extended area service; and price competition from alternative intraLATA toll carriers of approximately $84 in the third quarter and $135 in the first nine months of 1999. Partially offsetting these decreases were increased demand at Ameritech's long distance unit, certified to provide long distance service outside SBC's region and increased demand for SNET All Distance totaling approximately $38 in the third quarter and $123 in the first nine months of 1999.

Other operating revenues decreased $69, or 5.5%, in the third quarter and decreased $4, or 0.1%, in the first nine months of 1999. Equipment sales, primarily consumer equipment, were flat in the third quarter of 1999 as compared to the same period of 1998 and increased approximately $67 in the first nine months of 1999. Increased sales from other nonregulated products and services, including Internet and cable services, totaled approximately $27 in the third quarter and $87 in the first nine months of 1999. These increases were offset by a decline in the public telephone business totaling approximately $38 for the third quarter and $134 for the first nine months of 1999 and increases in other charges, including state regulatory orders, of approximately $43 for the third quarter and $15 for the first nine months of 1999.

Dollars in millions except per share amounts

SUPPLEMENTAL PRO FORMA RESULTS OF OPERATIONS - Continued

Wireless

Wireless operating revenues increased $397, or 27.1%, in the third quarter of 1999 and $764, or 18.4%, for the first nine months of 1999. Components of Wireless operating revenues for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Subscriber	$ 1,506	$ 1,221	23.3%	$ 4,013	$ 3,508	14.4%
Other	355	243	46.1	911	652	39.7
Total Wireless	$ 1,861	$ 1,464	27.1%	$ 4,924	$ 4,160	18.4%

Subscriber revenues consist of local service, incollect roaming (revenues from SBC wireless customers roaming outside their home area) and wireless long distance. Wireless subscriber revenues increased $285, or 23.3%, in the second quarter and $505, or 14.4%, for the first nine months of 1999 due primarily to growth in the number of customers of 24.7%, including approximately 862,000 customers related to Comcast Cellular Corporation (Comcast) acquired in July 1999. Also contributing to the growth in customers were California PCS operations, which experienced 100% growth to a total of approximately 1.3 million customers at September 30, 1999. These increases were partially offset by declines in average revenue per customer. At September 30, 1999, SBC had 10,311,000 domestic wireless customers.

Other wireless revenues relate primarily to outcollect roaming (revenues from non-SBC wireless customers roaming on SBC's wireless network) and equipment sales and increased $112, or 46.1%, in the third quarter and $259, or 39.7% for the first nine months of 1999. The increase was primarily attributable to growth in outcollect roaming revenues, as well as equipment sales in the California PCS operations.

Item 2b. Management's Discussion and Analysis of Financial Condition and Results of Operations
Dollars in millions except per share amounts

SUPPLEMENTAL PRO FORMA RESULTS OF OPERATIONS - Continued

Information and Entertainment

Information and Entertainment operating revenues consist of directory and Ameritech's security and cable television operations. Information and Entertainment operating revenues increased $108, or 11.2%, in the third quarter and increased $241, or 8.3%, for the first nine months of 1999. Information and Entertainment operating revenues for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Total Information and Entertainment	$ 1,071	$ 963	11.2%	$ 3,132	$ 2,891	8.3%

Information and Entertainment operating revenues increased in the third quarter and first nine months of 1999 due primarily to increases in demand for directory services, including benefits from sales initiatives developed in the Pacific Telesis Group and Southern New England Telecommunications Corporation merger integration process. Directory revenues increased approximately $93 in the third quarter and $190 in the first nine months, including a change in the schedule of published directories. Ameritech's cable business contributed approximately $39 to the increase in the first nine months of 1999 due primarily to growth in the number of customers.

Operating Expenses SBC's operating expenses increased $755, or 8.9%, in the third quarter and $1,988, or 8.0%, for the first nine months of 1999. Components of operating expenses by segment for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Wireline	$ 7,080	$ 6,755	4.8%	$ 20,714	$ 19,603	5.7%
Wireless	1,433	1,186	20.8	3,928	3,473	13.1
Information and entertainment	708	642	10.3	2,163	1,912	13.1
International	64	43	48.8	170	136	25.0
Corporate, adjustments & eliminations	(77)	(173)	-	(244)	(381)	-
Total Operating Expenses	$ 9,208	$ 8,453	8.9%	$ 26,731	$ 24,743	8.0%

Dollars in millions except per share amounts

SUPPLEMENTAL PRO FORMA RESULTS OF OPERATIONS - Continued

Operations and support SBC's operations and support increased $563, or 8.6%, in the third quarter and $1,607, or 8.4%, for the first nine months of 1999. Components of operations and support expenses by segment for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	1999	1998	Percent Change
Wireline	**$ 5,354**	$ 5,126	4.4%	**$ 15,662**	$ 14,816	5.7%
Wireless	**1,178**	1,010	16.6	**3,303**	2,952	11.9
Information and entertainment	**659**	589	11.9	**2,022**	1,766	14.5
International	**53**	38	39.5	**150**	122	23.0
Corporate, adjustments & eliminations	**(119)**	(201)	-	**(372)**	(498)	-
Total Operations and Support	**$ 7,125**	$ 6,562	8.6%	**$ 20,765**	$ 19,158	8.4%

Wireline operations and support increased $228, or 4.4%, in the third quarter and $846, or 5.7%, in the first nine months of 1999. Included in the first nine months of 1999 is $85 related to costs associated with conforming accounting methodologies between SBC and Ameritech. The conforming items include non-cash adjustments made to conform accounting for pension and postretirement benefits between the companies and to immediately expense certain items routinely deferred and amortized by Ameritech, including sales commissions (see discussion under Segment Results above for further information of the effect of these conforming items on segment results).

Also the increase includes costs of approximately $104 in the third quarter and $238 in the first nine months of 1999 associated with business initiatives and other products, primarily Asymmetrical Digital Subscriber Lines (ADSL), Internet, and voice mail. Additionally, operations and support increased approximately $53 in the third quarter and $134 in the first nine months of 1999 as a result of increased wages and salaries, and by approximately $170 in the third quarter and $468 in the first nine months of 1999 primarily as a result of the acquisition of two network integration companies in 1998 and 1999. Operations and support also increased by $63 in the third quarter and $83 in the first nine months related to costs associated with software right-to-use fees including digital network deployment initiatives, and by approximately $65 in the third quarter and $226 in first nine months of 1999 as a result of costs associated with reciprocal compensation for the termination of Internet traffic.

Dollars in millions except per share amounts

SUPPLEMENTAL PRO FORMA RESULTS OF OPERATIONS - Continued

Operations and support cost increases were partially offset by approximately $57 in the third quarter and by $204 in the first nine months of 1999 primarily the result of lower contract labor costs and costs associated with customer number portability. These reductions primarily resulted from the realization of merger initiative benefits. Also partially offsetting the increases in operations and support was the change in accounting for software costs (see Note 9 of Notes to Supplemental Pro Forma Consolidated Financial Statements) which resulted in approximately $112 in the third quarter and $258 in the first nine months of 1999 being capitalized rather than expensed.

Wireless expenses increased $168, or 16.6%, in the third quarter and $351, or 11.9%, for the first nine months of 1999 due primarily to growth in the number of customers, including the acquisition of Comcast discussed in subscriber revenues above.

Information and entertainment expenses for the third quarter and first nine months of 1999 include $38 and $110 of conforming charges related to certain items previously deferred and amortized, primarily related to customer acquisition costs and leased customer security equipment, by Ameritech (see discussion under Segment Results above for further information on the effect of these conforming items on segment results). Directory expenses for the first nine months of 1999 also include $65 related to a change in directory accounting at Ameritech. Excluding these charges, directory expenses increased $32, or 5.4%, in the third quarter and $81, or 4.6%, for the first nine months of 1999 due to growth in demand for products and services.

Depreciation and amortization SBC's depreciation and amortization expense increased $192, or 10.2%, in the third quarter and $381, or 6.8%, for the first nine months of 1999. Components of normalized depreciation and amortization expense by segment for the third quarter and first nine months of 1999 and 1998 are as follows:

	Third Quarter			Nine-Month Period		
	1999	1998	Percent Change	**1999**	1998	Percent Change
Wireline	**$ 1,726**	$ 1,629	6.0%	**$ 5,052**	$ 4,787	5.5%
Wireless	**255**	176	44.9	**625**	521	20.0
Information and entertainment	**49**	53	(7.5)	**141**	146	(3.4)
International	**11**	5	-	**20**	14	42.9
Corporate, adjustments & eliminations	**42**	28	-	**128**	117	-
Total depreciation and amortization	**$ 2,083**	$ 1,891	10.2%	**$ 5,966**	$ 5,585	6.8%

Depreciation and amortization increased due primarily to increased depreciation expense of approximately $82 in the third quarter and $239 in the first nine months of 1999 in the Wireline segment resulting from overall higher plant levels. Increases of approximately $79 in the third quarter and $104 in the first nine months of 1999 in the Wireless segment include $57 from the acquisition of Comcast in July 1999. The remainder of the Wireless increases resulted from overall higher plant levels.

SUPPLEMENTAL PRO FORMA RESULTS OF OPERATIONS - Continued

Interest expense decreased $18, or 4.7%, for the third quarter and $154, or 12.6%, for the first nine months of 1999. This decrease was due primarily to reductions in interest expense resulting from lower average debt levels due to debt retirements in 1998 and early 1999.

Equity in net income of affiliates increased $86, or 64.2%, in the third quarter of 1999 due primarily to increases from investments in Teléfonos de Mexico, S.A. de C.V. (Telmex) and TeleDanmark, as well as wireless investments in Switzerland and France totaling approximately $44. Results for the quarter also include the June 1999 investment in Bell Canada. These increases were partially offset by reduced equity in net income from Telkom SA Limited (Telkom) in South Africa. Equity in net income of affiliates increased $133, or 30.2%, in the first nine months of 1999. Results in 1999 include the investment in Bell Canada, while 1998 included the investment in TCNZ. Telmex and TeleDanmark contributed over $110 to the increase in equity in net income, while increases in Israel and France also contributed approximately $35 to the increase during the first nine months of 1999. These increases were partially offset by a lower contribution from Telkom, resulting from the impact of the decline in the value of the rand and higher maintenance expenses.

Other income (expense) - net included charges of $23 for the third quarter and first nine months of 1999 to write down several of Ameritech's cost investments utilizing the SBC method. The incremental impacts of the overlapping wireless properties sold in October 1999 also decreased other income (expense) - net by $7 in the third quarter and $21 in the first nine months of 1999, and by $8 in the third quarter and $17 in the first nine months of 1998. Additionally, the third quarter and first nine months of 1998 included $358 for gains on sales of certain non-core businesses, principally the required disposition of MTN. The first nine months of 1998 also included a $1.5 billion gain related to Ameritech's public sale of substantially all of its stake in TCNZ. Excluding these items, other income (expense) - net was income of $1 for the third quarter and net expense of $85 for the first nine months of 1999 and net expense of $58 for the third quarter and $163 for the first nine months of 1998.

The first nine months of 1999 include a gain from the sale of a portion of one of SBC's international investments, Amdocs Limited (Amdocs), of approximately $92 and gains of $52 representing market adjustments on Amdocs shares used for contributions to the SBC Foundation and deferred compensation. Results for the first nine months of 1999 also include a gain of approximately $59 recognized from the sale of SBC's investment in an international investment and a gain of approximately $24 recognized from the sale of certain discontinued plant related to Advanced Communications Network. The third quarter of 1999 includes income of $59 related to depreciation in the market value of Telmex L shares underlying certain SBC debt redeemable either in cash or Telmex L shares and the sale of certain Telmex L shares.

The first nine months of 1999 include increased expenses related to higher appreciation in the market value of Telmex L shares underlying certain SBC debt redeemable either in cash or Telmex L shares than in the comparable periods of 1998, net of gains recognized from the sale of certain Telmex L shares, of approximately $153. Also affecting comparisons in the first nine months of 1998 was receipt of a special dividend of approximately $158 from Amdocs, and approximately $133 of other expense related to the impairment of an international investment and investments in certain wireless technologies, primarily wireless video.

Income Taxes for the third quarter and first nine months of 1999 and 1998 reflect the tax effect of charges for one-time items discussed in Note 5 of Notes to Supplemental Pro Forma Consolidated Financial Statements. The net effective tax rate on these items was lower as a result of non-deductible

SUPPLEMENTAL PRO FORMA RESULTS OF OPERATIONS - Continued

items included in the charges and valuation adjustments to certain deferred tax assets, which may not be utilized due to restrictions associated with the Ameritech merger. Excluding these items, income taxes increased $182, or 19.2%, in the third quarter and $378, or 13.5%, in the first nine months of 1999, primarily due to higher income before income taxes.

SUPPLEMENTAL PRO FORMA COMPETITIVE AND REGULATORY ENVIRONMENT

Reciprocal Compensation In June 1999, the United States Court of Appeals for the Seventh Circuit (7th Circuit) issued an opinion affirming an order of the Illinois Commerce Commission (ICC) directing Ameritech to pay reciprocal compensation on Internet traffic under existing interconnection agreements. The 7th Circuit only reviewed whether the ICC's determination that the parties intended that calls to Internet Service Providers would be subject to reciprocal compensation violated federal law. The 7th Circuit declined to review any contract issues and concluded that the ICC's determination did not violate federal law as it was expressly permitted under the February 1999 FCC ruling regarding reciprocal compensation. SBC has sought rehearing of the 7th Circuit Court decision.

Other appeals of reciprocal compensation decisions are currently pending before the United States Circuit Court of Appeals for the Sixth Circuit (6th Circuit) and United States District Courts in Indiana and Ohio. In August 1999, the Michigan District Court affirmed an order of the Michigan Public Service Commission (MPSC) directing Ameritech to pay reciprocal compensation under existing interconnection agreements. Relying upon the FCC's declaratory ruling, the Michigan District Court concluded that the FCC had left the issue of reciprocal compensation to be determined by state commissions and therefore deferred to the MPSC's decision. SBC has appealed that decision to the 6th Circuit. In July 1999, the United States District Court in Wisconsin dismissed an appeal without reaching the merits of the case. SBC appealed that dismissal to the 7th Circuit.

SBC has been recording expense and/or making payments for amounts sought by certain competitive local exchange carriers for the termination of Internet traffic to Internet Service Providers.

SUPPLEMENTAL PRO FORMA OTHER BUSINESS MATTERS

SBC's Year 2000 Project In addition to the Year 2000 activities conducted by SBC, discussed in Item 2a. Other Business Matters, prior to the merger, Ameritech was also addressing Year 2000 issues. Ameritech believes its systems and networks are ready for the Year 2000.

On a consolidated basis, SBC currently estimates that it will incur expenses of approximately $465 through 2000 in connection with anticipated Year 2000 efforts, of which approximately $418 had been incurred through September 30, 1999. The timing of expenses may vary and is not necessarily indicative of readiness efforts or progress to date. SBC anticipates that a portion of the Year 2000 expenses will not be incremental costs, but rather will represent the redeployment of existing IT resources. SBC also expects to incur certain capital improvement costs (totaling approximately $22) to support this project. Such capital costs (approximately $16 as of September 30, 1999) are being incurred sooner than originally planned but, for the most part, would have been required in the normal course of business.

SBC has significant minority investments in large telecommunications carriers in several countries, the most significant of which are in Canada, Denmark, Mexico and Belgium. Each of those carriers has plans in place and activities under way to address Year 2000 issues. Based on information reported to SBC, the estimated proportionate share of these companies' Year 2000 conversion costs that will flow through to our earnings is not expected to be material. There is no assurance that Year 2000 readiness

SUPPLEMENTAL PRO FORMA OTHER BUSINESS MATTERS - Continued

preparations for some carriers, as well as the countries in which they operate, will be adequately completed by the end of the year. Therefore, we are unable to determine the full impact Year 2000 may have to those international interests

SUPPLEMENTAL PRO FORMA LIQUIDITY AND CAPITAL RESOURCES

SBC had $532 in cash and cash equivalents available at September 30, 1999. During the first nine months of 1999, as in 1998, SBC's primary source of funds continued to be cash provided by operating activities. SBC has agreements in place with several banks for lines of credit totaling $4,759, all of which may be used to support commercial paper borrowings. SBC had no borrowings outstanding under these lines of credit at September 30, 1999. Commercial paper borrowings as of September 30, 1999 totaled $5,618. Increases in commercial paper borrowings from prior periods resulted from the acquisitions of and repayments of long-term debt associated with Comcast, Cellular Communications of Puerto Rico Inc. (Cellular Communications) and Bell Canada.

SBC's investing activities are primarily related to construction and capital expenditures. During the first nine months of 1999, SBC invested $7,006 for construction and capital expenditures, primarily in the Wireline and Wireless segments. Investing activities during the first nine months of 1999 included asset dispositions of $1,448, primarily related to additional proceeds from the sale of TCNZ shares, and asset acquisitions of $4,792 related to Bell Canada, Comcast and Cellular Communications. Investing activities during the first nine months of 1998 included asset dispositions of $2,316, primarily related to the required disposition of MTN due to SBC's investment in Telkom and the second quarter 1999 sale of TCNZ. In January 1998, SBC invested approximately $3,100 in Tele Danmark, the national communications provider in Denmark. Capital expenditures for 1999 are estimated to be approximately $9,700 to $10,200.

Financing activities during the first nine months of 1999 included new short-term borrowings and long-term debt proceeds to finance SBC's investment in Bell Canada and the acquisition of Comcast and Cellular Communications. In 1999, subsequent to the completion of the acquisitions of Comcast and Cellular Communications, SBC retired virtually all of Comcast's and Cellular Communications' long-term debt. Financing activities during the first nine months of 1998 included repayment of short-term borrowings of $1,759 and the issuance of $2,880 of long-term debt, primarily to finance the acquisition of Tele Danmark. Cash paid for dividends in the first nine months of 1999 was $2,464, or 5.3% higher than in the first nine months of 1998, due to an increase in dividends paid per share.

Item 3. Quantitative and Qualitative Disclosures About Market Risk
Dollars in millions except per share amounts

SBC is exposed to market risks primarily from changes in interest rates, foreign currency exchange rates, and certain equity prices. In managing exposure to these fluctuations, SBC may engage in various hedging transactions that have been authorized according to documented policies and procedures. SBC does not use derivatives for trading purposes, or to generate income or to engage in speculative activity. (For further discussions on SBC's market risks see the 1998 SBC Annual Report to Shareowners under the heading "Market Risk" and the 1998 Ameritech Annual Report to Shareowners under the heading "Disclosures About Market Risk".)

As of September 30, 1999, SBC had increased its level of commercial paper borrowing for the acquisitions of its investments in Bell Canada, Comcast and Cellular Communications. SBC does not anticipate any significant changes in its risk management objectives and strategies with respect to managing this interest rate exposure.

In May 1999, SBC entered agreements to participate in several interest rate swaps (Swaps) with notional values totaling $795. The Swaps have terms to pay variable rates of interest, and to receive fixed rates of interest designed to match certain low-coupon debt liabilities on SBC's balance sheet. The Swaps mature 2002 through 2006. SBC will record interest rate settlements as adjustments to interest expense in the consolidated statements of income when paid or received. SBC currently does not recognize the fair value of these derivative financial instruments or their changes in its financial statements. Any gains or losses on the Swaps are deferred until each instrument is terminated. At September 30, 1999, the fair values of the Swaps were $9 below the original value.

Effective June 30, 1999, as a result of Vodafone Group PLC merging with AirTouch Communications, Inc. (AirTouch), forming Vodafone AirTouch PLC (Vodafone AirTouch), the outstanding AirTouch stock options held by SBC employees were converted to Vodafone AirTouch options. For each option for a share of AirTouch common stock, the option holders received an option in 0.5 ADR's of Vodafone AirTouch and the grant price of the options were reduced for the value of cash received by AirTouch shareowners. The last option grant expires January 2003, and as of September 30, 1999 approximately 88,000 options were still outstanding with an underlying stock option exposure of $19.

CAUTIONARY LANGUAGE CONCERNING FORWARD-LOOKING STATEMENTS

Information set forth in this report contains forward-looking statements that are subject to risks and uncertainties. SBC claims the protection of the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995.

The following factors could cause SBC's future results to differ materially from those expressed in the forward-looking statements: (1) adverse economic changes in the markets served by SBC or changes in available technology; (2) the final outcome of various FCC rulemakings and judicial review, if any, of such rulemakings; (3) the final outcome of various state regulatory proceedings in SBC's 13-state area, and judicial review, if any, of such proceedings; (4) the timing of entry and the extent of competition in the local and intraLATA toll markets in SBC's 13-state area; (5) the impact of the Ameritech transaction, including performance with respect to regulatory requirements and merger integration efforts; and (6) the deployment of SBC's broadband initiative also known as Project Pronto. Readers are cautioned that other factors discussed in this report, although not enumerated here, also could materially impact SBC's future earnings.

PART II - OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

During the third quarter of 1999, the Company sold shares of common stock to non-employee directors pursuant to the Company's Non-Employee Director Stock and Deferral Plan. Under the plan, a director may make an annual election to receive all or part of his annual retainer or fees in the form of SBC shares or deferred stock units (DSUs) that are convertible into SBC shares. During this period, an aggregate of 2,490 SBC shares and DSUs were purchased by non-employee directors at prices ranging from $49.00 to $56.125, in each case the fair market value of the shares on the date of purchase. The issuances of shares and DSUs were exempt from registration pursuant to Section 4(2) of the Securities Act.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 12a	Computation of Ratios of Earnings to Fixed Charges.
Exhibit 12b	Supplemental Pro Forma Computation of Ratios of Earnings to Fixed Charges.
Exhibit 27	Financial Data Schedule.

(b) Reports on Form 8-K

There were no reports on Form 8-K filed during the quarter ended September 30, 1999.

SIGNATURE

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

SBC Communications Inc.

November 12, 1999

/s/ Donald E. Kiernan
Donald E. Kiernan
Senior Executive Vice President
and Chief Financial Officer

EXHIBIT 12a

SBC COMMUNICATIONS INC.

COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES

Dollars in Millions

	NINE MONTHS ENDED SEPTEMBER 30,		YEAR ENDED DECEMBER 31,				
	1999	1998	1998	1997	1996	1995	1994
Income Before Income Taxes, Extraordinary Loss and Cumulative Effect of Accounting Changes*	**$ 5,402**	$ 5,099	$ 6,318	$ 2,558	$ 5,283	$ 4,670	$ 4,403
Add: Interest Expense	**641**	760	993	1,043	901	1,043	1,010
Dividends on Preferred Securities	**60**	60	80	80	60	-	-
1/3 Rental Expense	**112**	107	147	129	115	85	93
Adjusted Earnings	**$ 6,215**	$ 6,026	$ 7,538	$ 3,810	$ 6,359	$ 5,798	$ 5,506
Total Interest Charges	**$ 689**	$ 808	$ 1,052	$ 1,168	$ 1,043	$ 1,048	$ 1,010
Dividends on Preferred Securities	**60**	60	80	80	60	-	-
1/3 Rental Expense	**112**	107	147	129	115	85	93
Adjusted Fixed Charges	**$ 861**	$ 975	$ 1,279	$ 1,377	$ 1,218	$ 1,133	$ 1,103
Ratio of Earnings to Fixed Charges	**7.22**	6.18	5.89	2.77	5.22	5.12	4.99

*Undistributed earnings on investments accounted for under the equity method have been excluded.

EXHIBIT 12b

SBC COMMUNICATIONS INC.

SUPPLEMENTAL PRO FORMA COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES

Dollars in Millions

	NINE MONTHS ENDED SEPTEMBER 30,		YEAR ENDED DECEMBER 31,				
	1999	1998	1998	1997	1996	1995	1994
Income Before Income Taxes, Extraordinary Loss and Cumulative Effect of Accounting Changes*	$ 7,773	$ 9,527	$ 11,859	$ 6,356	$ 8,789	$ 8,139	$ 6,322
Add: Interest Expense	1,069	1,223	1,605	1,550	1,418	1,513	1,446
Dividends on Preferred Securities	87	85	114	98	68	6	2
1/3 Rental Expense	174	166	228	202	188	152	157
Adjusted Earnings	$ 9,103	$ 11,001	$ 13,806	$ 8,206	$ 10,463	$ 9,810	$ 7,927
Total Interest Charges	$ 1,132	$ 1,292	$ 1,691	$ 1,700	$ 1,589	$ 1,533	$ 1,459
Dividends on Preferred Securities	87	85	114	98	68	6	2
1/3 Rental Expense	174	166	228	202	188	152	157
Adjusted Fixed Charges	$ 1,393	$ 1,543	$ 2,033	$ 2,000	$ 1,845	$ 1,691	$ 1,618
Ratio of Earnings to Fixed Charges	6.53	7.13	6.79	4.10	5.67	5.80	4.90

*Undistributed earnings on investments accounted for under the equity method have been excluded.

SBC Communications Inc.

1998 ANNUAL REPORT

Adjusted Earnings Per Diluted Share*

Year-End Stock Price

Nineteen ninety-eight was a year of exceptional progress for SBC Communications, as we strengthened our leadership in telecommunications and continued to shape our future as an integrated, full-service, global competitor...

Amid dynamic industry change, we remain focused on providing our customers a seamless range of high-quality services whenever and wherever they need them, while providing outstanding value to our shareowners.

This document reports progress on our initiatives to remain one of the world's leading telecommunications companies now and in the 21st century.

*Adjusted earnings per diluted share represent income before extraordinary loss and cumulative effect of accounting change adjusted for the following: 1998 excludes a net charge of $0.03 per diluted share principally for strategic decisions related to the merger of SBC and SNET offset by gains on the sale of certain non-core businesses; 1997 excludes a net charge of $0.91 per diluted share regarding $1.8 billion of one-time charges principally for strategic decisions related to the merger of SBC and Pacific Telesis. These adjustments are described on page 6.

1998 Progress Report

Financial information (dollars in millions)	1998	1997	Change
Reported net income	**$4,023**	$1,674	140.3%
Accounting change and Extraordinary loss - net	**$ 45**	$ —	—
Reported earnings	**$4,068**	$1,674	143.0%
Special charges	**$ 49**	$1,776	—
Adjusted earnings	**$4,117**	$3,450	19.3%

Adjusted earnings for 1998 exclude $49 million for net charges principally for strategic decisions related to the merger of SBC and SNET offset by gains on the sales of certain non-core businesses. Adjusted earnings for 1997 exclude $1.8 billion of one-time net charges principally for strategic decisions related to the merger of SBC and Pacific Telesis. These adjustments are described on page 6.

Per Share of Common Stock	1998	1997	Change
Adjusted earnings per diluted share	**$ 2.08**	$ 1.76	18.2%
Dividend	**$ 0.935**	$ 0.895	4.5%
Year-end stock price	**$53.625**	$36.625	46.4%

HIGHLIGHTS

- **SBC advances its global strategy** by announcing plans to merge with Ameritech and then expand to 30 markets beyond the new company's combined region. The merger will provide increased scale and geographic scope, enabling the company to provide high-quality, competitive services to customers in the nation's 50 largest markets.
- **SBC acquires Southern New England Telecommunications (SNET),** gaining another great brand, strong wireline and complementary wireless businesses, long-distance experience and expanded presence in the Northeastern United States.
- **Synergies from the Pacific Telesis merger are ahead of schedule** to add $1 billion in net income by next year.
- **In January 1999, SBC launches the nation's largest rollout of Asymmetrical Digital Subscriber Line (ADSL)** — a high-speed Internet access service — at affordable prices, capitalizing on opportunities in the rapidly growing data market.
- **The February 1999 alliance with Williams Communications** provides SBC with a high-quality fiber-based broadband network for long-distance service.

Nineteen ninety-eight was an **excellent year** for SBC Communications. It was, first and foremost, a year in which your company delivered **strong earnings growth.** We also took **strategic steps** to ensure that, as our industry continues to evolve, SBC will continue to create outstanding value for you well into the future.

In 1998, our adjusted earnings rose by 19.3 percent. Accounting for our February 1998 two-for-one stock split, SBC's diluted earnings per share were $2.08, up 18.2 percent over 1997.

Including stock price appreciation and reinvested dividends, total shareowner return in 1998 was 49.72 percent. This brings our total compounded annual return since 1984 — when we became an independent company — to 23.15 percent. That result exceeds a combined return during the same period of 22.04 percent for our telecommunications peers, and 17.84 percent for the Standard & Poor's 500.

We are pleased but not satisfied. To ensure that we continue delivering excellent performance in 1999 and beyond, the SBC team moved forward in 1998 on four strategic fronts:

Continuing to maximize growth in our core businesses. Over the years, SBC has established a solid record for making the most of our core wireline and wireless businesses by increasing revenues while controlling expenses. Nineteen ninety-eight was no exception:

- Revenues were $28.8 billion, up 7.9 percent over the previous year.
- Access line growth remained impressive in 1998, with a 4.1 percent increase in residential lines. Meanwhile, our business line growth was 15.6 percent, including both voice lines and data circuits.
- We achieved outstanding sales of additional calling features. Pacific Bell, for example, ended the year with more than 1.5 million Caller ID customers, and increased the penetration of features for residential customers by more than 44 percent to 1.26 vertical features per line.
- Southwestern Bell achieved an industry-leading residential Caller ID penetration rate of more than 50 percent.

The company's wireless operations also performed well in 1998. Our new Personal Communications Services (PCS) offering in California and Nevada, in particular, experienced exceptional growth. Across all of our markets, including Southwestern Bell, Pacific Bell, and Cellular One, we increased our number of subscribers to 6.9 million and added digital service to meet the demands of high-use customers. This includes the half million subscribers we serve through the acquisition of Southern New England Telecommunications (SNET) that further increased our wireless customer base. In January 1999, we agreed to acquire Comcast Cellular Corporation, which has cellular properties in Pennsylvania, New Jersey and Delaware, subject to regulatory approval. With these significant acquisitions, we are confident of our ability to grow our wireless base — and maintain healthy margins — despite fierce competition.

We also accelerated the process of value creation from the Pacific Telesis merger. Thanks to the hard work and dedication of our merger integration teams, we took full advantage of the best practices of both companies through operational initiatives that are ahead of schedule in adding $1 billion to our annual income by the end of 2000. Equally important, the completion of our merger with Southern New England Telecommunications established SNET as a solid anchor for our expansion in the Northeast.

Aggressively expanding our data capabilities. To remain a communications industry leader, SBC must be a data communications leader. Our 1998 data service revenues increased 32 percent over 1997, as demand for data services continued to expand rapidly.

We made major strides in meeting that demand. We introduced industry-leading, high-speed Asymmetrical Digital Subscriber Line (ADSL) services in California, a flexible offering that will provide customers with much faster Internet access to move integrated packages of voice, data and video quickly and securely.

Developing national and international reach. As the telecommunications industry evolves, we believe two types of companies will emerge. A small group of full-service, global carriers will offer customers what they increasingly demand — integrated services, including local, long distance, wireless, and high-speed data communications. A second, larger group will consist of smaller, narrowly focused regional providers. SBC intends to be a global competitor. Only by doing so can we provide the financial returns you expect well into the future.

As a result, we decided in 1998 to expand our resources and geographic reach, gaining size and scope to provide our customers a seamless range of high-quality services whenever and wherever they need them. Our planned merger with Ameritech, which has received overwhelming approval from the shareowners of both companies, is a critical step in this direction.

Based on both companies' combined 1998 revenues, the Ameritech merger will create a powerful competitor, with more than $45 billion in revenues and some 200,000 of the best employees in our business. Our combined territories will include the headquarters of almost half of the *Fortune* 500 companies, and we will have a presence in 20 of the top 50 markets in the country. But what really sets this merger apart is the role it plays in our becoming a global company.

Our merged company will move aggressively to enter the top 30 markets outside our combined territories. We plan to provide residential and business customers in those markets with one-stop shopping for their telecommunications needs. As we build a competitive presence in the nation's top 50 markets, we plan to develop a state-of-the-art voice and data network that will carry our customers' voice and data traffic anywhere in the world. Our ability to do just that took a major step forward in February 1999, when we announced an alliance with Williams Communications. This agreement gives us access to one of the industry's highest quality data and voice broadband networks, while enabling us to have a voice in the future expansion and development of that network around the needs of our customers.

We expect to complete the Ameritech merger in the second half of 1999, then move quickly to integrate Ameritech's operations into SBC, as we did with Pacific Telesis and are doing with SNET.

Providing long-distance services. To be a true full-service provider, SBC must have the freedom to offer long-distance service to all our customers, wherever they live or work. In 1998, we moved closer to securing that capability by continuing to open our local markets to competitors. And we are working closely with regulators to gain their support for our long-distance entry. While we are disappointed that the process has taken so long, our alliance with Williams ensures that, as soon as we receive regulatory approval to offer long distance, we can move immediately to add this critical offering to our range of services.

SBC entered 1998 strongly positioned to build value for our shareowners, with great markets, great businesses and a proven ability to execute our plans. During the year, we expanded those markets, strengthened our businesses and enhanced our reputation for superior execution.

More important, by refining our strategies and taking decisive steps to become an integrated, worldwide competitor, we are guiding SBC toward a clearly defined objective — becoming a global enterprise with the resources and flexibility to take advantage of the most promising growth opportunities.

That is where SBC's focus has always been. And, despite the changes ahead, that is where it will stay — on building value for our owners.

We will keep you informed as we move ahead in 1999. In the meantime, thank you for your continued confidence and support.

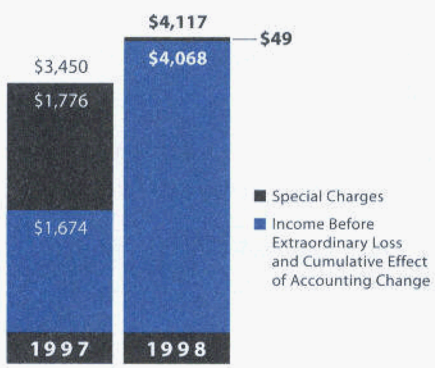
Edward E. Whitacre Jr.

Edward E. Whitacre Jr.
Chairman and Chief Executive Officer
February 12, 1999

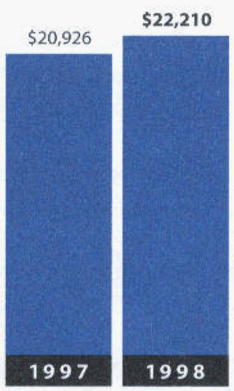
FINANCIAL CONTENTS

SELECTED FINANCIAL HIGHLIGHTS

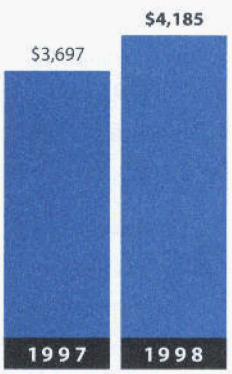
Dollars in millions except per share amounts, as of or for the year ended December 31.



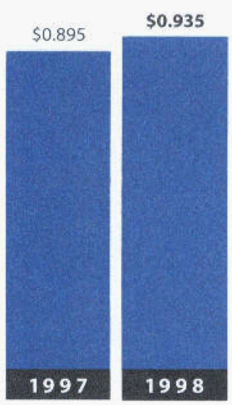
Income Before Extraordinary Loss and Cumulative Effect of Accounting Change
Results for 1998 and 1997 were adjusted for special charges.



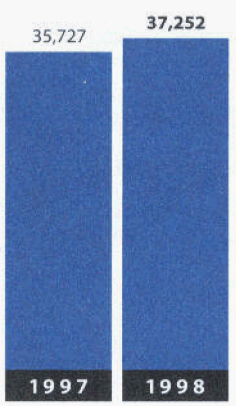
Wireline Operating Revenues
Results for 1998 and 1997 were adjusted for special charges.



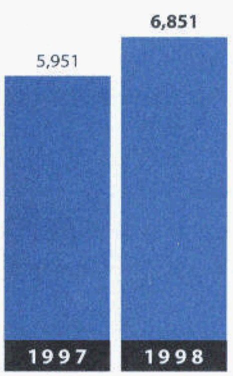
Wireless Operating Revenues



Dividends Declared Per Common Share



Access Lines*



Wireless Customers*

*in thousands

SELECTED FINANCIAL AND OPERATING DATA

Dollars in millions except per share amounts

At December 31 or for the year ended:	1998[1]	1997[2]	1996	1995	1994
Financial Data					
Operating revenues	**$28,777**	$26,681	$25,202	$23,356	$22,555
Operating expenses	**$21,891**	$23,103	$18,976	$17,878	$17,216
Operating income	**$ 6,886**	$ 3,578	$ 6,226	$ 5,478	$ 5,339
Interest expense	**$ 993**	$ 1,043	$ 901	$ 1,043	$ 1,010
Equity in net income of affiliates	**$ 236**	$ 201	$ 207	$ 120	$ 226
Income taxes	**$ 2,306**	$ 984	$ 2,070	$ 1,632	$ 1,575
Income from continuing operations before extraordinary loss and cumulative effect of accounting changes[3]	**$ 4,068**	$ 1,674	$ 3,387	$ 3,132	$ 2,962
Net income (loss)	**$ 4,023**	$ 1,674	$ 3,477	$ (3,577)	$ 2,985
Earnings per common share:					
Income from continuing operations before extraordinary loss and cumulative effect of accounting changes[3]	**$ 2.08**	$ 0.86	$ 1.73	$ 1.60	$ 1.53
Net income (loss)	**$ 2.06**	$ 0.86	$ 1.78	$ (1.83)	$ 1.54
Earnings per common share – Assuming Dilution:					
Income from continuing operations before extraordinary loss and cumulative effect of accounting changes[3]	**$ 2.05**	$ 0.85	$ 1.72	$ 1.60	$ 1.53
Net income (loss)	**$ 2.03**	$ 0.85	$ 1.77	$ (1.82)	$ 1.54
Total assets	**$45,066**	$44,836	$42,057	$40,361	$49,525
Long-term debt	**$11,612**	$13,176	$12,100	$11,592	$11,698
Construction and capital expenditures	**$ 5,927**	$ 6,230	$ 5,855	$ 4,729	$ 4,262
Free cash flow[4]	**$ 2,454**	$ 1,366	$ 2,046	$ 2,572	$ 3,058
Dividends declared per common share[5]	**$ 0.935**	$ 0.895	$ 0.86	$ 0.825	$ 0.79
Book value per common share	**$ 6.52**	$ 5.38	$ 5.22	$ 4.50	$ 7.36
Ratio of earnings to fixed charges	**5.89**	2.77	5.22	5.12	4.99
Debt ratio	**48.86%**	57.07%	56.83%	63.04%	48.71%
Weighted Average Common Shares Outstanding (000,000)	**1,957**	1,945	1,956	1,955	1,936
Weighted Average Common Shares Outstanding With Dilution (000,000)	**1,984**	1,962	1,967	1,963	1,940
End of Period Common Shares Outstanding (000,000)	**1,959**	1,954	1,942	1,960	1,952
Operating Data					
Network access lines in service (000)	**37,252**	35,727	34,003	32,385	31,173
Access minutes of use (000,000)	**148,560**	139,470	128,716	112,874	100,800
Wireless customers (000)	**6,851**	5,951	4,827	3,995	3,158
Number of employees	**129,850**	128,100	119,270	117,260	120,140

[1]As detailed in management's discussion and analysis of Results of Operations, 1998 results include charges for strategic initiatives related to the merger with Southern New England Telecommunications Corporation (SNET) and gains on sales of certain non-core businesses. Excluding these items, SBC reported an adjusted income from continuing operations before extraordinary loss and cumulative effect of accounting change of $4,117 and an adjusted net income of $4,072 for 1998.

[2]As detailed in management's discussion and analysis of Results of Operations, 1997 results include charges for several items including strategic initiatives and ongoing merger integration costs, gain on the sale of SBC's interests in Bell Communications Research, Inc. and a first quarter after-tax settlement gain. Excluding these items, SBC reported an adjusted net income of $3,450 for 1997.

[3]1998, Early retirement of debt and Change in directory accounting; 1996, Change in directory accounting; 1995, Discontinuance of Regulatory Accounting; and 1994, Income from spun-off operations.

[4]Free cash flow is net cash provided by operating activities less construction and capital expenditures.

[5]Dividends declared by SBC's Board of Directors; these amounts do not include dividends declared and paid by Pacific Telesis Group and SNET prior to their respective mergers.

Dollars in millions except per share amounts

SBC Communications Inc. (SBC) is a holding company whose subsidiaries and affiliates operate predominantly in the communications services industry. SBC's subsidiaries and affiliates provide landline and wireless telecommunications services as well as equipment and directory advertising both domestically and worldwide.

The consolidated financial results reflect SBC's mergers with Southern New England Telecommunications Corporation (SNET) in 1998 and Pacific Telesis Group (PAC) in 1997 as pooling of interests (see Note 2 of Notes to Consolidated Financial Statements).

SBC's principal wireline subsidiaries are Southwestern Bell Telephone Company (SWBell), providing telecommunications services in Texas, Missouri, Oklahoma, Kansas and Arkansas (five-state area), Pacific Bell (PacBell, which also includes Pacific Bell Information Services), The Southern New England Telephone Company (SNETel) and Nevada Bell (collectively referred to as the Telephone Companies). SBC's principal wireless subsidiaries are Southwestern Bell Mobile Systems, Inc. (Mobile Systems), Pacific Bell Mobile Services (PBMS) and SNET Cellular, Inc. SBC's principal directory subsidiaries are Southwestern Bell Yellow Pages, Inc. (SWBYP), Pacific Bell Directory (PB Directory) and SNET Information Services, Inc. The Telephone Companies are subject to regulation by each of the states in which they operate and by the Federal Communications Commission (FCC).

This discussion should be read in conjunction with the consolidated financial statements and the accompanying notes.

RESULTS OF OPERATIONS

Summary

Financial results, including percentage changes from the prior year, are summarized as follows:

				Percent Change	
	1998	1997	1996	1998 vs. 1997	1997 vs. 1996
Operating revenues	$28,777	$26,681	$25,202	7.9%	5.9%
Operating expenses	$21,891	$23,103	$18,976	(5.2)%	21.7%
Income before extraordinary loss and cumulative effect of accounting change	$ 4,068	$ 1,674	$ 3,387	—	—
Extraordinary loss	$ (60)	—	—	—	—
Cumulative effect of accounting change	$ 15	—	$ 90	—	—
Net income	$ 4,023	$ 1,674	$ 3,477	—	—

In 1998 and 1996, SBC reflected a cumulative effect of accounting change related to accounting for directory revenues and expenses (see Note 1 of Notes to Consolidated Financial Statements). In 1998, SBC incurred an extraordinary loss related to the early retirement of debt at PacBell (see Note 10 of Notes to Consolidated Financial Statements).

Results for 1998 and 1997 also include several items that SBC normalizes for management purposes. For 1998, normalizing items included $219 of gains on sales of certain non-core businesses, principally the required disposition of SBC's interest in Mobile Telephone Networks (MTN), a South African national cellular company, due to SBC's investment in Telkom SA Limited (Telkom), and $268 of charges related to strategic initiatives resulting from the merger integration process with SNET. For 1997, normalizing items included $1,899 of costs related to strategic initiatives resulting from the merger integration process with PAC, the impact of several second quarter 1997 regulatory rulings and charges for ongoing merger integration costs (see Note 2 of Notes to Consolidated Financial Statements for further discussion of merger integration costs), as well as $33 of gain on the sale of the Telephone Companies' interests in Bell Communications Research, Inc. (Bellcore) and $90 of first quarter 1997 settlement gain at PAC associated with lump-sum pension payments that exceeded the projected service and interest costs for 1996 retirements. Collectively these items decreased income before extraordinary loss and cumulative effect of accounting change by $49 and $1,776 in 1998 and 1997. Excluding these items, 1998 income before extraordinary loss and cumulative effect of accounting change would have been $4,117, or 19.3% higher than 1997 earnings of $3,450. The corresponding diluted per share amounts would be $2.08 in 1998, or 18.2% higher than $1.76 in 1997.

Excluding these items, the 1998 increase in income before extraordinary loss and cumulative effect of accounting change was due primarily to broad-based growth in demand for SBC's Wireline, Wireless and Directory operations. Results for 1998 also reflect reduced dilution from Personal Communications Services (PCS) operations in California and Nevada. Demand growth was also the primary factor contributing to the 1997 increases, partially offset by a high level of expenses for the introduction of PCS in California and Nevada.

Segment Results

SBC has four reportable segments: Wireline, Wireless, Directory and Other. The Wireline segment provides landline telecommunications services, including local, network access and long distance services, messaging and Internet services and sells customer premise and private business exchange equipment. The Wireless segment provides wireless telecommunications services, including local and long distance services, and sells wireless equipment. The Directory segment sells advertising for and publication of yellow pages and white pages directories and electronic publishing. The Other segment includes SBC's international investments and other domestic operating subsidiaries. (See Note 9 of Notes to Consolidated Financial Statements.)

SBC evaluates performance of these segments based on income before income taxes, adjusted for normalizing items. Normalizing items for 1998 and 1997 are described above. There were no normalizing items for 1996.

Collectively, these normalizing items had the effect of reducing operating revenues in 1998 and 1997 by $8 and $188 and increasing operating expenses in 1998 and 1997 by $422 and $2,550, as well as affecting non-operating income and expenses. If all of the normalizing items were included in their respective segments, the effect would be to increase (reduce) each segment's income before income tax in 1998 and 1997 as follows: Wireline $(306) and $(2,007); Wireless $(49) and $(100); Directory $12 and $(75); and Other $268 and $0. The following sections will discuss SBC's operations excluding these normalizing items.

Operating Revenues

Following are SBC's normalized operating revenues, including segment totals and percentage changes from the prior year (reductions of $8 in 1998 and $188 in 1997 are excluded):

				Percent Change	
	1998	1997	1996	**1998 vs. 1997**	1997 vs. 1996
Wireline	**$22,210**	$20,926	$19,919	**6.1%**	5.1%
Wireless	**4,185**	3,697	3,137	**13.2**	17.9
Directory	**2,393**	2,286	2,145	**4.7**	6.6
Other	**85**	57	43	**49.1**	32.6
Corporate, adjustments & eliminations	**(88)**	(97)	(42)	**(9.3)**	—
Total Normalized Operating Revenues	**$28,785**	$26,869	$25,202	**7.1%**	6.6%

Wireline

Wireline operating revenues increased $1,284, or 6.1%, in 1998 and $1,007, or 5.1%, in 1997. Components of Wireline operating revenues, including percentage changes from the prior year, are as follows:

				Percent Change	
	1998	1997	1996	**1998 vs. 1997**	1997 vs. 1996
Local service	**$11,154**	$10,434	$ 9,513	**6.9%**	9.7%
Network access:					
Interstate	**4,612**	4,494	4,354	**2.6**	3.2
Intrastate	**1,917**	1,884	1,851	**1.8**	1.8
Long distance service	**2,353**	2,351	2,523	**0.1**	(6.8)
Other	**2,174**	1,763	1,678	**23.3**	5.1
Total Wireline	**$22,210**	$20,926	$19,919	**6.1%**	5.1%

Local Service revenues increased $720, or 6.9%, in 1998 and $921, or 9.7%, in 1997 due primarily to increases in demand which totaled $656 and $799 in 1998 and 1997, including increases in access lines and vertical services revenues. The number of access lines increased by 4.3% and 5.1% in 1998 and 1997. Approximately 40% and 31% of access line growth in 1998 and 1997 was due to sales of additional access lines to existing residential customers. In both years, approximately 46% of the access line growth was in California and 32% was in Texas. Access lines in Texas and California account for approximately 75% of the Telephone Companies' access lines. Vertical services revenues, which include custom calling options, Caller ID, voice mail and other enhanced services, increased by approximately 20% in both years and totaled approximately $1,892 and $1,582 in 1998 and 1997.

Additionally, local service revenues increased as a result of several regulatory actions that also had the effect of decreasing one or more other types of operating revenues. In 1998 and 1997, federal payphone regulation, introduction of extended area service plans and the introduction of the California High Cost Fund (CHCFB) collectively increased local service revenues by approximately $157 and $211, and decreased long distance revenue by approximately $53 and $117, interstate network access revenue by $20 and $53, intrastate network access revenue by approximately $24 and $26 and other operating revenue by approximately $7 and $0. The net effect on Wireline operating revenue was an increase of $53 and $15 in 1998 and 1997. The California Public Utilities Commission (CPUC) has stated that the CHCFB is intended to directly subsidize the provision of service to high-cost areas and allow PacBell to set competitive rates for other services.

These increases in local service revenues were partially offset by decreases of approximately $43 and $18 resulting from cellular interconnection rate reductions in 1998 and 1997. Rate reductions under CPUC price cap orders also reduced 1997 local service revenues by approximately $56.

Dollars in millions except per share amounts

Network Access Interstate network access revenues increased $118, or 2.6%, in 1998 and $140, or 3.2%, in 1997 due largely to increases in demand for access services by interexchange carriers, and growth in revenues from end-user charges attributable to an increasing access line base, which collectively resulted in an increase of approximately $420 and $361 in 1998 and 1997. Partially offsetting these increases were the effects of rate reductions of approximately $189 in 1998 and $120 in 1997 related to the FCC's productivity factor adjustment, access reform and other changes and regulatory shifts related to payphone deregulation of approximately $20 and $53 as noted in local service above. Additional decreases in 1998 totaling approximately $76 resulted from an increase in universal service fund net payments implemented in the first quarter of 1998 that exceeded the 1997 net payments of long-term support, which were designed to subsidize universal service. The net federal universal fund payments and receipts will be exogenous factors in future federal price cap filings. Interstate network access revenues in 1997 also had a net decrease of approximately $42 due to the reversal of 1996 revenue sharing and proposed 1996 tariff decrease estimates at the Telephone Companies.

Intrastate network access revenues increased $33 in both 1998 and 1997, due largely to increases in demand totaling approximately $79 and $121 in 1998 and 1997, including usage by alternative intraLATA toll carriers. These increases in 1998 and 1997 were partially offset by state regulatory rate reductions at PacBell and SWBell totaling approximately $23 and $50 and the effects of the CHCFB described above in local service totaling approximately $24 and $26.

Long Distance Service revenues were relatively unchanged in 1998 and decreased approximately $172, or 6.8%, in 1997. Long distance service revenues decreased due to the effect of the regulatory shifts discussed in local service above of approximately $53 and $117 in 1998 and 1997 related to the CHCFB, introduction of extended area service plans and payphone deregulation, price competition from alternative intraLATA toll carriers of approximately $43 and $100 in 1998 and 1997 at SWBell and SNETel and regulatory rate reductions of approximately $34 in 1997. These decreases were offset in 1998 and partially offset in 1997 by revenues from increased toll messages and demand at PacBell totaling approximately $48 and $45 in 1998 and 1997 and increased customer migration to SNET All Distance®, an interstate and intrastate toll service, of approximately $20 and $42 in 1998 and 1997. In addition, revenues in 1998 increased by approximately $22 due to the net effect of regulatory rate orders and local exchange carrier billing settlements.

Other operating revenues increased $411, or 23.3%, in 1998 and $85, or 5.1%, in 1997 due primarily to increased sales from nonregulated products and services at the Telephone Companies totaling approximately $201 and $72 in 1998 and 1997, increased equipment sales at the Telephone Companies of approximately $92 and $6 in 1998 and 1997 and revenues from new business initiatives, primarily Internet services, totaling approximately $71 and $39 in 1998 and 1997. In addition, net payments for state universal funds of approximately $15 in 1998 contributed to the increase. These increases were partially offset in 1998 by approximately $7 related to the CHCFB, discussed in local service above.

Wireless

Wireless operating revenues increased $488, or 13.2%, in 1998 and $560, or 17.9%, in 1997. Components of Wireless operating revenues, including percentage changes from the prior year, are as follows:

				Percent Change	
	1998	1997	1996	**1998 vs. 1997**	1997 vs. 1996
Subscriber	**$3,783**	$3,372	$2,907	**12.2%**	16.0%
Other	**402**	325	230	**23.7**	41.3
Total Wireless	**$4,185**	$3,697	$3,137	**13.2%**	17.9%

Subscriber revenues consist of wireless local service and long distance. Wireless subscriber revenues increased $411, or 12.2%, in 1998 and $465, or 16%, in 1997 due primarily to growth in the number of customers of 15.1% and 23.3%, partially offset by declines in average revenue per customer. Increases in 1997 wireless subscriber revenues of approximately $103 also resulted from the introduction of PCS operations in California, Nevada and Oklahoma. At December 31, 1998, SBC had 5,924,000 traditional cellular customers, 81,000 resale customers and 846,000 PCS customers. At December 31, 1997, SBC had 5,526,000 traditional cellular customers, 60,000 resale customers and 365,000 PCS customers.

Other wireless revenues increased $77, or 23.7%, in 1998 and $95, or 41.3%, in 1997 due primarily to increases in equipment revenue attributable to growth in the number of customers and conversion to digital equipment.

Directory

Directory operating revenues increased $107, or 4.7%, in 1998 and $141, or 6.6%, in 1997. Directory operating revenues, including percentage changes from the prior year, are as follows:

				Percent Change	
	1998	1997	1996	**1998 vs. 1997**	1997 vs. 1996
Total Directory	**$2,393**	$2,286	$2,145	**4.7%**	6.6%

Directory operating revenues increased in 1998 due mainly to increased demand, including benefits from merger initiatives. Also contributing to the increase was approximately $17 from directory rescheduling from the first quarter of 1999 into the fourth quarter of 1998. Directory advertising revenues increased in 1997 due mainly to increased demand and the publication of directories in 1997 that were not published in 1996 due to rescheduling.

Operating Expenses

Following are SBC's normalized operating expenses, including percentage changes from the prior year (additions of $422 in 1998 and $2,550 in 1997 are excluded):

				Percent Change	
	1998	1997	1996	**1998 vs. 1997**	1997 vs. 1996
Operations and support:					
Wireline	**$12,711**	$12,291	$11,464	**3.4%**	7.2%
Wireless	**2,786**	2,610	1,994	**6.7**	30.9
Directory	**1,227**	1,230	1,159	**(0.2)**	6.1
Other	**152**	93	46	**63.4**	—
Corporate, adjustments & eliminations	**(363)**	(368)	(153)	**(1.4)**	—
Total operations and support	**16,513**	15,856	14,510	**4.1**	9.3
Depreciation and amortization*	**4,956**	4,697	4,466	**5.5**	5.2
Total Normalized Operating Expenses	**$21,469**	$20,553	$18,976	**4.5%**	8.3%

*See Note 9 of Notes to Consolidated Financial Statements for breakdown by segment.

Wireline Operations and support expenses increased $420, or 3.4%, in 1998 and $827, or 7.2%, in 1997. Increases for 1998 include costs of approximately $262 related to progress in the merger implementation process including centralizing support functions and other merger initiatives at SWBell and PacBell. Offsetting these increased costs were reductions in 1998 primarily related to realization of merger initiative benefits that totaled approximately $317. These reductions included lower use of contract labor, primarily at PacBell, lower costs associated with customer number portability and reduced research and development costs. Operations and support expense also increased in 1998 due to costs associated with reciprocal compensation for the termination of Internet traffic of approximately $136 at the Telephone Companies (see "Federal Regulation" for further discussion about reciprocal compensation). Increased expenses in 1998 of approximately $55 related to new business initiatives, primarily voice mail, Internet, long distance and cable. Additional costs in 1998 totaling approximately $172 related to increased wages and salaries, benefits, materials and right to use fees. Comparisons to 1997 are also impacted by the absence of the recognition of 1997 pension settlement gains relating to 1997 retirees after the merger with PAC totaling approximately $136.

Increases in 1997 include costs for wages, salaries, benefits, sales commissions and contract labor totaling approximately $327. Increases in 1997 also include costs associated with customer number portability after the merger with PAC, interconnection, other regulatory mandated network enhancements and materials of approximately $414. Increased expenses in 1997 of approximately $156 related to new business initiatives, primarily voice mail, Internet, long distance and cable. These increases were partially offset by a reduction related to the recognition of pension settlement gains discussed above.

Wireless Wireless expenses increased $176, or 6.7%, in 1998 and $616, or 30.9%, in 1997 due primarily to growth in the number of customers and increased equipment sales. The large increase in 1997 expenses includes approximately $362 of expenses from the introduction of PCS operations. These increases were partially offset by decreased customer acquisition costs of 11% and 4% in 1998 and 1997.

Directory Directory expenses remained relatively unchanged in 1998 as lower costs resulting from the merger integration process, including decreased employee-related costs, were offset by expenses from increased demand and directory rescheduling discussed in directory operating revenue above. Directory expenses increased in 1997 due mainly to increased demand and the publication of directories in 1997 that were not published in 1996 due to rescheduling.

Depreciation and Amortization expense is primarily in the Wireline and Wireless segments. In total, depreciation and amortization increased $259, or 5.5%, in 1998 due primarily to increased depreciation expense of $201 in the Wireline segment and $41 in the Wireless segment resulting from overall higher plant levels. The increase in 1998 was partially offset by reduced depreciation at PacBell related to analog switching equipment of $42. Total depreciation and amortization increased $231, or 5.2%, in 1997. The increase was due to increased depreciation expense of $193 in the Wireline segment and $141 in the Wireless segment resulting from overall higher plant levels. The Wireless increase was due primarily to the launch of PCS operations. Reduced depreciation of $107 at PacBell related to analog switching equipment partially offset the increase.

Interest Expense on a consolidated basis for 1998 decreased by $50, or 4.8%, in 1998 and increased by $142, or 15.8%, in 1997. Interest expense for 1998 includes $3 of one-time charges for SNET merger-approval costs and 1997 includes $27 associated with one-time charges, primarily interest on the PAC merger-approval costs. Excluding these charges, interest expense for 1998 decreased $26, or 2.6%, and increased $115, or 12.8%, for 1997. The 1998 decrease was due primarily to reductions in interest expense resulting from lower average debt levels and lower weighted average interest rates, partially offset by lower capitalization of interest during construction. The 1997 increase was due primarily to increased average debt levels.

Equity in Net Income of Affiliates increased $35 in 1998 and decreased $6 in 1997. The 1998 increase reflects increased equity in net income of $78 from SBC's investment in Teléfonos de México, S.A. de C.V. (Telmex), Mexico's national telecommunications company, SBC's May 1997 investment in Telkom and SBC's wireless operations. Also contributing to the increase were lower losses resulting from reduced involvement in Tele-TV. These increases were partially offset by a reduction of $53 in contribution from investments in Switzerland, France and Israel, primarily resulting from expenditures on long distance and wireless in Switzerland and long distance in France and Israel.

The 1997 decrease reflects decreased equity in net income of $49 from Telmex. This lower income resulted from the change in the functional currency used by SBC to record its interest in Telmex from the peso to the U.S. dollar beginning in 1997 and SBC's reduced ownership percentage after the sale of Telmex L shares. Results also reflect preoperating expenses of $32 in several international investments, including long distance in France, Switzerland and Israel and cellular communications in Taiwan, and decreased contribution of $13 from SBC's wireless operations. These decreases were mainly offset by equity in net income of $58 from Telkom and $27 in lower losses from Tele-TV.

SBC's earnings from foreign affiliates will continue to be generally sensitive to exchange rate changes in the value of the respective local currencies. SBC's foreign investments are recorded under U.S. generally accepted accounting principles, which include adjustments for the purchase method of accounting and exclude certain adjustments required for local reporting in specific countries, such as inflation adjustments.

Other Income (Expense) – Net for 1998 and 1997 includes amounts that SBC management normalized for reviewing results. Normalizing amounts for 1998 include $358 in gains on the sale of non-core businesses, primarily the required disposition of SBC's interest in MTN and the sale of SBC Media Ventures, Inc., pending from the prior year. Amounts for 1997 reflect gains of $54 from the sale of SBC's interests in Bellcore and $32 in second quarter charges related to SBC's strategic initiatives, primarily writeoffs of nonoperating plant. Absent these items, other income (expense) for 1998, 1997 and 1996 was $(113), $(100) and $(75).

During 1998, several offsetting transactions impacted other income and expense contributing to the normalized increase of net other expense of $13. SBC recognized other expense of $237 related to an impairment of an international investment and investments in certain wireless technologies, primarily wireless video. Also increasing other expense were higher minority interest, lower interest income and call premiums and unamortized discounts on early retirement of debt at SWBell that totaled $67 more than the previous year. Offsetting these decreases were other income related to a special dividend of $158 received from a software affiliate and gains of $127 recognized on the sales and the charitable contribution of SBC's available-for-sale investment in Telewest Communications plc (see Note 7 of Notes to Consolidated Financial Statements for further discussion of the gains). Movement in the market value of Telmex L shares requires a market valuation adjustment on certain SBC debt redeemable either in cash or Telmex L shares. Additionally, Telmex under their repurchase program from time to time repurchases enough shares in the market that SBC is required to sell part of its Telmex L share holdings to Telmex to remain under 10% ownership of Telmex. The net of these activities contributed $90 more to other income than in 1997. Also affecting comparisons with 1997 was approximately $64 in royalties and gains recognized in 1997.

During 1997, there were also several offsetting transactions contributing to the normalized increase in net other expense of $25. Higher minority interest, including distributions paid on an additional $500 of Trust Originated Preferred Securities (TOPrS) sold by PAC in June 1996, and lower interest income resulted in $43 more net expense than in 1996. The net activity related to market movement on Telmex L shares increased other expense by $47 more than in 1996. Partially offsetting these net other expenses were royalty payments associated with software developed by an affiliate and other investment gains totaling $64.

Income Taxes for 1998 include taxes related to the sale of certain non-core businesses discussed in other income (expense) – net and tax benefits associated with merger integration initiatives relating to SNET. Income taxes for 1997 reflect the tax effect of charges for strategic initiatives resulting from SBC's comprehensive review of operations and the impact of several regulatory rulings. Income taxes for 1997 also included taxes on the first quarter pension settlement gain discussed in operations and support. The net effective tax rate on these items was lower as a result of non-deductible items included in the charge and valuation adjustments to certain deferred tax assets which may not be utilized due to restrictions associated with the merger. Excluding these items, income taxes for 1998 and 1997 would have been $2,332 and $1,951. Income taxes for 1998 were higher due primarily to higher income before income taxes. Income taxes for 1997, excluding the non-recurring items, were slightly lower than income taxes for 1996 of $2,070.

Extraordinary Loss In 1998, SBC recorded an extraordinary loss of $60 related to the refinancing of $684 of long-term debt at PacBell.

Cumulative Effect of Accounting Change As discussed in Note 1 of Notes to Consolidated Financial Statements, SNET Information Services, Inc. and PB Directory changed their methods of recognizing directory publishing revenues and related expenses effective January 1, 1998 and January 1, 1996, respectively. The cumulative after-tax effect of applying the new method to prior years for SNET Information Services, Inc. was recognized as of January 1, 1998 as a one-time, non-cash gain applicable to continuing operations of $15, or $0.01 per share. The gain is net of deferred taxes of $11. The one-time gain recognized as of January 1, 1996 for PB Directory was $90, net of deferred taxes of $53, or $0.05 per share. Management believes the change to the issue basis method is preferable because it is the method generally followed in the publishing industry, including SWBYP, and better reflects the operating activity of the businesses. These accounting changes are not expected to have a significant effect on net income in future periods.

OPERATING ENVIRONMENT AND TRENDS OF THE BUSINESS

Regulatory Environment

Overview

The telecommunications industry is in a period of dynamic transition from a tightly regulated industry overseen by multiple regulatory bodies to a market-driven industry monitored by state and federal agencies. The Telephone Companies' wireline telecommunications operations remain subject to regulation by the eight state regulatory commissions for intrastate services and by the FCC for interstate services.

Consolidation of companies is occurring within the marketplace for local telephone service and across other telecommunications services, such as long distance, cellular, cable television, Internet and other data transmission services. Companies operating in some of these markets are also expanding into others, such as the provision of local service by long distance companies. Additionally, new technologies are also affecting the way people view and use communications services.

The telecommunications industry is also changing internationally, as government-owned telephone monopolies are being privatized in many countries and competitive entrants are authorized. U.S.-controlled companies may acquire or form investment, joint venture or strategic relationships with these newly privatized companies or their new competitors involving any or all of the range of telecommunications services. Foreign-controlled companies also may acquire or form such relationships with U.S. companies.

SBC is aggressively representing its interests before federal and state regulatory bodies, courts, Congress and state legislatures. SBC will continue to evaluate the increasingly competitive nature of its business, and develop appropriate competitive, legislative and regulatory strategies.

Wireline

Federal Regulation

Through affiliates, SBC offers landline interLATA long distance services to customers in selected areas outside the Telephone Companies' operating areas. Further, SBC offers interLATA long distance services to customers in Connecticut through SNET America, Inc. (SAI). Under the Telecommunications Act of 1996 (Telecom Act), before being permitted to offer landline interLATA long distance service in any state within the regulated operating areas of SWBell, PacBell and Nevada Bell, SBC must apply for and obtain state-specific approval from the FCC. The FCC's approval, which involves consultation with the United States Department of Justice and the appropriate state commission, requires favorable determinations that certain of the Telephone Companies have entered into interconnection agreement(s) that satisfy a 14-point "competitive checklist" with predominantly facilities-based carrier(s) that serve residential and business customers or, alternatively, that certain of the Telephone Companies have a statement of terms and conditions effective in that state under which they offer the "competitive checklist" items. The FCC must also make favorable public interest and structural separation determinations in connection with each application. See "State Regulation" for status of the state applications.

In December 1997, the United States District Court for the Northern District of Texas ruled that parts of the Telecom Act were unconstitutional on the grounds that they improperly discriminate against certain subsidiaries of SBC by imposing restrictions that prohibit certain of the Telephone Companies by name from offering interLATA long distance and other services that other Local Exchange Carriers (LECs) are free to provide. In September 1998, the United States Court of Appeals for the Fifth Circuit (5th Circuit) reversed this decision and ruled that the challenged provisions of the Telecom Act were constitutional. In January 1999, the United States Supreme Court (Supreme Court) declined to hear an appeal of the 5th Circuit's decision.

Interconnection In August 1996, the FCC issued rules by which competitors could connect with LECs' networks, including those of the Telephone Companies. Among other things, the rules addressed unbundling of network elements, pricing for interconnection and unbundled elements, and resale of retail telecommunications services. The FCC rules were appealed by numerous parties, including SBC.

In July 1997, the United States Court of Appeals for the Eighth Circuit (8th Circuit) held that the FCC did not have the authority to promulgate rules related to the pricing of local intrastate telecommunications and that its rules in that regard were invalid.

The 8th Circuit also overturned the FCC's rules which allowed competitors to "pick and choose" among the terms and conditions of approved interconnection agreements. In October 1997, the 8th Circuit issued a subsequent decision clarifying that the Telecom Act does not require the incumbent LECs to deliver network elements to competitors in anything other than completely unbundled form.

In September 1997, a number of parties, including SBC, filed petitions to enforce the July 1997 ruling of the 8th Circuit that the right to set local exchange prices, including the pricing methodology used, is reserved exclusively to the states. The petitions responded to the FCC's rejection of Ameritech Corporation's interLATA long distance application in Michigan, in which the FCC stated it intended to apply its own pricing standards to Regional Holding Company (RHC) interLATA applications. The petitioners asserted the FCC was violating state authority. On January 22, 1998, the 8th Circuit ordered the FCC to abide by the July 1997 ruling and reiterated that the FCC cannot use interLATA long distance applications made by SBC and other RHC wireline subsidiaries wishing to provide interLATA long distance to attempt to reimpose the pricing standards ruled invalid in July 1997 by the 8th Circuit.

In January 1999, the Supreme Court ruled on an appeal of the 8th Circuit's order. The ruling held that the Telecom Act gives the FCC the authority to set guidelines for states to follow in setting prices under the Telecom Act, and reinstated the FCC rules allowing those seeking to interconnect to "pick and choose" specific provisions from previous interconnection agreements. Because the 8th Circuit's decision did not address the lawfulness of the content of the FCC pricing guidelines, the Supreme Court remanded that issue to the 8th Circuit for further consideration. The ruling also upheld FCC rules forbidding incumbent LECs from separating already combined network elements, but remanded back to the FCC its determination of which network elements must be made available. The Supreme Court also held that, before the FCC could require telecommunications carriers to make a particular network element available to requesting carriers, the FCC must first consider as to proprietary elements, whether access to the elements was necessary and whether the failure to provide access to a particular element would impair the requesting carrier's ability to provide the service it seeks to offer. The effect of this ruling on the telecommunications industry cannot be determined at this time.

Reciprocal Compensation Reciprocal compensation is billed to SBC's subsidiaries by Competitive Local Exchange Carriers (CLECs) for the termination of certain local exchange traffic to CLEC customers. SBC believes that under the Telecom Act the state commissions have authority to order reciprocal compensation for intrastate or local traffic, while only the FCC has authority over interstate and interexchange traffic. SBC believes most Internet traffic is interexchange and interstate. Several state commissions, including the CPUC in an October 1998 order, have taken the position that Internet communications is intrastate or local traffic and ordered SBC to pay reciprocal compensation to certain CLECs pursuant to then existing contracts. State commissions in the five-state area other than Kansas have also issued orders finding that SBC is required to pay reciprocal compensation to certain CLECs. In June 1998, a U.S. District Court in Texas affirmed the Texas Public Utility Commission's (TPUC) determination and upheld payment of reciprocal compensation, holding that an Internet call is comprised of two portions, and that the TPUC has jurisdiction over the local portion of the traffic and the FCC over the Internet component. Similar decisions regarding Internet traffic have been made by other state commissions. SBC has sought review or reconsideration of these cases.

The question whether Internet communications should be classified as local/intrastate or interstate traffic for reciprocal compensation purposes is the subject of a pending FCC proceeding and the FCC is expected to rule on this issue in the near future. SBC's subsidiaries have been recording amounts sought by certain CLECs for the termination of Internet traffic to Internet Service Providers.

Asymmetrical Digital Subscriber Line (ADSL) is a high-speed data service principally used for Internet access. In June 1998, SBC filed with the FCC a petition requesting relief for ADSL from pricing, unbundling and resale regulatory restrictions. The FCC denied the petition and declared that incumbents, such as the Telephone Companies, must offer such services for resale at a discount and must offer unbundled access to the equipment used in ADSL provisioning to the extent possible. SBC has filed with the FCC a petition for reconsideration of this order. The FCC sought comments on offering the incumbent LECs the option of providing deregulated advanced services through an affiliate with appropriate safeguards.

The effects of the FCC decisions on the above topics are dependent on many factors including, but not limited to, the ultimate resolution of the pending appeals; the number and nature of competitors requesting interconnection, unbundling or resale; and the results of the state regulatory commissions' review and handling of related matters within their jurisdictions. Accordingly, SBC is not able to assess the impact of the FCC orders and proposed rulemaking at this time.

State Regulation

The following provides an overview of state regulation in the eight states in which the Telephone Companies operated at December 31, 1998.

State	Alternative Regulation[1]	Dialing Parity[2]	Number of Signed Wireline Interconnection Agreements[3]	Long Distance Application Status
Arkansas	Yes, indefinite	Presently not required prior to long distance authorization	54	Decision expected in 1999[4]
California	Yes, ends 1/2002	Proceeding pending	66	Decision expected in 1999[4]
Connecticut	Yes, ends 2/2001	Dialing parity exists	13	Long distance service provided by the retail entity[5]
Kansas	Yes, indefinite	Commission ordered implementation by 2/1999; state statute presently prohibits requirement before long distance authorization	55	Decision expected in 1999[4]
Missouri	Yes, indefinite	Proceeding pending	61	Decision expected in 1999[4]
Nevada	Yes, ends 12/2002	Presently not required prior to long distance approval; proceeding pending	19	No activity
Oklahoma	Yes, ends 2/2001	Ordered by 3/1999	52	Decision expected in 1999[4]
Texas	Yes, ends 9/2001	TPUC deferred its decision pending FCC issuance of new dialing parity rules; state statute presently prohibits requirement before long distance authorization	175	Decision expected in 1999[4]

Other significant notes:

[1]Alternative regulation is other than rate of return regulation.

[2]In a January 1999 decision, the Supreme Court ruled that the FCC had the authority to issue rules implementing intrastate and intraLATA dialing parity. Several interexchange carriers are arguing in pending state proceedings that the ruling requires immediate implementation of dialing parity, preempting state requirements. The Telephone Companies take the position that dialing parity requirements should be consistent with state laws and that they should not be required to provide intraLATA toll dialing parity prior to receiving authorization to provide interLATA long distance services. In states where dialing parity exists, customers are able to subscribe to an intraLATA toll carrier just as they do for long distance services.

[3]Interconnection agreements are signed with CLECs for the purpose of allowing the CLECs to exchange local calls with the incumbent telephone company.

[4]Awaiting determination by state commissions on the Telephone Companies' compliance with the 14-point competitive checklist. FCC approval is required subsequent to state determination.

[5]SNETel is restricted from providing interLATA long distance service in any of the other Telephone Companies' operating regions.

The following presents highlights of certain regulatory developments.

California In October 1998, the CPUC issued a decision modifying the current regulatory framework for PacBell effective January 1, 1999. The decision adopted PacBell's proposal that the current cap on basic residential rates be continued for three more years, through 2001, with the CPUC retaining the ability to adjust basic telephone rates. The decision suspended earnings sharing, rate of return reviews and the use of earnings caps and floors through 2001. In addition, the decision adopted PacBell's proposal to eliminate depreciation reviews and granted PacBell the freedom to set its own depreciation rates and methodology. It also continued the suspension of the productivity factor adjustment. In addition, the CPUC decision eliminated most future exogenous cost adjustments, including the recovery of future costs related to a 1993 accounting change for postretirement benefits other than pensions. Management currently estimates the items embodied within the new regulatory framework will have the net effect of reducing annual revenue by approximately $100 from 1999 through 2004.

In July 1998, the CPUC issued a rate rebalancing decision related to its 1996 order on universal service. The CPUC's decision was implemented prospectively beginning September 1, 1998 and reduces PacBell's non-basic local service, network access and long distance service revenues by $305 annually to offset the approximately $305 annually that PacBell expects to receive from the CHCFB. Beginning in February 1997, PacBell, and all other California telecommunications carriers, began collecting funds via customer surcharges consistent with the CPUC's 1996 decision. The CPUC has yet to decide on the specific mechanism to be employed to ensure the distribution of funds collected by PacBell and other carriers from February 1997 through August 1998 is revenue neutral.

Connecticut In January 1997, SNET submitted to the Connecticut Department of Public Utility Control (DPUC) its proposal on corporate restructure. The proposal recommended that SNETel functions be split: ownership and maintenance of switching and transmission network facilities, i.e., all wholesale functions, would remain in the telephone company, SNETel, and all retail functions would go to SAI, which was the long distance subsidiary. Both would be wholly-owned by SNET. In June 1997, the DPUC granted SNET permission to restructure its telephony operations, with several DPUC-imposed modifications.

Under the plan, all retail operations (retail marketing and customer service) have been transferred to SAI, and SAI will be treated by the regulators like all other CLECs. SNET local service customers will choose their provider via a balloting process, which has been scheduled for September 1999. All wholesale services and the network infrastructure will remain with SNETel, which will be restricted to meeting the needs of CLECs, including SAI and other wholesale customers. SAI can buy its wholesale service from SNETel or any other wholesale provider. SAI has been providing interstate and international long distance service since 1993, and received certification to provide local service and intrastate toll in Connecticut in 1997.

Missouri Effective September 26, 1997, the Missouri Public Service Commission (MPSC) determined that SWBell is subject to price cap regulation. Prices in effect as of December 31, 1996 are the initial maximum allowable rates for services and cannot be adjusted until January 1, 2000 for basic and access services and on January 1, 1999 for non-basic services. On an exchange basis where a competitor began operations, the freeze on maximum allowable rates for non-basic services was removed. After January 1, 2000, caps for basic and access services may be adjusted based on one of two government indices. After January 1, 1999, caps for non-basic services may be increased up to 8% per year. In an exchange where competition for basic local service exists for five years, services will be declared competitive and subject to market pricing unless the MPSC finds effective competition does not exist. The Office of Public Counsel and MCI WorldCom, Inc. (MCI WorldCom) sought judicial review of the MPSC determination and in May 1998 the state circuit court affirmed the MPSC decision.

Texas Under the Public Utility Regulatory Act, which became effective in May 1995 (PURA), SWBell elected to move from rate of return regulation to price regulation with elimination of earnings sharing. Basic local service rates are capped at existing levels for four years following the election, i.e., until September 1999. The TPUC is prohibited from reducing switched access rates charged by LECs to interexchange carriers while rates are capped.

LECs electing price regulation are committed to network and infrastructure improvement goals, including expansion of digital switching and advanced high-speed services to qualifying public institutions, such as schools, libraries and hospitals, requesting the services. PURA also established an infrastructure grant fund for use by public institutions in upgrading their communications and computer technology. The 1997 Texas legislative session changed the funding for this infrastructure grant fund from annually collecting $150 for ten years to a fixed percentage (1.25%) applied to all telecommunications providers' sales taxable revenues. The law also provides a cap of $1,500 for the life of the fund. SWBell's annual payments were approximately $36 in 1997 and $56 in 1998. Due to the industry's growth in revenues, the fund should be completely funded before the original ten years.

PURA establishes local exchange competition by allowing companies that desire to provide local exchange services to apply for certification by the TPUC, subject to certain buildout requirements, resale restrictions and minimum service requirements. PURA provides that SWBell will remain the default carrier of "1 plus" intraLATA long distance traffic in its territory until SWBell is allowed to carry interLATA long distance. In 1996, MCI WorldCom and AT&T Corp. (AT&T) sued the state of Texas, alleging that PURA violates the Texas state constitution, and claiming that PURA establishes anticompetitive barriers designed to prevent MCI WorldCom, AT&T and Sprint Corporation (Sprint) from providing local services within Texas. The FCC, also in response to petitions filed by AT&T and MCI WorldCom, preempted and voided portions of PURA that required certain buildout requirements. Furthermore, the FCC also preempted rules that excluded competitors from entering markets with fewer than 31,000 access lines and which made resale of Centrex phone services subject to a limited property restriction. AT&T and MCI WorldCom have dismissed their suits regarding this matter. In October 1997, SWBell filed with the FCC a petition for reconsideration regarding the preemption of the property restriction for Centrex services. This issue is still pending before the FCC.

Competition

Wireline

Competition continues to increase for telecommunications and information services. Recent changes in legislation and regulation have increased the opportunities for alternative service providers offering telecommunications services. Technological advances have expanded the types and uses of services and products available. As a result, SBC faces increasing competition as well as new opportunities in significant portions of its business.

Recent state legislative and regulatory developments allow increased competition for local exchange services. Companies wishing to provide competitive local service have filed numerous applications with each of the state commissions throughout the Telephone Companies' regulated operating areas, and the commissions of each state have been approving these applications since late 1995. Under the Telecom Act, companies seeking to interconnect to the Telephone Companies' networks and exchange local calls must enter into interconnection agreements with the Telephone Companies. These agreements are then subject to approval by the appropriate state commission. SBC has reached approximately 495 interconnection and resale agreements with competitive local service providers, and most have been approved by the relevant state commission. AT&T, MCI WorldCom and other competitors are reselling SBC local exchange services, and as of December 31, 1998, there were approximately 800,000 SBC access lines supporting services of resale competitors throughout the Telephone Companies' regulated operating areas, most of them in Texas and California. Many competitors have placed facilities in service and have begun advertising campaigns and offering services. SBC also was granted facilities-based and resale operating authority in certain territories served by other LECs and now offers local exchange service offerings to these areas.

In California, the CPUC authorized facilities-based local services competition effective January 1996 and resale competition effective March 1996. While the CPUC has established local competition rules and interim prices, several issues still remain to be resolved, including final rates for resale and LEC provisioning and pricing of certain network elements to competitors. PacBell has incurred substantial costs implementing local competition and number portability. In November 1998, the CPUC issued a decision allowing PacBell to begin recovery of local competition implementation costs.

In Texas, the TPUC set rates in December 1997 that SWBell may charge for access and interconnection to its telephone network. The TPUC decision sets pricing for dozens of network components and completes a consolidated arbitration between SWBell and six of its wholesale customers, including AT&T and MCI WorldCom.

In Missouri, the MPSC issued orders on a consolidated arbitration hearing with AT&T and MCI WorldCom and on selected items with Metropolitan Fiber Systems. Among other terms, the orders established discount rates for resale of SWBell services and prices for unbundled network elements. SWBell appealed the interconnection agreement resulting from the first arbitration proceeding on November 5, 1997; a decision is still pending. A second arbitration process to address other interconnection issues with AT&T has concluded, and the MPSC ordered that a conforming interconnection agreement be filed. SWBell appealed this order in April 1998.

The Telephone Companies expect increased competitive pressure in 1999 and beyond from multiple providers in various markets, including facilities-based CLECs, interexchange carriers and resellers. At this time, management is unable to assess the effect of competition on the industry as a whole, or financially on SBC, but expects both losses of market share in local service and gains resulting from new business initiatives, vertical services and new service areas. Competition also continues to intensify in the Telephone Companies' intraLATA long distance markets. For example, it is estimated that providers other than PacBell now serve more than half of the business intraLATA long distance customers in PacBell's service areas. In addition, if intraLATA toll dialing parity is required, competition in intraLATA long distance markets is expected to increase.

In the international arena, Telmex was granted a concession in 1990, which expired in August 1996, as the sole provider of long distance services in Mexico. Several large competitors have received licenses to compete with Telmex and have begun operations. As of December 31, 1998, Telmex has retained approximately 75% of its long distance customers. Telmex's share of international long distance traffic is expected to decline significantly when the proportional return mechanism, which guarantees Telmex the same percentage of incoming traffic as outgoing traffic, expires at the end of 1999. Aggressive local competition is expected in 1999, primarily in the business segment.

Wireless

In 1993, the FCC adopted an order allocating radio spectrum and licenses for PCS. PCS utilizes wireless telecommunications digital technology at a higher frequency radio spectrum than cellular. Like cellular, it is designed to permit access to a variety of communications services regardless of subscriber location. In an FCC auction, which concluded in March 1995, PCS licenses were awarded in 51 major markets. SBC or affiliates acquired PCS licenses in the Major Trading Areas of Los Angeles-San Diego, California; San Francisco-Oakland-San Jose, California; Memphis, Tennessee; Little Rock, Arkansas; and Tulsa, Oklahoma. The California licenses cover substantially all of California and Nevada. SBC is currently operational in all of its major California-Nevada markets and Tulsa, Oklahoma. During 1996, SBC received several

AT&T cellular networks in Arkansas in exchange for SBC's PCS licenses in Memphis, Tennessee, and Little Rock, Arkansas, and other consideration.

PCS service was formally launched in all the major California and Nevada markets at different times throughout 1997, with the buildout to other areas continuing. The network incorporates the Global System for Mobile Communications standard, which is widely used in Europe. PBMS is selling PCS as an off-the-shelf product in retail stores, through exclusive agents and in company-owned stores across California and Nevada. Significant competition exists, particularly from the two established cellular companies in each market.

In an FCC auction that concluded in January 1997, SBC acquired eight additional PCS licenses for Basic Trading Areas that are within the five-state area.

SBC also has state-approved interconnection agreements to receive reciprocal compensation from interexchange carriers and other local service providers accessing its wireless networks in all states where it provides wireless services.

Companies that were granted licenses in areas where SBC also provides wireless service include subsidiaries and affiliates of AT&T, Sprint and other RHCs. Significant competition from PCS providers exists in SBC's major markets. Competition has been based upon both price and service packaging, such as unlimited calling plans, and has contributed to SBC's decline in average subscriber revenue per wireless customer.

Under the Telecom Act of 1996, SBC may offer interLATA long distance over its wireless network both inside and outside the regulated operating areas. SBC has entered the wireless long distance markets, and offers wireless long distance service in all of its wireless service areas.

Directory

SWBYP, PB Directory and SNET Information Services, Inc. face competition from over 100 publishers of printed directories in their operating areas. Direct and indirect competition also exists from other advertising media, including newspapers, radio, television and direct mail providers, as well as from directories offered over the Internet.

OTHER BUSINESS MATTERS

New Accounting Standards In June 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133), which will require all derivatives to be recorded on the balance sheet at fair value, and will require changes in the fair value of the derivatives to be recorded in net income or comprehensive income. FAS 133 must be adopted for years beginning after June 15, 1999, with earlier adoption permitted. Management is currently evaluating the impact of the change in accounting required by FAS 133, but is not able to quantify the effect at this time.

See Note 1 of Notes to Consolidated Financial Statements for a discussion of the new accounting standard on software costs.

Wireless Acquisition See Note 17 of Notes to Consolidated Financial Statements for a discussion of the acquisition of Comcast Cellular Corporation.

Long Distance Agreement On February 8, 1999, SBC announced an agreement with Williams Communications (Williams), a subsidiary of Williams Cos., Inc., under which Williams will serve as SBC's long distance provider. As part of this agreement, SBC plans to acquire 10% of the common stock of Williams. This investment will occur simultaneously with an initial public offering of common stock by Williams, scheduled for the second quarter of 1999.

Merger See Note 3 of Notes to Consolidated Financial Statements for a discussion of the merger agreement with Ameritech Corporation.

SBC's Year 2000 Project SBC operates numerous date-sensitive computer applications and systems throughout its businesses. Since 1996, SBC has been working to upgrade its networks and computer systems to properly recognize the Year 2000 and continue to process critical operational and financial information. Companywide teams are in place to address and resolve Year 2000 issues and processes are under way to evaluate and manage the risks and costs associated with preparing SBC's date-impacted systems and networks for the new millennium.

SBC is using a four-step methodology to address the issue. The methodology consists of inventory and assessment, hardware and software fixes, testing and deployment. SBC measures its progress by tracking the number of completed hardware and software applications, network components, personal computers and building facilities that can correctly process Year 2000 dates.

Inventory and assessment is estimated to require 20% of the overall effort and includes the identification of items (i.e., line-by-line review of software code, switch generics, vendor products, etc.) that could be impacted by the Year 2000 and the determination of the work effort required to ensure compliance. The inventory and assessment phase has been completed. This process involved reviewing over 340 million lines of software code, 1,200 central office switches, 7,000 company buildings, conducting an inventory and assessment of 117,000 personal computers, and coordinating with 1,300 suppliers of 14,000 products to obtain adequate assurance they will be Year 2000 compliant or determine and address any appropriate contingency plans or backup systems.

Making the hardware and software fixes is the second phase of the process and is estimated to require 25% of the overall effort. This activity involves modifying program code, upgrading computer software and upgrading or replacing hardware. As of December 31, 1998, the hardware and software fixes were substantially complete.

Testing involves ensuring that hardware and software fixes will work properly in 1999 and beyond and occurs both before and after deployment. Testing is estimated to comprise 45% of the overall effort. Testing began early in 1998, is more than two-thirds complete, and will continue through 1999 to allow for thorough testing before the Year 2000. Contingency plans and backup systems are currently being written.

Deployment involves placing the "fixed" systems into a live environment to ensure they are working properly. Additional testing is done after deployment as well. Deployment is estimated to require 10% of the overall effort. More than half of the deployment phase was completed as of December 31, 1998.

SBC expects to spend approximately $265 on the entire project, with approximately $140 spent through December 31, 1998. As testing and hardware and software fixes are estimated to require most of the expenditures, there is not a strict correlation between expenditures and project completion.

The activities involved in SBC's Year 2000 project necessarily require estimates and projections, as described above, of activities and resources that will be required in the future. These estimates and projections could change as work progresses on the project.

LIQUIDITY AND CAPITAL RESOURCES

SBC had $460 of cash and cash equivalents available at December 31, 1998. Commercial paper borrowings as of December 31, 1998 totaled $1,044. SBC has entered into agreements with several banks for lines of credit totaling $1,460, all of which may be used to support commercial paper borrowings (see Note 10 of Notes to Consolidated Financial Statements). SBC had no borrowings outstanding under these lines of credit as of December 31, 1998.

Cash from Operating Activities

During 1998, as in 1997 and 1996, SBC's primary source of funds continued to be cash generated from operations, as shown in the Consolidated Statements of Cash Flows. Net cash provided by operating activities exceeded SBC's construction and capital expenditures during 1998, as in 1997 and 1996; this excess is referred to as free cash flow, a supplemental measure of liquidity. SBC generated free cash flow of $2,454, $1,366 and $2,046 in 1998, 1997 and 1996.

Cash from Investing Activities

To provide high-quality communications services to its customers, SBC, particularly its Wireline and Wireless operations, must make significant investments in property, plant and equipment. The amount of capital investment is influenced by demand for services and products, continued growth and regulatory commitments.

SBC's capital expenditures totaled $5,927, $6,230 and $5,855 for 1998, 1997 and 1996. Capital expenditures in the Wireline segment were relatively unchanged in 1998 compared to 1997. The Wireline segment's capital expenditures increased 12% in 1997 due primarily to demand-related growth, network upgrades, customer-contracted requirements, ISDN projects and SWBell's regulatory commitments. The Wireless segment's capital expenditures decreased 17% and 23% in 1998 and 1997 due primarily to expenditures for initial buildout of the PCS network and conversion of SBC's largest cellular markets to digital during 1997 and 1996.

In 1999, management expects total capital spending to be between $6,400 and $6,800. Capital expenditures in 1999 will relate primarily to the continued evolution of the Telephone Companies' networks, including amounts agreed to under regulation plans at SWBell, and continued buildout of Mobile Systems' markets and PBMS. SBC expects to fund ongoing capital expenditures with cash provided by operations.

SWBell has substantially completed the additional network and infrastructure improvements to be made over periods ranging through 2001 to satisfy regulatory commitments.

Cash from Financing Activities

Dividends declared by the Board of Directors of SBC were $0.935 per share in 1998, $0.895 per share in 1997, and $0.86 per share in 1996. These per share amounts do not include dividends declared and paid by PAC and SNET prior to their respective mergers. The total dividends paid by SBC, PAC and SNET were $1,836 in 1998, $1,755 in 1997 and $1,795 in 1996. Pursuant to the terms of the merger agreement, PAC reduced its dividend beginning in the second quarter of 1996. The lower second and third quarter dividends paid in 1996 improved 1996 cash flow by approximately $195. SBC's dividend policy considers both the expectations and requirements of shareowners, internal requirements of SBC and long-term growth opportunities.

In February 1998, SBC called $630 of long-term debt for retirement, including $175 at PacBell and $425 at SWBell, and issued approximately $200 in debentures at PacBell due February 2008 and approximately $200 in debentures at SWBell due March 2048. In September 1998, SBC called $175 of long-term debt for retirement, all at SWBell. In October 1998, PacBell repurchased $684 of debentures.

Total debt increased during 1997 due primarily to the issuance of medium-term notes and debentures at the Telephone Companies and debt redeemable either in cash or Telmex L shares.

During 1996 PAC issued $1,000 of TOPrS, $500 at 7.56% in January 1996 and $500 at 8.5% in June 1996 (see Note 11 of Notes to Consolidated Financial Statements). The proceeds were used to retire outstanding short-term debt, primarily commercial paper that had increased significantly during 1995.

SBC's total capital consists of debt (long-term debt and debt maturing within one year), TOPrS and shareowners' equity. Total capital increased $108 in 1998 and $1,056 in 1997. The increase in 1998 was due to 1998 earnings, partially offset by lower debt levels. The increase in 1997 was primarily due to higher debt levels and 1997 earnings.

SBC's debt ratio was 48.9%, 57.1% and 56.8% at December 31, 1998, 1997 and 1996. The debt ratio is affected by the same factors that affect total capital.

MARKET RISK

SBC's capital costs are directly linked to financial and business risks. SBC seeks to manage the potential negative effects from market volatility and market risk. Certain financial instruments used to obtain capital are subject to market risks from fluctuations in market interest rates. The majority of SBC's financial instruments are medium- and long-term fixed rate notes and debentures. Fluctuations in market interest rates can lead to significant fluctuations in the fair value of these notes and debentures. It is the policy of SBC to manage its debt structure and foreign exchange exposure in order to manage capital costs, control financial risks and maintain financial flexibility over the long term. Where appropriate, SBC will take actions to limit the negative effect of interest and foreign exchange rates, liquidity and counterparty risks on shareowner value.

Dollars in millions except per share amounts

Quantitative Information about Market Risk

Foreign Exchange Risk Sensitivity Analysis

December 31, 1998	U.S. Dollar Value of Net Foreign Exchange Contracts	Net Underlying Foreign Currency Transaction Exposures
Swiss Franc	$ 24	$ 24
Japanese Yen	142	142
French Franc	37	37
Chilean Peso	32	32
Total Exposure	$235	$235

Note: There is no net exposed long/short currency position and no foreign exchange loss from a 10% depreciation of the U.S. dollar.

The preceding table describes the effects of a change in the value of the Swiss franc, Japanese yen, Chilean peso and French franc given a hypothetical 10% depreciation of the U.S. dollar. Since the identified exposure is fully covered with forward contracts, changes in the value of the U.S. dollar which affect the value of the underlying foreign currency commitment are fully offset by changes in the value of the foreign currency contract. If the underlying currency transaction exposure changed, the resulting mismatch would expose the company to currency risk of the foreign exchange contract. For this reason, all contracts are related to firm commitments and matched by maturity and currency.

Equity Price Risk Sensitivity Analysis

SBC is exposed to equity price risk related to the change in the price of AirTouch Communications, Inc. (AirTouch) common stock related to the settlement of employee stock options. At December 31, 1998, the net appreciated value of the equity swap contract entered in 1994 was $26, while the value of the underlying employee stock option exposures for AirTouch common stock was $25, leaving a net exposed long equity position of $1. If the value of AirTouch common stock increased by 26%, the net exposed long equity position would increase by $1 to $2. Since January 1, 1995, the average yearly share price of AirTouch common stock has increased 26%. The equity swap contract expires April 1999 and the last option grant expires January 2003. (See Note 11 of Notes to Consolidated Financial Statements.) In February 1999, management evaluated the exposure to future appreciation of AirTouch common stock and the benefit to "unwinding" the swap. As a result, SBC began exiting the equity swap contract, receiving cash for the appreciated value of the contract and recognizing a minimal gain. Once exited, SBC will record in other income (expense) – net future changes in the value of the underlying employee stock option exposure. If the value of AirTouch common stock were to increase by an additional 26% from mid-February 1999, SBC would record additional expense of approximately $8.

Interest Rate Sensitivity

The principal amount by expected maturity, average interest rate and fair value of SBC's liabilities that are exposed to interest rate risk are described in Notes 10 and 11 of Notes to Consolidated Financial Statements. Following are SBC's interest rate derivatives subject to interest rate risk (none of these derivatives mature in 2000 through 2003):

	Maturity 1999	Maturity After 2003	Total	Fair Value 12/31/98
Interest Rate Derivatives				
Interest Rate Swaps				
Receive Variable/Pay Fixed Notional Amount[1]	$50	—	$50	$(1)
Fixed Rate Payable	7.2%	—		
Weighted Average Variable Rate Receivable[2]	5.1%	—		
Receive Variable/Pay Fixed Notional Amount[3]	—	$13	$13	$(1)
Fixed Rate Payable	6.7%	6.7%		
Weighted Average Variable Rate Receivable[4]	5.0%	5.5%		

[1] Receive Variable/Pay Fixed amount is offset equally by $50 in Variable Rate Debt maturing in 1999 with an average interest rate of 4.5% and a fair value of $50.

[2] Weighted Average Variable Rate Receivable based on current and the implied forward rates in the yield curve at the reporting date for Constant Maturity Treasury minus 20 basis points.

[3] Receive Variable/Pay Fixed amount offsets $13 in lease obligation due after 2003 with an average interest rate of 5.8% and a fair value of $13.

[4] Weighted Average Variable Rate Receivable based on current and the implied forward rates in the yield curve at the reporting date for One Month LIBOR.

As a result of interest rate fluctuations, if SBC were to terminate the contracts, it would be required to pay $2 to replace the fixed rate flows or "unwind" the interest swaps. SBC does not intend to terminate the $50 contract as it is linked to the variable rate debt issued by SBC that also matures in 1999.

There has been no material change in the updated market risks since December 31, 1997.

Qualitative Information about Market Risk

Foreign Exchange Risk

From time to time SBC makes investments in operations in foreign countries, is paid dividends, receives proceeds from sales or borrows funds in foreign currency. Before making an investment, or in anticipation of a foreign currency receipt, SBC will often enter into forward foreign exchange contracts. The contracts are used to provide currency at a fixed rate. SBC's policy is to measure the risk of adverse currency fluctuations by calculating the potential dollar losses resulting from changes in exchange rates that have a reasonable probability of occurring. SBC covers the exposure that results from changes that exceed acceptable amounts. SBC does not speculate in foreign exchange markets.

Equity Risk

SBC has exposure to risk of market changes related to its recorded liability for outstanding employee stock options for common stock of AirTouch (spun-off operations). SBC plans to make open market purchases of the stock of spun-off operations to satisfy its obligation for options that are exercised. Off-balance-sheet risk exists to the extent the market price of AirTouch rises in value. As discussed in "Equity Price Risk Sensitivity Analysis" above, SBC evaluated the exposure to future appreciation of AirTouch common stock and is exiting a swap contract related to the options by April 1999.

Interest Rate Risk

SBC issues debt in fixed and floating rate instruments. Interest rate swaps are used for the purpose of controlling interest expense by fixing the interest rate of floating rate debt. When market conditions favor issuing debt in floating rate instruments, and SBC prefers not to take the risk of floating rates, SBC will enter interest rate swap contracts to obtain floating rate payments to service the debt in exchange for paying a fixed rate. SBC does not seek to make a profit from changes in interest rates. SBC manages interest rate sensitivity by measuring potential increases in interest expense that would result from a probable change in interest rates. When the potential increase in interest expense exceeds an acceptable amount, SBC reduces risk through the issuance of fixed rate instruments and purchasing derivatives.

CAUTIONARY LANGUAGE CONCERNING FORWARD-LOOKING STATEMENTS

Information set forth in this report contains forward-looking statements that are subject to risks and uncertainties. SBC claims the protection of the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995.

The following factors could cause SBC's future results to differ materially from those expressed in the forward-looking statements: (1) adverse economic changes in the markets served by SBC or changes in available technology; (2) the final outcome of various FCC rulemakings and judicial review, if any, of such rulemakings; (3) the final outcome of various state regulatory proceedings in SBC's eight-state area, and judicial review, if any, of such proceedings; and (4) the timing of entry and the extent of competition in the local and intraLATA toll markets in SBC's eight-state area. Readers are cautioned that other factors discussed in this report, although not enumerated here, also could materially impact SBC's future earnings.

CONSOLIDATED STATEMENTS OF INCOME

Dollars in millions except per share amounts

	1998	1997	1996
Operating Revenues			
Landline local service	**$11,100**	$10,334	$ 9,465
Wireless subscriber	**3,783**	3,372	2,907
Network access	**6,512**	6,215	6,203
Long distance service	**2,355**	2,352	2,523
Directory advertising	**2,420**	2,280	2,156
Other	**2,607**	2,128	1,948
Total operating revenues	**28,777**	26,681	25,202
Operating Expenses			
Operations and support	**16,714**	17,802	14,510
Depreciation and amortization	**5,177**	5,301	4,466
Total operating expenses	**21,891**	23,103	18,976
Operating Income	**6,886**	3,578	6,226
Other Income (Expense)			
Interest expense	**(993)**	(1,043)	(901)
Equity in net income of affiliates	**236**	201	207
Other income (expense) – net	**245**	(78)	(75)
Total other income (expense)	**(512)**	(920)	(769)
Income Before Income Taxes, Extraordinary Loss and Cumulative Effect of Accounting Change	**6,374**	2,658	5,457
Income taxes	**2,306**	984	2,070
Income Before Extraordinary Loss and Cumulative Effect of Accounting Change	**4,068**	1,674	3,387
Extraordinary Loss from Early Extinguishment of Debt, net of tax	**(60)**	—	—
Cumulative Effect of Accounting Change, net of tax	**15**	—	90
Net Income	**$ 4,023**	$ 1,674	$ 3,477
Earnings Per Common Share:			
Income Before Extraordinary Loss and Cumulative Effect of Accounting Change	**$ 2.08**	$ 0.86	$ 1.73
Net Income	**$ 2.06**	$ 0.86	$ 1.78
Earnings Per Common Share – Assuming Dilution:			
Income Before Extraordinary Loss and Cumulative Effect of Accounting Change	**$ 2.05**	$ 0.85	$ 1.72
Net Income	**$ 2.03**	$ 0.85	$ 1.77

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

CONSOLIDATED BALANCE SHEETS

Dollars in millions except per share amounts

	December 31, 1998	1997
Assets		
Current Assets		
Cash and cash equivalents	$ 460	$ 410
Short-term cash investments	6	320
Accounts receivable – net of allowances for uncollectibles of $472 and $430	5,790	5,344
Prepaid expenses	414	357
Deferred income taxes	489	660
Other current assets	379	426
Total current assets	7,538	7,517
Property, Plant and Equipment – Net	29,920	29,068
Intangible Assets – Net of Accumulated Amortization of $741 and $1,047	3,087	3,663
Investments in Equity Affiliates	2,514	2,740
Other Assets	2,007	1,848
Total Assets	$45,066	$44,836
Liabilities and Shareowners' Equity		
Current Liabilities		
Debt maturing within one year	$ 1,551	$ 2,139
Accounts payable and accrued liabilities	7,980	8,330
Dividends payable	458	441
Total current liabilities	9,989	10,910
Long-Term Debt	11,612	13,176
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,990	1,569
Postemployment benefit obligation	5,220	5,200
Unamortized investment tax credits	359	431
Other noncurrent liabilities	2,116	2,030
Total deferred credits and other noncurrent liabilities	9,685	9,230
Corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts*	1,000	1,000
Shareowners' Equity		
Preferred shares ($1 par value, 10,000,000 authorized: none issued)	—	—
Common shares ($1 par value, 7,000,000,000 authorized: issued 1,987,532,349 at December 31, 1998 and 1,984,141,868 at December 31, 1997)	1,988	992
Capital in excess of par value	9,139	9,966
Retained earnings	3,396	1,204
Guaranteed obligations of employee stock ownership plans (ESOP)	(147)	(219)
Deferred compensation – leveraged ESOP (LESOP)	(82)	(119)
Treasury shares (28,217,018 at December 31, 1998 and 29,741,356 at December 31, 1997, at cost)	(882)	(730)
Accumulated other comprehensive income	(632)	(574)
Total shareowners' equity	12,780	10,520
Total Liabilities and Shareowners' Equity	$45,066	$44,836

*The trusts contain assets of $1,030 in principal amount of the Subordinated Debentures of Pacific Telesis Group.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in millions, increase (decrease) in cash and cash equivalents

	1998	1997	1996
Operating Activities			
Net income	$ 4,023	$ 1,674	$ 3,477
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,177	5,301	4,466
Undistributed earnings from investments in equity affiliates	(56)	(100)	(138)
Provision for uncollectible accounts	513	566	438
Amortization of investment tax credits	(72)	(82)	(82)
Deferred income tax expense	533	239	485
Extraordinary loss, net of tax	60	—	—
Cumulative effect of accounting change, net of tax	(15)	—	(90)
Changes in operating assets and liabilities:			
Accounts receivable	(959)	(902)	(1,097)
Other current assets	(8)	(56)	301
Accounts payable and accrued liabilities	(187)	1,431	591
Other – net	(628)	(475)	(450)
Total adjustments	4,358	5,922	4,424
Net Cash Provided by Operating Activities	8,381	7,596	7,901
Investing Activities			
Construction and capital expenditures	(5,927)	(6,230)	(5,855)
Investments in affiliates	(85)	(26)	(74)
Purchase of short-term investments	(42)	(916)	(1,005)
Proceeds from short-term investments	355	1,029	816
Dispositions	1,140	578	96
Acquisitions	—	(1,118)	(442)
Other	11	13	19
Net Cash Used in Investing Activities	(4,548)	(6,670)	(6,445)
Financing Activities			
Net change in short-term borrowings with original maturities of three months or less	(367)	(563)	(974)
Issuance of other short-term borrowings	2	1,079	209
Repayment of other short-term borrowings	(8)	(805)	(134)
Issuance of long-term debt	413	1,597	988
Repayment of long-term debt	(1,121)	(602)	(443)
Early extinguishment of debt and related call premiums	(765)	(6)	—
Issuance of trust originated preferred securities	—	—	1,000
Purchase of fractional shares	—	(15)	—
Issuance of common shares	64	—	111
Purchase of treasury shares	(498)	(87)	(650)
Issuance of treasury shares	308	293	52
Dividends paid	(1,811)	(1,724)	(1,765)
Other	—	(7)	(103)
Net Cash Used in Financing Activities	(3,783)	(840)	(1,709)
Net increase (decrease) in cash and cash equivalents	50	86	(253)
Cash and cash equivalents beginning of year	410	324	577
Cash and Cash Equivalents End of Year	$ 460	$ 410	$ 324

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

CONSOLIDATED STATEMENTS OF SHAREOWNERS' EQUITY

Dollars and shares in millions except per share amounts

	Common Shares		Capital in Excess of Par Value	Retained Earnings (Deficit)	Guaranteed Obligations of ESOP	Deferred Compensation LESOP	Accumulated Other Comprehensive Income	Treasury Shares		Total Comprehensive Income
	Shares	Amount						Shares	Amount	
Balance, December 31, 1995	991	$ 991	$10,002	$ (546)	$ (331)	$ (242)	$ (578)	(11)	$ (481)	$ —
Net income for the year ($1.78 per share)	—	—	—	3,477	—	—	—	—	—	3,477
Other comprehensive income, net of tax:										
Foreign currency translation adjustment, net of income tax benefit of $28	—	—	—	—	—	—	(59)	—	—	(59)
Total Comprehensive Income										3,418
Dividends to shareowners ($0.86 per share)	—	—	(115)	(1,680)	—	—	—	—	—	—
Reduction of debt associated with ESOP	—	—	—	—	55	—	—	—	—	—
Cost of LESOP trust shares allocated to employee accounts	—	—	—	—	—	81	—	—	—	—
Issuance of common shares	—	—	20	—	—	—	—	—	—	—
Purchase of treasury shares	—	—	—	—	—	—	—	(13)	(650)	—
Issuance of treasury shares	—	—	21	—	—	—	—	4	146	—
Other	—	—	3	14	—	—	—	—	—	—
Balance, December 31, 1996	991	991	9,931	1,265	(276)	(161)	(637)	(20)	(985)	3,418
Net income for the year ($0.86 per share)	—	—	—	1,674	—	—	—	—	—	1,674
Other comprehensive income, net of tax:										
Foreign currency translation adjustment, net of income tax expense of $38	—	—	—	—	—	—	63	—	—	63
Total Comprehensive Income										1,737
Dividends to shareowners ($0.895 per share)	—	—	—	(1,755)	—	—	—	—	—	—
Reduction of debt associated with ESOP	—	—	—	—	57	—	—	—	—	—
Cost of LESOP trust shares allocated to employee accounts	—	—	—	—	—	42	—	—	—	—
Issuance of common shares	1	1	39	—	—	—	—	—	—	—
Purchase of treasury shares	—	—	—	—	—	—	—	(2)	(87)	—
Issuance of treasury shares	—	—	(38)	—	—	—	—	7	335	—
Other	—	—	34	20	—	—	—	—	7	—
Balance, December 31, 1997	992	992	9,966	1,204	(219)	(119)	(574)	(15)	(730)	1,737
Net income for the year ($2.06 per share)	—	—	—	4,023	—	—	—	—	—	4,023
Other comprehensive income, net of tax:										
Foreign currency translation adjustment, net of income tax benefit of $37	—	—	—	—	—	—	(58)	—	—	(58)
Unrealized gain on available-for-sale securities	—	—	—	—	—	—	60	—	—	60
Less: reclassification adjustment for gains included in net income	—	—	—	—	—	—	(60)	—	—	(60)
Total Comprehensive Income										3,965
Dividends to shareowners ($0.935 per share)	—	—	—	(1,836)	—	—	—	—	—	—
Two-for-one stock split	993	993	(993)	—	—	—	—	(15)	—	—
Reduction of debt associated with ESOP	—	—	—	—	72	—	—	—	—	—
Cost of LESOP trust shares allocated to employee accounts	—	—	—	—	—	37	—	—	—	—
Issuance of common shares	3	3	74	—	—	—	—	—	—	—
Purchase of treasury shares	—	—	—	—	—	—	—	(12)	(498)	—
Issuance of treasury shares	—	—	(33)	—	—	—	—	14	346	—
Other	—	—	125	5	—	—	—	—	—	—
Balance, December 31, 1998	**1,988**	**$1,988**	**$ 9,139**	**$3,396**	**$(147)**	**$ (82)**	**$(632)**	**(28)**	**$(882)**	**$3,965**

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The consolidated financial statements include the accounts of SBC Communications Inc. and its majority-owned subsidiaries (SBC). The statements reflect SBC's mergers with Pacific Telesis Group (PAC) and Southern New England Telecommunications Corporation (SNET) as pooling of interests (see Note 2). SBC's subsidiaries and affiliates operate predominantly in the communications services industry, providing landline and wireless telecommunications services and equipment and directory advertising both domestically and worldwide.

SBC's principal wireline subsidiaries are Southwestern Bell Telephone Company (SWBell), providing telecommunications services in Texas, Missouri, Oklahoma, Kansas and Arkansas, Pacific Bell (PacBell, which also includes Pacific Bell Information Services), The Southern New England Telephone Company and Nevada Bell (collectively referred to as the Telephone Companies). SBC's principal wireless subsidiaries are Southwestern Bell Mobile Systems, Inc., Pacific Bell Mobile Services and SNET Cellular, Inc. SBC's principal directory subsidiaries are Southwestern Bell Yellow Pages, Inc. (SWBYP), Pacific Bell Directory (PB Directory) and SNET Information Services, Inc.

All significant intercompany transactions are eliminated in the consolidation process. Investments in partnerships, joint ventures and less than majority-owned subsidiaries are principally accounted for under the equity method. Earnings from certain foreign investments accounted for under the equity method are included for periods ended within three months of SBC's year end.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Certain amounts in prior period financial statements have been reclassified to conform to the current year's presentation.

Income Taxes – Deferred income taxes are provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Investment tax credits earned prior to their repeal by the Tax Reform Act of 1986 are amortized as reductions in income tax expense over the lives of the assets which gave rise to the credits.

Cash Equivalents – Cash equivalents include all highly liquid investments with original maturities of three months or less.

Deferred Charges – Directory advertising costs are deferred until the directory is published and advertising revenues related to these costs are recognized.

Revenue Recognition/Cumulative Effect of Accounting Change – SBC recognizes revenues as earned. Amounts billed in advance of the period in which service is rendered are recorded as a liability.

SNET Information Services, Inc. prior to January 1, 1998, and PB Directory, prior to January 1, 1996, recognized revenues and expenses related to publishing directories using the "amortization" method, under which revenues and expenses were recognized over the lives of the directories, generally one year. Effective January 1, 1998, for SNET Information Services, Inc. and January 1, 1996, for PB Directory, the accounting was changed to the "issue basis" method of accounting, which recognizes the revenues and expenses at the time the related directory is published. The change in methodology was made because the issue basis method is generally followed in the publishing industry, including SWBYP, and better reflects the operating activity of the business.

The cumulative after-tax effect of applying the changes in method to prior years was recognized as of January 1, 1998 and 1996 as one-time, non-cash gains of \$15, or \$0.01 per share and \$90, or \$0.05 per share. The gains are net of deferred taxes of \$11 and \$53. Had the current method been applied during prior periods, income before extraordinary loss and cumulative effect of accounting change would not have been materially affected.

Property, Plant and Equipment – Property, plant and equipment is stated at cost. The cost of additions and substantial betterments of property, plant and equipment is capitalized. The cost of maintenance and repairs of property, plant and equipment is charged to operating expenses. Property, plant and equipment is depreciated using straight-line methods over their estimated economic lives, generally ranging from 3 to 50 years. In accordance with composite group depreciation methodology, when a portion of the Telephone Companies' depreciable property, plant and equipment is retired in the ordinary course of business, the gross book value is charged to accumulated depreciation; no gain or loss is recognized on the disposition of this plant.

Intangible Assets – Intangible assets consist primarily of wireless cellular and Personal Communications Services (PCS) licenses, customer lists and the excess of consideration paid over net assets acquired in business combinations. These assets are being amortized using the straight-line method, over periods generally ranging from 5 to 40 years. At December 31, 1998 and 1997, amounts included in net intangible assets for licenses were \$2,141 and \$2,261. Management periodically reviews the carrying value and lives of all intangible assets based on expected future cash flows.

Software Costs – The costs of computer software purchased or developed for internal use are expensed as incurred. However, initial operating system software costs are capitalized and amortized over the estimated economic lives of the associated hardware. The American Institute of Certified Public Accountants has issued a Statement of Position (SOP) that requires capitalization of certain computer software expenditures beginning in 1999.

Management continues to evaluate the impact of the change in accounting required by the SOP and anticipates that it will increase net income by less than \$200 in 1999. With comparable levels of software expenditures, the SOP would tend to increase net income in comparison with SBC's current method of accounting for software costs. However, the increases would be largest in the year of adoption with diminishing levels of increases compared with current accounting throughout the amortization period. Consequently, given otherwise comparable income levels excluding software, and otherwise comparable software expenditures, the effect of the SOP would be to increase income in the first year and decrease income in each subsequent year until the number of years affected by the SOP equals the amortization period.

Advertising Costs – Costs for advertising products and services or corporate image are expensed as incurred (see Note 18).

Foreign Currency Translation – Local currencies are generally considered the functional currency for SBC's share of foreign operations, except in countries considered highly inflationary. SBC translates its share of foreign assets and liabilities at current exchange rates. Revenues and expenses are translated using average rates during the year. The ensuing foreign currency translation adjustments are recorded as a separate component of shareowners' equity. Other transaction gains and losses resulting from exchange rate changes on transactions denominated in a currency other than the local currency are included in earnings as incurred.

Derivative Financial Instruments – SBC does not invest in any derivatives for trading purposes. From time to time as part of its risk management strategy, SBC uses immaterial amounts of derivative financial instruments including interest rate swaps to hedge exposures to interest rate risk on debt obligations, and foreign currency forward exchange contracts to hedge exposures to changes in foreign currency rates for transactions related to its foreign investments. Derivative contracts are entered into for hedging of firm commitments only. SBC currently does not recognize the fair values of these derivative financial investments or their changes in fair value in its financial statements. Interest rate swap settlements are recognized as adjustments to interest expense in the consolidated statements of income when paid or received. Foreign currency forward exchange contracts are set up to coincide with firm commitments. Gains and losses are deferred until the underlying transaction being hedged occurs, and then are recognized as part of that transaction. PAC entered into an equity swap contract to hedge exposure to risk associated with its recorded liability for certain outstanding employee stock options relating to stock of AirTouch Communications Inc. (AirTouch) (see Note 15). The equity swap contract and its liability are recorded at fair value in the balance sheet as other assets or liabilities. Equity swap settlements are recorded in interest expense in the consolidated statements of income when paid or received.

NOTE 2. MERGERS WITH SNET AND PAC

On April 1, 1997, SBC and PAC completed the merger of an SBC subsidiary with PAC, in a transaction in which each outstanding share of PAC common stock was exchanged for 1.4629 shares of SBC common stock (equivalent to approximately 626 million shares). With the merger, PAC became a wholly-owned subsidiary of SBC. The transaction has been accounted for as a pooling of interests and a tax-free reorganization.

Transaction costs and one-time charges relating to the closing of the merger were $359 ($215 net of tax) including, among other items, the present value of amounts to be returned to California ratepayers as a condition of the merger and expenses for investment banker and professional fees. Of this total, $287 ($180 net of tax) is included in expenses in 1997, and $72 ($35 net of tax) in 1996. The amounts due to ratepayers are being paid out over five years, from 1998 to 2002.

On October 26, 1998, SBC and SNET completed the merger of an SBC subsidiary with SNET, in a transaction in which each share of SNET common stock was exchanged for 1.7568 shares of SBC common stock (equivalent to approximately 120 million shares). SNET became a wholly-owned subsidiary of SBC effective with the merger and the transaction has been accounted for as a pooling of interests and a tax-free reorganization. Financial statements for prior periods have been restated to include the accounts of SNET. Transaction costs related to the merger were $40 ($26 net of tax).

Operating revenues, income before extraordinary loss and cumulative effect of accounting change and net income of the separate companies for the pre-merger periods of the last three periods were as follows:

	Nine Months Ended September 30,	Year Ended December 31,	
	1998	1997	1996
Operating revenues:			
SBC	**$19,495**	$24,659	$23,260
SNET	**1,606**	2,022	1,942
Combined	**$21,101**	$26,681	$25,202
Income before extraordinary loss and cumulative effect of accounting change:			
SBC	**$ 3,085**	$ 1,474	$ 3,189
SNET	**164**	198	193
Adjustments	**3**	2	5
Combined	**$ 3,252**	$ 1,674	$ 3,387
Net income:			
SBC	**$ 3,085**	$ 1,474	$ 3,279
SNET	**179**	194	193
Adjustments	**3**	6	5
Combined	**$ 3,267**	$ 1,674	$ 3,477

The combined results include the effect of changes applied retroactively to conform the accounting methodologies between SNET and SBC for pension and postemployment benefits. SBC believes the new method is more prevalent and better reflects the operations of the business.

Post-merger initiatives – During the second quarter of 1997, SBC announced after-tax charges of $1.6 billion related to several strategic decisions resulting from the merger integration process that began with the April 1, 1997 closing of its merger with PAC, which included $165 ($101 after tax) of charges related to several regulatory rulings during the second quarter of 1997 and $281 ($176 after tax) for merger approval costs. The decisions resulted from an extensive review of operations throughout the merged company and include significant integration of operations and consolidation of some administrative and support functions.

During the fourth quarter of 1998, SBC again performed a complete review of all operations affected by the merger with SNET to determine the impact on ongoing merger integration processes. Review teams examined operational functions and evaluated all strategic initiatives. As a result of this review, SBC announced net after-tax charges of $268 related to strategic decisions arising from the review and expensing of merger-related costs incurred by SNET.

One-time charges related to the strategic decisions reached by the review teams totaled $403 ($249 after tax) in the fourth quarter of 1998 and $2 billion ($1.3 billion after tax) in the second quarter of 1997. At December 31, 1998 and 1997, remaining accruals for anticipated cash expenditures related to these decisions were approximately $323 and $432.

Reorganization – SBC is centralizing several key functions that will support the operations of the Telephone Companies, including network planning, strategic marketing and procurement. It is also consolidating a number of corporate-wide support activities, including research and development, information technology, financial transaction processing and real estate management. The Telephone Companies will continue as separate legal entities. These initiatives continue to result in the creation of some jobs and the elimination and realignment of others, with many of the affected employees changing job responsibilities and in some cases assuming positions in other locations.

SBC recognized charges of approximately $82 ($50 net of tax) during the fourth quarter of 1998 and $338 ($213 net of tax) during the second quarter of 1997 in connection with these initiatives. The charges were comprised mainly of postemployment benefits, primarily related to severance, and costs associated with closing down duplicate operations, primarily contract cancellations. Other charges arising out of the mergers related to relocation, retraining and other effects of consolidating certain operations are being recognized in the periods those charges are incurred. The initial integration process subsequent to the PAC merger resulted in SBC incurring expenses for these merger-related items in advance of any substantial synergistic benefits. During the second half of 1997, these merger-related charges totaled $501 ($304 net of tax).

Impairments/asset valuation – As a result of SBC's merger integration plans, strategic review of domestic operations and organizational alignments, SBC reviewed the carrying values of related long-lived assets in the fourth quarter of 1998 and the second quarter of 1997. The reviews were conducted company-wide, although the fourth quarter 1998 review focused primarily on SNET. These reviews included estimating remaining useful lives and cash flows and identifying assets to be abandoned. Where this review indicated impairment, discounted cash flows related to those assets were analyzed to determine the amount of the impairment. As a result of these reviews, SBC wrote off some assets and recognized impairments to the value of other assets, recording a combined charge of $321 ($199 after tax) in the fourth quarter of 1998 and $965 ($667 after tax) in the second quarter of 1997.

The 1998 impairments and writeoffs primarily related to recognition of an impairment of the assets supporting SNET's video and telephony operations, and also included charges for required changes in wireless equipment, inventory and sites. The 1997 impairments and writeoffs related primarily to the wireless digital TV operations in southern California, certain analog switching equipment in California, certain rural and other telecommunications equipment in Nevada, selected wireless equipment, duplicate or obsolete equipment, cable within commercial buildings in California, certain nonoperating plant and other assets.

Pacific and Southwestern video curtailment/purchase commitments – SBC also announced in 1997 that it was scaling back its limited direct investment in video services in the areas also served by PacBell and SWBell. As a result of this curtailment, SBC halted construction on the Advanced Communications Network (ACN) in California. As part of an agreement with the ACN vendor, SBC paid the liabilities of the ACN trust that owned and financed ACN construction, incurred costs to shut down all construction previously conducted under the trust and received certain consideration from the vendor. In the second quarter of 1997, SBC recognized net expense of $553 ($346 after tax) associated with these activities. During the third quarter of 1997, SBC recorded the corresponding short-term debt of $610 previously incurred by the ACN trust on its balance sheet. Additionally, SBC curtailed certain other video-related activities including discontinuing its broadband network video trials in Richardson, Texas, and San Jose, California, substantially scaling back its involvement in the Tele-TV joint venture and withdrawing its operations in territory served by SWBell from the Americast venture. Americast partners are disputing the withdrawal in arbitration and litigation, the outcome of which cannot be predicted, but is not expected to have a material impact on SBC's financial condition or results of operations. The collective impact of these decisions and actions by SBC resulted in a charge of $145 ($92 after tax) in the second quarter of 1997.

NOTE 3. MERGER AGREEMENT WITH AMERITECH CORPORATION

On May 11, 1998, SBC announced a definitive agreement to merge an SBC subsidiary with Ameritech Corporation (Ameritech) in a transaction in which each share of Ameritech common stock will be converted into and exchanged for 1.316 shares of SBC common stock (equivalent to approximately 1,450 million shares). After the merger, Ameritech will be a wholly-owned subsidiary of SBC. The transaction, which has been approved by the board of directors and shareowners of each company, is intended to be accounted for as a pooling of interests and to be a tax-free reorganization. The merger is subject to certain regulatory approvals, including the Federal Communications Commission (FCC) and state commissions in Ohio and Illinois. If approvals are granted, the transaction is expected to close in 1999.

SBC and Ameritech own competing cellular licenses in several markets, including, but not limited to, Chicago, Illinois, and St. Louis, Missouri (Overlapping Cellular Licenses). In an effort to comply with the FCC's rules and regulations and certain provisions of the Merger Agreement, SBC and Ameritech expect to be required by the FCC to divest one of the Overlapping Cellular Licenses in each market and are attempting to determine the manner in which an Overlapping Cellular License in each market should be divested.

The pro forma effect on SBC's consolidated statements of income had the merger occurred on January 1, 1996 is as follows:

Pro Forma (unaudited):	1998	1997	1996
Operating revenues	**$45,931**	$42,679	$40,119
Income before extraordinary loss and cumulative effect of accounting change	**$ 7,674**	$ 3,970	$ 5,521
Net income	**$ 7,629**	$ 3,970	$ 5,611
Basic earnings per share:			
Income before extraordinary loss and cumulative effect of accounting change	**$ 2.25**	$ 1.17	$ 1.62
Net income	**$ 2.24**	$ 1.17	$ 1.65
Diluted earnings per share:			
Income before extraordinary loss and cumulative effect of accounting change	**$ 2.23**	$ 1.16	$ 1.61
Net income	**$ 2.21**	$ 1.16	$ 1.64

This pro forma information does not include the effect of changes, which will be applied retroactively, to conform accounting methodologies between SBC and Ameritech. Based on information currently available, management estimates the conforming changes will not materially affect the pro forma operating revenues or income before extraordinary loss and cumulative effect of accounting change. Additionally, the pro forma information also does not include any potential cost savings which may result from the integration of SBC's and Ameritech's operations or future transaction costs relating to the merger (which are estimated to be less than $90), nor does it consider any reorganization costs or costs associated with the disposition of the Overlapping Cellular Licenses that may be required. Management is unable to quantify the potential cost savings that may result from the integration of SBC and Ameritech. The financial impact of the reorganization costs or costs associated with the disposition of the Overlapping Cellular Licenses cannot be determined pending the resolution of the disposal.

NOTE 4. PACIFIC TELESIS GROUP FINANCIAL INFORMATION

The following table presents summarized financial information for PAC at December 31, or for the year then ended:

	1998	1997	1996
Balance Sheets			
Current assets	**$ 3,037**	$ 2,835	$ 2,474
Noncurrent assets	**15,428**	14,150	14,134
Current liabilities	**5,278**	4,513	3,527
Noncurrent liabilities	**10,482**	10,413	10,308
Income Statements			
Operating revenues	**$11,302**	$10,101	$ 9,588
Operating income (loss)	**2,612**	(166)	2,198
Income (loss) before extraordinary loss and cumulative effect of accounting changes	**1,240**	(546)	1,057
Net income (loss)	**1,180**	(224)	1,142

SBC has not provided separate financial statements and other disclosures for PAC as management has determined that such information is not material to the holders of the Trust Originated Preferred Securities (TOPrS) (see Note 11), which have been guaranteed by SBC. This information is provided as a supplement only.

NOTE 5. EARNINGS PER SHARE

A reconciliation of the numerators and denominators of basic earnings per share and diluted earnings per share for income before extraordinary loss and cumulative effect of accounting change for the years ended December 31, 1998, 1997 and 1996 are shown in the table below.

Year Ended December 31,	1998	1997	1996
Numerators			
Numerator for basic earnings per share:			
Income before extraordinary loss and cumulative effect of accounting change	**$4,068**	$1,674	$3,387
Dilutive potential common shares:			
Other stock-based compensation	**4**	3	2
Numerator for diluted earnings per share	**$4,072**	$1,677	$3,389
Denominators			
Denominator for basic earnings per share:			
Weighted average number of common shares outstanding (000)	**1,956,610**	1,944,617	1,956,200
Dilutive potential common shares (000):			
Stock options	**21,701**	12,926	7,385
Other stock-based compensation	**5,542**	4,388	3,410
Denominator for diluted earnings per share	**1,983,853**	1,961,931	1,966,995
Basic earnings per share:			
Income before extraordinary loss and cumulative effect of accounting change	**$ 2.08**	$ 0.86	$ 1.73
Extraordinary loss	**(0.03)**	—	—
Cumulative effect of accounting change	**0.01**	—	0.05
Net income	**$ 2.06**	$ 0.86	$ 1.78
Diluted earnings per share:			
Income before extraordinary loss and cumulative effect of accounting change	**$ 2.05**	$ 0.85	$ 1.72
Extraordinary loss	**(0.03)**	—	—
Cumulative effect of accounting change	**0.01**	—	0.05
Net income	**$ 2.03**	$ 0.85	$ 1.77

Dollars in millions except per share amounts

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is summarized as follows at December 31:

	1998	1997
Land	$ 442	$ 434
Buildings	6,842	6,502
Central office equipment	28,019	25,864
Cable, wiring and conduit	30,916	29,943
Other equipment	5,897	5,926
Under construction	1,350	1,546
	73,466	70,215
Accumulated depreciation and amortization	43,546	41,147
Property, plant and equipment – net	$29,920	$29,068

SBC's depreciation expense as a percentage of average depreciable plant was 7.2%, 7.4% and 6.9% for 1998, 1997 and 1996.

Certain facilities and equipment used in operations are under operating or capital leases. Rental expenses under operating leases for 1998, 1997 and 1996 were $440, $386 and $346. At December 31, 1998, the future minimum rental payments under noncancelable operating leases for the years 1999 through 2003 were $1,817, $2,652, $2,519, $2,553 and $2,508 and $7,096 thereafter. Capital leases are not significant.

NOTE 7. INVESTMENT IN TELEWEST COMMUNICATIONS PLC

During 1998, SBC owned up to 15% of Telewest Communications plc (Telewest), the largest cable television operator in the United Kingdom. Due to restrictions existing on the sale of SBC's interest in Telewest, SBC accounted for its investment using the cost method of accounting. During the third quarter of 1998, as a result of Telewest's merger with General Cable, Telewest entered into a new agreement with its key shareholders, including SBC, which lifted those restrictions. SBC was then required to account for its investment in Telewest as available-for-sale securities pursuant to Financial Accounting Standards Board Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (FAS 115). Under FAS 115, available-for-sale securities are measured at fair value in the statement of financial position, and unrealized holding gains and losses are excluded from earnings and reported as a net amount in a separate component of shareowners' equity until realized. During 1998, SBC sold approximately 90% of its Telewest investment for $425 and made a charitable contribution of the remainder. The net effect from Telewest transactions for the year ended December 31, 1998 was to increase net income by $60.

NOTE 8. EQUITY INVESTMENTS

Investments in affiliates accounted for under the equity method include SBC's investment in Teléfonos de México, S.A. de C.V. (Telmex), Mexico's national telecommunications company. SBC is a member of a consortium that holds all of the AA shares of Telmex stock, representing voting control of the company. Another member of the consortium, Carso Global Telecom, S.A. de C.V., has the right to appoint a majority of the directors of Telmex. SBC also owns L shares which have limited voting rights. Throughout 1998, SBC sold portions of its L shares in response to open market share repurchases by Telmex, so that its total equity investment remained below 10% of Telmex's total equity capitalization.

Other major equity investments held by SBC include a 1997 investment of approximately $760 in Telkom SA Limited (Telkom), the state-owned telecommunications company of South Africa (see Note 17), an indirect 15% ownership in Cegetel, a joint venture providing a broad range of telecommunications offerings in France, investments in Chilean telecommunications operations and minority ownership of several domestic wireless properties.

The following table is a reconciliation of SBC's investments in equity affiliates:

	1998	1997	1996
Beginning of year	$2,740	$1,964	$1,616
Additional investments	55	1,076	337
Equity in net income	236	201	207
Dividends received	(167)	(90)	(70)
Currency translation adjustments	(110)	(135)	(94)
Reclassifications and other adjustments	(240)	(276)	(32)
End of year	$2,514	$2,740	$1,964

The currency translation adjustment for 1998 primarily reflects the effect of exchange rate fluctuations on SBC's investment in South Africa. Other adjustments for 1998 reflect a write-down of an international investment and the sale of portions of SBC's Telmex L shares.

Currency translation adjustments for 1997 primarily reflect the effect of the exchange rate fluctuations on SBC's investments in South African and French telecommunications companies. Other adjustments for 1997 reflect the sale of portions of SBC's Telmex L shares and the change to the cost method of accounting in 1997 for SBC's 1995 investment in South African wireless operations which were sold during the third quarter of 1998 (see Note 17).

Undistributed earnings from equity affiliates were $918 and $862 at December 31, 1998 and 1997.

NOTE 9. SEGMENT INFORMATION

SBC has four reportable segments: Wireline, Wireless, Directory and Other. The Wireline segment provides landline telecommunications services, including local, network access and long distance services, messaging and Internet services and sells customer premise and private business exchange equipment. The Wireless segment provides wireless telecommunications services, including local and long distance services, and sells wireless equipment. The Directory segment sells advertising for and publication of yellow pages and white pages directories and electronic publishing. The Other segment includes SBC's international investments and other domestic operating subsidiaries.

These segments are strategic business units that offer different products and services and are managed accordingly. SBC evaluates performance based on income before income taxes, adjusted for normalizing items. For 1998, normalizing items included gains on sales of certain non-core businesses, principally the required disposition of SBC's interest in Mobile Telephone Networks (MTN), a South African national cellular company, due to SBC's investment in Telkom, and charges related to strategic initiatives resulting from the merger integration process with SNET. For 1997, normalizing items included the costs related to strategic initiatives resulting from the merger integration process with PAC, the impact of several second quarter 1997 regulatory rulings and charges for ongoing merger integration costs (see Note 2), as well as the gain on the sale of the Telephone Companies' interest in Bell Communications Research, Inc. (Bellcore) and the first quarter 1997 settlement gain at PAC associated with lump-sum pension payments that exceeded the projected service and interest costs for 1996 retirements. The effect of any normalizing adjustments is shown separately in the table below. The accounting policies of the segments are the same as those described in Note 1. Transactions between segments are reported at fair value.

Corporate, adjustments and eliminations include corporate activities, the elimination of intersegment transactions, and other adjustments. Included in other adjustments are differences in accounting between subsidiary and consolidated financial statements for postretirement benefits at PacBell and the treatment of conforming accounting adjustments arising out of the pooling of interests with SNET and PAC that were required to be treated as changes in accounting principles by the subsidiaries.

At December 31, 1998 or for the year ended	Wireline	Wireless	Directory	Other	Corporate, Adjustments & Eliminations	Normalizing Adjustments	Total
Revenues from external customers	**$22,097**	**$4,184**	**$2,320**	**$ 82**	**$ 102**	**$ (8)**	**$28,777**
Intersegment revenues	**113**	**1**	**73**	**3**	**(190)**	—	—
Depreciation and amortization	**4,265**	**583**	**31**	—	**77**	**221**	**5,177**
Equity in net income of affiliates	—	**25**	—	**211**	—	—	**236**
Interest expense	**861**	**179**	**11**	**37**	**(98)**	**3**	**993**
Income before income taxes	**4,364**	**490**	**1,131**	**269**	**195**	**(75)**	**6,374**
Segment assets	**33,427**	**7,161**	**1,385**	**2,854**	**239**	—	**45,066**
Investment in equity method investees	**34**	**232**	—	**2,274**	**(26)**	—	**2,514**
Expenditures for additions to long-lived assets	**5,178**	**644**	**30**	**11**	**64**	—	**5,927**

At December 31, 1997 or for the year ended	Wireline	Wireless	Directory	Other	Corporate, Adjustments & Eliminations	Normalizing Adjustments	Total
Revenues from external customers	$20,718	$3,696	$2,197	$ 57	$ 201	$ (188)	$26,681
Intersegment revenues	208	1	89	—	(298)	—	—
Depreciation and amortization	4,095	491	28	—	83	604	5,301
Equity in net income of affiliates	(5)	9	—	206	(9)	—	201
Interest expense	837	152	4	25	(2)	27	1,043
Income before income taxes	3,736	355	1,043	192	75	(2,743)	2,658
Segment assets	32,018	7,071	1,227	3,398	1,122	—	44,836
Investment in equity method investees	34	229	—	2,503	(26)	—	2,740
Expenditures for additions to long-lived assets	5,275	776	38	—	141	—	6,230

At December 31, 1996 or for the year ended	Wireline	Wireless	Directory	Other	Corporate, Adjustments & Eliminations	Normalizing Adjustments	Total
Revenues from external customers	$19,751	$3,137	$2,077	$ 34	$ 203	$ —	$25,202
Intersegment revenues	168	—	68	9	(245)	—	—
Depreciation and amortization	3,954	397	28	1	86	—	4,466
Equity in net income of affiliates	(5)	22	—	226	(36)	—	207
Interest expense	766	107	5	34	(11)	—	901
Income before income taxes	3,789	567	970	178	(47)	—	5,457
Expenditures for additions to long-lived assets	4,712	1,006	32	5	100	—	5,855

Dollars in millions except per share amounts

Geographic Information

SBC's investments outside of the United States are primarily accounted for under the equity method of accounting and do not record in operating revenues and expenses the revenues and expenses of the individual companies in which SBC invests. Long-lived assets consist primarily of the book value of these investments.

Year Ended December 31,	1998	1997	1996
Revenues:			
United States	**$28,692**	$26,624	$25,168
Mexico	**15**	21	25
South Africa	**48**	22	3
France	**4**	5	3
Chile	**1**	2	2
Other foreign	**17**	7	1
Total	**$28,777**	$26,681	$25,202

December 31,	1998	1997
Long-Lived Assets:		
United States	**$31,135**	$30,229
Mexico	**836**	733
South Africa	**694**	837
France	**557**	543
United Kingdom	**—**	339
Chile	**59**	295
Other foreign	**214**	234
Total	**$33,495**	$33,210

NOTE 10. DEBT

Long-term debt, including interest rates and maturities, is summarized as follows at December 31:

		1998	1997
SWBell			
Debentures			
5.38%-5.88%	2003-2006	**$ 500**	$ 500
6.13%-6.88%	2000-2048	**1,750**	1,550
7.00%-7.75%	2009-2027	**1,150**	1,750
		3,400	3,800
Unamortized discount – net of premium		**(38)**	(36)
Total debentures		**3,362**	3,764
Notes			
5.04%-7.67%	1998-2010	**1,063**	1,236
Unamortized discount		**(5)**	(6)
Total notes		**1,058**	1,230
PacBell			
Debentures			
4.62%-5.88%	1999-2006	**475**	475
6.00%-6.88%	2002-2034	**1,194**	1,194
7.12%-7.75%	2008-2043	**1,587**	2,250
8.50%	2031	**29**	225
		3,285	4,144
Unamortized discount – net of premium		**(65)**	(89)
Total debentures		**3,220**	4,055
Notes			
6.12%-8.70%	2001-2009	**1,500**	1,300
Unamortized discount		**(18)**	(18)
Total notes		**1,482**	1,282
Other notes and debentures			
4.37%-6.98%	1998-2007	**501**	633
7.00%-10.50%	1998-2033	**2,048**	2,033
		2,549	2,666
Unamortized premium – net of discount		**61**	65
Total other notes and debentures		**2,610**	2,731
Guaranteed obligations of ESOP[1]			
8.41%-9.40%	2000	**127**	198
Capitalized leases		**260**	294
Total long-term debt, including current maturities		**12,119**	13,554
Current maturities		**(507)**	(378)
Total long-term debt		**$11,612**	$13,176

[1]See Note 14.

In February and September 1998, SBC called $805 of long-term debt for retirement. SBC recognized after-tax charges of $11 associated with the calling of this debt.

In October 1998, PacBell repurchased $684 of long-term debt. The repurchases resulted in a $60 after-tax extraordinary loss, net of taxes of $42.

At December 31, 1998, the aggregate principal amounts of long-term debt and average interest rate scheduled for repayment for the years 1999 through 2003 were $507 (6.6%),

$574 (6.4%), $1,034 (7.5%), $980 (6.7%), $749 (6.3%) with $8,406 (6.9%) due thereafter. As of December 31, 1998, SBC was in compliance with all covenants and conditions of instruments governing its debt.

Debt maturing within one year consists of the following at December 31:

	1998	1997
Commercial paper	$1,044	$1,412
Current maturities of long-term debt	507	378
Other short-term debt	—	349
Total	$1,551	$2,139

The weighted average interest rate on commercial paper debt at December 31, 1998 and 1997 was 5.49% and 6.02%. SBC has entered into agreements with several banks for compensated lines of credit totaling $655 and uncompensated lines of credit totaling $805, thus total lines of credit available are $1,460, all of which may be used to support commercial paper borrowings. SBC had no borrowings outstanding under these lines of credit as of December 31, 1998 or 1997.

NOTE 11. FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of SBC's long-term debt, including current maturities and other financial instruments, are summarized as follows at December 31:

	1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
SWBell debentures	$3,362	$3,531	$3,764	$3,828
SWBell notes	1,058	1,129	1,230	1,271
PacBell debentures	3,220	3,463	4,055	4,337
PacBell notes	1,482	1,590	1,282	1,342
Other notes and debentures	2,610	2,725	2,731	2,947
TOPrS	1,000	1,029	1,000	1,034
Guaranteed obligations of ESOP[1]	127	132	198	207

[1]See Note 14.

The fair values of SBC's long-term debt were estimated based on quoted market prices, where available, or on the net present value method of expected future cash flows using current interest rates. The fair value of the TOPrS was estimated based on quoted market prices. The carrying amounts of commercial paper debt approximate fair values.

SBC does not hold or issue any financial instruments for trading purposes. SBC's cash equivalents and short-term investments are recorded at amortized cost. The carrying amounts of cash and cash equivalents and short-term investments and customer deposits approximate fair values.

Pacific Telesis Financing I and II (the Trusts) were formed for the exclusive purpose of issuing preferred and common securities representing undivided beneficial interests in the Trusts and investing the proceeds from the sales of TOPrS in unsecured subordinated debt securities of PAC. Under certain circumstances, dividends on TOPrS could be deferred for up to a period of five years. PAC sold $1 billion of TOPrS, $500 at 7.56% in January 1996 through Pacific Telesis Financing I and $500 at 8.5% in June 1996 through Pacific Telesis Financing II. As of December 31, 1998, the Trusts held subordinated debt securities of PAC in principal amounts of $516 and $514 with interest rates of 7.56% and 8.5%. Both issues of TOPrS were priced at $25 per share, have an original 30-year maturity that may be extended up to 49 years, are callable five years after date of sale at par and are included on the balance sheet as corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts. The proceeds were used to retire short-term indebtedness, primarily commercial paper. SBC has guaranteed payment of the obligations of the TOPrS.

Derivatives

SBC entered into an equity swap contract to hedge exposure to risk of market changes related to its recorded liability for outstanding employee stock options for common stock of AirTouch (spun-off operations) and associated stock appreciation rights (SARs) (see Note 15). In February 1999, SBC began exiting the equity swap contract, receiving cash for the appreciated value of the contract and recognizing a minimal gain. Once exited, SBC will record in other income (expense) – net future changes in the value of the underlying employee stock option exposure. SBC plans to make open-market purchases of the stock of spun-off operations to satisfy its obligation for options that are exercised. Off-balance-sheet risk exists to the extent the market price of the stock of spun-off operations rises above the market price reflected in the liability's current carrying value. The equity swap hedged this exposure and minimized the impact of market fluctuations. The contract entitled SBC to receive settlement payments to the extent the price of the common stock of spun-off operations rose above the notional value of $23.74 per share, but imposed an obligation to make payments to the extent the price declined below this level. The swap also obligated SBC to make a monthly payment of a fee based on LIBOR. The total notional amount of the contract, $13 and $19 as of December 31, 1998 and 1997, covered the approximate number of the outstanding options and SARs of spun-off operations on that date. SBC periodically adjusted downward the outstanding notional amount as the options and SARs were exercised.

Both the equity swap and SBC's liability for the stock options and SARs of spun-off operations are carried in the balance sheet at their market values, which were immaterial as of December 31, 1998 and 1997. Gains and losses from quarterly market adjustments of the carrying amounts were substantially offsetting. As of December 31, 1998 and 1997, the accounting loss that would have been incurred from nonperformance by the counterparty to the equity swap was $26 and $14.

Dollars in millions except per share amounts

NOTE 12. INCOME TAXES

Significant components of SBC's deferred tax liabilities and assets are as follows at December 31:

	1998	1997
Depreciation and amortization	$3,959	$3,679
Equity in foreign subsidiaries	357	253
Other	355	2,052
Deferred tax liabilities	4,671	5,984
Employee benefits	1,707	2,528
Unamortized investment tax credits	91	174
Currency translation adjustments	333	303
Other	1,244	2,140
Deferred tax assets	3,375	5,145
Deferred tax assets valuation allowance	36	70
Net deferred tax liabilities	$1,332	$ 909

The decrease in the valuation allowance is the result of an evaluation of the uncertainty associated with the realization of certain deferred tax assets. The valuation allowance is maintained in deferred tax assets for certain unused federal and state loss carryforwards.

The components of income tax expense are as follows:

	1998	1997	1996
Federal:			
Current	$1,583	$786	$1,443
Deferred – net	437	76	364
Amortization of investment tax credits	(72)	(82)	(82)
	1,948	780	1,725
State and local:			
Current	262	41	224
Deferred – net	96	163	121
	358	204	345
Total	$2,306	$984	$2,070

A reconciliation of income tax expense and the amount computed by applying the statutory federal income tax rate (35%) to income before income taxes, extraordinary loss and cumulative effect of accounting change is as follows:

	1998	1997	1996
Taxes computed at federal statutory rate	$2,231	$930	$1,910
Increases (decreases) in income taxes resulting from:			
Amortization of investment tax credits over the life of the plant that gave rise to the credits	(47)	(53)	(53)
State and local income taxes – net of federal income tax benefit	233	133	224
Other – net	(111)	(26)	(11)
Total	$2,306	$984	$2,070

NOTE 13. EMPLOYEE BENEFITS

Pensions – Substantially all employees of SBC are covered by one of various noncontributory pension and death benefit plans. The pension benefit formula used in the determination of pension cost for nonmanagement employees is based on a flat dollar amount per year of service according to job classification. For PAC managers, benefits accrue in separate account balances based on a fixed percentage of each employee's monthly salary with interest. For all other managers, benefits accrue in separate account balances based on a fixed percentage of each employee's monthly salary plus interest or are determined based upon a stated percentage of adjusted career income. Both the bargaining-unit and management employees of SNET have a cash balance pension plan. Accordingly, pension benefits are determined as a single account balance and grow each year with pay and interest credits.

SBC's objective in funding the plans, in combination with the standards of the Employee Retirement Income Security Act of 1974 (as amended), is to accumulate funds sufficient to meet its benefit obligations to employees upon their retirement. Contributions to the plans are made to a trust for the benefit of plan participants. Plan assets consist primarily of stocks, U.S. government and domestic corporate bonds, index funds and real estate.

The following table presents the change in the pension plan benefit obligation for the years ended December 31:

	1998	1997
Benefit obligation at beginning of the year	$18,116	$16,330
Service cost – benefits earned during the period	339	300
Interest cost on projected benefit obligation	1,265	1,237
Amendments	254	402
Actuarial gain	566	1,398
Special termination benefits	53	—
Benefits paid	(1,723)	(1,551)
Benefit obligation at end of year	$18,870	$18,116

The following table presents the change in pension plan assets for the years ended December 31 and the pension plans' funded status at December 31:

	1998	1997
Fair value of plan assets at beginning of the year	$24,998	$22,428
Actual return on plan assets	3,753	4,111
Benefits paid	(1,720)	(1,541)
Fair value of plan assets at end of year	$27,031	$24,998
Funded status	$ 8,161	$ 6,882
Unrecognized prior service cost	1,312	1,221
Unrecognized net gain	(8,327)	(7,081)
Unamortized transition asset	(759)	(895)
Prepaid pension cost	$ 387	$ 127

The following table presents amounts recognized in SBC's Consolidated Balance Sheets at December 31:

	1998	1997
Prepaid pension cost	**$ 819**	$ 545
Accrued pension liability	**(432)**	(418)
Net amount recognized	**$ 387**	$ 127

Net pension cost is composed of the following:

	1998	1997	1996
Service cost – benefits earned during the period	**$ 339**	$ 300	$ 317
Interest cost on projected benefit obligation	**1,265**	1,237	1,226
Expected return on plan assets	**(1,771)**	(1,640)	(1,664)
Amortization of prior service cost	**27**	15	(19)
Recognized actuarial gain	**(99)**	(115)	(92)
Net pension benefit	**$ (239)**	$ (203)	$ (232)

Significant weighted average assumptions used in developing pension information include:

	1998	1997	1996
Discount rate for determining projected benefit obligation	**7.0%**	7.25%	7.5%
Long-term rate of return on plan assets	**8.5%**	8.5%	8.5%
Composite rate of compensation increase	**4.3%**	4.3%	4.3%

The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to previously rendered employee service. It is measured based on assumptions concerning future interest rates and employee compensation levels. Should actual experience differ from the actuarial assumptions, the benefit obligation will be affected.

In April 1997, management amended the pension plan for non-PAC managers to a cash balance pension plan effective June 1, 1997. Under the new plan, participants accrue benefits based on a percentage of pay plus interest. In addition, a transition benefit is phased in over five years. The new plan also requires computation of a grandfathered benefit using the old formula for five years. Participants receive the greater of the cash balance benefit or the grandfathered benefit. The new cash balance plan allows lump sum benefit payments in addition to annuities. This change did not have a significant impact on SBC's net income for 1997.

In March 1996, management amended the pension plan for PAC managers from a final pay plan to a cash balance plan effective July 1, 1996. An enhanced transition benefit, based on frozen pay and service as of June 30, 1996, was established to preserve benefits already accrued by salaried employees under the final pay plan and resulted in an increase in earned benefits for most employees. SBC also updated the actuarial assumptions used in valuing the PAC plans to reflect changes in market interest rates and recent experience, including a change in its assumption concerning future ad hoc increases in pension benefits. Taken together, these changes increased net income by approximately $125 during 1996.

Approximately 4,200 employees left PacBell during 1996 under retirement or voluntary and involuntary severance programs and received special pension benefits and cash incentives in connection with the PacBell restructuring and related force reduction programs. Annual pension cost excludes $64 of additional pension benefits charged to PacBell's restructuring reserve in 1996.

During 1997, a significant amount of lump sum pension payments resulted in a partial settlement of PAC's pension plans. Therefore, net settlement gains in the amount of $299 were recognized in 1997. Of this amount, $152 was recognized in the first quarter of 1997 and related primarily to managers who terminated employment in 1996. These gains are not included in the net pension cost shown in the preceding table.

In connection with a voluntary early-out offer that provided enhanced pension benefits, approximately 1,135 employees left SNET during 1996. Annual pension cost excludes $65 of net settlement gains charged to SNET's restructuring reserve in 1996.

Supplemental Retirement Plans – SBC also provides senior and middle management employees with nonqualified, unfunded supplemental retirement and savings plans. These plans include supplemental defined pension benefits as well as compensation deferral plans, some of which include a corresponding match by SBC based on a percentage of the compensation deferral. Expenses related to these plans were $105, $90 and $90 in 1998, 1997 and 1996. Liabilities of $1,008 and $897 related to these plans have been included in other noncurrent liabilities in SBC's Consolidated Balance Sheets at December 31, 1998 and 1997.

Postretirement Benefits – SBC provides certain medical, dental and life insurance benefits to substantially all retired employees under various plans and accrues actuarially determined postretirement benefit costs as active employees earn these benefits. Employees retiring after certain dates will pay a share of the costs of medical coverage that exceed a defined dollar medical cap. Such future cost-sharing provisions have been reflected in determining SBC's postretirement benefit costs. SBC maintains Voluntary Employee Beneficiary Association trusts to fund postretirement benefits. Assets consist principally of stocks and U.S. government and corporate bonds.

The following table sets forth the change in the benefit obligation for the years ended December 31:

	1998	1997
Benefit obligation at beginning of the year	**$7,701**	$7,112
Service cost – benefits earned during the period	**109**	106
Interest cost on projected benefit obligation	**537**	516
Amendments	**363**	(48)
Actuarial gain	**(220)**	397
Benefits paid	**(410)**	(382)
Benefit obligation at end of year	**$8,080**	$7,701

Dollars in millions except per share amounts

The following table sets forth the change in plan assets for the years ended December 31 and the plans' funded status at December 31:

	1998	1997
Fair value of plan assets at beginning of the year	$ 3,826	$ 2,926
Actual return on plan assets	847	677
Employer contribution	354	462
Benefits paid	(248)	(239)
Fair value of plan assets at end of year	$ 4,779	$ 3,826
Funded status	$(3,301)	$(3,875)
Unrecognized prior service cost	286	(13)
Unrecognized net gain	(1,912)	(1,175)
Accrued postretirement benefit obligation	$(4,927)	$(5,063)

Postretirement benefit cost is composed of the following:

	1998	1997	1996
Service cost – benefits earned during the period	$ 109	$ 106	$ 105
Interest cost on accumulated postretirement benefit obligation (APBO)	537	516	512
Expected return on assets	(272)	(220)	(181)
Other – net	6	(14)	5
Postretirement benefit cost	$ 380	$ 388	$ 441

The fair value of plan assets restricted to the payment of life insurance benefits was $844 and $987 at December 31, 1998 and 1997. At December 31, 1998 and 1997, the accrued life insurance benefits included in the APBO benefit obligation were $367 and $93.

The assumed medical cost trend rate in 1999 is 7.0%, decreasing linearly to 5.5% in 2002, prior to adjustment for cost-sharing provisions of the medical and dental plans for active and certain recently retired employees. The assumed dental cost trend rate in 1999 is 5.75%, reducing to 5.0% in 2002. Raising the annual medical and dental cost trend rates by one percentage point increases the APBO as of December 31, 1998 by $488 and increases the aggregate service and interest cost components of the net periodic postretirement benefit cost for 1998 by approximately $34. Decreasing the annual medical and dental cost trend rates by one percentage point decreases the APBO as of December 31, 1998 by $408 and decreases the aggregate service and interest cost components of the net periodic postretirement benefit cost for 1998 by approximately $27. Significant assumptions for the discount rate, long-term rate of return on plan assets and composite rate of compensation increase used in developing the APBO and related postretirement benefit costs were the same as those used in developing the pension information.

NOTE 14. OTHER EMPLOYEE BENEFITS

Employee Stock Ownership Plans – SBC maintains contributory savings plans which cover substantially all employees. Under the savings plans, SBC matches a stated percentage of eligible employee contributions, subject to a specified ceiling.

SBC has four leveraged ESOPs as part of the existing savings plans. Two of the ESOPs were funded with notes issued by the savings plans to various lenders, the proceeds of which were used to purchase shares of SBC's common stock in the open market. These notes are unconditionally guaranteed by SBC and therefore presented as a reduction to shareowners' equity and an increase in long-term debt. They will be repaid with SBC contributions to the savings plans, dividends paid on SBC shares and interest earned on funds held by the ESOPs.

The third ESOP purchased PAC treasury shares in exchange for a promissory note from the plan to PAC. Since PAC is the lender, this note is not reflected as a liability and the remaining cost of unallocated trust shares is carried as a reduction of shareowners' equity. Principal and interest on the note are paid from employer contributions and dividends received by the trust. All PAC shares were exchanged for SBC shares effective with the merger April 1, 1997. The provisions of the ESOP were unaffected by this exchange.

The fourth ESOP acquired SNET shares with the proceeds of notes issued by the savings plans, which SNET guaranteed, through a third party. The SNET common stock was acquired through open market purchases, in exchange for a promissory note from the plan to SNET. SNET periodically makes cash payments to the ESOP that, together with dividends received on shares held by the ESOP, are used to make interest and principal payments on both loans. All SNET shares were exchanged for SBC shares effective with the merger October 26, 1998. The provisions of the ESOP were unaffected by this exchange.

SBC's match of employee contributions to the savings plans is fulfilled with shares of stock allocated from the ESOPs and with purchases of SBC's stock in the open market. Shares held by the ESOPs are released for allocation to the accounts of employees as employer matching contributions are earned. Benefit cost is based on a combination of the contributions to the savings plans and the cost of shares allocated to participating employees' accounts. Both benefit cost and interest expense on the notes are reduced by dividends on SBC's shares held by the ESOPs and interest earned on the ESOPs' funds.

Information related to the ESOPs and the savings plans is summarized below:

	1998	1997	1996
Benefit expense – net of dividends and interest income	$ 55	$ 59	$ 76
Interest expense – net of dividends and interest income	16	21	30
Total expense	$ 71	$ 80	$106
Company contributions for ESOPs	$110	$112	$121
Dividends and interest income for debt service	$ 58	$ 63	$ 67

SBC shares held by the ESOPs are summarized as follows at December 31:

	1998	1997
Unallocated	11,505,123	17,210,803
Committed to be allocated	1,245,335	282,388
Allocated to participants	47,425,671	45,966,307
Total	60,176,129	63,459,498

NOTE 15. STOCK-BASED COMPENSATION

Under various SBC plans, senior and other management employees and non-employee directors have received stock options, SARs, performance shares and nonvested stock units to purchase shares of SBC common stock. Options issued through December 31, 1998 carry exercise prices equal to the market price of the stock at the date of grant and have maximum terms ranging from five to ten years. Depending upon the grant, vesting of options may occur up to four years from the date of grant. Performance shares are granted to key employees in the form of common stock and/or in cash based upon the price of common stock at date of grant and are awarded at the end of a two- or three-year period, subject to the achievement of certain performance goals. Nonvested stock units also are valued at market price of the stock at date of grant and vest over a three-year period. Up to 206 million shares may be issued under these plans.

In 1996, SBC elected to continue measuring compensation cost for these plans using the intrinsic value-based method of accounting prescribed in Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (FAS 123). Accordingly, no compensation cost for SBC's stock option plans has been recognized. The compensation cost that has been charged against income for SBC's other stock-based compensation plans, primarily SARs and nonvested stock units, totaled $45, $43 and $22 for 1998, 1997 and 1996. Had compensation cost for stock option plans been recognized using the fair value based method of accounting at the date of grant for awards in 1998, 1997 and 1996 as defined by FAS 123, SBC's net income would have been $3,921, $1,597 and $3,445, and basic net income per share would have been $2.00, $0.82 and $1.76.

Options and SARs held by the continuing employees of PAC at the time of the AirTouch spin-off were supplemented with an equal number of options and SARs for common shares of spun-off operations. The exercise prices for outstanding options and SARs held by continuing employees of PAC were adjusted downward to reflect the value of the supplemental spun-off operations' options and SARs. The balance sheet reflects a related liability equal to the difference between the current market price of spun-off operations stock and the exercise prices of the supplemental options outstanding (see Note 11). As of December 31, 1998, 459,916 supplemental spun-off operations options and SARs were outstanding with expiration dates ranging from 1999 to 2003. Outstanding options and SARs that were held by employees of the wireless operations at the spin-off date were replaced by options and SARs for common shares of spun-off operations. The spun-off operations assumed liability for these replacement options and SARs.

For purposes of these pro forma disclosures, the estimated fair value of the options granted after 1994 is amortized to expense over the options' vesting period. Because most employee options vest over a two- to four-year period, these disclosures will not be indicative of future pro forma amounts until the FAS 123 rules are applied to all outstanding non-vested awards. The fair value for these options was estimated at the date of grant, using a Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 1998, 1997 and 1996: risk-free interest rate of 5.72%, 6.56% and 6.25%; dividend yield of 2.21%, 3.07% and 4.91%; expected volatility factor of 15%, 15% and 18%; and expected option life of 5.3, 5.8 and 4.7 years.

Information related to options and SARs is summarized below:

	Number	Weighted Average Exercise Price
Outstanding at January 1, 1996	60,648,949	$20.89
Granted	25,035,921	23.00
Exercised	(3,979,290)	18.73
Forfeited/Expired	(2,159,301)	21.59
Outstanding at December 31, 1996 (35,522,826 exercisable at weighted average price of $20.13)	79,546,279	21.64
Granted	33,560,019	27.28
Exercised	(17,548,592)	20.51
Forfeited/Expired	(4,817,751)	25.16
Outstanding at December 31, 1997 (40,802,392 exercisable at weighted average price of $21.02)	90,739,955	23.76
Granted	21,756,535	42.51
Exercised	(16,853,425)	22.13
Forfeited/Expired	(4,591,616)	31.08
Outstanding at December 31, 1998 (47,493,729 exercisable at weighted average price of $22.31)	**91,051,449**	**$28.17**

Dollars in millions except per share amounts

Information related to options and SARs outstanding at December 31, 1998:

Exercise Price Range	$13.50 – $17.49	$17.50 – $25.99	$26.00 – $33.99	$34.00 – $43.00
Number of options and SARs:				
Outstanding	3,492,843	41,277,620	25,901,002	20,379,984
Exercisable	3,492,843	41,277,620	2,639,149	84,117
Weighted average exercise price:				
Outstanding	$16.51	$22.39	$27.60	$42.59
Exercisable	$16.51	$22.39	$28.21	$42.00
Weighted average remaining contractual life	3.43 years	6.38 years	8.31 years	5.97 years

The weighted-average, grant-date fair value of each option granted during 1998, 1997 and 1996 was $8.62, $5.57 and $3.47.

NOTE 16. SHAREOWNERS' EQUITY

Common Stock Split – On January 30, 1998, the Board of Directors of SBC declared a two-for-one stock split, effected in the form of a stock dividend, on the shares of SBC's common stock. Each shareholder of record on February 20, 1998 received an additional share of common stock for each share of common stock then held. The stock was issued March 19, 1998. SBC retained the current par value of $1.00 per share for all shares of common stock.

NOTE 17. ACQUISITIONS AND DISPOSITIONS

During the third quarter of 1998, SBC sold its interest in MTN to the remaining shareholders of MTN for $337. The sale fulfilled SBC's obligation to divest MTN as a requirement of the acquisition of Telkom. The effect on other income (expense) – net and net income from the sale of MTN was $250 and $162. See Note 7 for the disposition of SBC's interest in Telewest.

In May 1997, a consortium made up of SBC and Telekom Malaysia Berhad, 60% owned by SBC, completed the purchase of 30% of Telkom. SBC invested approximately $760, approximately $600 of which will remain in Telkom.

During 1996, SBC received several AT&T Corp. cellular networks in Arkansas in exchange for SBC's PCS licenses in Memphis and Little Rock and other consideration.

These acquisitions were primarily accounted for under the purchase method of accounting. The purchase prices in excess of the underlying fair value of identifiable net assets acquired are being amortized over periods not to exceed 40 years. Results of operations of the properties acquired have been included in the consolidated financial statements from their respective dates of acquisition.

The above developments did not have a significant impact on consolidated results of operations for 1998, 1997 or 1996, nor would they had they occurred on January 1 of the respective periods.

On January 20, 1999, SBC announced it has agreed to acquire Comcast Cellular Corporation (Comcast Cellular), the wireless subsidiary of Comcast Corporation, in a transaction valued at $1,674. Under the terms of the agreement, SBC will pay $400 in cash and assume Comcast Cellular's current debt of $1,274. The transaction will be accounted for through the purchase accounting method. Comcast Cellular offers analog and digital wireless services to more than 800,000 subscribers in Pennsylvania, Delaware, New Jersey and Illinois. The largest market in which Comcast Cellular operates is Philadelphia, Pennsylvania. SBC for several years has been operating the Illinois properties it is purchasing under a previous agreement between the two companies. The transaction, which is subject to regulatory approvals, is expected to be completed by the end of 1999.

NOTE 18. ADDITIONAL FINANCIAL INFORMATION

	December 31,	
Balance Sheets	**1998**	1997
Accounts payable and accrued liabilities:		
Accounts payable	**$2,865**	$3,115
Accrued taxes	**1,206**	1,118
Advance billing and customer deposits	**855**	764
Compensated future absences	**568**	558
Accrued interest	**249**	326
Accrued payroll	**338**	315
Other	**1,899**	2,134
Total	**$7,980**	$8,330

Statements of Income	**1998**	1997	1996
Advertising expense	**$ 594**	$ 558	$ 400
Interest expense incurred	**$1,052**	$ 1,168	$1,043
Capitalized interest	**(59)**	(125)	(142)
Total interest expense	**$ 993**	$ 1,043	$ 901

Statements of Cash Flows	**1998**	1997	1996
Cash paid during the year for:			
Interest	**$1,070**	$ 1,014	$ 888
Income taxes, net of refunds	**$1,721**	$ 489	$1,367

No customer accounted for more than 10% of consolidated revenues in 1998, 1997 or 1996.

Several subsidiaries of SBC have negotiated contracts with the Communications Workers of America (CWA), none of which is subject to renegotiation in 1999. Approximately two-thirds of SBC's employees are represented by the CWA.

NOTE 19. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Calendar Quarter	Total Operating Revenues	Operating Income (Loss)	Net Income (Loss)	Basic Earnings (Loss) Per Common Share	Stock Price High	Stock Price Low	Stock Price Close
1998							
First[1]	**$ 6,855**	**$1,775**	**$ 985**	**$0.50**	**$46.563**	**$35.375**	**$43.375**
Second	**7,030**	**1,817**	**1,020**	**0.52**	**44.938**	**37.125**	**40.000**
Third[2]	**7,216**	**1,903**	**1,262**	**0.65**	**44.875**	**35.000**	**44.375**
Fourth[1,2]	**7,676**	**1,391**	**756**	**0.39**	**54.875**	**41.125**	**53.625**
Annual[1,2]	**$28,777**	**$6,886**	**$4,023**	**$2.06**			
1997[3]							
First	$ 6,405	$ 1,685	$ 901	$ 0.46	$ 29.125	$ 24.813	$ 26.250
Second	6,372	(831)	(736)	(0.38)	30.938	24.625	30.938
Third	6,790	1,573	867	0.45	31.125	26.781	30.719
Fourth	7,114	1,151	642	0.33	38.063	30.000	36.625
Annual	$ 26,681	$ 3,578	$ 1,674	$ 0.86			

[1]Net Income and Earnings per Common Share reflect a cumulative effect of accounting change of $15, or $0.01 per share in the first quarter from a change in accounting for directory operations and an extraordinary loss on retirement of debt of $60, or $0.03 per share in the fourth quarter.

[2]Net income in the third quarter includes after-tax gains of $219 for gains on sales of certain non-core businesses, principally the required disposition of MTN, due to SBC's investment in Telkom. Net income in the fourth quarter also includes $268 of charges related to strategic initiatives resulting from the merger integration process with SNET.

[3]Net income (loss) includes $90 in first quarter pension settlement gain for 1996 retirements (see Note 13), $1.6 billion in second quarter charges related to post-merger initiatives (see Note 2), $10 and $294 in third and fourth quarter merger integration costs and $33 in fourth quarter gain on sale of SBC's interests in Bellcore.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareowners
SBC Communications Inc.

We have audited the accompanying consolidated balance sheets of SBC Communications Inc. (the Company) as of December 31, 1998 and 1997, and the related consolidated statements of income, shareowners' equity, and cash flows for each of the three years in the period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the 1996 financial statements of Pacific Telesis Group, a wholly-owned subsidiary, which statements reflect total operating revenues constituting approximately 38% of the Company's related consolidated financial statement total for the year ended December 31, 1996. Those statements were audited by other auditors whose report, which has been furnished to us, included an explanatory paragraph that describes the change in its method of recognizing directory publishing revenues and related expenses. Our opinion, insofar as it relates to the 1996 data included for Pacific Telesis Group, is based solely on the report of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and, for 1996, the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SBC Communications Inc. at December 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Ernst + Young LLP

San Antonio, Texas
February 12, 1999

REPORT OF MANAGEMENT

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles. The integrity and objectivity of the data in these financial statements, including estimates and judgments relating to matters not concluded by year end, are the responsibility of management, as is all other information included in the Annual Report, unless otherwise indicated.

The financial statements of SBC Communications Inc. (SBC) have been audited by Ernst & Young LLP, independent auditors. Management has made available to Ernst & Young LLP all of SBC's financial records and related data, as well as the minutes of shareowners' and directors' meetings. Furthermore, management believes that all representations made to Ernst & Young LLP during its audit were valid and appropriate.

Management has established and maintains a system of internal accounting controls that provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition and the prevention and detection of fraudulent financial reporting. The concept of reasonable assurance recognizes that the costs of an internal accounting controls system should not exceed, in management's judgment, the benefits to be derived.

Management also seeks to ensure the objectivity and integrity of its financial data by the careful selection of its managers, by organizational arrangements that provide an appropriate division of responsibility and by communication programs aimed at ensuring that its policies, standards and managerial authorities are understood throughout the organization. Management continually monitors the system of internal accounting controls for compliance. SBC maintains an internal auditing program that independently assesses the effectiveness of the internal accounting controls and recommends improvements thereto.

The Audit Committee of the Board of Directors, which consists of eight directors who are not employees, meets periodically with management, the internal auditors and the independent auditors to review the manner in which they are performing their responsibilities and to discuss auditing, internal accounting controls and financial reporting matters. Both the internal auditors and the independent auditors periodically meet alone with the Audit Committee and have access to the Audit Committee at any time.

Edward E. Whitacre Jr.

Edward E. Whitacre Jr.
Chairman of the Board and
Chief Executive Officer

Donald E. Kiernan

Donald E. Kiernan
Senior Vice President, Treasurer
and Chief Financial Officer

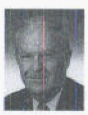
Edward E. Whitacre Jr., 57[2, 4, 5]

Chairman of the Board and Chief Executive Officer
SBC Communications Inc.
San Antonio, Texas
SBC Director since October 1986
Background: Telecommunications

Gilbert F. Amelio, Ph.D., 56[3]

Partner
The Parkside Group, LLC
Principal
Aircraft Ventures, LLC
San Francisco, California
Advisory Director since April 1997
PTG Director 1995-1997
Background: Technology, electronics engineering

Clarence C. Barksdale, 66[1, 3]



Vice Chairman, Board of Trustees
Washington University
St. Louis, Missouri
SBC Director since October 1983
SWBT Director 1982-1983
Background: Banking

James E. Barnes, 65[1, 2]

Chairman of the Board, President and Chief Executive Officer (Retired)
MAPCO Inc.
Tulsa, Oklahoma
SBC Director since November 1990
Background: Diversified energy

August A. Busch III, 61[2, 4, 6]

Chairman of the Board and President
Anheuser-Busch Companies, Inc.
St. Louis, Missouri
SBC Director since October 1983
SWBT Director 1980-1983
Background: Brewing, family entertainment, transportation, manufacturer of aluminum beverage containers

Royce S. Caldwell, 60[4, 5]

President-SBC Operations
SBC Communications Inc.
San Antonio, Texas
SBC Director since April 1997
Background: Telecommunications

Ruben R. Cardenas, 68[1, 3]

Partner
Cardenas, Whitis & Stephen, L.L.P.
McAllen, Texas
SBC Director since October 1983
SWBT Director 1975-1983
Background: Law

The Honorable William P. Clark, 67[2, 3]

Chief Executive Officer
Clark Company
Senior Counsel
Clark, Cali and Negranti
Paso Robles, California
SBC Director since April 1997
PTG Director 1985-1997
Background: Law, ranching

Martin K. Eby, Jr., 64[1, 5]

Chairman of the Board and Chief Executive Officer
The Eby Corporation
Wichita, Kansas
SBC Director since June 1992
Background: General building construction

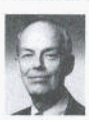
Herman E. Gallegos, 68[1, 3]

Independent Management Consultant
Brisbane, California
SBC Director since April 1997
PTG Director 1983-1997
Background: Management consulting

Jess T. Hay, 68[1, 6]

Chairman
Texas Foundation for Higher Education
Chairman
HCB Enterprises Inc
Dallas, Texas
SBC Director since April 1986
Background: Financial services

Admiral Bobby R. Inman, 67[5, 6]



United States Navy, Retired
Austin, Texas
SBC Director since March 1985
Background: Private investment

Charles F. Knight, 63[2, 4, 5]

Chairman and Chief Executive Officer
Emerson Electric Co.
St. Louis, Missouri
SBC Director since October 1983
SWBT Director 1974-1983
Background: Electrical manufacturing

Mary S. Metz, Ph.D., 61[1]

President
S. H. Cowell Foundation
San Francisco, California
SBC Director since April 1997
PTG Director 1986-1997
Background: Education, administration

Dr. Haskell M. Monroe, Jr., 67[3, 5]

Dean of Faculties Emeritus and Director of the A&M Heritage Preservation Program
Texas A&M University
College Station, Texas
SBC Director since October 1983
SWBT Director 1982-1983
Background: Education, administration

Toni Rembe, Esq., 62[3]

Partner
Pillsbury Madison & Sutro LLP
San Francisco, California
SBC Director since January 1998
Advisory Director 1997-1998
PTG Director 1991-1997
Background: Law

S. Donley Ritchey, 65[5, 6]

Managing Partner
Alpine Partners
Chairman and Chief Executive Officer (Retired)
Lucky Stores, Inc.
Danville, California
SBC Director since April 1997
PTG Director 1984-1997
Background: Diversified retail

Joyce M. Roché, 51[1, 3]

Independent Consultant
Savannah, Georgia
SBC Director since October 1998
SNET Director 1997-1998
Background: Manufacturing and marketing of personal care products

Richard M. Rosenberg, 68[2, 5]

Chairman and Chief Executive Officer (Retired)
BankAmerica Corporation
San Francisco, California
SBC Director since April 1997
PTG Director 1994-1997
Background: Banking

Ing. Carlos Slim Helú, 59[3, 5]

Chairman of the Board
Teléfonos de México, S.A. de C.V.
Chairman Emeritus
Grupo Carso, S.A. de C.V.
Mexico City, Mexico
SBC Director since September 1993
Background: Telecommunications, consumer goods, automobile parts, construction, retailing

Patricia P. Upton, 60[1, 3]

President and Chief Executive Officer
Aromatique, Inc.
Heber Springs, Arkansas
SBC Director since June 1993
Background: Manufacturing and marketing of decorative home fragrances

Committees of the Board:

(1) Audit
(2) Corporate Development
(3) Corporate Public Policy and Environmental Affairs
(4) Executive
(5) Finance/Pension
(6) Human Resources

EXECUTIVES OF SBC AND ITS SUBSIDIARIES

SBC Senior Executives

Edward E. Whitacre Jr., 57
Chairman & CEO
SBC Communications Inc.

Royce S. Caldwell, 60
President-SBC Operations
SBC Communications Inc.

Cassandra C. Carr, 54
Sr. Executive Vice President-External Affairs
SBC Communications Inc.

J. Cliff Eason, 51
President-SBC International
SBC Communications Inc.

James D. Ellis, 55
Sr. Executive Vice President & General Counsel
SBC Communications Inc.

Charles E. Foster, 62
Group President-SBC
SBC Communications Inc.

Karen E. Jennings, 48
Sr. Vice President-Human Resources
SBC Communications Inc.

James S. Kahan, 51
Sr. Vice President-Corporate Development
SBC Communications Inc.

Donald E. Kiernan, 58
Sr. Vice President, Treasurer & CFO
SBC Communications Inc.

Linda S. Mills, 47
Sr. Vice President-Corporate Communications
SBC Communications Inc.

Stanley T. Sigman, 51
President & CEO
SBC Wireless Inc.

Other Executives

Wayne S. Alexander, 50
President-Asia Pacific
SBC Operations Inc.

John H. Atterbury, 51
President & CEO
Southwestern Bell Telephone Company

Terry D. Bailey, 43
President-Oklahoma
Southwestern Bell Telephone Company

Thomas M. Barry, 54
President-SBCI (Telkom South Africa)
SBC International, Inc.

William A. Blase, 43
Vice President-Regulatory
Pacific Telesis

Rickford D. Bradley, 47
President
SBC Center for Learning

Blaine Bull, 41
Sr. Vice President-Public Affairs
SBC Communications Inc.

James W. Callaway, 52
President-California
Pacific Telesis

Stephen M. Carter, 45
President-Stragetic Markets
SBC Operations Inc.

Lea Ann Champion, 40
President-Consumer Communications Services
Southwestern Bell Telephone Company

David A. Cole, 50
President-Texas
Southwestern Bell Telephone Company

Liam S. Coonan, 63
Sr. Vice President & Asst. General Counsel
SBC Communications Inc.

Wilbur Crossley, 55
Vice President-Network (Telkom South Africa)
SBC International, Inc.

Patricia Diaz Dennis, 52
Sr. Vice President-Regulatory & Public Affairs
SBC Communications Inc.

Richard C. Dietz, 52
President-SBCI (Mexico)
SBC International, Inc.

Kathy L. Dowling, 43
Regional President-Northeast Wireless
Cellular One

Melanie S. Fannin, 48
Vice Pres. & Gen. Counsel-External Affairs-TX
Southwestern Bell Telephone Company

Robert Ferguson, 39
Sr. Vice President-Federal Relations
SBC Telecommunications, Inc.

James D. Gallemore, 47
Executive Vice President-Strategic Marketing
SBC Operations Inc.

Michael N. Gilliam, 46
Vice President-Year 2000 Project & Gatekeeper
SBC Services, Inc.

Edward L. Glotzbach, 50
Executive Vice Pres. & Chief Information Officer
SBC Services, Inc.

William J. Hannigan, 39
President-Business Communications Services
Southwestern Bell Telephone Company

Timothy S. Harden, 45
Vice President & General Manager-Operations
SBC Operations Inc.

Priscilla Hill-Ardoin, 47
President-Missouri
Southwestern Bell Telephone Company

Ross K. Ireland, 51
Vice President-Network Planning & Engineering
Pacific Telesis

Ronald M. Jennings, 57
Vice Pres. & Gen. Mgr.-Pub. Communications
SBC Telecommunications, Inc.

Martin A. Kaplan, 61
Executive Vice President-SBC
SBC Communications Inc.

Michael Kaufman, 53
President-Consumer Markets Group
Pacific Bell

Sandy Kinney, 51
President-Industry Markets
SBC Telecommunications, Inc.

Jonathan P. Klug, 42
President-Arkansas
Southwestern Bell Telephone Company

Richard G. Lindner, 44
Vice President & CFO
Southwestern Bell Telephone Company

David R. Lopez, 47
Vice President-National/Local Regulatory
SBC Operations Inc.

Gary W. Lucas, 54
Vice President-Labor Relations
Southwestern Bell Telephone Company

Robert M. Lynch, 48
Sr. Vice Pres. & Gen. Counsel-External Affairs
SBC Telecommunications, Inc.

Robin MacGillivray, 43
Vice Pres.-Business Communications Services
Pacific Bell

Mary T. Manning, 48
Vice President-Corporate Real Estate
SBC Services, Inc.

Norma Martinez Lozano, 42
Vice Pres. & Gen. Manager-Operator Services
SBC Telecommunications, Inc.

Wayne D. Masters, 53
Vice President-Business Planning
SBC Operations Inc.

William B. McCullough, 47
President & CEO-SWB Wireless
Southwestern Bell Wireless

Shawn M. McKenzie, 40
President-Kansas
Southwestern Bell Telephone Company

Forrest E. Miller, 46
President & CEO
SBC Directory Operations

Tom E. Morgan, 51
President & CEO
Southern New England Telephone Co.

Thomas O. Moulton, Jr., 52
Regional President-Northern & Central California
Pacific Telesis

Edward A. Mueller, 51
President & CEO
Pacific Bell

Carmen P. Nava, 36
Regional President-Los Angeles
Pacific Telesis

Robert J. Nelson, 40
Regional President-Great Lakes Region
Cellular One

David C. Nichols, 41
Regional President-San Diego
Pacific Telesis

Thomas A. Pall, 59
Vice President-Sales
SBC Directory Operations

T. Michael Payne, 48
Sr. Vice President, General Counsel & Secretary
Pacific Telesis

Robert B. Pickering, 40
Vice President & CFO
Pacific Bell

Alfred G. Richter, Jr., 48
Sr. Vice Pres. & General Counsel-Operations
SBC Telecommunications, Inc.

A. Dale Robertson, 50
Sr. Vice President-FCC
SBC Telecommunications, Inc.

Michael A. Rodriguez, 48
Vice President-Labor Relations
Pacific Telesis

Charles J. Roesslein, 50
President & CEO
SBC Technology Resources, Inc.

Drew A. Roy, 52
President-SBCI (Europe & Middle East)
SBC International, Inc.

Judith M. Sahm, 53
Vice President & Secretary
SBC Communications Inc.

Robert W. Shaner, 50
President & CEO
Pacific Bell Mobile Services

James B. Shelley, 45
President-Texas Regulatory
Southwestern Bell Telephone Company

Charles H. Smith, 55
President-Network Services
Pacific Bell

Donna L. Snyder, 47
Sr. Vice Pres., General Counsel & Secretary
Southwestern Bell Telephone Company

Randall Stephenson, 38
Vice President & Controller
SBC Communications Inc.

Joyce M. Taylor, 41
Regional President-Bay Area
Pacific Telesis

Van H. Taylor, 50
Regional President-Network Services (Midwest)
Southwestern Bell Telephone Company

J. Michael Turner, 49
Exec. Vice Pres.-Corp. Planning & Capital Mgmt.
SBC Operations Inc.

Joe W. Walkoviak, 51
President-Network Services
Southwestern Bell Telephone Company

Lora K. Watts, 41
President-Nevada
Nevada Bell

Stephen G. Welch, 55
President-Corporate & Administrative Services
Pacific Telesis

Horace Wilkins Jr., 48
President-Special Markets
SBC Operations Inc.

Rayford Wilkins Jr., 47
President-Business Communications Services
Pacific Bell

SHAREOWNER INFORMATION

Toll-Free Shareowner Hotline
Call us at 1-800-351-7221 between 9 a.m. and 8 p.m. Eastern Time Monday through Friday.
TDD 1-888-269-5221
We can help with:

- account inquiries
- requests for assistance, including stock transfers
- information on the SBC Direct Stock Purchase and Reinvestment Plan

Written Requests
Please mail all account inquiries and other requests for assistance with regard to your stock ownership to:

SBC Communications Inc.
c/o First Chicago Trust Division of EquiServe
P. O. Box 2508
Jersey City, New Jersey 07303-2508

Please mail requests for transactions involving stock transfers or account changes to:

SBC Communications Inc.
c/o First Chicago Trust Division of EquiServe
P. O. Box 2589
Jersey City, New Jersey 07303-2589

You also may reach First Chicago Trust Company, the Transfer Agent for SBC, at our e-mail address:
sbcfct@em.fcnbd.com

SBC Direct Stock Purchase and Reinvestment Plan (SBC Direct)
SBC Direct allows current shareowners to purchase additional SBC stock with a minimum investment of **$50.** Other persons may also take advantage of this feature with a minimum initial investment of **$500.** SBC Direct has many other convenient features including automatic monthly investments, dividend reinvestment, direct deposit of dividends and an Individual Retirement Account.

For more information or a prospectus, call 1-800-351-7221.

Send optional cash investments to:

SBC Direct
c/o First Chicago Trust Division of EquiServe
P.O. Box 13531
Newark, New Jersey 17188-0001

Stock Trading Information
SBC is listed on the New York, Chicago and Pacific stock exchanges and The Swiss Exchange. SBC is traded on the London Stock Exchange through the SEAQ International Markets facility.

Ticker symbol (NYSE): SBC

Newspaper stock listing:
SBC or SBC Comm

Information on the Internet
Information about SBC is available on the Internet. Visit our home page on the World Wide Web:
http://www.sbc.com

Annual Meeting
The annual meeting of shareowners will be held at 9:00 a.m. Friday, April 30, 1999, at:

Alzafar Shrine Temple
901 North Loop 1604 West
San Antonio, Texas 78216

Independent Auditors
Ernst & Young LLP
1900 Frost Bank Tower
100 W. Houston
San Antonio, Texas 78205

Requests for 10-K
The SBC, Southwestern Bell Telephone Company and Pacific Bell Forms 10-K, filed with the Securities and Exchange Commission, are available on request.

Investor Relations
Security analysts and other members of the professional financial community may call the Investor Relations Hotline:
210-351-2044

General Information — Corporate Offices
SBC Communications Inc.
175 E. Houston
P. O. Box 2933
San Antonio, Texas 78299-2933
210-821-4105

Printed on recycled paper

SBC Communications Inc.
175 E. Houston
P. O. Box 2933
San Antonio, Texas 78299-2933
210-821-4105

EXHIBIT D

Statement of Managerial Capability

SBC Telecom's parent corporation, SBC Communications Inc. ("SBC"), is a holding company whose subsidiaries and affiliates operate predominantly in the communications services industry and have provided telecommunications services for over 100 years. SBC's subsidiaries and affiliates provide landline telecommunications and related services in Arkansas, California, Connecticut, Illinois, Indiana, Kansas, Michigan, Missouri, Nevada, Ohio, Oklahoma, Texas and Wisconsin; wireless telecommunications and related services in these states, as well as Delaware, Hawaii, Maryland, Massachusetts, Minnesota, New York, Pennsylvania, Rhode Island, Virginia, and Washington, D.C; and security and monitoring services in most of the United States' largest metropolitan areas. SBC has investments in telecommunications companies that serve selected markets outside of the United States, including Belgium, Canada, Denmark, France, Switzerland, Hungary, Mexico, Puerto Rico, South Africa, and Taiwan, among others. SBC also has investments in Israel, through which it provides cable TV, directory publishing, long distance and software development.

SBC Telecom's executive officers have been recruited from SBC and its affiliates, and are among its key managers with considerable experience in the telecommunications industry, including operations, interconnection, network, marketing, sales, finance, regulatory and legal issues. The following provides a brief synopsis of the managerial experience of each of SBC Telecom's executive officers.

RONALD L. BLAKE, President

Ronald L. Blake, President of SBC Telecom, began his career as an Assistant Staff Manager of Revenue Requirements for Wisconsin Bell in 1979. From 1981 to 1988, he held several management assignments in investment research, financial planning, corporate accounting and consumer marketing for AT&T, Ameritech and Wisconsin Bell. He was promoted to Assistant Vice President of Marketing for Wisconsin Bell in 1988.

In 1990, Mr. Blake moved to Ameritech Services to become Assistant Vice President of Consumer and Small Business Marketing. He served as Vice President and Treasurer for Ameritech from 1992 to 1994. Following this appointment, he became President of Long Distance Industry Services, where he served until 1995. In 1995, Mr. Blake was promoted to President of Enhanced Business Services, and also served as President of Small Business Services from December 1997 to June 1998. Mr. Blake became President of Ameritech General Business Services in July 1998, where he was responsible for providing retail telecommunications products and services. He was appointed to his current position following the merger of SBC and Ameritech.

PATRICIA DIAZ DENNIS, Sr. Vice President-Regulatory and Public Affairs

Mrs. Dennis joined SBC in 1995 as Senior Vice President and Assistant General Counsel for regulation and law, representing and advising SBC in the areas of state, federal and international law and regulatory policy. In her present position, she is responsible for SBC's national constituency relations and regulatory, legislative, governmental, external affairs and industry relations activities for SBC Telecom. Before joining SBC, Mrs. Dennis was appointed to the Federal Communications Commission by President Reagan and served as a commissioner from 1986 to 1989. Mrs. Dennis also was appointed by President Reagan to serve on the National Labor Relations Board. President Bush appointed her Assistant Secretary of State for Human Rights and Humanitarian Affairs in 1992. Her experience in the telephone industry includes her legal practice as Special Counsel for Communications Matters in Sullivan & Cromwell's Washington, D.C. office, as well as Partner and Head of the Communications Law Section for the D.C. office of Jones, Day, Reavis & Pogue. Mrs. Dennis was also Vice President for Government Affairs for Sprint Corporation from 1991 to 1992.

TIMOTHY HARDEN, Vice President, Operations

Mr. Harden has over 18 years of telecommunications experience and is responsible for the design, development and deployment of the network and systems necessary to support SBC Telecom's competitive local exchange activities. He also is responsible for the day-to-day operations. SBC Telecom represents Mr. Harden's third "start up" endeavor. He was involved in the start up of PacTel Business Systems as Chief Operating Officer and later as President and CEO. More recently, he served as Vice President & Chief Operating Officer of the Pacific Telesis broadband effort in California where he was responsible for all of the operations of that $5 billion effort, including network engineering, design and construction; customer care centers; and systems design and implementation. Mr. Harden gained broad telecommunications experience in a series of executive assignments with Pacific Telesis Group and SBC, most recently as Vice President and General Manager of SBC's Industry Operations where he had responsibility for all wholesale operations for access and local (CLEC) customers. Also, he previously served as Vice President and General Manager of Industry Markets, and Vice President and General Manager of the Pacific Bell North Coast Regional Business Unit. Other assignments have included work in operations, special services, customer service, and switching in both Northern and Southern California.

THOMAS W. HARTMANN, Vice President and General Counsel

Mr. Hartmann has been employed as an attorney with SBC since 1995. With SBC, he has served in positions involving litigation, mergers and acquisitions, and international operations. In his present position, Mr. Hartmann is responsible for all legal representation of SBC Telecom throughout the country. Before joining SBC, Mr. Hartmann was on active duty in the United States Air Force where he served as the Chief Prosecutor in the Far East. Mr. Hartmann remains a Colonel in the U.S. Air Force Reserves. He also worked as a litigation associate with the law firm of Bryan Cave in St. Louis, Missouri from 1991 to 1995.

MARK BORIGHT, Vice President-Chief Financial Officer

Mr. Boright joined the SBC family of companies in 1991 and assumed the responsibility of Vice President and Chief Financial Officer of the Cellular One Wireless property in Chicago. Before joining SBC, Mr. Boright fulfilled various management and leadership positions for GTE Mobile Communications and GTE Mobilnet in the area of finance. In 1996, Mr. Boright was appointed Vice President and Chief Financial Officer Southwestern Bell Mobile Systems in Dallas, Texas. Most recently Mr. Boright was named Vice President-Chief Financial Officer of

SBC Telecom. Collectively, he possesses over 18 years of financial, accounting and business experience.

PAUL R. ROTH, Vice President

Mr. Roth began his career with Southwestern Bell Telephone in 1981, and has held numerous positions involving outside plant and central office responsibilities. In 1992 he was appointed Director of Operations, and in 1995 he was appointed Vice President and General Manager/Southwestern Bell Wireless. Mr. Roth was appointed President and General Manager, Cellular One, Boston in 1997. Following this appointment, Mr. Roth was appointed as Vice President of Consumer Sales and Services (Midwest) of Southwestern Bell Telephone. He currently serves as Vice President, SBC Telecom. In this role, Mr. Roth is responsible for the direction of the sales initiatives in the SBC Telecom markets and directs the efforts of the customer care functions throughout SBC Telecom's 30 market region.

ROGER W. WOHLERT, Vice President & Treasurer

Mr. Wohlert began his career with Southwestern Bell Telephone Company in 1962 upon graduation from the University of Missouri-Columbia. He has held various positions with the company's Comptroller and Treasury Department in Missouri and Texas, and worked in the Treasury Department of AT&T in New York for three years. He was named an Assistant Treasurer of Southwestern Bell Telephone Company in 1974. In 1984, Mr. Wohlert was appointed Assistant Treasurer-Corporate Finance for Southwestern Bell Corporation, and in April 1988 appointed Managing Director-Finance and Assistant Treasurer. In addition, Mr. Wohlert holds the position of Treasurer in various subsidiaries, including Southwestern Bell Telephone Company, Pacific Bell, SBC International, Inc. and SBC Telecom.

JAMES DEVRIES, Vice President of Human Resources

Mr. DeVries has extensive experience in human resources administration both inside and outside of the telecommunications industry. Mr. DeVries joined Ameritech more than 4 years ago. His most recent assignment with Ameritech was as Vice President of Human Resources and Corporate Services. In this role, Mr. DeVries was responsible for procurement, logistics, human resources, training, fleet management, and real estate for Ameritech's security monitoring subsidiary. Prior to joining Ameritech Mr. DeVries held positions with the Quaker Oats Company, Leaf Inc., and Andrew Corporation. His experience in these positions includes assignments in compensation, employee relations, training, staffing, labor relations, equal employment opportunity/affirmative action and organization development. In total, Mr. DeVries has 15 years of experience in human resources and employee development.

EXHIBIT E

Statement of Technical Capability

SBC Telecom possesses the technical expertise to provide interexchange services in the State of Florida. SBC Telecom is staffing its operations with employees who have a broad range of experience and expertise in provisioning facilities and services. These employees will build, acquire or obtain access to the network and systems necessary to provide interexchange and related services, and will develop the product distribution channels and service strategies to enable SBC Telecom to compete successfully. A brief synopsis of the technical experience of SBC Telecom's executive officers is provided in Exhibit D.

Evaluation of customer expectations, economic analyses, vendor and service provider negotiations and other critical discussions are underway to determine the optimal network implementation strategy. SBC Telecom anticipates that these analyses and negotiations will produce an initial network implementation strategy consisting of some combination of (1) deploying its own network infrastructure; (2) leasing capacity from other network providers; (3) strategic partnership agreements with other service providers; and/or (4) combining unbundled network elements and some resale of telecommunications services from incumbent local exchange carriers.

The network infrastructure and design are expected to consist of voice switching equipment; data switching and routing equipment; fiber transport; customer access equipment; service platforms (i.e., network features and functions that allow the provision of custom services); operations support systems (OSS); billing and customer care infrastructure; as well as adjunct infrastructure such as floor space, power equipment, interface equipment, and alarm and monitoring equipment. SBC Telecom will direct and control, as much as possible, the provision and use of facilities, including network elements, whether they are owned, leased or otherwise obtained to ensure the high level of service quality, technical excellence, and overall customer satisfaction which SBC Communications Inc. provides in the markets it serves.

<u>EXHIBIT F</u>

Surety Bond

B[illegible] 6057237

INDEMNITY BOND

KNOW ALL BY THESE PRESENTS, that we,
SBC Telecom, Inc. , as
Principal, and SAFECO INSURANCE COMPANY OF AMERICA , a Corporation
of Redmond, Washington , and authorized to do business in the State
of Florida , as Surety, are held and firmly bound unto
Florida Public Service Commission , as Obligee in the sum
of Twenty Five Thousand and 00/100 ------------------------------ ($ 25,000.00) DOLLARS,
for the payment thereof, well and truly to be made, we bind ourselves, our successors, assigns, heirs, executors and administrators, jointly and severally, firmly by these presents.

THE CONDITION OF THE ABOVE OBLIGATION is such that:

WHEREAS under date of N/A , the above bounden SBC Telecom, Inc. did enter into a contract with the Florida Public Service Commission , and

WHEREAS, said contract requires that Principal shall furnish to Obligee a bond covering the true and faithful performance by the Principal of its obligations under the provisions of said contract.

NOW, THEREFORE, the condition of the foregoing obligation is such that if said SBC Telecom, Inc. shall faithfully perform the said contract in accordance with the terms thereof, and shall well and truly save harmless the Florida Public Service Commission from any pecuniary loss resulting from a breach of any of the terms, covenants and conditions of said contract, on the part of the said SBC Telecom, Inc. , to be performed, then this obligation shall be void, otherwise to remain in full force and effect.

This bond is executed by the Surety subject to the following conditions:

1. Regardless of the number of renewals issued, extending the term of this bond, the liability of the Surety shall not be cumulative and in no event shall the aggregate liability of the Surety exceed the sum of Twenty Five Thousand and 00/100 -- ($ 25,000.00) DOLLARS.

2. The Obligee shall give the Surety prompt notice in writing of any default on the part of the Principal with respect to the term of the contract.

3. The Surety may terminate its liability under this bond by giving thirty (30) days notice in writing thereof to the Obligee and upon giving such notice the Surety shall be discharged from all liability under such bond from acts committed after the expiration thereof.

This bond is effective the 22nd day of March , 2000 .

Witness our hands and seals this 22nd day of March

SBC TELECOM, INC. CORPORATE SEAL 1999 DELAWARE

SBC Telecom, Inc.
Principal

BY: Michael D. Wagner
Michael D. Wagner, Treasurer

APPROVED BY: Edna Gilchrist
Edna Gilchrist

SAFECO INSURANCE COMPANY OF AMERICA

BY: Mark Persson
Mark Persson
Attorney-in-Fact

S-2074/GEEF 2/98

MAR 23 2000 12:21 FR SBC EXTERNAL AFFAIRS 210 351 2185 TO 8502248832 P.02/04

State of Texas

}ss:

County of Bexar

On March 22, 2000, before me, a Notary Public in and for said County and State, residing therein, duly commissioned and sworn, personally appeared **MARK PERSSON,**

known to me to be Attorney-in-Fact of **SAFECO INSURANCE COMPANY OF AMERICA** the corporation described in and that executed the within and forgoing instrument, and known to me to be the person who executed the said instrument in behalf of the said corporation, and she/he duly acknowledged to me that such corporation executed the same.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal, the day and year stated in this certificate above.

NOTARY PUBLIC STATE OF TEXAS
JANICE E PARDOE
NOTARY PUBLIC
State of Texas
Comm. Exp. 09-08-2002

My Commission Expires ______________________

Janice E. Pardoe
Notary Public

SAFECO™ POWER OF ATTORNEY

SAFECO INSURANCE COMPANY OF AMERICA
GENERAL INSURANCE COMPANY OF AMERICA
HOME OFFICE: SAFECO PLAZA
SEATTLE, WASHINGTON 98185

No. 9672

KNOW ALL BY THESE PRESENTS:

That **SAFECO INSURANCE COMPANY OF AMERICA** and **GENERAL INSURANCE COMPANY OF AMERICA**, each a Washington corporation, does each hereby appoint

*************JULIE K. LONG; ROGER W. WOHLERT; MARK PERSSON; MICHAEL D. WAGNER; RONALD J. WALTON; San Antonio, Texas***************************

its true and lawful attorney(s)-in-fact, with full authority to execute on its behalf fidelity and surety bonds or undertakings and other documents of a similar character issued in the course of its business, and to bind the respective company thereby.

IN WITNESS WHEREOF, SAFECO INSURANCE COMPANY OF AMERICA and **GENERAL INSURANCE COMPANY OF AMERICA** have each executed and attested these presents

this 1st day of April, 1999.

R A Pierson

R.A. PIERSON, SECRETARY

W. Randall Stoddard

W. RANDALL STODDARD, PRESIDENT

CERTIFICATE

Extract from the By-Laws of **SAFECO INSURANCE COMPANY OF AMERICA** and of **GENERAL INSURANCE COMPANY OF AMERICA:**

"Article V, Section 13. - FIDELITY AND SURETY BONDS ... the President, any Vice President, the Secretary, and any Assistant Vice President appointed for that purpose by the officer in charge of surety operations, shall each have authority to appoint individuals as attorneys-in-fact or under other appropriate titles with authority to execute on behalf of the company fidelity and surety bonds and other documents of similar character issued by the company in the course of its business... On any instrument making or evidencing such appointment, the signatures may be affixed by facsimile. On any instrument conferring such authority or on any bond or undertaking of the company, the seal, or a facsimile thereof, may be impressed or affixed or in any other manner reproduced; provided, however, that the seal shall not be necessary to the validity of any such instrument or undertaking."

Extract from a Resolution of the Board of Directors of **SAFECO INSURANCE COMPANY OF AMERICA** and of **GENERAL INSURANCE COMPANY OF AMERICA** adopted July 28, 1970.

"On any certificate executed by the Secretary or an assistant secretary of the Company setting out,

(i) The provisions of Article V, Section 13 of the By-Laws, and
(ii) A copy of the power-of-attorney appointment, executed pursuant thereto, and
(iii) Certifying that said power-of-attorney appointment is in full force and effect,

the signature of the certifying officer may be by facsimile, and the seal of the Company may be a facsimile thereof."

I, R.A. Pierson, Secretary of **SAFECO INSURANCE COMPANY OF AMERICA** and of **GENERAL INSURANCE COMPANY OF AMERICA,** do hereby certify that the foregoing extracts of the By-Laws and of a Resolution of the Board of Directors of these corporations, and of a Power of Attorney issued pursuant thereto, are true and correct, and that both the By-Laws, the Resolution and the Power of Attorney are still in full force and effect.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the facsimile seal of said corporation

this 22nd day of March, 2000.

R A Pierson

R.A. PIERSON, SECRETARY

S-0974/SAEF 7/98

® Registered trademark of SAFECO Corporation.
4/1/99 PDF

MAR 23 2000 12:21 FR SBC EXTERNAL AFFAIRS 210 351 2185 TO 88502248832 P.04/04

Law Offices
HOLLAND & KNIGHT LLP

315 South Calhoun Street
Suite 600
P.O. Drawer 810 (ZIP 32302-0810)
Tallahassee, Florida 32301

850-224-7000
FAX 850-224-8832
www.hklaw.com

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West Palm Beach

DEPOSIT D266 DATE MAR 24 2000

March 23, 2000

KAREN D. WALKER
850-425-5612

Internet Address:
kwalker@hklaw.com

RECEIVED-FPSC MAR 23 PM 2:58 RECORDS AND REPORTING

VIA HAND DELIVERY

Blanca S. Bayo
Director, Division of Records & Reporting
Florida Public Service Commission
Capital Circle Office Center
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

000345-TI

Re: Application for Authority to Provide Interexchange Telecommunications Service Within the State of Florida by SBC National, Inc. d/b/a SBC Telecom, Inc.

Dear Ms. Bayo:

Enclosed for filing on behalf of SBC National, Inc. d/b/a SBC Telecom, Inc. are the original and 12 copies of its Application for Authority to Provide Interexchange Telecommunications Service Within the State of Florida.

For our records, please acknowledge your receipt of this filing on the enclosed copy of this letter. Thank you for your consideration.

LAW OFFICES
HOLLAND & KNIGHT LLP

TL 2510872

March 23, 2000 19

63-751
631

Pay Two Hundred Fifty Dollars and 00/100 DOLLARS $ 250.00

VOID AFTER 180 DAYS

HOLLAND & KNIGHT LLP

TO THE ORDER OF Florida Public Service Commission

FIRST UNION NATIONAL BANK OF FLORIDA
ST. PETERSBURG, FLORIDA

AUTHORIZED REPRESENTATIVES

TWO SIGNATURES REQUIRED FOR AMOUNTS OVER $1000.00

⑈2510872⑈