ORIGINAL
FILE COPY

Southwestern Bell
Communications Services, Inc.

June 3, 1997

Mr. Walter D'Haeseleer
Florida Public Service Commission
Division of Records and Reporting
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399

Dear Mr. D'Haeseleer:

Enclosed are the original and twelve (12) copies Application Form for Authority To Provide Interexchange Telecommunications Service Within The State of Florida of Southwestern Bell Communications Services, Inc. d/b/a Southwestern Bell Long Distance. So that our records will be complete, please date stamp the extra copy of this transmittal letter and return in the enclosed envelope. Also enclosed is a check for $250 made payable to the Florida Public Service Commission to cover the filing fee.

Any questions regarding the ongoing operations of the Applicant should be directed to Thomas A. Weckel, Senior Manager - Regulatory, c/o Southwestern Bell Mobile Systems, Inc., 17330 Preston Road, Suite 100A, Dallas, Texas 75252 who may be reached via telephone at (972) 733-5544. Any questions regarding this Application or proposed tariff should be directed to Barbara Lowe, Vice President, Visiology, Inc. 16061 Carmel Bay Drive, Northport, Alabama 35475 who may be reached via telephone at (205) 330-1702.

Your assistance in this matter is greatly appreciated.

Sincerely,

Michael Kaufman

Michael Kaufman
President and CEO

Enclosures

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:

DOCUMENT NUMBER-DATE
05594 JUN-5 97
FPSC-RECORDS/REPORTING

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

DIVISION OF COMMUNICATIONS
BUREAU OF SERVICE EVALUATION
101 E. Gains Street
Fletcher Building
Tallahassee, Florida 32399-0866

APPLICATION FORM
for
AUTHORITY TO PROVIDE INTEREXCHANGE TELECOMMUNICATIONS SERVICE WITHIN THE STATE OF FLORIDA

Instructions

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

B. Respond to each item requested in the application and appendices. If an item is not applicable, please explain why.

C. Use a separate sheet for each answer which will not fit the allotted space.

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

Florida Public Service Commission
Division of Communications
Bureau of Service Evaluation
101 East Gaines Street
Tallahassee, Florida 32399-0866
(904) 488-1280

E. Once completed, submit the original and twelve (12) copies of this form along with a non-refundable application fee of $250.00 to:

Florida Public Service Commission
Division of Administration, Room G-50
101 East Gaines Street
Tallahassee, Florida 32399-0850
(904) 488-4733

FORM PSC/CMU 31 (4/91)
Required by Commission Rule Nos. 25-24.471, 25-24.473 & 25-24.480(2)

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

   (**X**) Original Authority (New Company)
   ( ) Approval of Transfer (To another certificated company).
   ( ) Approval of Assignment of existing certificate (To a noncertificated company).
   ( ) Approval for transfer of control (To another certificated company).

2. The legal name of the applicant:

   Southwestern Bell Communications Services, Inc.

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

   Southwestern Bell Communications Services, Inc.
   d/b/a Southwestern Bell Long Distance

4. National address (including street name & number, post office box, city, state and zip code).

   1651 North Collins Blvd., Suite 220
   Richardson, Texas 75080

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

   None

6. Structure of organization;

   ( ) Individual (**X**) Corporation
   ( ) Foreign Corporation ( ) Foreign Partnership
   ( ) General Partnership ( ) Limited Partnership
   ( ) Other, ______________________

7. If applicant is an individual or partnership, please give name, title and address of sole proprietor or partners.

   Applicant is a corporation.

   (a) Provide proof of compliance with the foreign limited partnership statute (Chapter 620.169 FS), if applicable.

(b) Provide proof of compliance with the fictitious name statute (Chapter 865.09 FS), if applicable.

Fictitious name registration number: **G96351900041**

(c) Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:

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

(2) 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.

8. If incorporated, Please give:

(a) Proof from the Florida Secretary of State that the applicant has authority to operate in Florida.

Corporate charter Number: **F96000005225**

(b) Name and address of the company's Florida registered agent.

C T Corporation System
1200 South Pine Island Road
Plantation, Florida 33324

(c) Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:

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

None.

(c)(2) 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.

The Applicant's officers, directors, or parent company are not officers, directors, or stockholders in any other Florida certificated telephone company. However, at divestiture, the officers and directors who were employees of Southern Bell Telephone Company received stock in the divested companies which included BellSouth and AT&T.

9. Who will serve as liaison with the commission in regard to (please give name title, address and telephone number) :

   (a) The application;

   Barbara Lowe, Vice President, Visiology, Inc.
   16061 Carmel Bay Drive, Northport, Alabama 35475
   (205) 330-1702

   (b) Official point of Contact for the ongoing operations of the company;

   Thomas A. Weckel, Senior Manager - Regulatory
   c/o Southwestern Bell Mobile Systems, Inc.
   17330 Preston Road, Suite 100A, Dallas, Texas 75252
   (972) 733-5544.

   (c) Tariff;

   Barbara Lowe. See (a) above.

   (d) Complaints/ Inquiries from customers;

   Thomas A. Weckel. See (b) above.

10. List the states in which the applicant:

   (a) Has operated as an interexchange carrier.

   None.

   (b) Has applications pending to be certificated as an interexchange carrier.

   The Applicant has applications pending to be certificated as a reseller or an Interexchange Carrier ("IXC") in Arizona, Connecticut, Delaware, Georgia, Kansas, Louisiana, Maine, North Carolina, Oregon, Pennsylvania, Tennessee, Vermont, Washington, and Wisconsin.

   (c) Is certificated to operate as an interexchange carrier.

   The Applicant is certificated or has the authority to operate in Idaho, Illinois, Indiana, Maryland, Massachusetts, New Hampshire, New York, Ohio, Oklahoma, Rhode Island, and West Virginia.

(d) Has been denied authority to operate as an interexchange carrier and the circumstances involved.

None.

(e) Has 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.

11. The applicant will provide the following interexchange carrier services (Check all that apply):

______ **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

______ **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

______ **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

______ **MTS for pay telephone service providers**

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

______ **800 Service (Toll Free)**

_____ **WATS type service (Bulk or volume discount)**
_____ Method of access is via dedicated access
_____ Method of access is via switched access

_____ **Private Line services (Channel Services)**
(For ex. 1.544 mbs., DS-3, etc)

__X__ **Travel Service**
_____ Method of access is 950
__X__ Method of access is 800

_____ **900 Services**

__X__ **Operator Services**
__X__ Available to presubscribed customers
_____ Available to non presubscribed customers (for example to patrons of hotels, students in universities, patients in hospitals)
_____ Available to inmates

Services included are:
__X__ Station assistance
__X__ Person to Person assistance
__X__ Directory assistance
__X__ Operator verify and interrupt
_____ Conference Calling

__X__ Other: **Initially, the Applicant will offer calling card services and the operator services and directory assistance services available via the calling card platform. At some point in the future, the Applicant may offer a full line of inbound and outbound long distance services.**

12. What does the end user dial for each of the interexchange carrier services that were checked in services included (above).

See Attachment F.

13. What services will the applicant offer to other certified telephone companies:

( ) Facilities.
( ) Billing and Collection.
( ) Maintenance.
( ) Other: **NONE**
( ) Operators.
( ) Sales.

14. Will your marketing program:

(Y) Pay commissions?
(N) Offer sales franchises?
(N) Offer multi-level sales incentives?
(Y) Offer other sales incentives?

15. Explain any of the offers checked above (To whom, what amount, type of franchise, etc.).

See Attachment G.

16. Who will receive the bills for your service (Check all that apply)?

(X) Residential customers. (X) Business customers.
( ) PATS providers. ( ) PATS station end-users.
( ) Hotels & motels. ( ) Hotel & motel guests.
( ) Universities. ( ) Univ. dormitory residents.
( ) Other: (specify) ____________.

17. Please provide the following (if applicable):

(a) Will the name of your company appear on the bill for your services, and if not, why?

Yes

(b) Provide the name and address of the firm who will bill for your service.

See Attachment H.

18. Please 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 Attachment I.

**** APPLICANT ACKNOWLEDGEMENT 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 one 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:** A non-refundable application fee of $250.00 must be submitted with the application.

5. **LEC BYPASS RESTRICTIONS:** I acknowledge the Commission's policy that interexchange carriers shall not construct facilities to bypass the LECs without first demonstrating to the Commission that the LEC cannot offer the needed facilities at a competitive price and in a timely manner.

6. **RECEIPT AND UNDERSTANDING OF RULES:** I acknowledge receipt and understanding of the Florida Public Service Commissions' Rules and Orders relating to my provision of interexchange telephone service in Florida. I also understand that it is my responsibility to comply with all current and future Commission requirements regarding interexchange telephone service.

7. **ACCURACY OF APPLICATION:** By my signature below, I attest to the accuracy of the information contained in this application and associated attachments.

Michael Kaufman Michael Kaufman

Typed name and signature of owner or chief officer

June 3, 1997

Date

ATTACHMENTS:

A - CERTIFICATE TRANSFER STATEMENT (Not Applicable)
B - CUSTOMER DEPOSITS AND ADVANCE PAYMENTS
C - INTRASTATE NETWORK
D - FLORIDA TELEPHONE EXCHANGES AND EAS ROUTES (Not Applicable)
E - GLOSSARY (Not Applicable)

FORM PSC/CMU 31 (4/91)

** APPENDIX A **

CERTIFICATE TRANSFER STATEMENT

NOT APPLICABLE

****APPENDIX B****

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 responded to in one of the following ways (applicant please check one):

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

( ) The applicant will file with the Commission and maintain a surety bond in an amount equal to the current balance of deposits and advance payments in excess of one month. (Bond must accompany application.)

Michael Kaufman
Typed name and signature of Owner or Chief officer

President and CEO
Title

June 3, 1997
Date

FORM PSC/CMU 31 (4/91)

** APPENDIX C **

INTRASTATE NETWORK

1. **POP:** Address where located, and indicate if owned or leased.

1) **N/A**	2)
3)	4)

2. **SWITCHES:** Address where located, by type of switch, and indicate if owned or leased.

1) **N/A**	2)
3)	4)

3. **TRANSMISSION FACILITIES:** POP-to-POP facilities by type of facilities (microwave, fiber, copper, satellite, etc.) and indicate if owned or leased.

	POP-to-POP	TYPE	OWNERSHIP
1)			
2)	**N/A**		

4. **ORIGINATING SERVICE:** Please provide the list of exchanges where you are proposing to provide originating service within thirty (30) days after the effective date of the certificate (Appendix D).

Service may be provided from any exchange in the State of Florida.

5. **TRAFFIC RESTRICTIONS:** Please explain how the applicant will comply with the EAEA requirement contained in Commission Rule 25-24.471 (4) (a) (copy enclosed).

Our understanding of Commission Rule 25-24.471 (4) (a) is that the intra-EAEA restriction has been lifted for 950, 10XXX, 800, and 1+ calls placed via dedicated access, and that the LEC will not forward to SBCS Inc. any intra-EAEA calls placed over switched access lines.

6. **CURRENT FLORIDA INTRASTATE SERVICES:** Applicant has ( ) or has not (**X**) previously provided intrastate telecommunications in Florida. If the answer is has, 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?

Michael Kaufman
Typed name and signature of Owner or Chief officer

President and CEO
Title

June 3, 1997
Date

FORM PSC/CMU 31 (4/91)

APPENDIX D

FLORIDA TELEPHONE EXCHANGES

AND

EAS ROUTES

Describe the service area in which you hold yourself out to provide service by telephone company exchange. If all services listed in your tariff are not offered at all locations, so indicate.

In an effort to assist you, attached is a list of major exchanges in Florida showing the small exchanges with which each has extended area service (EAS).

Michael Kaufman
Typed name and signature of
Owner or Chief officer

President and CEO
Title

June 3, 1997
Date

Initially, the Applicant plans to offer calling card service and the operator services and directory assistance services available via the calling card platform. Calling card service will be available statewide. At some point in the future, the Applicant may offer a full line of inbound and outbound long distance services. All outbound services that utilize switched access to reach the long distance network will be available in equal access areas. All inbound services and all outbound services using dedicated access to reach the long distance network will be available statewide.

FORM PSC/CMU 31 (4/91)

ATTACHMENT F

END USER DIALING INSTRUCTIONS

1. Placing A Calling Card Call

The end user may access the long distance network and bill a call to their calling card by dialing any of the following:

(A) 1 plus an 800/888 number plus

.1 the called telephone number, the calling card number, and a valid PIN, or

.2 0, the called telephone number, the calling card number, and a valid PIN, or

.3 0 and provide the operator the called number, the calling card number, and a valid PIN.

(B) 0 plus the called telephone number, the calling card number, and a valid PIN.

(C) 00 and request the operator complete a call and bill it to the Customer's calling card. To complete a calling card call, the End User must provide the operator the called number, calling card number, and a valid PIN.

(D) Depending on the Company's selection of the DUC for any specific calling card service, the Customer and End User may also be able to place a calling card call by dialing 10 plus the carrier identification code, the called telephone number, the calling card number, and a valid PIN. If this option is available to a Customer, the Company will provide the Customer with the appropriate carrier identification code.

2. Placing A Call To Directory Assistance

The end user dials 1 + (area code) + 555-1212.

3. Placing A Call To A Long Distance Operator

The end user may access the long distance operator of the underlying carrier by dialing any of the following:

.1 1 plus an 800/888 number plus 0, the called telephone number, the calling card number, and a valid PIN, or

.2 1 plus an 800/888 number plus 0

ATTACHMENT G

EXPLANATION OF SALES COMMISSIONS

The Applicant's services will be sold by company employees and by independent sales agents selected and trained by the Applicant. Sales and marketing employees and the independent sales agents will earn sales commissions. From time-to-time, the Applicant plans to offer sales incentives such as prizes, trips, etc.

ATTACHMENT H

BILLING AGENTS

For large accounts, the Applicant plans to bill using its internal resources. Some of the Applicant's operator services traffic will be billed by the LEC. For all other traffic, the Applicant contracted with CELLULARONE® affiliates of Southwestern Bell Mobile Systems, Inc. The addresses are as follows:

CELLULARONE® Boston
Westwood Executive Center
100 Lowder Brook Drive
Westwood, Massachusetts 02090

CELLULARONE® Washington/Baltimore
7855 Walker Drive, #100
Greenbelt, Maryland 20770

CELLULARONE®
3144 Winton Road South
Rochester, New York 14623

CELLULARONE® Chicago
930 N. National Parkway
Schaumburg, Illinois 60173.

ATTACHMENT I

PROPOSED TARIFF

TITLE SHEET

FLORIDA TELECOMMUNICATIONS TARIFF

This Tariff contains the descriptions, regulations, and rates applicable to the furnishing of long distance telecommunications Services provided by Southwestern Bell Communications Services, Inc. with principal offices at 1651 N. Collins Blvd., Suite 220, Richardson, Texas 75080. This Tariff applies to Services furnished within the State. 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

Sheets 1 through 76 of this Tariff are effective as of the date shown at the bottom of the sheet. Original and revised sheets as named below comprise all changes from the original Tariff.

SHEET	REVISION
1	Original Sheet
2	Original Sheet
3	Original Sheet
4	Original Sheet
5	Original Sheet
6	Original Sheet
7	Original Sheet
8	Original Sheet
9	Original Sheet
10	Original Sheet
11	Original Sheet
12	Original Sheet
13	Original Sheet
14	Original Sheet
15	Original Sheet
16	Original Sheet
17	Original Sheet
18	Original Sheet
19	Original Sheet
20	Original Sheet

CHECK SHEET (continued)

SHEET	REVISION
21	Original Sheet
22	Original Sheet
23	Original Sheet
24	Original Sheet
25	Original Sheet
26	Original Sheet
27	Original Sheet
28	Original Sheet
29	Original Sheet
30	Original Sheet
31	Original Sheet
32	Original Sheet
33	Original Sheet
34	Original Sheet
35	Original Sheet
36	Original Sheet
37	Original Sheet
38	Original Sheet
39	Original Sheet
40	Original Sheet

CHECK SHEET (continued)

SHEET	REVISION
41	Original Sheet
42	Original Sheet
43	Original Sheet
44	Original Sheet
45	Original Sheet
46	Original Sheet
47	Original Sheet
48	Original Sheet
49	Original Sheet
50	Original Sheet
51	Original Sheet
52	Original Sheet
53	Original Sheet
54	Original Sheet
55	Original Sheet
56	Original Sheet
57	Original Sheet
58	Original Sheet
59	Original Sheet
60	Original Sheet

CHECK SHEET (continued)

SHEET	REVISION
61	Original Sheet
62	Original Sheet
63	Original Sheet
64	Original Sheet
65	Original Sheet
66	Original Sheet
67	Original Sheet
68	Original Sheet
69	Original Sheet
70	Original Sheet
71	Original Sheet
72	Original Sheet
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75	Original Sheet
76	Original Sheet

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Sheet No.

TABLE OF CONTENTS

Sheet No.

Section 2 - Rules and Regulations (continued)

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Sheet No.

CONCURRING, CONNECTING OR OTHER PARTICIPATING CARRIERS

None

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 To Or 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

Service Marks

CELLULARONE® is a registered mark of Cellular One Group.

TARIFF FORMAT

A. Sheet Numbering - Sheet numbers appear in the upper right corner of the sheet. Sheets are numbered sequentially. However, new sheets are added to the Tariff from time to time. 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 sheet. These numbers are used to determine the most current sheet version on file with the Commission. For example, the 4th revised sheet 14 cancels the 3rd revised sheet 14.

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

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

D. Check Sheets - When a Tariff filing is made with the Commission, 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.

SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS

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

Bandwidth: Bandwidth is the total frequency band, in Hertz, allocated for a Channel.

Bit: Bit is an acronym for Binary Digit. Bit denotes the smallest unit of information in a binary system of notation and is the basic unit in data communications.

Blocking: Blocking is a temporary condition that may be initiated by the Company or the DUC so that the Customer cannot complete a telephone call.

Business Customer: A Business Customer is a Customer that is not classified as a Residential Customer.

Channel or Circuit: A Channel or Circuit is a dedicated communications path between two or more points having a Bandwidth or Transmission Speed selected by the Customer.

CLEC: CLEC stands for Competitive Local Exchange Carrier and is any carrier or reseller offering local exchange telecommunications services other than the incumbent LEC.

Company: Company refers to Southwestern Bell Communications Services, Inc. ("SBCS") d/b/a Southwestern Bell Long Distance.

Commission: Commission refers to the Florida Public Service Commission or any succeeding agency.

Credit Card: Credit Card refers to Visa®, MasterCard®, or other Credit Cards issued by other companies the Company may accept.

SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS

Customer: The Customer is a person or legal entity which subscribes to the Company's Services and thereby assumes responsibility for the payment of charges and compliance with the Company's Tariff.

Customer Premises/Customer's Premises: Customer Premises/Customer's Premises are locations designated by a Customer where Service is originated/terminated.

Dedicated Access: If the Customer's Premises or serving wire center has a direct path to the Point-of-Presence selected by the Company for origination and/or termination of calls, the access is Dedicated Access.

Direct Dialed: A Direct Dialed call is a call placed by the caller without operator assistance.

Diversity: Diversity is Customer-designated routing which indicates a Customer designated departure from a DUC's primary route.

DUC: DUC stands for Designated Underlying Carrier, which is any IXC that provides long distance services resold by the Company pursuant to this Tariff.

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

Exemption Certificate: An Exemption Certification is a document wherein the Customer certifies that its dedicated facility should be exempted from the monthly special access surcharge.

F.C.C.: F.C.C. stands for Federal Communications Commission or any succeeding agency.

SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS

Hertz: Hertz is a unit of frequency equal to one cycle per second.

Joint User: A Joint User is a corporation, association, partnership, or individual that is permitted to use a Customer's Service by mutual agreement between the Customer and the Joint User in accordance with the terms and conditions of this Tariff.

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 by the Modification of Final Judgement.

LEC: LEC stands for Local Exchange Carrier.

Mbps: Mbps stands for "MegaBits Per Second" which is a million Bits per second.

Modification of Final Judgment: Modification of Final Judgment refers to the judicial opinion United States vs. American Telephone & Telegraph Company, 552 F. Supp. 131 (D.C. 1982). See United States v. Western Electric Co., 552 F. Supp. 131 (D.D.C. 1982), affd sub nom. Maryland v. United States, 460 U.S. 1001 (1983).

MTS: MTS stands for Message Telecommunications Service.

SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS

Person-to-Person: A Person-to-Person call is any operator-handled call whereby the person originating a call specifies a particular person to be reached, or a particular station, room number, department, or office to be reached through a PBX attendant.

PIN: PIN is an acronym for "Personal Identification Number" which is a unique number assigned to each calling card for the purpose of accessing service.

POP: POP is an acronym for Point-of-Presence and is the physical place where the DUC interfaces with the network of the LEC or CLEC or where the Customer's access facility interconnects with the long distance network.

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: Private Line Service is a dedicated full-time transmission Service utilizing Dedicated Access arrangements.

Residential Customer: A Residential Customer is a Customer who subscribes to a Service for a purpose other than a business, trade, professional, occupational or governmental purpose.

Reseller: Reseller denotes a Customer that resells the Company's Service(s).

SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS

Service: Service means any or all services provided pursuant to this Tariff.

State: State refers to the State of Florida.

Station-to-Station: For the purposes of this Tariff, Station-to-Station is any operator handled call which is not a Person-to-Person call.

Switched Access: If the Customer's location has a transmission line that is switched through the LEC or CLEC to reach the long distance network, the access is Switched Access.

Switched Services(s): Switched Services(s) are any Services that are not Private Line Service as defined herein.

Transmission Speed: For the purposes of this Tariff, Transmission Speed denotes the line speed in Bits per second.

V&H: V&H stands for Vertical and Horizonal.

SECTION 2 - RULES AND REGULATIONS

2.1 Application of the Tariff

2.1.1 This Tariff contains the description, regulations, and rates applicable to intrastate InterLATA and intrastate IntraLATA telecommunications Service offered by SBCS with principal offices located at 1651 N. Collins Blvd., Suite 220, Richardson, Texas 75080. Service is furnished for communications originating and terminating at points within the State under terms of this Tariff. The Company operates as a reseller and resells the services of the DUC.

2.1.2 The Company shall not be deemed to have waived or impaired any right, power, requirement or option reserved by this Tariff (including, without limitation, 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.

2.2 Limitations On Service

2.2.1 Service is offered subject to the availability of facilities, equipment, or systems from the Company or the DUC, the Company's ability to fulfill the request for Service and the provisions of this Tariff. The Company reserves the right, without incurring liability, to refuse to provide Service, to or from any location where the necessary facilities, equipment, systems, and/or switch software are not available. In the case of refusal to establish Service, the Company shall notify the Applicant in writing of the reason for such refusal.

SECTION 2 - RULES AND REGULATIONS

2.2 Limitations On Service (continued)

2.2.2 All Services provided according to this Tariff are intrastate add-on Services available from the Company only if the Customer subscribes to the Company's comparable interstate Service offering or interstate promotional offering. Intrastate Service is not sold on a stand-alone basis.

2.2.3 A third party call is any call charged to a number other than that of the called or calling party. The Company reserves the right to refuse to process a third party call when the Company or the DUC cannot confirm acceptance of charges at the third number.

2.2.4 Without incurring liability, the Company reserves the right to discontinue Service or to limit the use of Service, when necessitated by conditions beyond the Company's control, or when the Customer or End User is using Service in violation of the law or in violation of the provisions of this Tariff.

2.2.5 Conditions under which the Company may, without notice, terminate Service without liability include, but are not limited to:

(A) Customer's or End User's use of the Service which constitutes a violation of either the provisions of this Tariff or of any laws, government rules, regulations, or policies; or

(B) Any order or decision of a court or other governmental authority prohibits the Company from offering such Service; or

(C) The Company deems termination necessary to protect the Company or third parties against unauthorized, fraudulent, or unlawful use of any Company Services, or to otherwise protect the Company's personnel, agents, or Service; or

SECTION 2 - RULES AND REGULATIONS

2.2 Limitations On Service (continued)

2.2.5 (continued)

(D) Customer's or End User's misuse of the DUC's network; or

(E) Customer's or End User's use of the DUC's network for any fraudulent or unlawful purpose; or

(F) Emergency, threatened, or actual disruption of Service to other Customers; or

(G) Unauthorized or fraudulent procurement of Service, including a misrepresentation of fact relevant to the conditions under which the applicant or Customer obtains or continues to receive Service; or

(H) Abandonment of the Customer's Premises served; or

(I) Insufficient or fraudulent billing information; or

(J) Customer's check or draft is returned unpaid for any reason, after one attempt at collection; or

(K) If at the time the Company issues a debit to the Customer's checking account or savings account, the debit is rejected by the bank for any reason. The Company will make at least one attempt at collection prior to termination of Service.

SECTION 2 - RULES AND REGULATIONS

2.2 Limitations On Service (continued)

2.2.6 Conditions under which the Company may terminate Service without liability, provided that five (5) days' written notice is given before termination, include, but are not limited to:

(A) Use of invalid or unauthorized telephone numbers, or Credit Card numbers; or,

(B) Failure to pay for or provide assurances of, or security for, the payment of the Company's charges as per Section 2.8.2 of this Tariff; or

(C) Non-payment of any sum owed the Company for telephone Service by the due date printed on the bill.

2.2.7 Initial and continuing Service is offered subject to the availability of necessary facilities and/or equipment, including those to be provided by the DUC(s), the Company, CLECs, or the LEC.

SECTION 2 - RULES AND REGULATIONS

2.2 Limitations On Service (continued)

2.2.8 Service is furnished subject to the condition that there will be no abuse or fraudulent use of the Service. Abuse or fraudulent use of Service includes, but is not limited to:

(A) Service that is used by the Customer or End User to frighten, abuse, torment, or harass another; or

(B) Service that is used by the Customer or End User in a manner which interferes with the use of Service by one or more other Customers; or

(C) Service that is used by the Customer or End User to place calls by means of illegal equipment, service, or device; or

(D) Service that is used by the Customer or End User to transmit a message or to locate a person or otherwise to give or obtain information, without payment of the applicable charge.

2.2.9 The Company's failure to give notice of default, to enforce or insist upon compliance with any of the terms or conditions herein, to grant a waiver of any term or conditions herein, or to grant the Customer an extension of time for performance, will not constitute the permanent waiver of any such term or condition herein. Each of the provisions of this Tariff will remain, at all times, in full force and in effect until modified in writing, signed by the Company and Customer.

SECTION 2 - RULES AND REGULATIONS

2.2 Limitations On Service (continued)

2.2.10 The Company reserves the right to change DUCs at any time.

2.2.11 The Company reserves the right, without incurring liability, to refuse to provide Service to or from any location where the necessary facilities and/or equipment are not available.

2.2.12 Recording of telephone conversations provided pursuant to the Company's Service under this Tariff is prohibited except as authorized by applicable federal, state, and local laws.

2.2.13 All outbound Services requiring Switched Access to reach the long distance network are only available to Customers located in those exchanges which have been converted to equal access. All Services that required Dedicated Access to reach the long distance network are available from any point in the State.

2.2.14 The Company, when acting at the Customer's request and as its authorized agent, will make reasonable efforts to arrange for service requirements such as special routing, route diversity, alternate access, or circuit conditioning.

SECTION 2 - RULES AND REGULATIONS

2.3 Limitation of Liability

The Company's liability will be limited to that expressly assumed in Sections 2.3.1 through 2.3.15 of this Tariff in connection with the provision of Service to Customer.

2.3.1 The Company will not be liable for:

(A) Any act or omission of any other company or companies furnishing a portion of the Service or furnishing facilities or equipment associated with such Service.

(B) Damages caused by the fault or negligence or willful misconduct of the Customer or End User.

(C) Any failure to provide or maintain Service under this Tariff due to circumstances beyond the Company's reasonable control.

(D) Any direct, indirect, consequential, special, actual, or punitive damages, or for any lost revenues or profits of any kind or nature whatsoever arising out of any furnishing of, or interruption in, Service provided hereunder. Under no circumstances whatsoever will the Company's officers, agents, or employees be liable for such damages or lost revenue or lost profits.

(E) Any indirect, incidental, special or consequential damages, lost revenue or lost profits of any kind, even if Company is advised of the possibility of the same.

SECTION 2 - RULES AND REGULATIONS

2.3 Limitation of Liability (continued)

2.3.1 (continued)

(F) The use or abuse of any Service described herein by any party including, but not limited to, the Customer or End User. Use or abuse includes, but is not limited to, any calls placed by means of PBX-reorigination or any other legal or illegal equipment, service, or device.

(G) Any action, such as Blocking or refusal to accept certain calls, that Company deems necessary in order to prevent unauthorized, fraudulent, or unlawful use of its Service. Compensation for any injury the Customer may suffer due to the fault of parties other than the Company must be sought from such other parties.

(H) The Company will not be liable for any claim where the Customer indemnifies the Company pursuant to Section 2.5 of this Tariff.

(I) Customers who subscribe to Private Line Service or to Service that requires the Customer to utilize Dedicated Access to reach the long distance network are liable for any charges, expenses, fees, or penalties incurred by the Company on behalf of the Customer due to cancellation Service as well as any charges, expenses, fees or penalties imposed by the DUC, CLEC, LEC, CAP or other third party providers incurred by the Company on behalf of Customer when the Company acts as the Customer's agent.

SECTION 2 - RULES AND REGULATIONS

2.3 Limitation of Liability (continued)

2.3.2 Interruptions, delays, errors, or defects caused by or contributed to, directly or indirectly, by act or omission of Customer or its customers, affiliates, agents, contractors, representatives, invitees, licensees, successors, or assignees or which arise from, or are caused by, the use of facilities or equipment of Customer or related parties, will not result in the imposition of any liability whatsoever upon the Company. Customer will pay to the Company any reasonable costs, expenses, damages, fees or penalties incurred by the Company as a result thereof. In addition, a portion or all of the Service may be provided over facilities of third parties. The Company will not be liable to Customer or any other person, firm, or entity in any respect whatsoever arising out of defects caused by such third parties. The Company's liability, if any, with regard to the delayed installation of facilities or commencement of Service will not exceed $1,000.

2.3.3 With respect to Service provided hereunder, the Company hereby expressly disclaims, without limitation, all warranties not stated in this Tariff, whether express, implied or statutory, and in particular disclaims all implied warranties of merchantability and of fitness for a particular purpose.

2.3.4 The Company may rely on CLECs, LECs, DUCs, or other third parties to provide a portion of the Company's Service.

2.3.5 No contractors, agents or employees of connecting, concurring or other participating carriers or companies will be deemed to be contractors, agents or employees of the Company without the Company's written authorization.

SECTION 2 - RULES AND REGULATIONS

2.3 Limitation of Liability (continued)

2.3.6 Under no circumstances whatsoever will the Company's officers, agents, or employees be liable for any damages, including but not limited to direct, indirect, actual, consequential, special, or punitive damages, or lost profits.

2.3.7 The Company will not be liable for any failure of performance hereunder due to causes beyond its control including, but not limited to:

(A) Unavoidable interruption in the working of transmission facilities; or

(B) Natural disasters such as storms, fire, flood, or other catastrophes; or

(C) Any law, order, regulation, direction, action or request of the United States Government, or any other governmental entity having jurisdiction over the Company or of any department, agency, commission, bureau, corporation or other instrumentality of any one or more of such governmental entity, or of any civil or military authority; or

(D) National emergencies, insurrections, riots, rebellions, wars, strikes, lockouts, work stoppages, or other labor difficulties; or

(E) Notwithstanding anything in this Tariff to the contrary, the unlawful acts of individuals, including acts of the Company's agents and employees if committed beyond the scope of their employment; or

(F) Any failure to provide or maintain Service under this Tariff due to circumstances beyond the Company's control.

SECTION 2 - RULES AND REGULATIONS

2.3 Limitation of Liability (continued)

2.3.8 The Company will use its best efforts to provide Services consistent with industry standards. The Company will have no liability to the Customer for any loss of revenue or any other direct, special, incidental, consequential, or other damages the Customer may sustain resulting from the failure or inability of the Company to provide Service to its Customers; negligent or defective Services to Customers; equipment, computer, network, or electrical malfunctions or any kind, breakdowns, or outages; or any other cause, whether or not within the control of the Company.

2.3.9 In the event the Company or the DUC learn of actual or possible unauthorized, fraudulent, or unlawful use of any Company Services, the Company will make an effort to contact the Customer, but Service may be blocked without notice and without liability to the Company. Service may be suspended by the Company without incurring liability by Blocking all calls or by Blocking calls to or from certain NPA-NXXs, certain countries, cities, or individual telephone stations for any Service offered under this Tariff. Service will be restored as soon as it can be provided without undue risk and only after accounts have been brought current.

2.3.10 The liability of the Company for damages arising out of mistakes, omissions, interruptions, delays, errors or defects occurring in the course of providing Switched Service hereunder, where such damages were not caused by the Company's willful misconduct, will in no event exceed an amount equivalent to the initial period charge to the Customer as described in Section 4 of this Tariff for the call during which such mistake, omission, interruption, delay, error or defect occurred. The Company shall not be liable for damages caused by the negligence or willful misconduct of the Customer.

SECTION 2 - RULES AND REGULATIONS

2.3 Limitation of Liability (continued)

2.3.11 The Company will not be liable to the Customer for damages or statutory penalties or be obligated to make any adjustment, refund or cancellation of charges unless the Customer has notified the Company in writing of any dispute concerning charges, or the basis of any claim for damages, within sixty (60) calendar days after an invoice is rendered by the Company for the call giving rise to such dispute or claim. Any such notice must set forth sufficient facts to provide the Company with a reasonable basis upon which to evaluate the Customer's claim or demand.

2.3.12 The Company does not undertake to transmit messages but furnishes the use of its Services to its Customers for telecommunications. The Company is not liable for the content of the Customer's messages.

2.3.13 The Company may rely on LECs, CLECs, DUCs, CAPs or other third parties for the performance of certain services such as Dedicated Access. Upon Customer request and execution and delivery of appropriate authorizing documents, the Company may act as agent for the Customer in obtaining such other services. Customer's liability for charges hereunder will not be reduced by untimely installation or non-operation of Customer-provided facilities and equipment.

SECTION 2 - RULES AND REGULATIONS

2.3 Limitation of Liability (continued)

2.3.14 In the event parties other than the Customer (e.g., authorized or unauthorized End Users) has use of the Service directly or indirectly through the Customer, then Customer agrees to forever indemnify and hold the Company and any affiliated or unaffiliated third-party provider or operator of facilities employed in provision of the Service harmless from and against any and all claims, demands, suits, actions, losses, damages, assessments or payments which may be asserted by said parties.

2.3.15 For Private Line Service or for Service that requires Dedicated Access to reach the long distance network, if the Company's failure of performance is thirty (30) days or less, Service shall not be subject to cancellation by the Customer. An appropriate percentage of charges for the directly affected Service shall be abated for such Service interruption. If the Company's failure of performance is for more than thirty (30) days, then the directly affected Service may be canceled by either the Company or Customer without liability other than Customer's liability for payment for said Service provided prior to cancellation.

SECTION 2 - RULES AND REGULATIONS

2.4 Use of Service

2.4.1 The Company's Services are available for use twenty-four hours per day, seven days per week.

2.4.2 The Service offered herein may be used for any lawful purpose, including residential, business, governmental, or other use. The Customer is liable for all obligations under this Tariff not withstanding any sharing or resale of Services and regardless of the Company's knowledge of same. The Company will have no liability to any person or entity other than the Customer and only as set forth herein. The Customer will not use nor permit others to use the Service in a manner that could interfere with Service provided to others or that could harm the facilities of the DUC or others.

2.4.3 Service furnished by the Company will not be used for any unlawful or fraudulent purposes including but not limited to use of electronic devices, invalid numbers, and false credit devices to avoid payment for Service contained in this Tariff either in whole or in part. Service furnished by the Company may not be used to make calls which might reasonably be expected to frighten, abuse, torment, or harass another. The Service may not be used for any purpose for which any payment or other compensation is received by the Customer except when the Customer is a communications common carrier, a resale common carrier, or an enhanced or electronic service provider who has subscribed to the Company's Service. However, this provision does not preclude an agreement between the Customer, authorized user, or Joint User to share the cost of the Service as long as this arrangement generates no profit for anyone participating in a joint use or authorized use arrangement.

SECTION 2 - RULES AND REGULATIONS

2.4 Use of Service (continued)

2.4.4 Service furnished by the Company may be arranged for joint use or authorized use. The Joint User or authorized user will be permitted to use such Service in the same manner as the Customer, but subject to the following conditions.

(A) The Customer must complete and provide to the Company all Service agreements and/or other documentation required by the Company to initiate Service.

(B) One Joint User or authorized user must be designated as the Customer. The designated Customer does not necessarily have to have communications requirements of its own. The Customer must specifically name all Joint Users or authorized users in the application for Service. Service orders which involve the start, rearrangement or discontinuance of joint use or authorized use Service will be accepted by the Company only from that Customer and will be subject to all requirements of this Tariff.

(C) All charges for the Service will be computed as if the Service were to be billed to one Customer. The Joint User or authorized user which has been designated as the Customer will be billed for all components of the Service and will be responsible for all payments to the Company. If designated Customer fails to pay the Company, each Joint User or authorized user will be liable to the Company for all charges incurred as a result of its use of the Company's Service. Each joint or authorized user must submit to the designated Customer a letter guaranteeing payment for the joint or authorized user's portion of all charges billed by the Company to the designated Customer. This letter must also specify that the joint or authorized user understands that the Company will receive a copy of the guaranty from the designated Customer. The designated Customer will be responsible for allocating charges to each Joint User or authorized user.

SECTION 2 - RULES AND REGULATIONS

2.4 Use of Service (continued)

2.4.4 (continued)

(D) Joint use is a Service/billing allocation arrangement and not a resale arrangement. Neither the Customer nor any Joint User nor any third party engaged by either of them in connection with a joint use agreement or arrangement may mark up Service or otherwise profit from the joint use agreement or arrangement.

2.4.5 If the Company is notified by the DUC or otherwise reasonably concludes that Customer-provided equipment does not pass back appropriate answer supervision to the DUC's network, the Company will notify the Customer. If the Customer cannot correct the problem and if Customer-provided equipment continues to provide inappropriate answer supervision to the DUC's network, the Company reserves the right to suspend or terminate the Customer's Service. The Company will give the Customer five (5) days' written notice of its intent to suspend or terminate Service.

2.4.6 The Customer may be billed directly by the LEC, CAP or any other authorized access provider for the Dedicated Access arrangements selected by the Customer for the provisioning of certain Switched Services or Private Line Services. At the Customer's request, the Company may act as agent in the ordering of such arrangements. In instances where the Company orders such arrangements as an agent for the Customer, the Customer may be billed directly by the Company.

SECTION 2 - RULES AND REGULATIONS

2.5 Obligations of the Customer

2.5.1 The Customer will indemnify, defend, and hold the Company harmless from and against:

(A) Any claim asserted against the Company (and all attorney fees and expenses incurred by the Company with respect thereto) arising out of or relating to the failure of the Company to provide Service to the Customer.

(B) Any and all liabilities, costs, damages, and expenses (including attorney's fees), resulting from Customer's (or its employees', agent's or independent contractor's) actions hereunder, including, but not limited to breach of any provision in this Tariff, misrepresentation of Company Services or rates, or unauthorized or illegal acts of the Customer or its End User, its employees, agents, or independent contractors.

(C) Claims for libel, slander, infringement of patent or copyright, or unauthorized use of any trademark, trade name, or service mark arising out of Customer's or End User's material, data, information, or other content transmitted via Service.

(D) Violation by Customer or End User of any other literary, intellectual, artistic, dramatic, or musical right.

(E) Violations by Customer or End User of the right to privacy.

(F) Any other claims whatsoever relating to, or arising from, message content or the transmission thereof.

SECTION 2 - RULES AND REGULATIONS

2.5 Obligations of the Customer (continued)

2.5.1 (continued)

(G) All other claims arising out of any act or omission of the Customer or End User in connection with Service provided by the Company.

(H) Any loss, claim, demand, suit, or other action, or any liability whatsoever, whether suffered, made, instituted or asserted by the Customer or by any other party or persons, for any personal injury to, or death of, any person or persons, 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 provision of Service, whatever the cause and whether negligent or otherwise.

(I) Claims related to lost or stolen calling cards, except as described in Section 2.24.

(K) Claims of patent infringement arising from combining or connecting Channels with equipment and systems of the Customer.

(L) Defacement of, or damage to, the Customer's Premises resulting from the furnishing, installation, and/or removal of Channel facilities or the attachment of instruments, equipment and associated wiring on or from the Customer's Premises.

(M) Claims arising out of the use of Services or associated equipment in an unsafe manner (such as use in an explosive atmosphere) or the negligent or willful act of any person other than the Company.

SECTION 2 - RULES AND REGULATIONS

2.5 Obligations of the Customer (continued)

2.5.2 If a Customer directly or indirectly authorizes third parties to use the Service, the Customer will indemnify and hold the Company harmless against any and all claims asserted by said party, demands, suits, actions, losses, damages, assessments or payments which may be asserted or demanded by said parties or by others as a result of said parties' actions or omissions.

2.5.3 The Company's failure to provide or maintain Service under this Tariff will be excused by the Customer for all circumstances beyond the Company's reasonable control.

2.5.4 The Customer will indemnify and save the Company harmless from any and all liability not expressly assumed by the Company in Section 2.3 of this Tariff and arising in connection with the provision of Service to the Customer, and will protect and defend the Company from any suits or claims alleging such liability, and will pay all expenses (including attorneys' fees) and satisfy all judgements which may be incurred by or rendered against the Company in connection therewith.

2.5.5 The Customer is responsible for payment for all long distance calls originated at the Customer's number(s), billed to a Customer's calling card, or incurred at the specific request of the Customer. The Customer is responsible for paying for all Services the Company provides to or from the Customer's number(s), regardless of whether the Customer's facilities were fraudulently used or used without Customer's knowledge in full or in part.

SECTION 2 - RULES AND REGULATIONS

2.5 Obligations of the Customer (continued)

2.5.6 The termination or disconnection of Service(s) by the Company pursuant to Sections 2.2.5, 2.2.6, and 2.20 of this Tariff does not relieve the Customer of any obligations to pay the Company for charges due and owing for Service(s) furnished up to the time of termination or disconnection. The remedies set forth herein will not be exclusive and the Company will at all times be entitled to all rights available to it under either law or equity.

2.5.7 The Customer is responsible for taking all necessary legal steps for interconnecting Customer-provided terminal equipment with the long distance network. The Customer will ensure that the signals emitted into the network of the DUC do not damage equipment, injure personnel, or degrade Service to other Customers or other users of the DUC's network. The Customer is responsible for securing all licenses, permits, rights-of-way, and other arrangements necessary for such interconnection. In addition, the Customer will comply with applicable LEC signal power limitations.

2.5.8 The Customer will be responsible for the payment of all charges for Services provided under this Tariff and for the payment of all excise, sales, use, gross receipts or other taxes that may be levied by a federal, state, or local governing body or bodies applicable to the Service(s) furnished under this Tariff unless specified otherwise herein. Also see Section 2.17 of this Tariff for additional information regarding the Customer's obligations concerning taxes.

2.5.9 The Customer will be liable for reimbursing the Company for damages to facilities or equipment caused by the negligence or wilful acts of the Customer's officers, employees, agents, contractors, or authorized End User(s).

SECTION 2 - RULES AND REGULATIONS

2.5 Obligations of the Customer (continued)

2.5.10 If Service is terminated pursuant to Section 2.2.5, Section 2.2.6 or Section 2.20 of this Tariff or if the Customer cancels Service pursuant to Section 2.19 of this Tariff, the Customer will be deemed to have cancelled Service as of the date of such termination or cancellation and will be liable for any cancellation charges set forth in this Tariff.

2.5.11 The Customer will indemnify and hold the Company harmless against any and all liabilities, costs, damages, and expenses resulting from claims by third parties that any calling card or PIN have been lost, stolen, or fraudulently issued or used; provided, however, that the Company will have no liability hereunder for special or consequential damages incurred by the Company.

2.5.12 If as a result of inaccurate information provided by the Customer, Circuits need to be moved, replaced, or redesigned, the Customer is responsible for the payment of all such charges. In the event the Company incurs costs and expenses caused by the Customer or reasonably incurred by the Company for the benefit of the Customer, the Customer is responsible for the payment of all such charges.

SECTION 2 - RULES AND REGULATIONS

2.5 Obligations of the Customer (continued)

2.5.13 If a Customer is to be exempted from the monthly special access surcharge, it is the Customer's responsibility to provide the Company with an Exemption Certificate. The Customer may be exempted from the monthly special access surcharge because the Customer's Service:

- terminates on a device incapable of connecting the long distance network with the local exchange network; or

- is associated with a Switched Access Service that is subject to carrier common line charges; or

- constitutes a Private Line facility used for telex service or radio or television transmissions; or,

- is an open-end termination in a LEC's or CLEC's switch of an FX line; or

- is a termination that could not make use of a LEC's or CLEC's common lines.

SECTION 2 - RULES AND REGULATIONS

2.6 Obligations of a Reseller

2.6.1 The terms and conditions of this Tariff, including but not limited to the obligations contained in Section 2.5 and in Sections 2.6.2 through 2.6.7 hereof, apply to Customers that are Resellers. Failure to comply with any term, rule, or regulation of this Tariff may result in the Company immediately and irrevocably terminating Service(s) without incurring any liability. Notification of termination of Service(s) may be in writing or in another expeditious manner selected by the Company.

2.6.2 In the event of non-payment by a Reseller's subscriber, the Company may be requested by the Reseller to block such subscribers's calling card number and PIN because of non-payment of charges. Before the Company blocks Service to a Reseller's subscriber, the Reseller must certify that proper notice has been given to the subscriber. Proper notice must meet state and federal rules for Blocking Service due to non-payment. The Reseller is responsible for all costs incurred to disconnect or block the location from Service(s).

2.6.3 Resellers will be responsible for paying all taxes, surcharges, and fees based upon the taxing jurisdiction's rules and regulations.

SECTION 2 - RULES AND REGULATIONS

2.6 Obligations of a Reseller (continued)

2.6.4 In addition to the other provisions in this Tariff, Customers reselling Service will be responsible for all interaction and interface with their own subscribers or customers. The provision of Service will not create a partnership or joint venture between the Company and the Reseller nor result in a joint offering to third parties.

2.6.5 If the Customer resells Services, the Reseller is responsible for providing all billing, collection, and customer service functions for all of its locations, including resolving any unauthorized presubscription disputes.

2.6.6 In addition to the other provisions in this Tariff, Resellers must have the appropriate authority in all areas where the Reseller provides service. Resellers of the Company's Services are responsible for maintaining all necessary F.C.C. tariffs for operating as a Reseller and for complying with all rules and regulations as set forth by the Commission. Further, the Reseller also assumes full responsibility for complying with the Communications Act of 1934, as amended; the Telecommunications Act of 1996; and the rules, regulations, and decisions of the F.C.C.

2.6.7 If Service is to be resold or rebilled, the Reseller must have a Certificate of Public Convenience and Necessity as an interexchange carrier from the Florida Public Service Commission.

SECTION 2 - RULES AND REGULATIONS

2.7 Obtaining Services

2.7.1 General

To obtain Service, the Company requires the Customer to provide the Company with whatever authorization the Company deems appropriate. Upon the Company's acceptance of this authorization, all applicable provisions in the Company's Tariff, as amended from time-to-time, become the agreement for Service between the Company and the Customer. Acceptance or use of Service offered by the Company shall be deemed an application for such Service and an agreement by the Customer to subscribe to, use, and pay for such Service in accordance with the applicable Tariffs of the Company. The Applicant must also establish credit satisfactory to the Company as provided in Section 2.7.2 of this Tariff.

SECTION 2 - RULES AND REGULATIONS

2.7 Obtaining Services (continued)

2.7.2 Establishment of Credit

(A) Applicant

The Company reserves the right to require all Applicants to establish credit worthiness to the reasonable satisfaction of the Company. Upon receipt of the signed letter of agency or other authorization the Company deems appropriate, the Applicant will be deemed to have authorized the Company to obtain such routine credit information and verification as the Company requires.

(B) Customer

If the conditions of Services or the basis on which credit was originally established have materially changed, an existing Customer may be required to establish additional credit. The Company reserves the right to examine the credit record and check the references of any Customer at any time.

SECTION 2 - RULES AND REGULATIONS

2.8 Customer Deposits / Advance Payments

2.8.1 Customer Deposits

The Company will not collect deposits on intrastate usage.

2.8.2 Advance Payments

For Customers whom the Company feels an advance payment is necessary, the Company reserves the right to collect an amount not to exceed one (1) month's estimated charges as an advance payment for Service. This will be applied against the next month's charges and if necessary a new advance payment will be collected for the next month.

SECTION 2 - RULES AND REGULATIONS

2.9 Rendering Bill

2.9.1 General

The Company uses cycle billing. The billing period is one month. Except for fraud, charges may be assessed for unbilled traffic up to two years in arrears. The Company uses direct billing by the Company or an authorized billing agent. The Company may also utilize LEC billing. Where billing systems allow, Credit Card billing and automatic withdrawal from Customer's checking or savings account are available. However, if a Customer presents an undue risk of nonpayment at any time, the Company may require the Customer to pay its bills in cash or the equivalent of cash. In the event the Company incurs fees or expenses, including attorney's fees, in collecting, or attempting to collect, any charges owed the Company, the Customer will be liable to the Company for the payment of all such fees and expenses reasonably incurred.

SECTION 2 - RULES AND REGULATIONS

2.9 Rendering Bill (continued)

2.9.2 Direct Billing By Company Or Authorized Billing Agent

Bills are sent to the Customer's current billing address no later than thirty (30) days following the close of billing. Call detail is included with the bill. The Customer's bill provided by an authorized billing agent may include the billing agent's service mark as shown on sheet 10 of this Tariff. Payment in full is due by the due date disclosed on the bill. Charges are payable only in United States currency. Payment may be made by check, money order, or cashier's check made payable as named on the bill and sent to the address as listed on the bill. If the bill is not paid within thirty (30) days from the invoice date, the Company may impose a late charge on the delinquent amount. A late charge applies to any past due balance. A late charge applies to any past due balance. The Company may charge a late charge of $5.00 or 1.5% per month, whichever is greater. When another telecommunications carrier provides the billing function on behalf of the Company, the other carrier's late payment charge applies.

2.9.3 Credit Card Billing

With Credit Card billing, the charges for Services provided by the Company are billed on the Customer's designated and approved Credit Card. Charges are billed monthly in accordance with the terms and conditions between the Customer and the Customer's designated Credit Card company. Call detail will not be included in the Credit Card bill. Call detail will be provided by the Company in a separate mailing.

SECTION 2 - RULES AND REGULATIONS

2.9 Rendering Bill (continued)

2.9.4 Automatic Withdrawal From Checking or Savings Account

If the Customer utilizes automatic withdrawal, the charges for Services provided by the Company are automatically debited to the Customer's designated checking account or savings account. Call detail will be provided by the Company in a separate mailing.

2.9.5 Billing For Dedicated Access Circuits or Channels

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 Florida Public Service Commission rules or if the special access channel in jurisdictionally interstate. Charges for the Dedicated Access channel are determined by the access provider.

SECTION 2 - RULES AND REGULATIONS

2.10 Contested Charges

The Company will not be required to consider any Customer claim for damages or statutory penalties, or adjustments, refunds, credits or cancellation of charges, unless the Customer has notified the Company, in writing, of any dispute concerning charges, or the basis of any claim for damages, within sixty (60) calendar days after an invoice is rendered or a debit is effected by the Company for the call giving rise to such dispute or claim. Any such notice must set forth sufficient facts to provide the Company with a reasonable basis upon which to evaluate the Customer's claim or demand. Such notice must be sent to the Company's Customer Service Department as per Section 2.11 of this Tariff. If the Customer is not satisfied with the Company's resolution of a billing inquiry, the Customer may make application to the Commission for review and disposition of the matter.

2.11 Customer Service

Customer correspondence must be addressed to the attention of the Customer Service Department and sent to the appropriate office. The Customer may also contact the Company's Customer Service Department by calling a toll free 800 number. The Company's Customer Service address and toll free number are printed on the Customer's bill. For Customers using Credit Card billing or automatic withdrawal from the checking or savings account, the Company's Customer Service address and toll free number are provided with the Customer's call detail.

SECTION 2 - RULES AND REGULATIONS

2.12 Mileage Measurements

Calls are mileaged by the DUC that carries the call. The mileage between rate centers is calculated based on V and H coordinates as obtained by reference to AT&T Tariff FCC No. 10. The mileage for a call between access lines associated with stations that use the same rate center is one mile. Calculation for mileage between the DUC's POPs for Private Line Service is based on the V & H coordinates as obtained by references to NECA F.C.C. Tariff No. 4.

FORMULA:

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

Where V_1 and H_1 are the V and H coordinates of point 1 and V_2 and H_2 are the coordinates of point 2.

Mileage is rounded up to an integer value to determine the airline mileage.

SECTION 2 - RULES AND REGULATIONS

2.13 Timing of Calls

The Customer's long distance usage charge is based on the actual usage of the DUC's network. Usage begins when the called party picks up the receiver and the local telephone company sends a signal to the switch which utilizes hardware answer supervision or software tone detection. A call is terminated when the calling party hangs up.

2.14 Rate Periods

2.14.1 General

Different rates may be applicable to a call at different times of the day and on certain days of the week, as specified in the appropriate rate schedule for that call. The rate periods shown below apply. All times shown are local time at the calling station.

2.14.2 Day, Evening, and Night Rate Periods

	Times Applicable		
Rate Period	From	To, But Not Including	Days Applicable
Day	8:00 AM	5:00 PM	Mon - Fri
Evening	5:00 PM	11:00 PM	Sun - Fri
Night	11:00 PM	8:00 AM	All days
	8:00 AM	11:00 PM	Saturday
	8:00 AM	5:00 PM	Sunday

SECTION 2 - RULES AND REGULATIONS

2.15 Determining Rate In Effect

2.15.1 General

For outbound Services that are time-of-day sensitive, the time-of-day at the central office or POP associated with the calling station determines the rate in effect. For inbound Services that are time-of-day sensitive, the time-of-day at the central office or POP associated with the called station determines the rate in effect.

2.15.2 Call Originates Via Switched Access

When a unit of time is split between two rate periods, each rate period applies to the portion of the call that occurred during that rate period.

2.15.3 Call Originates Via Dedicated Access

When a unit of time is split between two rate periods, the rate is based on the rate period in which it began.

2.15.4 Call Completed By An Operator

The time at the beginning of each minute of connection determines the applicable rate period. When a message spans more than one rate period, total charges for the minutes in each rate period are calculated and the results for each rate period are totaled to obtain the total message charge.

SECTION 2 - RULES AND REGULATIONS

2.16 Rounding

Each usage sensitive Service has its own specific initial period and additional period (collectively referred to as billing increments) as specified in Section 3 of this Tariff. For all Services, fractions of a billing increment are rounded up to the next higher increment for billing purposes. The usage charges for each completed call during a billing month will be computed. If the charge for the call includes a fraction of a cent of $.005 or more, the fraction of such charge is rounded up to the next higher whole cent. Otherwise, the charge is rounded down to the next lower whole cent. Rounding for charges for Service(s) is on a call-by-call basis.

SECTION 2 - RULES AND REGULATIONS

2.17 Taxes

2.17.1 In addition to the charges specifically pertaining to Services, certain federal, state, and local surcharges, taxes, and fees apply to Services. These taxes, surcharges, and fees are calculated based upon the point of origination of the call, the point of termination of the call, the length of each call, and the taxing jurisdiction's rules and regulations.

2.17.2 All federal, state, and local taxes, surcharges, and fees (i.e., sales tax, gross receipts tax, municipal utilities tax, etc.) are listed on the Customer's invoices, and unless otherwise specified herein, are not included in the rates listed in Section 4 of this Tariff.

2.17.3 In order to be granted tax exempt status, a Customer claiming tax exempt status must provide the Company with copies of all tax exemption certificates and documents required by the Company at the time Service is ordered. Failure to provide the required documentation at the time Service is ordered will result in all taxes as noted herein being levied by the Company on the Customer's Service, and the Customer will be responsible for the payment of all such charges. At the Company's option, the Company may accord the Customer tax exempt status upon receipt of the required documentation after Service is ordered. However, the Customer will be billed for all applicable taxes and responsible for the payment of same until such time as the Company has ceased billing the applicable taxes. The Company is not liable for refunding the amount of the taxes paid by the Customer. The Customer is responsible for seeking refunds for such taxes from the appropriate taxing authority. Failure to pay the appropriate taxes prior to tax exempt status being accorded by the Company will result in termination of Service.

SECTION 2 - RULES AND REGULATIONS

2.18 Interruption of Service

2.18.1 Without incurring liability, the Company may interrupt the provision of Services at any time in order for tests and inspections to be performed to assure compliance with Tariff regulations and the proper installation and operation of Customer's equipment and facilities and may continue such interruption until any items of non-compliance or improper equipment operation so identified are rectified.

2.18.2 To prevent possible unauthorized, fraudulent, or unlawful use of Service, the Company may initiate Blocking all calls or Blocking calls to or from certain NPA-NXXs, cities, or individual telephone stations for any Service offered under this Tariff. Service will be restored as soon as it can be provided without undue risk and only after accounts have been brought current.

2.18.3 No credit for recurring monthly charges will be issued for outages less than twenty-four consecutive hours in duration. For Customers with Service subject to a monthly recurring charge, Service interruptions of greater than twenty-four (24) consecutive hours duration will receive a credit equal to the number of hours of Service interruption divided by 720 hours times the monthly recurring charge for the Service. For Private Line Service, credit allowances are subject to the general liability provisions set forth in Section 2.3.15 of this Tariff.

2.18.4 For Switched Services including Service that requires Dedicated Access to reach the long distance network, credit allowances for cutoff, wrong number, or poor transmission are subject to the general liability provisions set forth in Section 2.3.10 of this Tariff. It shall be the obligation of the Customer to notify the Company immediately of any interruption in Service for which a credit allowance is desired. Before giving such notice, the Customer shall ascertain that the trouble is not being caused by any action or omission by the Customer within his control, or is not in wiring or equipment, if any, furnished by the Customer.

SECTION 2 - RULES AND REGULATIONS

2.19 Cancellation of Service By Customer

2.19.1 Customers Subscribing To Services That Require Switched Access To Reach The Long Distance Network

Unless the Customer has signed a term plan agreement, the Company may require the Customer to give thirty (30) days' written or oral notice to the Company. Notice should be addressed to the Company's Customer Service Department at the address specified in Section 2.11 of this Tariff. Cancellation of the Customer's Service will be effective when the DUC removes the calling card number and PIN from its data base.

2.19.2 Customers Subscribing To Services That Require Dedicated Access To Reach The Long Distance Network

Cancellation of Service will be effective when the DUC or Company cancels the Service or when the Customer's Dedicated Access facilities are moved to another company as authorized by the Customer. If the Customer cancels Service prior to the expiration of a term plan, the Customer is liable for any cancellation charge set forth in this Tariff.

SECTION 2 - RULES AND REGULATIONS

2.20 Termination of Service By Company

2.20.1 The Company may terminate Service to the Customer upon five (5) days' written notice to the Customer for any condition listed in Section 2.2.6 of this Tariff. If the Company delivers the notice to the Customer's Premises, it will be left in a conspicuous place. When notice is mailed, the notice will be in a separate mailing, addressed to the Customer's last known billing address, and mailed first class or some type of express overnight delivery. The selection of the method of delivery of the notice is made by the Company.

2.20.2 The termination of Service(s) by the Company pursuant to this section does not relieve the Customer of any obligations to pay the Company for charges due and owing for Service(s) furnished up to the time of termination. The remedies set forth herein will not be exclusive and the Company will at all times be entitled to all rights available to it under either law or equity.

SECTION 2 - RULES AND REGULATIONS

2.21 Restoration of Services

The use and restoration of Services in emergencies will be in accordance with the priority system specified in Part 64, Subpart D of the rules and regulations of the Federal Communications Commission.

2.22 Terminal Equipment

The Company's Services may be used with or terminated in Customer-provide terminal equipment or Customer-provided communications systems such as a telephone set, PBX or key system. Such terminal equipment shall be furnished and maintained at the expense of the Customer. The Customer is responsible for all costs at the Customer's Premises, including personnel, wiring, electrical power, and the like, incurred in the use of the Company's Service. When such terminal equipment is used, the equipment shall comply with applicable rules and regulations of the Federal Communications Commission, including but not limited to, Part 68. In addition, equipment must comply with generally accepted minimum protective criteria standards and engineering requirements of the telecommunications industry which are not barred by the Federal Communications Commission.

2.23 Notices

Any notices provided by Company pursuant to this Tariff are deemed given and effective upon the earlier of (a) actual receipt by Customer or (b) three days after mailing if sent by mail, the day after express overnight delivery, or the day the notice is left at the Customer's Premises.

SECTION 2 - RULES AND REGULATIONS

2.24 Lost Or Stolen Calling Card Or PIN

Upon knowledge of facts which would alert a reasonable person to the possibility of unauthorized use of the Customer's calling card or PIN, the Customer will alert and give notice to the Company of such facts. Upon receipt of notice, the Company will deactivate the PIN associated with the card. If requested by the Customer, a new calling card and PIN will be issued to the Customer. The Customer will be excused from liability only with respect to unauthorized calls placed after receipt of such notice by the Company.

2.25 Special Service Arrangements

Customer-specific service arrangements, which may include engineering, installation, construction, facilities, assembly, and/or other special services, may be furnished in addition to existing Tariff offerings. Rates, terms, and conditions plus any additional regulations, if applicable, for the special service arrangements will be developed upon Customer's request. Unless otherwise specified, the regulations for the special service arrangements are in addition to the applicable regulations specified in other sections of this Tariff.

2.26 Concession Services

The Company may offer a reduced rate to employees.

SECTION 3 - DESCRIPTION OF SWITCHED SERVICES

3.1 Calling Card Services

3.1.1 General

Calling card services (see Tariff sheets 65 and 66) are available to Customers for use when Customers or End Users are away from their established primary service location. For all calls, the initial and additional periods are billed in increments of one (1) minute. See Section 4.1 for rates and charges. Calling card rates and charges apply to all calling card calls originating and terminating in the State regardless of the billing location of the Customer account.

3.1.2 Placing A Calling Card Call

Access to the long distance network for the purpose of billing a call to the Customer's calling card can be from tone-generating or rotary-dial instruments. The Customer or End User may access the long distance network and bill a call to their calling card by dialing any of the following:

(A) 1 plus an 800/888 number plus

.1 the called telephone number, the calling card number, and a valid PIN, or

.2 0, the called telephone number, the calling card number, and a valid PIN, or

.3 0 and provide the operator the called number, the calling card number, and a valid PIN.

SECTION 3 - DESCRIPTION OF SWITCHED SERVICES

3.1 Calling Card Services (continued)

3.1.2 Placing A Calling Card Call (continued)

(B) 0 plus the called telephone number, the calling card number, and a valid PIN.

(C) 00 and request the operator complete a call and bill it to the Customer's calling card. To complete a calling card call, the End User must provide the operator the called number, calling card number, and a valid PIN.

(D) Depending on the Company's selection of the DUC for any specific calling card service, the Customer and End User may also be able to place a calling card call by dialing 10 plus the carrier identification code, the called telephone number, the calling card number, and a valid PIN. If this option is available to a Customer, the Company will provide the Customer with the appropriate carrier identification code.

SECTION 3 - DESCRIPTION OF SWITCHED SERVICES

3.2 Directory Assistance

Intrastate Directory Assistance (see Tariff sheet 67) involves the supplying of assistance in determining or attempting to determine the telephone number of a party. Directory Assistance is available to any Customer that has access to the directory assistance bureau of the DUC and bills the directory assistance call to one of the Company's calling cards or bills the directory assistance call to a third number. Person-to-Person and collect calls to directory assistance are not permitted.

SECTION 3 - DESCRIPTION OF SWITCHED SERVICES

3.3 Operator Services

3.3.1 Operator Toll Assistance

(A) General

Operator Toll Assistance (see Tariff sheets 68, 69, and 70) is any variety of telephone services which require the assistance of a long distance operator. There are two rate elements. They are a usage charge and a surcharge. The operator dialed surcharge applies in addition to all Station-to-Station and Person-to-Person operator service charges when the Customer has the ability to dial all the digits necessary for call completion but instead dials 00 or 1 plus an 800/888 access number plus 0 to reach the operator to have the operator complete the call. The surcharge will be applied to all operator services calls completed by an operator except for calls which cannot be completed by the Customer due to equipment failure or trouble on the network. For all calls, the initial and additional periods are billed in increments of one (1) minute. Operator Toll Assistance is available to Customers that (1) bill the call to one of the Company's calling card Services or (2) utilize Switched Access to reach the long distance network. Customers with Dedicated Access must program their PBX to route operator Service calls over the Customer's Switched Access lines.

(B) Calling Card Calls

Customers may bill calls to their Company calling card. See Section 3.1.2 for dialing alternatives to place a calling card call.

SECTION 3 - DESCRIPTION OF SWITCHED SERVICES

3.3 Operator Services

3.3.1 Operator Toll Assistance (continued)

(C) Collect Calls And Calls Billed To A Third Number

Customers my place collect calls or bill a call to a third number. To place a collect call or bill a call to a third number, the Customer must: (1) dial 1 plus an 800/888 number, plus 0, plus the called telephone number, and when the operator answers, tell the operator whether the call is collect or billed to a third number, or (2) dial 1 plus an 800/888 number, plus 0, and when the operator answers provide the operator the called number and tell the operator whether the call is collect or billed to a third number.

SECTION 3 - DESCRIPTION OF SWITCHED SERVICES

3.3 Operator Services (continued)

3.3.2 Busy Line Verification

Busy Line Verification (see Tariff sheet 71) provides operator assistance to determine if there is an ongoing conversation at a called station. Busy Line Verification is only available to Customers that bill the call to one of the Company's calling card services.

3.3.3 Emergency Interrupt

Emergency Interrupt (see Tariff sheet 71) provides operator assistance to interrupt an ongoing conversation at a called station. The charge for Emergency Interrupt applies regardless of whether the interruption is successful. The charge for Emergency Interrupt applies in lieu of the charge for Busy Line Verification. Emergency Interrupt is only available to Customers that bill the call to one of the Company's calling card services.

SECTION 3 - DESCRIPTION OF SWITCHED SERVICES

3.4 Timing of Calls

For rules and regulations regarding timing of calls, see Section 2.13 of this Tariff.

3.5 Billing Increments

Each usage sensitive Service has its own specific initial period and additional period (collectively referred to as billing increments) as specified in Section 3 of this Tariff for each Service offering.

3.6 Per Call Billing Charges

The rules and regulations regarding the methodology used to round the price of a call is covered in Paragraph 2.16 of this Tariff.

3.7 Calculation of Distance

For the rules and regulations regarding the calculation of distance, see Section 2.12 of this Tariff.

3.8 Formula For Calculating Distance of a Call

See Section 2.12 of this Tariff for the formula used to calculate the distance of a call.

3.9 Minimum Call Completion Rate

A Customer can expect a call completion rate of not less than 90% during peak use periods for all Feature Group D Services (1+ dialing).

SECTION 4 - SWITCHED SERVICES RATES AND CHARGES

4.1 Calling Card Services

4.1.1 General

There are two rate elements. They include a usage charge and a surcharge. If an operator does not assist in the placement of the call, the per call surcharge is $.90 per call. If the operator assists in the placement of a calling card call, then the applicable Operator Toll Assistance call placement charges and the per minute usage rates apply in lieu of the calling card surcharge and the calling card per minute usage rate.

4.1.2 InterLATA Usage Rates

Rate Mileage	Initial Period 1 Minute or Fraction Thereof			Additional Period 1 Minute or Fraction Thereof		
	Day	Evening	Night	Day	Evening	Night
0 - 10	$.2000	$.1500	$.1200	$.2000	$.1500	$.1200
11 - 22	$.2200	$.1700	$.1300	$.2200	$.1700	$.1300
23 - 55	$.2500	$.1900	$.1400	$.2500	$.1900	$.1400
56 - 124	$.2700	$.1900	$.1500	$.2700	$.1900	$.1500
125 - 292	$.2800	$.1900	$.1600	$.2800	$.1900	$.1600
293 - 430	$.2800	$.2000	$.1600	$.2800	$.2000	$.1600
431+	$.2800	$.2100	$.1600	$.2800	$.2100	$.1600

SECTION 4 - SWITCHED SERVICES RATES AND CHARGES

4.1 Calling Card Services (continued)

4.1.3 IntraLATA Usage Rates

Rate Mileage	Initial Period 1 Minute or Fraction Thereof			Additional Period 1 Minute or Fraction Thereof		
	Day	Evening	Night	Day	Evening	Night
0 - 10	$.2000	$.1500	$.1200	$.2000	$.1500	$.1200
11 - 22	$.2200	$.1700	$.1300	$.2200	$.1700	$.1300
23 - 55	$.2500	$.1900	$.1400	$.2500	$.1900	$.1400
56 - 124	$.2700	$.1900	$.1500	$.2700	$.1900	$.1500
125 - 292	$.2800	$.1900	$.1600	$.2800	$.1900	$.1600
293 - 430	$.2800	$.2000	$.1600	$.2800	$.2000	$.1600

SECTION 4 - SWITCHED SERVICES RATES AND CHARGES

4.2 Directory Assistance Services

Direct dialed calls to directory assistance will be billed at $.75 per call. Any calls to directory assistance utilizing an operator will be billed the directory assistance charge plus the applicable operator services charges(s) pursuant to Section 4.3.1 (A) of this Tariff.

SECTION 4 - SWITCHED SERVICES RATES AND CHARGES

4.3 Operator Services

4.3.1 Operator Toll Assistance

(A) Surcharges

The following surcharges apply to the initial minute of each operator services call placed within the State:

	InterLATA	IntraLATA
Station-to-Station sent-paid	$1.75	$1.00
Station-to-Station collect	$1.75	$1.00
Station-to-Station third number	$1.75	$1.00
Person-to-Person (all type calls)	$3.25	$2.50
Operator dialed surcharge*	$1.15	$0.75
Directory Assistance Call Completion	$1.75	$1.00
LEC Calling Card** Station-to-Station		
- Customer Dialed	$1.00	$1.00
- Operator Dialed	$1.75	$1.00

* This call placement charge applies in addition to all other Station-to-Station or Person-to-Person call placement charges when the Customer has the ability to dial all the digits necessary for call completion but dials instead "0" or "00" to reach the operator to have the operator complete the call. The call placement charge will be applied to all operator service calls completed by an operator except for 1) calls which cannot be completed by the Customer due to equipment failure or trouble on the DUC's network; (2) when a Company calling card is being used; or (3) when a LEC calling card is being used from a payphone.

** The Company only accepts cards which it can identify as valid.

SECTION 4 - SWITCHED SERVICES RATES AND CHARGES

4.3 Operator Services (continued)

4.3.1 Operator Toll Assistance (continued)

(B) InterLATA Usage Rates

The per minute usage rates are as follows:

Rate Mileage	Initial Period			Additional Period		
	Day	Evening	Night	Day	Evening	Night
0 - 10	\$.1900	\$.1400	\$.1100	\$.1900	\$.1400	\$.1100
11 - 22	\$.2100	\$.1600	\$.1200	\$.2100	\$.1600	\$.1200
23 - 55	\$.2400	\$.1800	\$.1300	\$.2400	\$.1800	\$.1300
56 - 124	\$.2500	\$.1800	\$.1400	\$.2500	\$.1800	\$.1400
125 - 292	\$.2600	\$.1800	\$.1500	\$.2600	\$.1800	\$.1500
293 - 430	\$.2600	\$.1900	\$.1500	\$.2600	\$.1900	\$.1500
431+	\$.2600	\$.2000	\$.1500	\$.2600	\$.2000	\$.1500

SECTION 4 - SWITCHED SERVICES RATES AND CHARGES

4.3 **Operator Services (continued)**

4.3.1 Operator Toll Assistance (continued)

(C) IntraLATA Usage Rates

The per minute usage rates are as follows:

Rate Mileage	Initial Period			Additional Period		
	Day	Evening	Night	Day	Evening	Night
0 - 10	$.1700	$.1200	$.1000	$.1700	$.1200	$.1000
11 - 22	$.1900	$.1400	$.1100	$.1900	$.1400	$.1100
23 - 55	$.2100	$.1600	$.1200	$.2100	$.1600	$.1200
56 - 124	$.2300	$.1600	$.1300	$.2300	$.1600	$.1300
125 - 292	$.2400	$.1700	$.1300	$.2400	$.1700	$.1300
293+	$.2400	$.1700	$.1300	$.2400	$.1700	$.1300

SECTION 4 - SWITCHED SERVICES RATES AND CHARGES

4.3 Operator Services (continued)

4.3.2 Busy Line Verification

The rate is $6.50 per occurrence.

4.3.3 Emergency Interrupt

The rate is $13.00 per occurrence

SECTION 4 - SWITCHED SERVICES RATES AND CHARGES

4.4 Miscellaneous Charges

4.4.1 Payphone Surcharge

Pursuant to the FCC's Order in CC Docket 96-128, this surcharge applies only to dial-around calls, i.e., calls originating using a carrier's access code, a Customer's 800 and other toll-free numbers and debit card calls, from payphone instruments. This surcharge does not apply for 0+ call for which the payphone provider would otherwise receive compensation. The Customer shall pay the Company a per call surcharge of $0.35 per call for all such traffic.

4.4.2 Return Check Charge

When another telecommunications carrier provides the billing function on behalf of the Company, the other carrier's bad check charge applies. Otherwise, the Company will assess the Customer a return check charge of $15.00 for any check that is returned for any reason by the financial institution on which it is drawn. When a return check charge is contained in the Company's intrastate Tariff, the charge contained in the Company's intrastate Tariff applies in lieu of the charge contained in the Company's Tariff F.C.C. No. 1.

4.4.3 Restoration of Service Charges

All Services are interstate Services with the Customer having the option of using the Service to place intrastate calls. Therefore, the Company does not charge for the restoration of intrastate Service.

SECTION 4 - SWITCHED SERVICES RATES AND CHARGES

4.5 Exemptions and Special Rates

4.5.1 Discounts for Hearing Impaired Customers

Pursuant to Section 25-4.079 (4) of the IXC Rules For Special Rates For Handicapped Customers, a telephone toll message which is communicated using a telecommunications devise for the deaf (TDD) by properly certified hearing or speech impaired persons or properly certified business establishments or individuals equipped with TDDs for communicating with hearing or speech impaired persons will receive, upon request, credit on charges for certain intrastate toll charges placed between TDDs. The credit to be given on a subsequent bill for such calls placed between TDDs will be equal to a 5% discount on dialed calls using Services which have no time-of-day pricing element. Those dialed calls using a Service which have a time-of-day pricing element will receive a credit on a subsequent bill equal to applying the evening rate for calls placed during the daytime rate period and the night rates for evening and night calls.

Pursuant to Section 25-4.160 (1) of the IXC Rules For Special Rates For Handicapped Customers, a telephone toll message placed via the relay service will receive a discount of fifty (50) percent of the time-sensitive element of the call. If either party is both hearing and visually impaired, the discount will be sixty (60) percent of the time-sensitive element of the call. The discounts do not apply to per call charges such as calling card surcharges.

4.5.2 Directory Assistance for Handicapped Person

Pursuant to Section 25-4.115 (3) (a) of the IXC Rules For Special Rates For Handicapped Customers, there will be no charge for up to fifty (50) calls per billing cycle from lines or trunks servicing individuals with disabilities. Such persons must contact the Company for credit on the bill.

SECTION 5 - PROMOTIONS

5.1 General

The Company will, from time-to-time, offer special promotions to its Customers waiving certain charges or offering a special rate. These promotions will be approved for the Commission with specific starting and ending dates.

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Karol Sweitzer, Vice President - Business Planning and CFO
1651 N. Collins Blvd., Suite 220, Richardson, Texas 75080

ATTACHMENT J

MANAGERIAL CAPABILITY

The Applicant is staffed with highly qualified management personnel with extensive experience in managing other SBC telecommunications subsidiaries. The management and operations expertise of the Applicant's management team will enable the Applicant to begin offering competitive high-quality service immediately upon the grant of the authority requested herein.

Michael Kaufman is President and CEO of Southwestern Bell Communications Services, Inc. d/b/a Southwestern Bell Long Distance. He began his carrier with Southwestern Bell Telephone in 1968 as a Commercial Assistant and progressed through several positions in the Missouri Rates and Tariffs Department from 1970 - 1973. After several years in private business, Mr. Kaufman returned to Southwestern Bell Telephone in 1979. He held numerous finance-related positions with Southwestern Bell Telephone and SBC from 1980 - 1992. He was SBC's Vice President - Finance and Treasurer before becoming President and Chief Executive Officer of Southwestern Bell Yellow pages in 1988. Following that he was Executive Vice President - Finance and External affairs, Executive Vice President - Marketing for Southwestern Bell Telephone, and then Regional President for the Central and West Texas market area of Southwestern Bell Telephone. Mr. Kaufman holds a Bachelor degree and a Master of Business Administration degree from the University of Wisconsin.

Karol M. Sweitzer is Vice President - Business Planning and Chief Financial Officer for Southwestern Bell Communications Services Inc. d/b/a Southwestern Bell Long Distance. Her responsibilities include all finance, accounting, and regulatory functions, both start-up and operational. She began her carrier with Southwestern Bell Telephone in 1985 as an Assistant Staff Manager - Comptroller and has progressed through various finance positions with increased responsibility. In 1990, Ms. Sweitzer moved to Washington DC and was named to the position of Director-Federal Regulations where she acted as liaison between SBC Communications, Inc. and the Federal Communications Commission on all accounting and audit issues. In 1994, Ms.

Sweitzer spent a concentrated year on the financial aspects of the sale of Bellcore, the research company jointly owned by all seven Regional Bell Operating Companies. In September 1995, Ms. Sweitzer accepted the position of Chief Financial Officer for Southwestern Bell communications Services Inc. In May, 1996, Ms. Sweitzer was named to her current position. Prior to Southwestern Bell, Ms. Sweitzer worked for Caterpillar Tractor Company and Rockwell International in various accounting positions. Ms. Sweitzer graduated from MacMurray College with a degree in Accounting and Business Administration in 1981. Ms. Sweitzer became a Certified Public Accountant in 1983. She is a member of the American Institute of Certified Public Accountants and the Missouri Society of Certified Public Accountants.

Lowery S. Harper is Vice President - Operations of Southwestern Bell Communications Services Inc. d/b/a Southwestern Bell Long Distance where he is responsible for leading the company's operation functions for entry into the long distance market. Mr. Harper also serves as Vice President - Network of Southwestern Bell Communications Services-Massachusetts, Inc. Mr. Harper joined Southwestern Bell in 1974 as an engineer. He held several positions went on to hold several positions covering a variety of technical, operation, and managerial functions including Transmission Equipment Engineer, Long Range Transport Planner, Staff Manager - Transmission Equipment Engineer, Staff Manager - Long Range Transport Planning, District Manager - New Services Public Policy Planning (Bellcore), Director - Technology Strategies (Bellcore), Associate Director - Capital Planning (Telmex), and Associate Director - Strategic Planning for SBC International in Mexico. Returning from Mexico in 1993, Mr. Harper held various positions in SBC International Business Development. In these positions, he led the valuation and negotiation efforts for several international acquisition projects. Mr. Harper graduated from southern Methodist University with a degree in Electrical Engineering in 1973. Mr. Harper is a Registered Professional Engineer in the state of Texas.

ATTACHMENT K

TECHNICAL CAPABILITY

Initially, the Applicant will operate as a switchless reseller. All switching and transport will be provided by the Florida certified underlying carrier. Therefore, the technical ability of underlying carrier to provide service is more germane than the technical ability of the Applicant. That ability has already been demonstrated by the underlying carrier's prior operations in the State of Florida. If at some point in the future it makes economical business sense to do so, the Petitioner may choose to install a switch for use by customers for placing calls via the calling card platform. The Petitioner may also own, operate, control, or manage transmission facilities. As required to meet future operation requirements, SBC and its affiliates will fully staff the Petitioner with qualified and experienced technical personnel. A brief description of the background of Lowery Harper, Vice President-Network, is provided at Attachment J.

ATTACHMENT L

FINANCIAL CAPABILITY

The Applicant is a wholly-owned subsidiary of SBC Communications Inc. ("SBC"), a holding company of one of the Bell operating companies. SBC will provide all funds necessary for the operation of the Applicant. The ability of SBC to make this commitment is demonstrated by SBC's most recent SEC FORM 10-K and annual report which follow.

FORM 10-K

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (No Fee Required)**

For fiscal year ended December 31, 1996

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (No Fee Required)**

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 78205-2233
Telephone Number 210-821-4105

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares (Par Value $1.00 Per Share)	New York, Chicago and Pacific Stock Exchanges
$75 Million 8.48% Medium-Term Notes Series D, Due December 8, 1999, of SBC Communications Capital Corporation	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None.

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. (X)

Based on composite closing sales price on February 28, 1997, the aggregate market value of all voting stock held by non-affiliates was $34,397,200,000.

As of February 28, 1997, 598,842,533 shares of Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of SBC Communications Inc.'s Annual Report to Shareowners for the fiscal year ended December 31, 1996 (Parts I and II).

(2) Portions of SBC Communications Inc.'s Notice of 1997 Annual Meeting and Proxy Statement dated March 11, 1997 (Parts III and IV).

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conduct for a five-year period. As a result of these provisions, on April 11, 1996 the District Court issued its Opinion and Order terminating the MFJ and dismissing all pending motions as moot, thereby effectively ending 13 years of RHCs regulation under the MFJ.

Among other things, the Telecom Act defines the conditions which must be met before SBC will be authorized to provide landline interLATA long-distance service throughout the five-state area. Additional information relating to the Telecom Act is contained in SBC's Annual Report to Shareowners for 1996 under the heading "Competition" beginning on page 14, and is incorporated herein by reference pursuant to General Instruction G(2).

BUSINESS OPERATIONS

In July 1995, SBC announced a strategic realignment which positions the company to be a single-source provider of telecommunications services. All of SBC's operations within the five-state area (in-region) report to one management group, while international operations and domestic operations outside the five-state area (out-region) report to a separate management group. Services and products are provided through several subsidiaries, which include: the Telephone Company, Southwestern Bell Mobile Systems, Inc. (Mobile Systems), SBC International, Inc. (SBC International), Southwestern Bell Yellow Pages, Inc. (Yellow Pages), Southwestern Bell Messaging Services, Inc. (SMSI), and SBC Media Ventures, Inc. (Media Ventures). These services and products (which are described more fully below) include landline and wireless telecommunications services, sales of advertising for and publication of yellow pages and white pages directories, sales of customer premises, private business exchange (PBX) and wireless equipment, enhanced services, and cable television services. Wireless telecommunications services are provided by Mobile Systems. Landline telecommunications services are provided in the five-state area by the Telephone Company. In December 1996, most of the operations of Southwestern Bell Telecommunications, Inc. (Telecom) merged into the operations of the Telephone Company with enhanced services being moved into SMSI.

SBC's revenues are categorized for financial reporting purposes as local service (substantially all of which were provided by the Telephone Company and Mobile Systems), network access (provided by the Telephone Company), long-distance service (substantially all of which were provided by the Telephone Company and Mobile Systems), directory advertising (principally provided by Yellow Pages) and other (including equipment sales at Mobile Systems and Telecom, nonregulated products and services provided by the Telephone Company, billing and collection services for interexchange carriers provided by the Telephone Company, and cable television services provided by Media Ventures). With the passage of the Telecom Act, Mobile Systems began offering interLATA and intraLATA long-distance services in February 1996. In November 1996, Southwestern Bell Communications Services, Inc. (SBCS), another SBC subsidiary, began offering interLATA long-distance services to customers in selected out-region areas.

The following table sets forth for SBC the percentage of total operating revenues by any class of service which accounted for 10% or more of total operating revenues in any of the last three fiscal years.

	Percentage of Total Operating Revenues		
	1996	1995	1994
Local service:			
Landline	**34%**	34%	34%
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safeguards are currently being reviewed by the FCC as a result of an October 1994 judicial remand which ruled that the FCC had not adequately explained how ONA would prevent discrimination against competitors. While the outcome cannot be predicted with certainty, it is anticipated that the FCC will reaffirm the nonstructural safeguards.

SMSI provides voice messaging services under the registered trademark CallNotes to residential and business customers. During 1996, Southwestern Bell Internet Services, Inc., another SBC subsidiary, began providing Internet access services in selected metropolitan areas within the five-state area. Planning is under way to introduce access services to other in-region areas in 1997. During 1996, Southwestern Bell Communications Inc., began providing strategic marketing, product development and network services to SBC subsidiaries operating in the five-state area.

Through the end of 1996, Mobile Systems provided wireless services to 4,398,000 customers, or 10.8 out of every 100 residents in its service areas. Mobile Systems provides services in 38 metropolitan markets, including 5 of the nation's top 15 metropolitan areas, as follows: Washington, D.C.; Chicago, Illinois; Boston, Massachusetts; St. Louis, Missouri; and Dallas-Fort Worth, Texas. Mobile Systems (or partnerships in which it has an ownership interest) is licensed to provide service in 38 rural service areas and is currently providing service in all of these markets. Each rural service area is contiguous to an existing metropolitan service area or another rural service area operated by Mobile Systems, which allows for the expansion of service in a way that may add value to customers' service. Mobile Systems also operates a rural RSA in Arkansas under an interim operating authority granted by the FCC.

In January 1997, Mobile Systems began doing business within its five-state area as Southwestern Bell Wireless, Inc. Mobile Systems operates in areas outside the five-state area under the name of Cellular One by means of licenses from Cellular One Group, a partnership among affiliates of Mobile Systems, AT&T Wireless Services and Vanguard Cellular Systems, Inc. These areas include metropolitan service areas, such as Washington, D.C.; Chicago, Illinois; and Boston, Massachusetts; and rural service areas in Illinois, Massachusetts, New York, Virginia and West Virginia. Cellular One does or can offer on a resale basis wireless and landline interLATA long-distance service in all out-region markets where it provides local wireless service. In January 1997, Cellular One also began offering landline local service in Rochester, New York on a resale basis.

In October 1994, SBC announced the formation of a long-term marketing alliance between Mobile Systems and GTE in Texas. This alliance has enabled both Mobile Systems and GTE to begin offering wireless service in each other's Texas wireless markets, using the host company's wireless system. As a result, Mobile Systems now provides wireless service in Houston, Austin and Beaumont and has the right, under this alliance, to market wireless service in a number of additional markets including El Paso and Galveston.

Mobile Systems began providing commercial digital service in Chicago in July 1993. Digital service improves sound quality, provides a greater degree of privacy on individual calls, increases call-handling capacity of the networks, allows additional service offerings, and reduces exposure to billing fraud. Mobile Systems also began providing commercial digital service in St. Louis in September 1993, in Dallas-Fort Worth in January 1994, and in Washington, D.C.-Baltimore in March 1994. Mobile Systems is evaluating other areas for digital service.

Mobile Systems also markets wireless communications equipment in each of its service areas.

In December 1994, SBC acquired the domestic wireless business of Associated Communications Corporation, including wireless systems in Buffalo, Rochester, Albany and Glens Falls, New York, which are adjacent to other SBC wireless systems in Syracuse, Utica and Ithaca, New York.

In February 1995, SBC International purchased 40% of VTR S.A. (VTR), a privately owned telecommunications holding company in Chile. During 1996 SBC International increased its stake to 49% through the purchase of shares from a minority investor. VTR is 51% indirectly owned by Grupo Luksic, a large Chilean conglomerate. Through its subsidiaries, VTR provides local, long-distance, wireless and cable television services in Chile. At the end of 1996, local services were provided over approximately 97,000 access lines, wireless services were provided to more than 175,000 subscribers and cable television services were provided to approximately 322,000 subscribers.

In October 1995, SBC International combined its United Kingdom cable television operations, which included Midlands Cable Communications and Northwest Cable Communications, with those of TeleWest Communications, P.L.C., a publicly held joint venture between Telecommunications, Inc. and U S WEST, Inc. The resulting entity, TeleWest P.L.C., is the largest cable television operator in the United Kingdom and also provides local exchange services. SBC International owns approximately 15% of the new entity.

SBC International through its subsidiaries also holds a minority interest in Golden Channels, a cable television provider in Israel. At the end of 1996, Golden Channels' systems passed 433,000 households and provided service to approximately 277,000 households, a penetration rate of approximately 64%.

In Israel and Australia, SBC International has interests in companies involved in the publication of yellow pages directories and marketing directory and other software.

In November, a consortium in which SBC International participated received one of two licenses for international telecommunications service in Israel. Other consortium members are STET, (Italy's national telephone company), the US/Israeli Aureq Group, and the Israelis Globescom and Kahan group. At the present time, the award of these licenses is undergoing judicial review.

SBC also has wireless interests in South Korea and SBC International has wireless interests in South Africa.

Directory Advertising

Yellow Pages publishes more than 43 million copies of approximately 350 directories principally within the five-state area. The ten largest revenue-producing yellow pages directories are currently published in the second half of SBC's fiscal year. Directory advertising revenues and expenses associated with yellow pages directories are recognized in the month the related directory is published. Since 1995, SBC's yellow and white pages directories have been printed by R.R. Donnelley & Sons.

Customer Premises Equipment and Other Equipment Sales

In December 1996, most of the operations of Telecom merged with the operations of the Telephone Company. Telecom markets business and residential communications equipment. Their offerings range from single-line and cordless telephones to sophisticated digital PBX systems. PBX is a private telephone switching system, usually located on a customer's premises, which provides intra-premise telephone services as well as access to the public switched network. Telecom, through an exclusive, long-term distribution agreement with Conair Corporation, also markets a full line of residential telephones to retailers nationwide, under the Southwestern Bell Freedom Phone name.

Domestic Video Services

Media Ventures owns two cable television systems serving the suburban Washington, D.C. area. Cable TV Montgomery serves Montgomery County, Maryland and Cable TV Arlington serves Arlington County, PART I

ITEM 1. BUSINESS

GENERAL

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 and equipment, directory advertising, publishing and cable television services. Southwestern Bell Telephone Company (Telephone Company) is SBC's largest subsidiary, providing telecommunications services in Texas, Missouri, Oklahoma, Kansas and Arkansas (five-state area). SBC has its principal executive offices at 175 E. Houston, San Antonio, Texas 78205-2233 (telephone number 210-821-4105).

On April 1, 1996, SBC and Pacific Telesis Group (PAC) jointly announced a definitive agreement to merge an SBC subsidiary with PAC, in a transaction in which each share of PAC common stock will be exchanged for 0.733 of a share of SBC common stock (equivalent to approximately 314 million shares), subject to adjustment as described in the merger agreement based upon an allocation of the costs, fees and expenses and other financial effects incurred or sustained in connection with obtaining state regulatory approvals. After the merger, PAC will be a wholly-owned subsidiary of SBC. The transaction is intended to be accounted for as a pooling of interests and to be a tax-free reorganization. Certain pro-forma financial information concerning the merger is set forth in Note 3 to the financial statements of the 1996 SBC Annual Report to Shareowners. On July 31, 1996, the shareowners of SBC and PAC each approved the transaction, which had previously been approved by the board of directors of each company. On November 5, 1996, the United States Department of Justice announced it would not initiate action on the merger under the Hart-Scott-Rodino antitrust law. The Public Service Commission of Nevada approved the merger on December 31, 1996. The FCC approved the transfer of licenses from PAC to SBC on January 31, 1997. The merger agreement is subject to certain other regulatory approvals, including approval by the California Public Utilities Commission (CPUC). On February 21, 1997, an Administrative Law Judge recommendation was issued which proposed approval of the merger subject to certain conditions. Among these conditions was a recommendation that $590 million be refunded to California ratepayers over the next five years, with the annual payments being increased by 10% each year. SBC believes the recommendations are excessive and inappropriate, and intends to ask the CPUC to eliminate or substantially modify the refunds and other conditions. The CPUC is expected to issue an order on the transaction by the end of the first quarter. Subject to allocation of the regulatory approval costs, as discussed above, and receipt of remaining regulatory approvals, the transaction is expected to close in the first half of 1997.

SBC was incorporated under the laws of the State of Delaware in 1983 by AT&T Corp. (AT&T) as one of seven regional holding companies (RHCs) formed to hold AT&T's local telephone companies. AT&T divested SBC by means of a spin-off of stock to its shareowners on January 1, 1984 (divestiture). The divestiture was made pursuant to a consent decree, referred to as the Modification of Final Judgment (MFJ), issued by the United States District Court for the District of Columbia (District Court).

FEDERAL LEGISLATION AND THE MFJ

On February 8, 1996, the Federal Government enacted the Telecommunications Act of 1996 (the Telecom Act), a major, wide-ranging amendment to the Communications Act of 1934.

By its specific terms, the Telecom Act supersedes the jurisdiction of the District Court with regard to activities occurring after the date of enactment. The Federal Communications Commission (FCC) is given authority for all post-enactment conduct, with the District Court retaining jurisdiction of pre-enactment conduct for a five-year period. As a result of these provisions, on April 11, 1996 the District Court issued its Opinion and Order terminating the MFJ and dismissing all pending motions as moot, thereby effectively ending 13 years of RHCs regulation under the MFJ.

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Telecommunications

Telecommunications services include local, long-distance and network access services. Local services involve the transport of landline and wireless telecommunications traffic between telephones and other customer premises equipment (CPE) located within the same local service calling area. Local services include: basic local exchange service, certain extended area service, dedicated private line services for voice and special services, directory assistance and various vertical services, including custom calling services, call control options and Caller ID services. Until the passage of the Telecom Act, SBC's long-distance services involved the transport of telecommunications traffic between local calling areas within the same LATA (intraLATA), except for certain wireless service areas which cover more than one LATA, for which SBC had obtained MFJ waivers. In addition to these services, in 1996 SBC provided both interLATA and intraLATA long-distance services over its wireless networks, as well as landline interLATA long-distance services in selected areas outside the five-state area. Long-distance services also include other services such as Wide Area Telecommunications Service (WATS or 800 services) and other special services. Network access services connect a subscriber's telephone or other equipment to the transmission facilities of other carriers which provide long-distance (principally interLATA) and other communications services. Network access services are either switched, which use a switched communications path between the carrier and the customer, or special, which use a direct nonswitched path.

During the latter half of 1996 and over the course of 1997, the Telephone Company has and will be offering certain services on a "wholesale" basis to competitors, as well as providing elements of the Telephone Company's network on an "unbundled" basis for local competition. These services are being offered as specified by the Telecom Act and state actions and agreements. That legislation and the regulations promulgated by state and federal agencies to implement it will result in SBC facing increased competition in significant portions of its business. Such increased competition is a prerequisite to SBC's permitted entry into the long-distance business and markets from which it is currently excluded. The precise impact to SBC's business in 1997 from local exchange competition is impossible to quantify due to the fact state and federal regulations governing such competition are not yet finalized.

The Telephone Company is SBC's largest subsidiary, providing approximately 70% of SBC's operating revenues in 1996. The Telephone Company provides its services over approximately 9.8 million residential and 4.9 million business access lines in the five-state area. During 1996, nearly two-thirds of the Telephone Company's access line growth occurred in Texas.

During 1996, the Telephone Company continued to expand its offering of vertical services throughout its five-state area. Some of these services include Caller ID, a feature which displays the telephone number of the person calling and the caller's name in certain markets; Call Return, a feature that redials the number of the last incoming call; and Call Blocker, a feature which allows customers to automatically reject calls from a designated list of telephone numbers.

The FCC has certain rules that impact the manner in which the Telephone Company may offer network services for enhanced service providers. Enhanced services are certain services other than basic transmission services. Under these rules, the Telephone Company is permitted to offer enhanced services either on its own or jointly with its affiliates, subject to nonstructural safeguards designed to permit the Telephone Company's competitors to acquire needed network services on a comparably efficient, non-discriminatory basis and to reduce the risk of cross-subsidization. These safeguards include accounting and reporting procedures and Open Network Architecture (ONA) requirements, which represent the Telephone Company's plan to provide equal access to its network to all enhanced service providers. Enhanced services are deregulated at the federal level, and none of the state commissions to which the Telephone Company is subject has asserted jurisdiction over intrastate enhanced services. The nonstructural safeguards are currently being reviewed by the FCC as a result of an October 1994 judicial remand which ruled that the FCC had not adequately explained how ONA would prevent discrimination against competitors. While the outcome cannot be predicted with certainty, it is anticipated that the FCC will reaffirm the nonstructural safeguards.

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In December 1994, SBC acquired the domestic wireless business of Associated Communications Corporation, including wireless systems in Buffalo, Rochester, Albany and Glens Falls, New York, which are adjacent to other SBC wireless systems in Syracuse, Utica and Ithaca, New York.

In March 1995, SBC acquired United States Cellular Corporation's wireless system that operates in the Watertown, New York area. In December 1995, SBC obtained a controlling interest in a wireless property serving the Laredo, Texas, area, as a part of a joint venture with PriCellular Corporation. SBC contributed two wireless properties serving Central Illinois, known as RSAs 4 and 6, to the joint venture. Combined with SBC's other markets, this joint venture permits SBC to now serve the entire South Texas region.

In 1993, the FCC adopted an order allocating radio spectrum and outlining the development of licenses for new personal communications services (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 acquired PCS licenses in the major trading areas of Memphis, Tennessee; Little Rock, Arkansas; and Tulsa, Oklahoma. SBC is currently in the build-out phase of PCS in 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 considerations.

In an FCC auction concluded in January 1997, SBC acquired 8 additional PCS licenses for Basic Trading Areas (BTAs) that are within its five-state area (includes Springfield, Missouri; McAlester, Oklahoma; Joplin, Missouri; Pittsburgh, Kansas; Temple-Killeen, Texas; Waco, Texas; Tyler, Texas and Longview-Marshall, Texas). SBC plans to build out the new BTAs as part of its strategy to be a full service telecommunications provider. Once the BTAs are completed (expected completion 1999), SBC will be able to offer wireless services to approximately 85% of its landline local service customers.

International

A consortium consisting of SBC International, together with a subsidiary of France Telecom and a group of Mexican investors led by Grupo Carso, S.A. de C.V. (Grupo Carso), has voting control of Teléfonos de México, S.A. de C.V. (Telmex), Mexico's national telecommunications company, through its ownership of all of Telmex's Class AA shares. The Mexican investors have voting control of the consortium. During 1996, Grupo Carso transferred its Telmex interest to a spin-off company named Carso Global Telecom, S.A. de C.V. This transaction will have no effect on SBC International's Telmex holdings. SBC International also owns Class L shares which have limited voting rights. In 1996, Telmex made significant purchases under a share repurchase program. In January 1997, SBC International sold a portion of its Class L shares to Telmex so that SBC's total equity investment (including both AA shares and L shares) was slightly below 10% of Telmex's total equity capitalization. Telmex provides complete landline and wireless telecommunications services within Mexico. At the end of 1996, Telmex had 8.8 million access lines in service and provided cellular service to approximately 657,000 subscribers. In June 1995, Telmex acquired a 49% stake of Grupo Televisa's cable television subsidiary, Cablevisión.

In October 1994, SBC International formed a strategic alliance with Compagnie Génerale des Eaux (CGE), a French diversified public company. Through this alliance, SBC International acquired an indirect 10% ownership of Société Francaise du Radiotelephone S.A. (SFR), a nationwide cellular company in France, and minority ownership interests in other communications businesses controlled by CGE, and CGE obtained an effective 10% interest in SBC's wireless operations in Washington, D.C.- Baltimore, and surrounding rural markets. SBC and CGE both made contributions to the alliance. SBC's effective contribution was $375.9 million. During 1996, in response to the 1996 exercise of an option by another company to purchase additional SFR shares, SBC International exercised an option to maintain its 10% indirect ownership interest in SFR. At the end of 1996, SFR provided cellular service to approximately 928,000 subscribers.

In February 1995, SBC International purchased 40% of VTR S.A. (VTR), a privately owned telecommunications holding company in Chile. During 1996 SBC International increased its stake to 49% through the purchase of shares from a minority investor. VTR is 51% indirectly owned by Grupo Luksic, a large Chilean conglomerate. Through its subsidiaries, VTR provides local, long-distance, wireless and cable television services in Chile. At the end of 1996, local services were provided over approximately 97,000 access lines, wireless services were provided to more than 175,000 subscribers and cable television services were provided to approximately 322,000 subscribers.

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Domestic Video Services

Media Ventures owns two cable television systems serving the suburban Washington, D.C. area. Cable TV Montgomery serves Montgomery County, Maryland and Cable TV Arlington serves Arlington County, Virginia. At the end of 1996, these systems passed 426,000 homes and served 268,000 customers. In August 1996, Media Ventures contributed Cable TV Montgomery and Cable TV Arlington to SBC Media Ventures, LP (Partnership), a recently formed partnership between Media Ventures and affiliates of Prime Cable (Prime). Media Ventures is general partner and retains an approximate 95% ownership interest in the Partnership. Prime contributed $20 million to the Partnership and now manages the cable systems on behalf of the Partnership.

In December 1995, SBC began offering video services over a fiber-to-the-curb network passing 1,800 homes in a consumer trial in Richardson, Texas. In January 1997, SBC announced it plans to build a testbed network to approximately 31,000 homes in Richardson by 1998 and use that network to offer video and communications services citywide.

During 1995, SBC became an equal partner in a venture, with Ameritech Corporation, BellSouth Corporation, GTE, and The Walt Disney Company, to design, market and deliver video programming and interactive services. In 1996, Southern New England Telephone Company became a minority partner in this venture.

GOVERNMENT REGULATION

In the five-state area, the Telephone Company is subject to regulation by state commissions which have the power to regulate, in varying degrees, intrastate rates and services, including local, long-distance and network access (both intraLATA and interLATA access within the state) services. The Telephone Company is also subject to the jurisdiction of the FCC with respect to foreign and interstate rates and services, including interstate access charges. Access charges are designed to compensate the Telephone Company for the use of its facilities for the origination or termination of long-distance and other communications by other carriers. There are currently no access charges for access to the Internet.

Additional information relating to federal and state regulation of the Telephone Company is contained in SBC's Annual Report to Shareowners for 1996 under the heading "Regulatory Environment" on page 12, and is incorporated herein by reference pursuant to General Instruction G(2).

SBC's cable systems are subject to federal and local regulation, including regulation by the FCC and local franchising authorities, concerning rates, service and programming access.

IMPORTANCE, DURATION AND EFFECT OF LICENSES

The FCC authorizes the licensing of only two cellular carriers in each geographic market. These cellular licenses have a standard duration of ten years and are renewable upon application and a showing of compliance with FCC use and conduct standards. Renewal licenses were received for Gary, Indiana; Worcester, Massachusetts; Buffalo, New York; Syracuse, New York; Rochester, New York; and Corpus Christi, Texas in September 1996. Renewal applications were filed in the following markets during September 1996: Lawrence, Kansas; Topeka, Kansas; St. Joseph, Missouri; Amarillo, Texas; Lubbock, Texas; Sherman-Denison, Texas; Albany, New York; and Utica-Rome, New York. Renewal licenses were awarded in November 1996. Renewal applications will be filed in the following markets during September 1997: Abilene, Texas; Brownsville-Harlingen, Texas; Champaign-Urbana-Rantoul, Illinois; Decatur, Illinois; McAllen-Edinburgh-Mission, Texas; Midland, Texas; Odessa, Texas; Springfield, Illinois and Fayetteville-Springdale, Arkansas.

Under the auction process of an FCC order outlining the development of PCS, licenses with durations of ten years were awarded in 51 major markets. The license acquired by SBC for Tulsa, Oklahoma expires in June 2005 and is renewable upon application and a showing of compliance with FCC use and conduct standards.

Cable television systems generally are operated under nonexclusive permits or "franchises" granted by local governmental authorities. SBC operates its suburban Washington, D.C. cable systems under franchises granted by Montgomery County, Maryland, which expires in May 1998; Arlington County, Virginia, which expires in October 2000; and the City of Gaithersburg, Maryland, which expires in November 2001. During 1995, SBC received a franchise to operate a cable system in Richardson, Texas, which expires in September 2013. Each franchise is renewable upon a showing of compliance with established local and federal standards.

MAJOR CUSTOMER

No customer accounted for more than 10% of SBC's consolidated revenues in 1996 or 1995. Approximately 10% of SBC's 1994 consolidated revenues were from services provided to AT&T. No other customer accounted for more than 10% of consolidated revenues in 1994.

COMPETITION

Telecommunications

Information relating to competition in the telecommunications industry is contained in SBC's Annual Report to Shareowners for 1996 under the heading "Competition" beginning on page 14, and is incorporated herein by reference pursuant to General Instruction G(2).

International

Information relating to international competition is contained in SBC's Annual Report to Shareowners for 1996 under the heading "International" on page 17, and is incorporated herein by reference pursuant to General Instruction G(2).

Directory Advertising and Publishing

Yellow Pages faces competition from numerous directory publishing companies as well as other advertising media. There are over 50 other directory publishers in the five-state area producing yellow page directories.

Customer Premises Equipment and Other Equipment Sales

The Telephone Company and Telecom face significant price competition from numerous companies in marketing its telecommunications products.

RESEARCH AND DEVELOPMENT

The majority of company-sponsored basic and applied research is conducted at Bell Communications Research, Inc. (Bellcore). The Telephone Company owns a one-seventh interest in Bellcore along with the other six RHCs. In November 1996, SBC and the other RHCs announced their agreement to sell their interests in Bellcore to Science Applications International Corporation. Regulatory approvals of the transaction are pending, and if they are received it is expected to close in late 1997. The RHCs will retain the portion of Bellcore that coordinates the Federal Government's telecommunications requirements for national security and emergency preparedness.

Basic and applied research is also conducted at Southwestern Bell Technology Resources, Inc. (TRI), a subsidiary of SBC. TRI provides technology planning and evaluation services to SBC and its subsidiaries.

EMPLOYEES

As of December 31, 1996, SBC and its subsidiaries employed 61,540 persons. Approximately 67% of the employees are represented by the Communications Workers of America (CWA). A three-year contract and a 20-month contract (both covering an estimated 37,800 employees) were negotiated between the CWA and the Telephone Company, effective in August 1995 and December 1996 and each ending in August 1998. A three-year contract (covers an estimated 1,800 employees) was negotiated between the CWA and Yellow Pages, which became effective in December 1995. A 31-month contract (covers an estimated 800 employees) was negotiated between the CWA and Southwestern Bell Communications, Inc., which became effective in January 1997. The CWA also represents a small number of employees in other subsidiaries of SBC.

ITEM 2. PROPERTIES

The properties of SBC do not lend themselves to description by character and location of principal units. At December 31, 1996, 90% of the property, plant and equipment of SBC was owned by the Telephone Company. Network access lines represented 44% of the Telephone Company's investment in telephone plant; central office equipment represented 39%; land and buildings represented 9%; other miscellaneous property, comprised principally of furniture and office equipment and vehicles and other work equipment, represented 6%; and information origination/termination equipment represented 2%.

ITEM 3. LEGAL PROCEEDINGS

Six putative class action lawsuits are now pending against the Telephone Company in state and federal courts in Texas, Missouri, Oklahoma and Kansas involving the provision by the Telephone Company of maintenance and trouble diagnosis services relating to telephone inside wire located on customer premises in these states and in Arkansas. The actions allege that the Telephone Company's sales practices in connection with these services violated antitrust, fraud and/or deceptive trade practices statutes and seek unspecified damages together with punitive damages and attorney's fees. The Telephone Company believes it has several meritorious defenses to these claims and is vigorously contesting the allegations. Although the outcomes of these cases are uncertain, management believes that this litigation will not have a material adverse impact on SBC's results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of shareowners in the fourth quarter of the fiscal year covered by this report.

EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Age	Position	Held Since
Edward E. Whitacre Jr.	55	Chairman and Chief Executive Officer	1-90
Royce S. Caldwell	58	President - Southwestern Bell Operations	7-95
James W. Callaway	50	Senior Vice President - Strategic Planning	8-96
Cassandra C. Carr	52	Senior Vice President - Human Resources	5-94
William E. Dreyer	59	Senior Executive Vice President - External Affairs	7-93
James D. Ellis	53	Senior Executive Vice President and General Counsel	3-89
Charles E. Foster	60	President - SBC Operations	7-95
James S. Kahan	49	Senior Vice President - Corporate Development	7-93
Donald E. Kiernan	56	Senior Vice President, Treasurer and Chief Financial Officer	7-93

All of the above executive officers have held high-level managerial positions with SBC or its subsidiaries for more than the past five years. Executive officers are not appointed to a fixed term of office but hold office until their successors are elected and qualified.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The number of shareowners of record as of December 31, 1996 and 1995 were 800,465 and 840,378. Other information required by this Item is included in the SBC Annual Report to Shareowners for the fiscal year ended December 31, 1996 under the headings "Quarterly Financial Information" on page 33, "Selected Financial and Operating Data" on page 8, and "Stock Trading Information" on page 37, which are incorporated herein by reference pursuant to General Instruction G(2).

ITEM 6. SELECTED FINANCIAL DATA

Information required by this Item is included in the SBC Annual Report to Shareowners for the fiscal year ended December 31, 1996 under the heading "Selected Financial and Operating Data" on page 8 which is incorporated herein by reference pursuant to General Instruction G(2).

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Information required by this Item is included in the SBC Annual Report to Shareowners for the fiscal year ended December 31, 1996 on page 9 through page 19, which is incorporated herein by reference pursuant to General Instruction G(2).

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information required by this Item is included in the SBC Annual Report to Shareowners for the fiscal year ended December 31, 1996 on page 20 through page 34, which is incorporated herein by reference pursuant to General Instruction G(2).

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

No changes in accountants or disagreements with accountants on any accounting or financial disclosure matters occurred during the period covered by this report.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF REGISTRANTS

Information regarding executive officers required by Item 401 of Regulation S-K is furnished in a separate disclosure at the end of Part I of this report since the registrant did not furnish such information in its definitive proxy statement prepared in accordance with Schedule 14A. Other information required by this Item is included in the registrant's definitive proxy statement, dated March 11, 1997, under the heading "Board of Directors" beginning on page 3 which is incorporated herein by reference pursuant to General Instruction G(3).

ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item is included in the registrant's definitive proxy statement, dated March 11, 1997, under the headings "Compensation of Directors" on page 11 through page 12, and "Compensation Committee Interlocks and Insider Participation", "Executive Compensation", "Pension Plans", and "Contracts with Management" from page 16 through page 26, which are incorporated herein by reference pursuant to General Instruction G(3).

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by this Item is included in the registrant's definitive proxy statement, dated March 11, 1997, under the heading "Common Stock Ownership of Directors and Officers" from page 13 through 14, which is incorporated herein by reference pursuant to General Instruction G(3).

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Documents filed as a part of the report:

	Page
(1) Report of Independent Auditors	*
Financial Statements covered by Report of Independent Auditors:	
Consolidated Statements of Income	*
Consolidated Balance Sheets	*
Consolidated Statements of Cash Flows	*
Consolidated Statements of Shareowners' Equity	*
Notes to Consolidated Financial Statements	*

* Incorporated herein by reference to the appropriate portions of the registrant's annual report to shareowners for the fiscal year ended December 31, 1996. (See Part II.)

	Page
(2) Financial Statement Schedules Covered by Report of Independent Auditors:	
II - Valuation and Qualifying Accounts	18

Financial statement schedules other than those listed above have been omitted because the required information is contained in the financial statements and notes thereto, or because such schedules are not required or applicable.

(3) Exhibits:

Exhibits identified in parentheses below, on file with the Securities and Exchange Commission (SEC), are incorporated herein by reference as exhibits hereto. Unless otherwise indicated, all exhibits so incorporated are from File No. 1-8610.

Exhibit Number	
2-a	Agreement and Plan of Merger, among Pacific Telesis Group, SBC Communications Inc. and SBC Communications (NV) Inc., dated as of April 1, 1996. (Exhibit 2 to Form 8-K, dated April 1, 1996.)
3-a	Restated Certificate of Incorporation, filed with the Secretary of State of Delaware on April 29, 1996. (Exhibit 3 to Form 10-Q dated March 31, 1996.)
3-b	Bylaws dated January 31, 1996.
4-a	Pursuant to Regulation S-K, Item 601(b)(4)(iii)(A), no instrument which defines the rights of holders of long-term debt of the registrant or any of its consolidated subsidiaries is filed herewith. Pursuant to this regulation, the registrant hereby agrees to furnish a copy of any such instrument to the SEC upon request.

4-b	Support Agreement dated November 10, 1986, between SBC Communications Inc. (SBC) and SBC Communications Capital Corporation. (Exhibit 4-b to Registration Statement No. 33-11669.)
4-c	Form of Rights Agreement, dated as of January 27, 1989, between SBC and American Transtech, Inc., the Rights Agent, which includes as Exhibit B thereto the form of Rights Certificate. (Exhibit 4-a to Form 8-A dated February 9, 1989.)
4-d	Amendment of Rights Agreement, dated as of August 5, 1992, among SBC, American Transtech, Inc., and The Bank of New York, the successor Rights Agent, which includes the Form of Rights Certificate as an attachment identified as Exhibit B. (Exhibit 4-a to Form 8-K, dated August 7, 1992.)
4-e	Form of Rights Certificate (included in the attachment to the Amendment of Rights Agreement and identified as Exhibit B.) (Exhibit 4-b to Form 8-K, dated August 7, 1992.)
4-f	Second Amendment of Rights Agreement, dated June 15, 1994, between SBC and The Bank of New York, as successor Rights Agent. (Exhibit 4-e to Form 8-A/A, dated June 22, 1994.)
10-a	Senior Management Short Term Incentive Plan, revised January 1, 1991. (Exhibit 10-a to Form 10-K for 1990.)
10-b	Senior Management Long Term Incentive Plan, revised effective January 1, 1993. (Exhibit 10-b to Form 10-K for 1992.)
10-c	Senior Management Survivor Benefit Plan. (Exhibit 10-c to Form 10-K for 1986.)
10-d	Senior Management Supplemental Retirement Income Plan, revised effective January 1, 1993. (Exhibit 10-d to Form 10-K for 1992.)
10-e	Senior Management Deferred Compensation Plan (effective for Units of Participation Having a Unit Start Date Prior to January 1, 1988), revised July 30, 1993. (Exhibit 10.5 to Registration Statement No. 33-54795.)
10-f	Senior Management Deferred Compensation Plan of 1988 (effective for Units of Participation Having a Unit Start Date of January 1, 1988 or later), revised July 30, 1993. (Exhibit 10.6 to Registration Statement No. 33-54795.)
10-g	Senior Management Long Term Disability Plan. (Exhibit 10-f to Form 10-K for 1986.)
10-h	Senior Management Incentive Award Deferral Plan. (Exhibit 10-g to Form 10-K for 1986.)
10-i	Senior Management Financial Counseling Program. (Exhibit 10-h to Form 10-K for 1986.)
10-j	Senior Management Executive Health Plan, effective January 1, 1987. (Exhibit 10-i to Form 10-K for 1986.)
10-k	Retirement Plan for Non-Employee Directors. (Exhibit 10-t to Form 10-K for 1985.)
10-l	Form of Indemnity Agreement, effective July 1, 1986, between SBC and each of its directors and officers. (Appendix 1 to Definitive Proxy Statement dated March 18, 1987.)
10-m	Form of Change of Control Severance Agreements for all Officers of SBC and certain Officers of SBC's subsidiaries. (Exhibit 10-p to Form 10-K for 1988.)

10-n	Stock Savings Plan, revised effective July 26, 1996. (Exhibit 10-a to Form 10-Q dated June 30, 1996.)
10-o	1992 Stock Option Plan, revised effective July 26, 1996. (Exhibit 10-b to Form 10-Q dated June 30, 1996.)
10-p	Officer Retirement Savings Plan. (Exhibit 10.18 to Registration Statement No. 33-54795.)
10-q	1996 Stock and Incentive Plan, revised effective July 26, 1996. (Exhibit 10-d to Form 10-Q dated June 30, 1996.)
12	Computation of Ratios of Earnings to Fixed Charges.
13	Portions of SBC's Annual Report to shareowners for the fiscal year ended December 31, 1996. Only the information incorporated by reference into this Form 10-K is included in the exhibit.
21	Subsidiaries of SBC.
23	Consent of Ernst & Young LLP.
24	Powers of Attorney.
27	Financial Data Schedule.
99-a	Annual Report on Form 11-K for the Savings Plan for the year 1996 to be filed under Form 10 K/A.
99-b	Annual Report on Form 11-K for the Savings and Security Plan for the year 1996 to be filed under Form 10-K/A.

SBC will furnish to shareowners upon request, and without charge, a copy of the annual report to shareowners and the proxy statement, portions of which are incorporated by reference in the Form 10-K. SBC will furnish any other exhibit at cost.

(b) Reports on Form 8-K:

On November 11, 1996, SBC filed a Current Report on Form 8-K, reporting on Item 7, Financial Statements and Exhibits. In the Report, SBC provided pro forma combined condensed financial statements of SBC and PAC assuming the merger will be accounted for as a "pooling of interests".

SBC COMMUNICATIONS INC.
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
Allowance for Uncollectibles
Dollars in Millions

Schedule II - Sheet 1

COL. A	COL. B	COL. C		COL. D	COL. E
		Additions			
		(1)	(2)		
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts -Note (a)	Deductions -Note (b)	Balance at End of Period
Year 1996	**$ 134**	**227**	**54**	**267**	**$ 148**
Year 1995	$ 130	186	46	228	$ 134
Year 1994	$ 111	166	41	188	$ 130

(a) Amounts previously written off which were credited directly to this account when recovered.

(b) Amounts written off as uncollectible.

SBC COMMUNICATIONS INC.
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
Accumulated Amortization of Intangibles
Dollars in Millions

Schedule II - Sheet 2

COL. A	COL. B	COL. C		COL. D	COL. E
		Additions			
		(1)	(2)		
Description	Balance at Beginning of Period	Charged to Expense	Charged to Other Accounts	Deductions	Balance at End of Period
Year 1996	**$ 548**	**117**	**-**	**58(a)**	**$ 607**
Year 1995	$ 428	122	-	2	$ 548
Year 1994	$ 368	97	-	37	$ 428

(a) Primarily related to the disposition of Associated Directory Services, Inc.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on the 11th day of March, 1997.

SBC COMMUNICATIONS INC.

By /s/ Donald E. Kiernan
(Donald E. Kiernan
Senior Vice President, Treasurer and
Chief Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Principal Executive Officer:
Edward E. Whitacre, Jr.*
Chairman and
Chief Executive Officer

Principal Financial and
Accounting Officer:
Donald E. Kiernan
Senior Vice President, Treasurer
and Chief Financial Officer

Directors:

Edward E. Whitacre, Jr.*
Clarence C. Barksdale*
James E. Barnes*
Jack S. Blanton*
August A. Busch III*
Ruben R. Cardenas*
Martin K. Eby, Jr.*
Tom C. Frost*
Jess Hay*
B. R. Inman*
Charles F. Knight*
Haskell M. Monroe, Jr.*
Carlos Slim Helú*
Patricia P. Upton *

/s/ Donald E. Kiernan
(Donald E. Kiernan, as attorney-in-fact
and on his own behalf as Principal
Financial Officer and Principal
Accounting Officer)

March 11, 1997

* by power of attorney

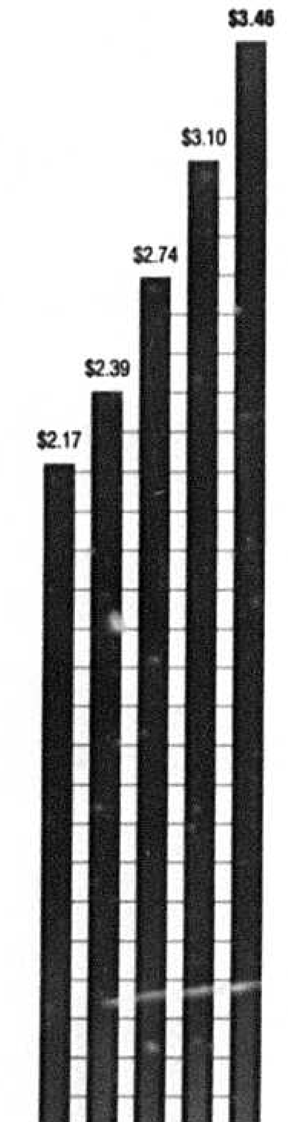
EXHIBIT 12

SBC COMMUNICATIONS INC.
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES
Dollars in Millions

	YEAR ENDED DECEMBER 31,				
	1996	1995	1994	1993	1992
Income Before Income Taxes, Extraordinary Loss and Cumulative Effect of Changes in Accounting Principles*	$ 3,093	$ 2,698	$ 2,300	$ 1,883	$ 1,701
Add: Interest Expense	472	515	480	496	530
1/3 Rental Expense	57	46	42	41	45
Adjusted Earnings	$ 3,622	$ 3,259	$ 2,822	$ 2,420	$ 2,276
Total Interest Charges	$ 493	$ 515	$ 480	$ 496	$ 530
1/3 Rental Expense	57	46	42	41	45
Adjusted Fixed Charges	$ 550	$ 561	$ 522	$ 537	$ 575
Ratio of Earnings to Fixed Charges	6.59	5.81	5.41	4.51	3.96

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

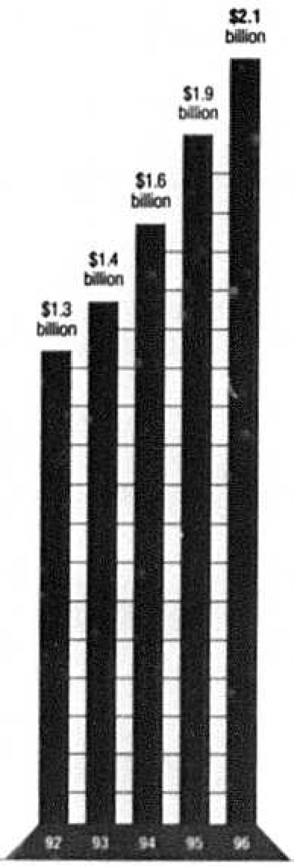
Nineteen ninety six was SBC's fifth consecutive year of double-digit earnings growth, the best record among the major telecommunications companies, including the regional Bells.



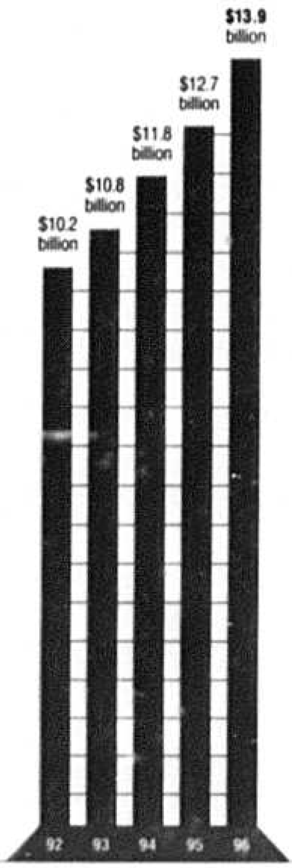
Earnings per share, 1992-1996
(before extraordinary items)

SBC Communications Inc. 1996 Annual Report

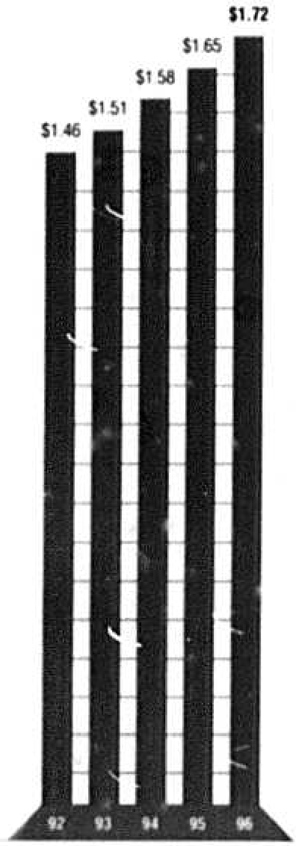
SBC's goal is to deliver superior return to shareowners through solid growth in revenues, cash flow and earnings. Over the past five years we have led the regional Bell companies in earnings and revenue *growth.*



Strong Earnings Growth
In 1996, SBC's earnings increased 11.2 percent from 1995 (before extraordinary items).



Best Revenue Growth
Expanding demand and effective marketing have produced SBC's outstanding revenue growth.



Continuing Dividend Growth
Strong earnings momentum allows SBC both to increase dividends and aggressively pursue growth opportunities.

Dear Fellow Investor:

SBC had a great year in 1996, achieving our fifth consecutive year of double-digit earnings growth. That's the best record among the major telecommunications companies. We continue to seek and take advantage of the tremendous growth opportunities in our industry.

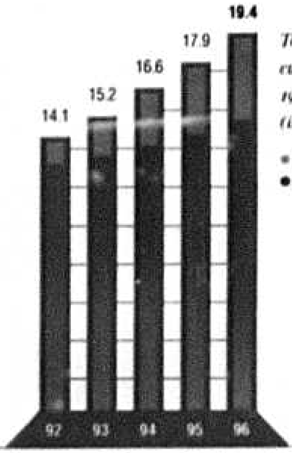
Edward E. Whitacre Jr.
Chairman of the Board and
Chief Executive Officer

One of those opportunities is our agreement to merge with Pacific Telesis Group. This merger agreement, the first under the new telecommunications law, reflects our fundamental growth strategy of identifying and seizing opportunities to enter attractive markets and provide a broad range of telecommunications services to excellent customer bases.

Combining SBC and Pacific Telesis is a positive move for customers, communities and shareowners. The merger would create a strong platform from which we will be better able to realize the potential of our deep local market presence and extensive wireline and wireless networks. The markets served by the combined companies would include California and Texas, the states that economists expect to be first and second in population growth over the next 10 years. And our combined border with Mexico offers the potential for increased international telecommunications traffic.

The merger is currently expected to close shortly after you receive this briefer-than-usual annual report; should the merger be completed, we will present the "new SBC" in a follow-up report to all of our shareowners.

Overall, the passage of the Telecommunications Act made 1996 a watershed year for our industry and our company. The Act is designed to open local markets to full competition, with competitors offering local service in our markets and SBC providing long-distance service. We worked hard for passage of the



Total domestic customer lines, 1992-1996 (in millions)

■ Wireless subscribers
● Access lines

In an increasingly competitive environment,
achieving growth
requires... access to fast-growing markets and some of the nation's premium telecommunications customers...

SBC's domestic customer base – 15 million access lines and 4.4 million wireless subscribers – has grown 7.8 percent a year, compounded annually, over the last five years – and we'll add over 16 million access lines and 33 million potential wireless customers when we merge with Pacific Telesis. Internationally, we serve (on a percentage of ownership basis) one million access lines, 307,000 wireless subscribers and 354,000 video subscribers in eight countries.

legislation, because it enables us to offer our customers the broad array of services and one-stop shopping they tell us they want. The Act has already sharply altered the competitive landscape. The announcement of our agreement with Pacific Telesis was followed by announcements of several other major mergers and scores of strategic initiatives, as competitors tried to position themselves for the new marketplace.

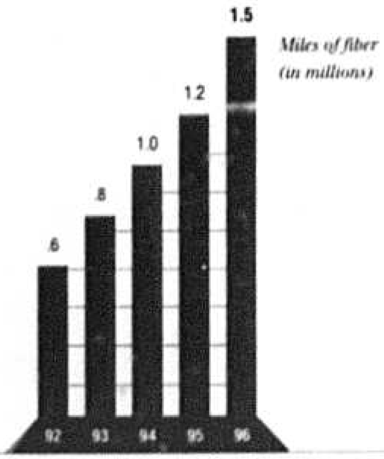
We also know that the implications of telecommunications reform reach well beyond the U.S. marketplace. Telecommunications has clearly become a global business; ultimately, the regulators of our industry in this country must have as one of their goals the enhancement of our industry's ability to compete around the world.

As events unfolded during the year, we became more convinced than ever that our local networks and market presence, combined with the experience we have gained in our international markets, not only enhance SBC's competitive positioning but also provide a superior platform for growth.

Those strengths are why, in an environment that offers tremendous potential for the best companies, I believe SBC's future is bright:

We are in an excellent growth industry. Growth trends are everywhere – in exploding demand for Internet access and high-speed data services; in the continuing strong growth of wireless services; in the accelerating movement toward work-at-home applications; and in the demand from our business customers for technology solutions, not just products, as networks expand and become more complex. Combine all that with tremendous overseas growth opportunities, especially in developing countries, and with the opportunities technological advances give us to reduce costs and improve quality and network speed for our customers – and there are few industries with so much potential for profitable growth.

We are well on our way to the deregulated marketplace. This transition involves many complex issues and requires decisions by federal and state regulators, but its momentum is unstoppable. We still have much hard work to do to secure the full promise of the Telecommunications Act, and you can expect us to challenge unfair regulatory decisions. But, I'm confident the outcome will be a deregulated marketplace that gives us a fair opportunity to serve all of our customers' telecommunications needs and service requirements.



In an increasingly competitive environment, *achieving growth* **requires... increasing our network investment to meet the growing demand for differentiated products and services...**

Since 1991, we've invested $12.1 billion in our networks, including $3 billion in 1996, to meet expanding consumer demand and continue our revenue growth. Ninety percent of our switches are digital, and our network encompasses 2,702 wireless cell sites and over 1,100 fiber Sonet rings. But we never forget we're providing solutions, not technology. That's why we were the first U.S. telecommunications company to offer a product that speeds Internet access by routing Internet calls to a separate network.

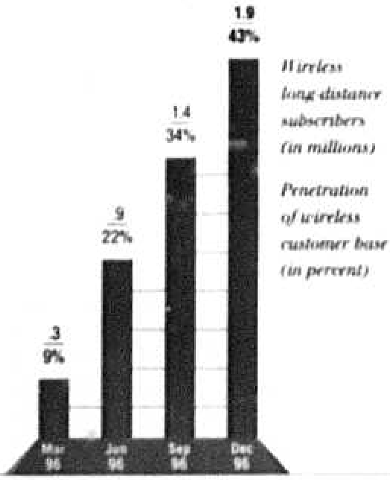
SBC is positioned for continued success. We are focused on growth, and we have the strategies, networks, competitive skills and dedicated employees to extend our record of outstanding performance. We're moving quickly to realize the opportunities the new legislation gives us to provide a full range of telecommunications services to customers in all of our markets.

Let me take a moment to review our 1996 performance highlights:

- **Double-digit earnings growth.** Earnings per share increased 11.6 percent, before an accounting change in 1995.
- **Record revenues.** Our revenues were up 9.7 percent to $13.9 billion. Strong revenue growth is the foundation of our success; we achieved it by responding to strong demand in our wireline, wireless and international markets and by effectively marketing our products and services.
- **Outstanding operating results. In our five-state telephone operations,** revenues increased a record 8.9 percent and normalized operating cash flow was up 10.4 percent to $4.3 billion. Access lines grew 5.1 percent for the year – our best access-line growth ever, up significantly over the record 4.5 percent growth in 1995. **Our domestic wireless business** added 739,000 customers during the year, and we achieved 10.8 percent penetration of our markets, the best among the major U.S. wireless companies. With 4.4 million customers in 63 markets, our wireless business is an excellent growth platform. We're realizing this potential by delivering an array of additional services – wireless and wireline long distance, Internet access, wireline local service – to our wireless customers outside our five-state region.

Unfortunately, the stock market did not reward us – or, in fact, most of the companies in our industry – for these accomplishments. During the year, our cumulative return to shareowners – including price appreciation and reinvested dividends – declined 6.3 percent. I'm not happy with that, and I know you're not.

But I do understand why investors treated our industry with caution in 1996. Investors tell me that industry change creates uncertainty as to when competitors will enter our markets, when we can offer long-distance



In an increasingly competitive environment,

achieving growth

requires... utilizing our networks and highly skilled employees to provide and support a full range of products...

SBC has moved aggressively to take advantage of new freedoms. We began by offering wireless long distance in all of our markets, and followed with wireline long distance and Internet access in our Cellular One markets. In our traditional five-state region, we're quickly signing the network interconnection agreements that are a major step toward gaining regulatory approval to add wireline long distance to our in-region product offerings.

service to our customers, and, in short, who will be the winners and losers in a more open, competitive marketplace. This uncertainty was clearly among the reasons most of the stocks in our industry lagged the market during 1996.

In the face of this change and uncertainty, it's reasonable to ask: **Can SBC maintain its growth momentum in light of increased competition?**

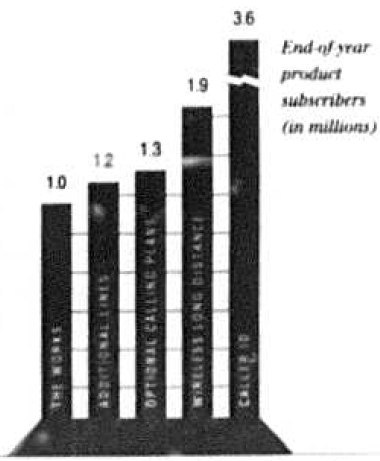
My answer is simple: Yes.

Let me tell you why I'm so confident.

First, SBC already has what it takes to succeed in competitive markets:

- *More than 65 million direct customer contacts* every month, and an employee workforce that gives us deep roots in our communities. This local presence is an important competitive edge, and we have an active, effective program to ensure that the diversity of our communities is reflected throughout the company.
- *Brands* – Southwestern Bell and Cellular One – that customers equate with quality, reliability and performance.
- *Expansive distribution channels* that reach new customers and offer convenient access to our products and services.
- *A strong marketing organization* skilled at identifying and effectively targeting new fast-growing markets.
- *A globally focused corporate development team* with the proven ability to identify and quickly acquire new opportunities for growth.
- *And a skilled management team focused on creating shareowner value* by making investments – in our employees, our networks, and our customer service operations – that grow revenues without sacrificing margins or cash flow.

Second, you can be confident in your investment in SBC because we don't just talk about growth. We deliver it. We've built our growth momentum by creating strategies that put customers at the center of our plans, then executing those plans well. The results are clear – in our industry-leading sales of additional services



In an increasingly competitive environment, *achieving growth* requires... **offering new products and services that meet our customers' growing telecommunications needs...**

Want a pizza? Dial a single number and your call automatically goes to the nearest store. That's IntelliNumber, and it's an example of new products – and new packaging – that meet specific customer needs. Of more than 300 products and services, about one-third are new in the last two years – including products like PC Back-Up, Video Conferencing, Freedom Link and Internet access. These new products join continuing success stories like Caller ID, with 37 percent residential penetration.

to our telephone customers; in the 8.6 percent growth of business lines in 1996, our largest increase ever; in strong additional line sales, which accounted for more than 60 percent of the increase in residential access lines in 1996; in the 45 percent penetration of our wireless customer base with our long-distance offering; in our accomplishments in international markets such as France, where we doubled our wireless customer base in 1996.

I expect this growth momentum, combined with the opportunities the deregulated marketplace will give us to increase revenues per customer by delivering a broader array of services to an expanding customer base, to be very positive for our shareowners. While we will inevitably lose some of our retail customers, most of those customers will still generate wholesale revenue, as competitors lease portions of our expansive local wireline networks. And our plans show continued strong margins, with increased spending on marketing and advertising offset by productivity gains as we continue to redesign our processes.

I view the future with great enthusiasm. We're in an excellent growth industry. We have strong positions in excellent markets. We have the local networks and operating systems that can provide the products and services our customers demand. We are dedicated to understanding and meeting the needs of our customers. And we have a talented team of employees who think like shareowners because most of them are. They're the primary reason why SBC, for the second year in a row, was voted the "most admired" telecommunications company in America by *Fortune* magazine.

Underlying these attributes is an unwavering focus on the creation of shareowner value. Throughout our organization, we know that the essential indicator of our success is our ability to build long-term value for our shareowners, and we measure everything we do by that yardstick.

On behalf of our employees and our Board of Directors, I would like to express our appreciation to you – our shareowners – for the confidence you have placed in us. We remain determined to justify that confidence with continued industry-leading performance in the years ahead.

Edward E. Whitacre Jr.

Edward E. Whitacre Jr.
Chairman of the Board and Chief Executive Officer
February 19, 1997

In an increasingly competitive environment, *achieving growth* requires... **building alliances at home and abroad that keep us at the forefront of new growth opportunities.**

In an increasingly complex environment, alliances extend our geographic, product, technology, distribution and marketing reach, allowing us to tap attractive domestic and international growth opportunities while controlling risk and costs. Examples include our partnership in France with CGE, which not only involves us in that nation's second national wireless network but also positions us to pursue other initiatives in Europe, and our domestic marketing alliance with Netscape to promote our Internet access service

Selected Financial and Operating Data

Dollars in millions except per share amounts

At December 31 or for the year ended:	**1996**	1995	1994	1993	1992	CAGR[6]
Financial Data						
Operating revenues	**$13,898**	$12,670	$11,772	$10,840	$10,150	8.2%
Operating expenses	**$10,342**	$ 9,633	$ 9,010	$ 8,480	$ 7,953	6.8%
Operating income	**$ 3,556**	$ 3,037	$ 2,762	$ 2,360	$ 2,197	12.8%
Interest expense	**$ 472**	$ 515	$ 480	$ 496	$ 530	–
Equity in net income of affiliates	**$ 244**	$ 156	$ 223	$ 250	$ 208	–
Income taxes	**$ 1,166**	$ 903	$ 785	$ 625	$ 568	–
Income before extraordinary loss and cumulative effect of changes in accounting principles[1]	**$ 2,101**	$ 1,889	$ 1,649	$ 1,435	$ 1,302	12.7%
Net income (loss)	**$ 2,101**	$ (930)	$ 1,649	$ (845)	$ 1,302	–
Earnings per common share:						
Income before extraordinary loss and cumulative effect of changes in accounting principles[1]	**$ 3.46**	$ 3.10	$ 2.74	$ 2.39	$ 2.17	12.4%
Net income (loss)	**$ 3.46**	$ (1.53)	$ 2.74	$ (1.41)	$ 2.17	–
Total assets	**$23,449**	$22,002	$26,005	$24,308	$23,810	–
Long-term debt	**$ 5,505**	$ 5,672	$ 5,848	$ 5,459	$ 5,716	–
Construction and capital expenditures	**$ 3,027**	$ 2,336	$ 2,350	$ 2,221	$ 2,144	9.0%
Free cash flow[2]	**$ 1,797**	$ 1,685	$ 1,618	$ 1,220	$ 1,470	5.2%
Dividends declared per common share	**$ 1.72**	$ 1.65	$ 1.58	$ 1.51	$ 1.46	4.2%
Book value per common share[3]	**$ 11.39**	$ 10.27	$ 13.72	$ 12.61	$ 15.47	–
Ratio of earnings to fixed charges	**6.59**	5.81	5.41	4.51	3.96	–
Return on weighted average shareowners' equity[4]	**31.22%**	24.18%	20.61%	19.29%	14.28%	–
Debt ratio[3]	**51.40%**	54.03%	47.36%	47.49%	42.99%	–
Operating Data*						
EBITDA[5]	**$ 5,796**	$ 5,207	$ 4,800	$ 4,367	$ 4,040	9.4%
Network access lines in service (000)	**14,955**	14,223	13,612	13,145	12,724	4.1%
Access minutes of use (000,000)	**58,668**	53,681	48,430	44,203	41,235	–
Long-distance messages (000,000)	**998**	988	1,018	1,012	974	–
Cellular customers (000)	**4,398**	3,659	2,992	2,049	1,413	–
Number of employees	**61,540**	59,300	58,800	58,400	59,500	–

*Operating data may be periodically revised to reflect the most current information available.

[1] 1995 Discontinuance of Regulatory Accounting; 1993 Early Extinguishment of Debt and Cumulative Effect of Changes in Accounting Principles.

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

[3] Shareowners' equity used in book value per common share and debt ratio calculations includes extraordinary loss and changes in accounting principles.

[4] Calculated using income before extraordinary loss and changes in accounting principles. These impacts are included in shareowners' equity.

[5] EBITDA is earnings before interest, taxes, depreciation and amortization (operating income plus depreciation and amortization). SBC considers EBITDA an important component in our economic value added systems as an indicator of the operational strength and performance of our businesses. It is provided as supplemental information and is not intended to be a substitute for operating income, net income or net cash provided by operating activities as a measure of financial performance or liquidity.

[6] Compound Annual Growth Rate from 1992 to 1996.

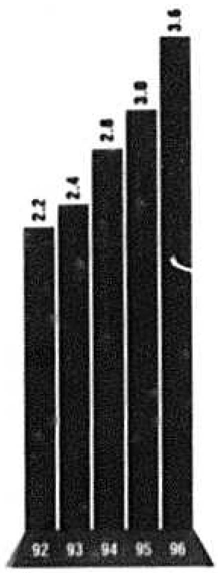
Management's Discussion and Analysis of Financial Condition and Results of Operations

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 and equipment, directory advertising and cable television services.

SBC's largest subsidiary is Southwestern Bell Telephone Company (Telephone Company), which provides telecommunications services over approximately 15 million access lines in Texas, Missouri, Oklahoma, Kansas and Arkansas (five-state area). The Telephone Company is subject to regulation by each of the state jurisdictions in which it operates and by the Federal Communications Commission (FCC). In 1996, the Telephone Company provided 70% of SBC's operating revenues and 65% of its net income.

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



Operating Income
(dollars in billions)

Operating income has grown by more than half since 1992.

Results of Operations

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

				Percent Change	
	1996	1995	1994	**1996 vs. 1995**	1995 vs. 1994
Operating revenues	**$13,898**	$12,670	$11,772	**9.7%**	7.6%
Operating expenses	**$10,342**	$ 9,633	$ 9,010	**7.4%**	6.9%
Income before extraordinary loss	**$ 2,101**	$ 1,889	$ 1,649	**11.2%**	14.6%
Extraordinary loss	**-**	$ (2,819)	-	**-**	-
Net income (loss)	**$ 2,101**	$ (930)	$ 1,649	**-**	-

SBC recognized an extraordinary loss in 1995 from the discontinuance of regulatory accounting at the Telephone Company.

The primary factors contributing to the increase in income before extraordinary loss in 1996 were growth in demand for services and products at the Telephone Company and Southwestern Bell Mobile Systems, Inc. (Mobile Systems).

The primary factors contributing to the increase in income before extraordinary loss in 1995 were growth in demand for services and products at the Telephone Company and Mobile Systems, and an after-tax gain of $111 associated with the merger of SBC's United Kingdom cable television operations into TeleWest P.L.C. (TeleWest). These factors were partially offset by an after-tax charge of $88 recorded in connection with SBC's strategic functional realignment.

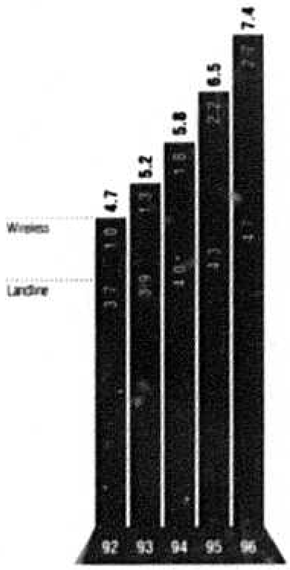
Items affecting the comparison of the operating results between 1996 and 1995, and between 1995 and 1994, are discussed in the following sections.

Management's Discussion and Analysis, continued

Dollars in millions except per share amounts

Operating Revenues Total operating revenues increased $1,228, or 9.7%, in 1996 and $898, or 7.6%, in 1995. Components of total operating revenues, including percentage changes from the prior year, are as follows:

				Percent Change	
	1996	1995	1994	**1996 vs. 1995**	1995 vs. 1994
Local service					
Landline	**$ 4,718**	$ 4,302	$ 4,039	**9.7%**	6.5%
Wireless	**2,676**	2,247	1,749	**19.1**	28.5
Network access					
Interstate	**2,145**	2,035	1,912	**5.4**	6.4
Intrastate	**1,099**	1,032	945	**6.5**	9.2
Long-distance service	**945**	841	917	**12.4**	(8.3)
Directory advertising	**914**	953	947	**(4.1)**	0.6
Other	**1,401**	1,260	1,263	**11.2**	(0.2)
	$13,898	$12,670	$11,772	**9.7%**	7.6%



Local Service
(dollars in billions)

Wireless local service revenues have nearly tripled in the last four years.

Local Service Landline revenues increased in 1996 and 1995 due to increases in demand, primarily increases in residential and business access lines and vertical services revenues. Total access lines increased 5.1% in 1996 and 4.5% in 1995. Nearly two-thirds of the access line growth occurred in Texas, which now has approximately 59% of the Telephone Company's access lines. Approximately 29% in 1996 and 25% in 1995 of access line growth was due to the sales of additional access lines to existing residential customers. Vertical services revenues, which include custom calling options, Caller ID and other enhanced services, increased by approximately 22% in 1996 and 17% in 1995.

Wireless revenues increased in 1996 and 1995 due primarily to the growth in the number of cellular customers of 20.2% and 22.3%. These increases were partially offset by slight declines in average revenue per customer. Market penetration at the end of 1996, 1995 and 1994 was 10.8, 9.0 and 7.4 customers per 100 residents in Mobile Systems' service areas.

Network Access Interstate network access revenues increased in 1996 and 1995 due largely to increases in demand for access services by interexchange carriers. Growth in revenues from end user charges, attributable to an increasing access line base, also contributed to the increases in both years. Net rate reductions under the FCC's revised price cap plan, which was effective August 1, 1995, partially offset these increases by approximately $65 in both 1996 and 1995.

Intrastate network access revenues increased in 1996 and 1995 due primarily to increases in demand, including usage by alternative intraLATA toll carriers.

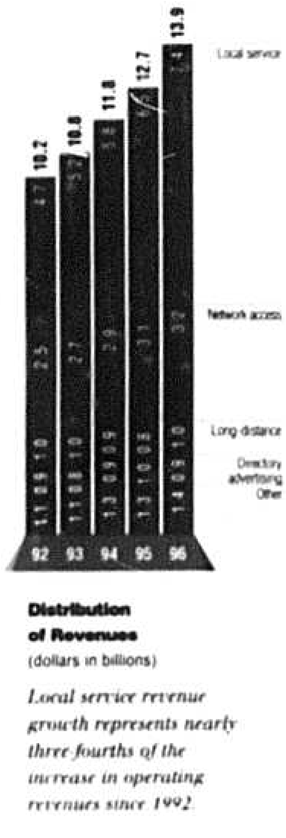
Long-Distance Service revenues increased in 1996 due principally to growth in Mobile Systems' wireless revenues including interLATA service that began in February 1996, and the inclusion in 1995 of the Telephone Company's intraLATA toll pool settlement payments and accruals for rate reductions relating to an appealed 1992 rate order in Oklahoma. The settlement of the appeals in October 1995 eliminated the need to continue these accruals. Absent these accruals and settlements, the Telephone Company's long-distance service revenues in 1996 would have decreased slightly due to the continuing impact of price competition from alternative intraLATA toll carriers. Competition had less impact on message volumes in 1996 due to the Telephone Company's deployment and promotion of optional long-distance calling plans, which generally result in higher message volumes but lower average revenue per message. This message volume trend is not expected to continue, because the Telephone Company plans to emphasize promotions of extended area local service plans. Long-distance service revenues decreased in 1995, reflecting competition-related decreases in residential message volumes and the impact of optional calling plans and extended area service plans.

Directory Advertising revenues decreased in 1996 as increased yellow pages revenues from Southwestern Bell Yellow Pages, Inc. were more than offset by the decrease resulting from the January 1996 sale of SBC's publishing contracts for GTE Corporation's service areas to GTE Directories. Excluding the impact of this sale, revenues increased 6.7% in 1996. Revenues in 1995 were relatively unchanged from 1994, reflecting the impact of increased competition.

Other operating revenues in 1996 and 1995 reflect the increased demand for the Telephone Company's non-regulated services and products, including Caller ID equipment, computer network services, contract programming and videoconferencing services. The increase in 1995 was offset by the decrease in equipment sales revenues at Mobile Systems resulting primarily from declining equipment prices.

Operating Expenses Total operating expenses increased $709, or 7.4%, in 1996 and $623, or 6.9%, in 1995. Components of total operating expenses, including percentage changes from the prior year, are as follows:

				Percent Change	
	1996	1995	1994	**1996 vs. 1995**	1995 vs. 1994
Cost of services and products	**$ 4,135**	$3,806	$3,747	**8.6%**	1.6%
Selling, general and administrative	**3,967**	3,657	3,225	**8.5**	13.4
Depreciation and amortization	**2,240**	2,170	2,038	**3.2**	6.5
	$10,342	$9,633	$9,010	**7.4%**	6.9%



Distribution of Revenues
(dollars in billions)

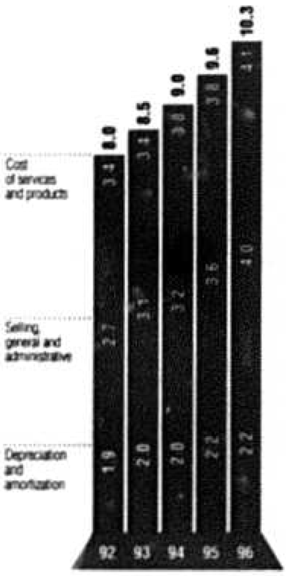
Local service revenue growth represents nearly three-fourths of the increase in operating revenues since 1992.

Cost of Services and Products increased in 1996 due to increases at the Telephone Company for network expansion and maintenance, employee compensation and demand-related increases, primarily increases in switching system software license fees. Other increases in 1996 related principally to growth at Mobile Systems. Similarly, in 1995, expenses increased primarily due to increases at the Telephone Company for network expansion and maintenance, employee compensation, and demand-related increases for enhanced services. These increases were mostly offset by decreased switching system software license fees at the Telephone Company, decreased equipment costs at Mobile Systems and the absence of expenses associated with SBC's United Kingdom cable television operations (discussed in Other Business Matters).

Selling, General and Administrative expenses increased in 1996 and 1995 primarily due to growth-related increases at Mobile Systems and the Telephone Company including increases in operating taxes, which include the Texas Infrastructure Fund assessments, contracted services, employee compensation, advertising and uncollectibles. The increase in 1995 was also attributable to the $139 charge for costs associated with the strategic realignment discussed in Other Business Matters.

Depreciation and Amortization increased in 1996 and 1995 due primarily to growth in plant levels and changes in plant composition, primarily at Mobile Systems and the Telephone Company. The increase in 1995 also reflects the effect of regulatory depreciation represcription at the Telephone Company.

Interest Expense decreased $45, or 8.3%, in 1996 due to lower interest rates on short-term debt, lower long-term debt levels, and capitalization of interest during construction required by the discontinuance of regulatory accounting in the third quarter of 1995. Under regulatory accounting, the Telephone Company accounted for a capitalization of both interest and equity costs during periods of construction as



Distribution of Expenses
(dollars in billions)

Expenses as a percentage of operating revenues decreased for the fourth consecutive year.

other income. Interest expense increased $35, or 7.3%, in 1995 due primarily to an increase in the average amount of debt outstanding to finance growth and acquisitions at Mobile Systems. Interest expense for 1995 also reflects debt issued for acquisitions in France and Chile.

Equity in Net Income of Affiliates increased $88 in 1996 and decreased $67 in 1995. The 1996 increase reflects increased income from Teléfonos de México, S.A. de C.V. (Telmex), Mexico's national telecommunications company, due to the relative stabilization of the peso, net gains on international affiliate transactions and improved results from SBC's investment in French cellular operations. Results for 1995 include losses on SBC's United Kingdom cable television operations, which were accounted for under the equity method prior to October 1995, and exchange losses on the non-peso denominated debt of Telmex. Results for 1996 and 1995 also reflect reductions in the translated amount of U.S. dollar earnings from Telmex's operations. Operational growth at Telmex in both years somewhat offsets these declines. The 1995 decrease is also attributable to SBC's investment in French cellular operations.

SBC's future earnings from Telmex will continue to be sensitive to changes in the value of the peso. SBC's investment in Telmex has been recorded under U.S. generally accepted accounting principles (GAAP), which exclude inflation adjustments and include adjustments for the purchase method of accounting. Beginning in 1997, SBC will use the U.S. dollar, instead of the peso, as the functional currency for its investment in Telmex due to the Mexican economy becoming highly inflationary as defined by GAAP. Earnings in 1997 will reflect SBC's reduced ownership percentage in Telmex as discussed in Note 5 to the financial statements. These changes are each expected to have a slightly negative impact on equity in net income from Telmex.

Other Income (Expense) – Net In 1995, SBC recognized a gain from the merger of SBC's United Kingdom cable television operations into TeleWest (see Note 12 to the financial statements). The gain was somewhat offset by expenses associated with the refinancing of long-term debt by the Telephone Company (see Note 6 to the financial statements).

Federal Income Tax expense increased $233, or 28.3%, in 1996 and $140, or 20.5%, in 1995, primarily due to higher income before income taxes. The elimination of excess deferred taxes and the reduction in the amortization of investment tax credits resulting from the discontinuance of regulatory accounting, as described in Note 2 to the financial statements, also contributed to the increases in both years.

Extraordinary Loss In 1995, SBC recorded an extraordinary loss of $2.8 billion from the discontinuance of regulatory accounting. The loss included a reduction in the net carrying value of telephone plant partially offset by the elimination of net regulatory liabilities of the Telephone Company (see Note 2 to the financial statements).

Operating Environment and Trends of the Business

Regulatory Environment The Telephone Company's telecommunications operations are subject to regulation by each of the five states in which it operates for intrastate services and by the FCC for interstate services. Through the end of 1996, the Telephone Company operated under incentive regulation or price caps for various services provided by the Telephone Company. In early 1997, Arkansas enacted legislation establishing incentive regulation for electing companies, replacing a settlement which had expired on December 31, 1996. Under price cap regulation, the Telephone Company is permitted to establish and modify prices, not to exceed the price caps, subject to expedited approval by the governing jurisdiction. Prices for some other services not specifically covered by price caps are also subject to regulatory approval.

The states set intrastate price caps for various periods, depending upon the state. Price caps set by the FCC are adjusted annually for inflation, a productivity offset and certain other changes in costs.

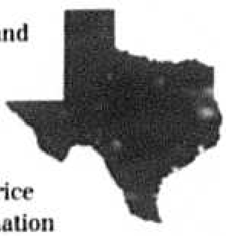
The productivity offset is a fixed percentage used to reduce price caps and is designed to encourage increased productivity.

Under the original FCC plan adopted in 1991, the Telephone Company applied a productivity offset of 3.3%, with sharing at various rates of return on investment. The FCC adopted revised price cap rules effective August 1, 1995. The new rules allowed a choice of three new productivity offsets, two of which provide for a sharing of profits with consumers above certain earnings levels. The Telephone Company elected a 5.3% productivity offset with no sharing.

The revised FCC price cap plan was intended to be an interim plan that would be revised in 1996. However, with the passage of the Telecommunications Act of 1996 (the Telecom Act), the FCC is conducting further proceedings to address various pricing and productivity issues, and is performing a broader review of price cap regulation in a competitive environment. Additionally, the FCC will also examine universal service and access charge rules during 1997. The Telecom Act and FCC actions taken to implement provisions of the Telecom Act are discussed further under the heading "Competition."

Following is a summary of significant state regulatory developments.

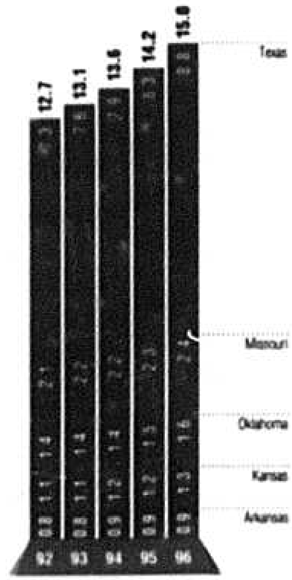
Texas The Public Utility Regulatory Act, which became effective in May 1995 (PURA), allows the Telephone Company and other Local Exchange Carriers (LECs) to elect to move from rate of return regulation to price regulation with elimination of earnings sharing. In September 1995, the Telephone Company notified the Texas Public Utility Commission (TPUC) that it elected incentive regulation under the new law. Basic local service rates are capped at existing levels for four years following the election. The TPUC is prohibited from reducing switched access rates charged by LECs to interexchange carriers for the four-year election period.



LECs electing price regulation must commit 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. PURA provided for a total fund assessment of $150 annually on all telecommunications providers in Texas for a ten-year period, half of which would be paid by the cellular and wireless industry. The provisions establishing different assessment rates for landline and cellular and wireless service providers were ruled unconstitutional under the Texas constitution in January 1996, and the lower rate was ordered to be applied to both categories of service providers, resulting in less than a $150 annual assessment. Based on this order, SBC's total annual payment is estimated to be approximately $35 to $45. The 1997 Texas legislative session is considering this issue with the goal of restoring the assessment to its original $150 annual amount. As a result, SBC's annual payment could increase.

PURA establishes local exchange competition by allowing other companies who desire to provide local exchange services to apply for certification by the TPUC, subject to certain build-out requirements, resale restrictions and minimum service requirements. PURA provides that the Telephone Company will remain the default carrier of "1 plus" intraLATA toll traffic until all LECs are allowed to carry interLATA long-distance.

In 1996, MCI Communications Corporation (MCI) and AT&T Corp. (AT&T) sued the state of Texas, alleging that PURA violates the Texas state constitution, claiming PURA establishes anticompetitive barriers designed to prevent MCI, AT&T and Sprint Corporation (Sprint) from providing local services within Texas. SBC is unable to predict the outcome of this proceeding.



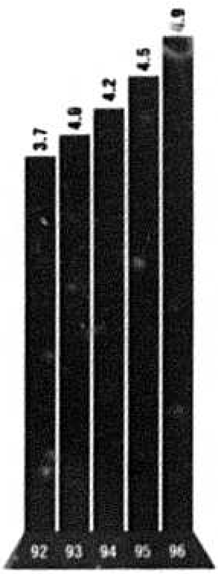
Access Lines
(in millions)

Texas accounts for nearly two-thirds of access line growth since 1992.

Dollars in millions except per share amounts

During 1996, the TPUC approved the application of Sprint to be granted a certificate of authority to provide local service, waiving the build-out requirements specified under state law for facilities-based certificates of authority. AT&T and MCI have also filed petitions with the FCC arguing the build-out requirements should be preempted; they have also requested TPUC grant them similar treatment as Sprint. TPUC has also requested the FCC issue an expedited ruling on whether PURA's build-out requirements are lawful under the Telecom Act.

More than 80 applications to provide competitive local service certification have been approved by the TPUC, with over 30 more applications pending approval. As a result, the Telephone Company expects competition to continue to develop for local service, but the specific financial impacts of this competition cannot be reasonably estimated until all required tariff filings are approved by the TPUC for the Telephone Company and other companies intending to provide local service.

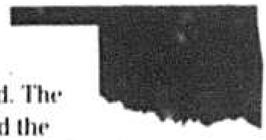


Business Access Lines
(in millions)

Business access lines have grown nearly one-third since 1992.

Missouri During 1996, the 1995 Cole County Circuit Court ruling which overturned the August 1994 settlement agreement reached among the Telephone Company, the Missouri Public Service Commission (MPSC) and the Office of Public Counsel (OPC) was upheld on appeal. The practical effect of this decision is to eliminate the prospective commitments under the settlement agreement, including a rate review moratorium and capital investment commitments. The decision has no immediate impact on the Telephone Company's current rates because they were approved by the MPSC in separate proceedings, which were not appealed.

Oklahoma On October 30, 1995, the Oklahoma Corporation Commission (OCC) approved a settlement that resolved pending court appeals of a 1992 rate order. Under the terms of the settlement, the Telephone Company paid a cash settlement of $170 to business and residential customers, and offered discounts with a retail value of $268 for certain Telephone Company services. Previously ordered rate reductions of $100 were lowered to $84, of which $57 had already been implemented. The settlement allowed the remaining $27 in rate reductions to be deferred, with approximately $9 becoming effective in 1996 and the remainder during 1997. The settlement also provides that no overearnings complaint can be filed against the Telephone Company until January 1, 1998. The Telephone Company began accruing for the order in 1992, and the settlement and associated costs had been fully accrued as of the end of the third quarter of 1995.



Competition Competition continues to expand in the telecommunications industry. 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. Accordingly, SBC faces increasing competition in significant portions of its business.

Domestic On February 8, 1996, the Telecom Act was enacted into law. The Telecom Act is intended to address various aspects of competition within, and regulation of, the telecommunications industry. The Telecom Act provides that all post-enactment conduct or activities which were subject to the consent decree, referred to as the Modification of Final Judgment (MFJ), issued at the time of AT&T's divestiture of the Regional Holding Companies (RHCs) are now subject to the provisions of the Telecom Act. Among other things, the Telecom Act also defines conditions SBC must comply with before being permitted to offer interLATA long-distance service within the five-state area and establishes certain terms and conditions intended to promote competition for the Telephone Company's local exchange services. Under terms of the Telecom Act, SBC may immediately offer interLATA long-distance outside the five-state area and over its wireless network both inside and outside the five-state area. Before being permitted to offer landline interLATA long-distance service in any state within the Telephone Company's five-state region, 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, requires favorable determinations that the Telephone Company has 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 the Telephone Company has a statement of terms and conditions effective in that state under which it offers the "competitive checklist" items. The FCC must also make favorable public interest and structural separation determinations. The Telecom Act directed the FCC to establish rules and regulations to implement the Telecom Act, and to preempt specific state law provisions under certain circumstances. The Telecom Act also allows RHCs to provide cable services over their own networks, but sets limits on RHCs acquiring interests in cable television operations in their telephone service areas.

In April 1996, the United States District Court for the District of Columbia issued its Opinion and Order terminating the MFJ and dismissing all pending motions related to the MFJ as moot. This ruling effectively ended 13 years of RHC regulation under the MFJ.

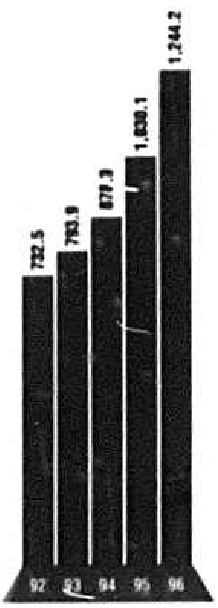
In August 1996, the FCC issued rules by which competitors could connect with LECs' networks, including those of the Telephone Company. Among other things, the rules addressed unbundling of network elements, pricing for interconnection and unbundled elements (Pricing Provisions), and resale of network services. The FCC rules were appealed by numerous parties, including SBC, other LECs, various state regulatory commissions and the National Association of Regulatory Utility Commissioners.

On October 15, 1996, the United States Court of Appeals for the Eighth Circuit (Eighth Circuit) issued an order to stay the FCC's Pricing Provisions and its rules permitting new entrants to "pick and choose" among the terms and conditions of approved interconnection agreements. The stay provides that it will remain in effect while the Eighth Circuit considers the validity of the rules. Other provisions of rules adopted by the FCC to implement the Telecom Act remain in effect.

The effects of the FCC rules 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 rules.

Recently enacted and pending state laws and regulations also allow increased competition for local exchange services. Companies wishing to provide competitive local service have filed numerous applications with state commissions throughout the Telephone Company's five-state area, and the commissions of each state have begun approving these applications. Under the Telecom Act, companies seeking to interconnect to the Telephone Company's network and exchange local calls must enter into interconnection agreements with the Telephone Company, which are then subject to approval by the appropriate state commission. Numerous interconnection agreements have been entered into and approved in the Telephone Company's five-state area. Several companies who have failed to agree on all interconnection terms have filed for arbitration before the state commissions.

In October 1996, the TPUC announced its ruling in a consolidated arbitration hearing between the Telephone Company and AT&T, MCI, MFS Communications Company, Inc. (MFS), Teleport Communications Group, and American Communications Services, Inc. The TPUC approved interim interconnection rates to be charged by the Telephone Company as well as certain other terms of interconnec-



Additional Lines
(in thousands)

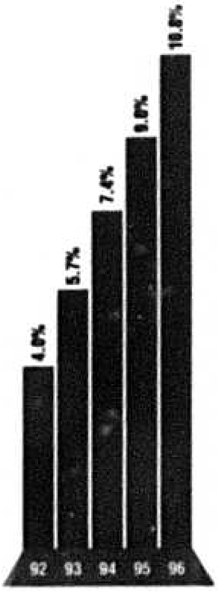
Additional lines growth represents nearly one-fourth of the increase in access lines since 1992.

tion between the parties. Some agreements containing the arbitrated rates and terms have been approved by the TPUC. The Telephone Company also filed revised cost support for the establishment of permanent rates with the TPUC, with an anticipated effective date of April 1997. The Telephone Company has filed suit in state and federal court maintaining that, for various reasons, the arbitration award is unlawful.

In Missouri, the MPSC issued orders on a consolidated arbitration hearing with AT&T and MCI and on selected items with MFS. Among other terms, the orders established discount rates for resale of Telephone Company services and prices for unbundled network elements. The Telephone Company has filed suit in federal court appealing the orders as unlawful.

As a result of the Telecom Act and conforming interconnection agreements, the Telephone Company expects in 1997 it will experience local exchange competition from multiple providers in various markets. SBC intends to use approved agreements in support of its application to the FCC to provide interLATA long-distance service in the Telephone Company's five-state area.

The Telephone Company also faces competition from various local service providers that bypass the local exchange network. Some of these providers have built fiber optic "rings" throughout large metropolitan areas to provide transport services (generally high-speed data) for large business customers and interexchange carriers. Others provide high-usage customers, particularly large businesses, alternative telecommunications links for voice and data, such as private network systems, shared tenant services or private branch exchange (PBX) systems (which are customer-owned and provide internal switching functions without using Telephone Company central office facilities). The extent of the economic incentive to bypass the local exchange network depends upon local exchange prices, access charges, regulatory policy and other factors. End user charges ordered by the FCC are designed in part to mitigate the effect of system bypass.



Wireless Penetration
(in percent)
SBC's wireless penetration leads the industry.

Competition continues to intensify in the Telephone Company's intraLATA toll markets. Principal competitors are interexchange carriers, which are assigned an access code (e.g., "10XXX") used by their customers to route intraLATA calls through the interexchange carrier's network, and resellers, which sell toll services obtained at bulk rates.

In 1993, the FCC adopted an order allocating radio spectrum and outlining the development of licenses for new personal communications services (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 acquired PCS licenses in the Major Trading Areas (MTAs) of Memphis, Tennessee; Little Rock, Arkansas; and Tulsa, Oklahoma. SBC is currently in the build out phase of PCS in 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. In an FCC auction concluded January 1997, SBC acquired eight additional PCS licenses for Basic Trading Areas (BTAs) that are within its five-state area. SBC plans to build out the new BTAs as part of its strategy to be a full service telecommunications provider. Including these new BTAs, SBC will be able to offer approximately 85% of its landline local service customers wireless service as well.

Companies granted licenses in MTAs and BTAs where SBC also provides service include subsidiaries and affiliates of AT&T, Sprint and other RHCs. The degree of competition which SBC will encounter from PCS providers will depend on the timing and extent of the build out of PCS services.

In the future, it is likely that additional competitors will emerge in the telecommunications industry. Cable television companies and electric utilities have expressed an interest in, or already are, providing telecommunications services. As a result of recent and prospective mergers and acquisitions within the industry, SBC may face competition from entities offering both cable TV and telephone services in the Telephone Company's operating territory. Interexchange carriers have been certified to provide local service, and a number of other major carriers have publicly announced their intent to provide local service in certain markets, some of which are in the Telephone Company's five-state area.

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

International Telmex was granted a concession in 1990 which expired in August 1996, as the sole provider of long-distance services in Mexico. In 1995, the Mexican Senate and Chamber of Deputies passed legislation encompassing a series of rules for the introduction of competition into the Mexican long-distance market previously issued by the Mexican Secretary of Communication and Transportation. Those rules specified that there would be an unlimited number of long-distance concessions and that Telmex was required to provide 60 interconnection points by January 1, 1997, and more than 200 interconnection points by the year 2000. Several large competitors have announced their intention to compete with Telmex and have filed for licenses, including a joint venture between AT&T and Alfa, a Mexican consortium, and Avantel, S.A., a joint venture between MCI and Grupo Financiero Banamex-Accival, Mexico's largest financial group. Balloting for presubscription of long-distance service has begun among Telmex's customers in selected areas.

Other Business Matters

Merger Agreement On April 1, 1996, SBC and Pacific Telesis Group (PAC) jointly announced a definitive agreement to merge an SBC subsidiary with PAC, in a transaction in which each share of PAC common stock will be exchanged for 0.733 of a share of SBC common stock, subject to adjustment as described in the merger agreement based upon an allocation of the costs, fees and expenses and other financial effects incurred or sustained in connection with obtaining state regulatory approvals. After the merger, PAC will be a wholly-owned subsidiary of SBC. The transaction is intended to be accounted for as a pooling of interests and to be a tax-free reorganization. On July 31, 1996, the shareowners of SBC and PAC each approved the transaction, which had previously been approved by the board of directors of each company. On November 5, 1996, the United States Department of Justice announced it would not initiate action on the merger under the Hart-Scott-Rodino antitrust law. The Public Service Commission of Nevada approved the merger on December 31, 1996. The FCC approved the transfer of licenses from PAC to SBC on January 31, 1997. The merger agreement is subject to certain other regulatory approvals, including approval by the California Public Utilities Commission, which has established a schedule for review of the transaction with approval expected before the end of the first quarter of 1997. If approvals are granted, the transaction is expected to close in the first half of 1997 (see Note 3 to the financial statements for more information).

Acquisitions and Dispositions SBC made several acquisitions and dispositions in 1996, 1995 and 1994.

SBC's acquisitions of two cable television systems located in Montgomery County, Maryland, and Arlington County, Virginia, the domestic wireless business of Associated Communications Corporation, adjacent properties in New York state and an indirect

10% ownership of a nationwide cellular company in France are described in Note 12 to the financial statements. In addition, the merger of SBC's United Kingdom cable television operations into TeleWest is described in Note 12 to the financial statements.

In October 1994, SBC sold an additional 25% of its United Kingdom cable television operations to Cox Cable Communications. From October 1994 until the merger into TeleWest in 1995, SBC's United Kingdom cable television investment was accounted for under the equity method. In December 1996, SBC made an additional investment to maintain its indirect 10% ownership in the French cellular company to offset dilution of its interest resulting from other equity sales.

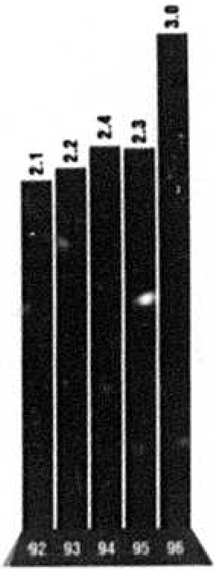
During 1995, SBC also purchased a wireless system serving Watertown, New York, and, as previously discussed, obtained at auction PCS licenses in Memphis, Tennessee; Little Rock, Arkansas; and Tulsa, Oklahoma. During 1996, SBC received several AT&T cellular networks in Arkansas in exchange for SBC's PCS licenses in Memphis, Tennessee and Little Rock, Arkansas and other consideration.

In 1995, SBC made an equity investment in Chile, purchasing 40% of VTR S.A. (VTR), a privately owned telecommunications holding company, for $317. VTR provides local, long-distance, wireless and cable television services in Chile and is 51% owned by Grupo Luksic, a large Chilean conglomerate. During 1996, SBC increased its holding in VTR to 49% through the purchase of shares from another minority shareowner. Also, in 1995, SBC made an equity investment in a South African wireless company.

Except as discussed in Note 12 to the financial statements, none of these transactions had a material effect on SBC's financial results in 1996, 1995 or 1994, nor does management expect them to have a material effect on SBC's financial position or results of operations in 1997.

Strategic Realignment In July 1995, SBC announced a strategic realignment which positions the company to be a single-source provider of telecommunications services. All of SBC's operations within the five-state area report to one management group, while international operations and domestic operations outside the five-state area report to a separate management group.

In connection with this realignment of functions, in 1995 SBC recognized $159 in selling, general and administrative expenses. These expenses include postemployment benefits for approximately 2,400 employees arising from the future consolidation of operations within the five-state area, streamlining support and administrative functions and integrating financial systems. Implementation of the realignment has been delayed due to the pending merger with PAC. The charge reduced net income for 1995 by approximately $88.



Capital Expenditures
(dollars in billions)

Capital expenditures have increased for growth and network modernization.

Liquidity and Capital Resources

Capital Expenditures and Other Commitments To provide high-quality communications services to its customers, SBC, particularly the Telephone Company and Mobile Systems, must make significant investments in property, plant and equipment. The amount of capital investment is influenced by regulatory commitments and demand for services and products.

SBC's capital expenditures totaled $3,027, $2,336 and $2,350 for 1996, 1995 and 1994. In 1996, Telephone Company and Mobile Systems expenditures increased 33% and 10%. The Telephone Company's increase in capital expenditures was due primarily to demand-related growth, network upgrades, customer contracted requirements, regulatory commitments and ISDN projects. Mobile Systems expenditures increased due primarily to continued growth.

SBC's total reported 1995 capital expenditures were relatively unchanged compared to 1994. Reported decreases in SBC's capital expenditures related to the change in accounting for its United Kingdom cable television operations were offset by capital expenditures increases of 5% at the Telephone Company and 6% at Mobile Systems.

In 1997, management expects total capital spending to increase from 1996, to between $3,300 and $3,500. Capital expenditures in 1997 will relate primarily to the continued evolution of the Telephone Company's network, including amounts agreed to under regulation plans, and continued build out of Mobile Systems' markets. SBC expects to fund ongoing capital expenditures with cash provided by operations.

The Telephone Company continues to make additional network and infrastructure improvements over periods ranging through 2001 to satisfy regulatory commitments. Total capital expenditures under these commitments can vary based on actual demand of potential end users. The Telephone Company anticipates spending approximately $150 to $200 in 1997 associated with these commitments.

Over the next few years, SBC is expecting to incur significant software expenditures for interconnection and customer number portability. The extent and timing of these expenditures will vary depending on the timing and nature of regulatory actions and corresponding or compensating network improvements.

Dividends Declared Dividends declared by SBC totaled $1,042 ($1.72 per share) in 1996, $1,004 ($1.65 per share) in 1995 and $954 ($1.58 per share) in 1994. Management's dividend policy considers both the expectations and requirements of shareowners, internal requirements of SBC and long-term growth opportunities.

Cash, Lines of Credit and Cash Flows SBC had $242 of cash and cash equivalents available at December 31, 1996. Commercial paper borrowings as of December 31, 1996, totaled $1,318. SBC has entered into agreements with several banks for lines of credit totaling $750, 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, 1996.

During 1996, as in 1995 and 1994, SBC's primary source of funds continued to be cash generated from operations, as shown in the Consolidated Statements of Cash Flows. In 1996, 1995 and 1994, cash provided by operating activities was reduced by the contribution of $57, $151 and $134 to the collectively bargained Voluntary Employee Beneficiary Association trusts for the future payment of postretirement benefits. Net cash provided by operating activities exceeded SBC's construction and capital expenditures during 1996, as in 1995 and 1994; this excess is referred to as free cash flow, a supplemental measure of liquidity. SBC generated free cash flow of $1,797, $1,685 and $1,618 in 1996, 1995 and 1994.

During 1995, the Telephone Company refinanced long-term debt with an aggregate principal amount of $450. Since June 1991, the Telephone Company has refinanced $3,632 in long-term debt.

Total Capital SBC's total capital consists of debt (long-term debt and debt maturing within one year) and shareowners' equity. Total capital increased $454 in 1996 and decreased $2,265 in 1995. The increase in 1996 was due to the reinvestment of earnings, partially offset by the acquisition of treasury shares. The decrease in 1995 was due to the effects of the discontinuance of regulatory accounting. Absent this extraordinary charge, total capital increased by $554 in 1995 due primarily to the reinvestment of earnings, partially offset by foreign currency translation adjustments resulting from the decline in the value of the Mexican peso.

Debt Ratio SBC's debt ratio (long-term debt and debt maturing within one year, as a percentage of total capital) was 51.4%, 54.0% and 47.4% at December 31, 1996, 1995 and 1994. The debt ratio is affected by the same factors that affect total capital. For 1995, the decrease in equity caused by the discontinuance of regulatory accounting increased the debt ratio by 9.2 percentage points.

Share Repurchases See Note 11 to the financial statements.

Employee Stock Ownership Plans See Note 9 to the financial statements.

Consolidated Statements of Income

Dollars in millions except per share amounts

	1996	1995	1994
Operating Revenues			
Local service	**$ 7,394**	$ 6,549	$ 5,788
Network access	**3,244**	3,067	2,857
Long-distance service	**945**	841	917
Directory advertising	**914**	953	947
Other	**1,401**	1,260	1,263
Total operating revenues	**13,898**	12,670	11,772
Operating Expenses			
Cost of services and products	**4,135**	3,806	3,747
Selling, general and administrative	**3,967**	3,657	3,225
Depreciation and amortization	**2,240**	2,170	2,038
Total operating expenses	**10,342**	9,633	9,010
Operating Income	**3,556**	3,037	2,762
Other Income (Expense)			
Interest expense	**(472)**	(515)	(480)
Equity in net income of affiliates	**244**	156	223
Other income (expense) - net	**(61)**	114	(71)
Total other income (expense)	**(289)**	(245)	(328)
Income Before Income Taxes and Extraordinary Loss	**3,267**	2,792	2,434
Income Taxes			
Federal	**1,057**	824	684
State and local	**109**	79	101
Total income taxes	**1,166**	903	785
Income Before Extraordinary Loss	**2,101**	1,889	1,649
Extraordinary Loss from Discontinuance of Regulatory Accounting, net of tax	**-**	(2,819)	-
Net Income (Loss)	**$ 2,101**	$ (930)	$ 1,649
Earnings Per Common Share:			
Income Before Extraordinary Loss	**$ 3.46**	$ 3.10	$ 2.74
Extraordinary Loss	**-**	(4.63)	-
Net Income (Loss)	**$ 3.46**	$ (1.53)	$ 2.74
Weighted Average Number of Common Shares Outstanding (in millions)	**607**	609	601

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

Consolidated Balance Sheets

Dollars in millions except per share amounts

	December 31, 1996	1995
Assets		
Current Assets		
Cash and cash equivalents	$ 242	$ 490
Short-term cash investments and other current assets	513	310
Accounts receivable - net of allowances for uncollectibles of $148 and $134	2,575	2,389
Material and supplies	116	131
Prepaid expenses	261	157
Deferred charges	205	202
Total current assets	3,912	3,679
Property, Plant and Equipment - Net	14,007	12,988
Intangible Assets - Net of Accumulated Amortization of $607 and $548	2,485	2,679
Investments in Equity Affiliates	1,955	1,586
Other Assets	1,090	1,070
Total Assets	$23,449	$22,002
Liabilities and Shareowners' Equity		
Current Liabilities		
Debt maturing within one year	$ 1,722	$ 1,680
Accounts payable and accrued liabilities	3,839	3,125
Dividends payable	259	251
Total current liabilities	5,820	5,056
Long-Term Debt	5,505	5,672
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	784	723
Postemployment benefit obligation	2,720	2,736
Unamortized investment tax credits	255	287
Other noncurrent liabilities	1,530	1,272
Total deferred credits and other noncurrent liabilities	5,289	5,018
Shareowners' Equity		
Preferred shares ($1 par value, 10,000,000 authorized: none issued)	–	–
Common shares ($1 par value, 2,200,000,000 authorized: issued 620,483,301 at December 31, 1996 and 1995)	620	620
Capital in excess of par value	6,322	6,298
Retained earnings	1,739	672
Guaranteed obligations of employee stock ownership plans	(229)	(272)
Foreign currency translation adjustment	(633)	(581)
Treasury shares (20,616,939 at December 31, 1996 and 11,122,981 at December 31, 1995, at cost)	(984)	(481)
Total shareowners' equity	6,835	6,256
Total Liabilities and Shareowners' Equity	$23,449	$22,002

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

	1996	1995	1994
Operating Activities			
Net income (loss)	**$ 2,101**	$ (930)	$ 1,649
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	**2,240**	2,170	2,038
Undistributed earnings from investments in equity affiliates	**(174)**	(94)	(134)
Provision for uncollectible accounts	**226**	178	153
Amortization of investment tax credits	**(32)**	(42)	(61)
Pensions and other postemployment expenses	**221**	138	202
Deferred income tax expense	**165**	463	(124)
Extraordinary loss, net of tax	**-**	2,819	-
Changes in operating assets and liabilities:			
Accounts receivable	**(412)**	(363)	(303)
Other current assets	**(106)**	33	(90)
Accounts payable and accrued liabilities	**660**	(186)	430
Other - net	**(65)**	(165)	208
Total adjustments	**2,723**	4,951	2,319
Net Cash Provided by Operating Activities	**4,824**	4,021	3,968
Investing Activities			
Construction and capital expenditures	**(3,027)**	(2,336)	(2,350)
Investments in affiliates	**(29)**	(16)	(22)
Purchase of short-term investments	**(1,005)**	(704)	(325)
Proceeds from short-term investments	**816**	587	390
Dispositions	**67**	-	141
Acquisitions	**(264)**	(538)	(1,182)
Net Cash Used in Investing Activities	**(3,442)**	(3,007)	(3,348)
Financing Activities			
Net change in short-term borrowings with original maturities of three months or less	**5**	(111)	463
Issuance of other short-term borrowings	**209**	91	36
Repayment of other short-term borrowings	**(134)**	(91)	(41)
Issuance of long-term debt	**209**	981	345
Repayment of long-term debt	**(393)**	(272)	(450)
Early extinguishment of debt and related call premiums	**-**	(465)	-
Issuance of common shares	**-**	-	40
Purchase of treasury shares	**(650)**	(216)	(447)
Issuance of treasury shares	**52**	82	18
Dividends paid	**(928)**	(888)	(837)
Net Cash Used in Financing Activities	**(1,630)**	(889)	(873)
Net increase (decrease) in cash and cash equivalents	**(248)**	125	(253)
Cash and cash equivalents beginning of year	**490**	365	618
Cash and Cash Equivalents End of Year	**$ 242**	$ 490	$ 365

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

Consolidated Statements of Shareowners' Equity

Dollars in millions except per share amounts

	Common Shares: Shares	Common Shares: Amount	Capital in Excess of Par Value	Retained Earnings	Guaranteed Obligations of Employee Stock Ownership Plans	Foreign Currency Translation Adjustment	Treasury Shares: Shares	Treasury Shares: Amount	Total
Balance, December 31, 1993	602,744,484	$603	$5,577	$1,891	$(353)	$ (40)	(2,510,404)	$(110)	$7,568
Net income for the year ($2.74 per share)	–	–	–	1,649	–	–	–	–	
Dividends to shareowners ($1.58 per share)	–	–	–	(954)	–	–	–	–	
Reduction of debt associated with Employee Stock Ownership Plans	–	–	–	–	38	–	–	–	
Foreign currency translation adjustment, net of income tax benefit of $197	–	–	–	–	–	(326)	–	–	
Issuance of common shares:									
Dividend Reinvestment Plan	3,334,668	3	134	–	–	–	–	–	
Other issuances	14,404,149	14	571	–	–	–	–	–	
Purchase of treasury shares	–	–	–	–	–	–	(11,301,550)	(447)	
Issuance of treasury shares	–	–	4	–	–	–	2,410,326	94	
Other	–	–	–	7	–	–	–	–	
Balance, December 31, 1994	620,483,301	620	6,286	2,593	(315)	(366)	(11,401,628)	(463)	8,355
Net income (loss) for the year ($(1.53) per share)	–	–	–	(930)	–	–	–	–	
Dividends to shareowners ($1.65 per share)	–	–	–	(1,004)	–	–	–	–	
Reduction of debt associated with Employee Stock Ownership Plans	–	–	–	–	43	–	–	–	
Foreign currency translation adjustment, net of income tax benefit of $116	–	–	–	–	–	(215)	–	–	
Purchase of treasury shares	–	–	–	–	–	–	(4,610,713)	(216)	
Issuance of treasury shares:									
Dividend Reinvestment Plan	–	–	19	–	–	–	2,730,666	111	
Other issuances	–	–	(7)	–	–	–	2,158,694	87	
Other	–	–	–	13	–	–	–	–	
Balance, December 31, 1995	620,483,301	620	6,298	672	(272)	(581)	(11,122,981)	(481)	6,256
Net income for the year ($3.46 per share)	–	–	–	2,101	–	–	–	–	
Dividends to shareowners ($1.72 per share)	–	–	–	(1,042)	–	–	–	–	
Reduction of debt associated with Employee Stock Ownership Plans	–	–	–	–	43	–	–	–	
Foreign currency translation adjustment, net of income tax benefit of $28	–	–	–	–	–	(52)	–	–	
Purchase of treasury shares	–	–	–	–	–	–	(13,099,709)	(650)	
Issuance of treasury shares:									
Dividend Reinvestment Plan	–	–	26	–	–	–	2,667,752	109	
Other issuances	–	–	(5)	–	–	–	937,999	38	
Other	–	–	3	8	–	–	–	–	
Balance, December 31, 1996	**620,483,301**	**$620**	**$6,322**	**$1,739**	**$(229)**	**$(633)**	**(20,616,939)**	**$(984)**	**$6,835**

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

Dollars in millions except per share amounts

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). SBC's subsidiaries and affiliates operate predominantly in the communications services industry, providing landline and wireless telecommunications services and equipment, directory advertising and cable television services both domestically and worldwide. Southwestern Bell Telephone Company (Telephone Company) is SBC's largest subsidiary, providing telecommunications services in Texas, Missouri, Oklahoma, Kansas and Arkansas (five-state area).

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.

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 resulted from federal tax law provisions that allowed for a reduction in income tax liability based on certain construction and capital expenditures. Corresponding income tax expense reductions were deferred and are being amortized as reductions in income tax expense over the life of the property, plant and equipment that gave rise to the credits.

Cash Equivalents Cash equivalents include all highly liquid investments with original maturities of three months or less.

Deferred Charges Certain sales commissions are deferred and amortized over 12 months. Directory advertising costs are deferred until the directory is published and advertising revenues related to these costs are recognized.

Material and Supplies New and reusable materials are carried principally at average original cost. Specific costs are used for large individual items. Nonreusable material is carried at estimated salvage value.

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 useful lives, generally ranging from 3 to 50 years. Prior to September 1995, the Telephone Company computed depreciation using certain straight-line methods and rates as prescribed by regulators. In accordance with composite group depreciation methodology, when a portion of the Telephone Company's depreciable property, plant and equipment is retired in the ordinary course of business, the gross book value is charged to accumulated depreciation.

Intangible Assets Intangible assets consist primarily of wireless and cable television 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, 1996 and 1995, amounts included in net intangible assets for licenses were $1,838 and $1,798. Management periodically reviews the carrying value and lives of all intangible assets based on expected future cash flows.

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.

Earnings Per Common Share The earnings per common share computation uses the weighted average number of common shares outstanding, including shares held by employee stock ownership plans. Common stock equivalents outstanding are not considered dilutive.

2. Discontinuance of Regulatory Accounting

In September 1995, the Telephone Company discontinued its application of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (FAS 71). FAS 71 requires depreciation of telephone plant using lives set by regulators which are generally longer than those established by unregulated companies, and deferral of certain costs and obligations based on regulatory actions (regulatory assets and liabilities). As a result of the adoption of price-based regulation for most of the Telephone Company's revenues and the acceleration of competition in the telecommunications market, management determined that the Telephone Company no longer met the criteria for application of FAS 71.

Upon discontinuance of FAS 71, the Telephone Company recorded a non-cash, extraordinary charge to net income of $2,819 (after a net deferred tax benefit of $1,764). This charge is comprised of an after-tax charge of $2,897 to reduce the net carrying value of telephone plant, partially offset by an after-tax benefit of $78 for the elimination of net regulatory liabilities. The components of the charge are as follows:

	Pre-tax	After-tax
Increase telephone plant accumulated depreciation	$4,657	$2,897
Adjust unamortized investment tax credits	(41)	(25)
Eliminate tax-related regulatory assets and liabilities	(88)	(88)
Eliminate other regulatory assets	55	35
Total	$4,583	$2,819

The increase in accumulated depreciation of $4,657 reflects the effects of adopting depreciable lives for many of the Telephone Company's plant categories which more closely reflect the economic and technological lives of the plant. The adjustment was supported by a discounted cash flow analysis which estimated amounts of telephone plant that may not be recoverable from future discounted cash flows. This analysis included consideration of the effects of anticipated competition and technological changes on plant lives and revenues. The adjustment also included elimination of accumulated depreciation deficiencies recognized by regulators and amortized as part of depreciation expense.

Following is a comparison of new lives to those prescribed by regulators for selected plant categories:

	Average Lives (in Years)	
	Regulator-Prescribed	Estimated Economic
Digital switch	17	11
Digital circuit	12	7
Copper cable	24	18
Fiber cable	27	20
Conduit	57	50

The increase in accumulated depreciation also includes an adjustment of approximately $450 to fully depreciate analog switching equipment scheduled for replacement. Remaining analog switching equipment is being depreciated using an average remaining life of four years.

Investment tax credits have historically been deferred and amortized over the estimated lives of the related plant. The adjustment to unamortized investment tax credits reflects the shortening of those plant lives discussed above. Regulatory assets and liabilities are related primarily to accounting policies used by regulators in the ratemaking process which are different from those used by non-regulated companies, predominantly in the accounting for income taxes and deferred compensated absences. These items are required to be eliminated with the discontinuance of accounting under FAS 71.

Additionally, in September 1995, the Telephone Company began accounting for interest on funds borrowed to finance construction as an increase in property, plant and equipment and a reduction of interest expense. Under the provisions of FAS 71, the Telephone Company accounted for a capitalization of both interest and equity costs allowed by regulators during periods of construction as other income and as an addition to the cost of plant constructed.

Dollars in millions except per share amounts

3. Merger Agreement

On April 1, 1996, SBC and Pacific Telesis Group (PAC) jointly announced a definitive agreement to merge an SBC subsidiary with PAC, in a transaction in which each share of PAC common stock will be exchanged for 0.733 of a share of SBC common stock (equivalent to approximately 314 million shares), subject to adjustment as described in the merger agreement based upon an allocation of the costs, fees and expenses and other financial effects incurred or sustained in connection with obtaining state regulatory approvals. After the merger, PAC will be a wholly-owned subsidiary of SBC. The transaction is intended to be accounted for as a pooling of interests and to be a tax-free reorganization. On July 31, 1996, the shareowners of SBC and PAC each approved the transaction, which had previously been approved by the board of directors of each company. On November 5, 1996, the United States Department of Justice announced it would not initiate action on the merger under the Hart-Scott-Rodino antitrust law. The Public Service Commission of Nevada approved the merger on December 31, 1996. The FCC approved the transfer of licenses from PAC to SBC on January 31, 1997. The merger agreement is subject to certain other regulatory approvals, including approval by the California Public Utilities Commission, which has established a schedule for review of the transaction with approval expected before the end of the first quarter of 1997. If approvals are granted, the transaction is expected to close in the first half of 1997.

The pro forma effect on SBC's consolidated statements of income had the merger occurred on January 1, 1994 is as follows:

Pro Forma (unaudited):	1996	1995	1994
Operating revenues	$23,486	$21,712	$21,007
Income before extraordinary loss and cumulative effect of accounting changes	$ 3,158	$ 2,937	$ 2,808
Net income (loss)	$ 3,243	$ (3,242)	$ 2,808
Income before extraordinary loss and cumulative effect of accounting changes per common share	$ 3.43	$ 3.19	$ 3.08
Net income (loss) per common share	$ 3.52	$ (3.52)	$ 3.08

This pro forma information does not include the effect of changes, which will be applied retroactively, to conform accounting methodologies between PAC and SBC for, among other items, pensions, postretirement benefits, sales commissions or merger transaction costs and certain deferred tax adjustments resulting from the merger. Based on information currently available, management estimates these changes will not materially affect the pro forma operating revenues or income before extraordinary loss and cumulative effect of accounting changes, and estimates the changes will reduce the pro forma 1995 extraordinary loss from discontinuance of regulatory accounting by between $100 and $200.

4. Property, Plant and Equipment

Property, plant and equipment is summarized as follows at December 31:

	1996	1995
Telephone Company plant		
In service	$ 29,035	$ 27,764
Under construction	312	245
	29,347	28,009
Accumulated depreciation and amortization	(17,588)	(16,882)
Total Telephone Company	11,759	11,127
Other	3,407	2,781
Accumulated depreciation and amortization	(1,159)	(920)
Total other	2,248	1,861
Property, plant and equipment—net	$ 14,007	$ 12,988

SBC's depreciation expense as a percentage of average depreciable plant was 6.8% for 1996 and 6.9% for 1995 and 1994.

Certain facilities and equipment used in operations are under operating or capital leases. Rental expenses under operating leases for 1996, 1995 and 1994 were $171, $138 and $126. At December 31, 1996, the future minimum rental payments under noncancelable operating leases for the years 1997 through 2001 were $105, $91, $94, $51 and $30 and $167 thereafter. Capital leases were not significant.

5. Equity Investments

Investments in affiliates accounted for under the equity method consist principally of 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 Class AA shares of Telmex stock, representing voting control of the company. The consortium is controlled by a group of Mexican investors led by an affiliate of Grupo Carso, S.A. de C.V. SBC also owns Class L shares which have limited voting rights. In January 1997, SBC sold a portion of its Class L shares so that its total equity investment was below 10% of Telmex's total equity capitalization.

In December 1994 SBC made an equity investment in French cellular operations (see Note 12). Other equity investments held by SBC include interests in Australian and Israeli operations which provide directory, cable television and other services, minority ownership of several domestic wireless properties and 1995 investments in Chilean telecommunications and South African wireless operations.

The following table is a reconciliation of SBC's investments in equity affiliates:

	1996	1995	1994
Beginning of year	**$1,586**	$1,748	$1,421
Additional investments	**292**	409	626
Equity in net income	**244**	156	223
Dividends received	**(70)**	(62)	(89)
Currency translation adjustment	**(94)**	(268)	(560)
Reclassifications and other adjustments	**(3)**	(397)	127
End of year	**$1,955**	$1,586	$1,748

Currency translation adjustments for 1995 and 1994 primarily reflect the effect on SBC's investment in Telmex resulting from the decline in the value of the Mexican peso relative to the U.S. dollar during those years. Beginning in 1997, SBC will use the U.S. dollar, instead of the peso, as the functional currency for its investment in Telmex due to the Mexican economy becoming highly inflationary.

Other adjustments for 1995 reflect the change to the cost method of accounting in October 1995 for SBC's United Kingdom cable television operations (see Note 12) and the reclassification of a credit deferred in 1994 pending completion of the French cellular investment in 1995. Other adjustments for 1994 reflect the change to the equity method of accounting for SBC's previously consolidated United Kingdom cable television operations.

Undistributed earnings from equity affiliates were $837 and $663 at December 31, 1996 and 1995.

6. Debt

Long-term debt, including interest rates and maturities, is summarized as follows at December 31:

			1996	1995
Telephone Company debentures				
	4.50%-5.88%	1997-2006	**$ 600**	$ 600
	6.12%-6.88%	2000-2024	**1,200**	1,200
	7.00%-7.75%	2009-2026	**1,500**	1,500
	8.30%	1996	**-**	200
			3,300	3,500
Unamortized discount—net of premium			**(29)**	(31)
Total Telephone Company debentures			**3,271**	3,469
Telephone Company notes				
	5.04%-7.67%	1997-2010	**1,118**	950
Unamortized discount			**(6)**	(5)
Total Telephone Company notes			**1,112**	945
Other notes				
	5.70%-6.98%	1996-2007	**299**	306
	7.00%-8.81%	1996-2020	**1,021**	1,129
			1,320	1,435
Unamortized discount			**(14)**	(21)
Total other notes			**1,306**	1,414
Guaranteed obligations of employee stock ownership plans[1]				
	8.41%-9.40%	1996-2000	**208**	260
Capitalized leases			**12**	26
Total long-term debt, including current maturities			**5,909**	6,114
Current maturities			**(404)**	(442)
Total long-term debt			**$5,505**	$5,672

(1) See Note 9.

During 1995, SBC refinanced long-term debentures of the Telephone Company. Costs of $18 associated with refinancing are included in other income (expense) - net, with related income tax benefits of $7 included in income taxes in SBC's Consolidated Statements of Income.

At December 31, 1996, the aggregate principal amounts of long-term debt scheduled for repayment for the years 1997 through 2001 were $404, $302, $447, $323 and $270. As of December 31, 1996, SBC was in compliance with all covenants and conditions of instruments governing its debt.

Dollars in millions except per share amounts

Debt maturing within one year consists of the following at December 31:

	1996	1995
Commercial paper	$1,318	$1,238
Current maturities of long-term debt	404	442
Total	$1,722	$1,680

The weighted average interest rate on commercial paper debt at December 31, 1996 and 1995 was 5.5% and 5.7%. SBC has entered into agreements with several banks for lines of credit totaling $750. All of these agreements may be used to support commercial paper borrowings and are on a negotiated fee basis with interest rates negotiable at time of borrowing. There were no borrowings outstanding under these lines of credit at December 31, 1996.

7. Financial Instruments

The carrying amounts and estimated fair values of SBC's long-term debt, including current maturities, are summarized as follows at December 31:

	1996		1995	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Telephone Company debentures	$3,271	$3,208	$3,469	$3,553
Telephone Company notes	1,112	1,115	945	965
Other notes	1,306	1,338	1,414	1,468
Guaranteed obligations of employee stock ownership plans	208	219	260	280

The fair values of SBC's long-term debt were estimated based on quoted market prices, where available, or on discounted future cash flows using current interest rates. 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. Short-term investments were $432 and $243 at December 31, 1996 and 1995. The carrying amounts of cash and cash equivalents and short-term investments approximate fair values.

8. Income Taxes

Significant components of SBC's deferred tax liabilities and assets are as follows at December 31:

	1996	1995
Depreciation and amortization	$2,313	$2,166
Other	598	556
Gross deferred tax liabilities	2,911	2,722
Employee benefits	1,485	1,373
Unamortized investment tax credits	96	108
Other	563	604
Gross deferred tax assets	2,144	2,085
Deferred tax assets valuation allowance	96	110
Net deferred tax liabilities	$ 863	$ 747

As a result of implementing Financial Accounting Standards No. 109, "Accounting for Income Taxes," in 1993, the Telephone Company recorded a net reduction in its deferred tax liability. This reduction was substantially offset by the establishment of a net regulatory liability, which was eliminated with the discontinued application of FAS 71 in September 1995 (see Note 2).

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:

	1996	1995	1994
Federal			
Current	$ 940	$421	$ 867
Deferred—net	149	445	(122)
Amortization of investment tax credits	(32)	(42)	(61)
	1,057	824	684
State and local			
Current	92	61	103
Deferred—net	17	18	(2)
	109	79	101
Total	$1,166	$903	$ 785

A reconciliation of income tax expense and the amount computed by applying the statutory federal income tax rate (35%) to income before income taxes and extraordinary loss is as follows:

	1996	1995	1994
Taxes computed at federal statutory rate	**$1,143**	$977	$852
Increases (decreases) in taxes resulting from:			
Amortization of investment tax credits over the life of the plant that gave rise to the credits—1996 and 1995, net of deferred tax	**(21)**	(39)	(61)
Excess deferred taxes due to rate change	**-**	(24)	(35)
Depreciation of telephone plant construction costs previously deducted for tax purposes—net	**-**	14	18
State and local income taxes—net of federal tax benefit	**71**	51	66
Other—net	**(27)**	(76)	(55)
Total	**$1,166**	$903	$785

9. Employee Benefits

Pensions Substantially all employees of SBC are covered by noncontributory pension and death benefit plans. The pension benefit formula used in the determination of pension cost is based on a flat dollar amount per year of service according to job classification for non-management employees and a stated percentage of adjusted career income for management employees.

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 and real estate.

Net pension cost is composed of the following:

	1996	1995	1994
Service cost—benefits earned during the period	**$ 182**	$ 163	$ 157
Interest cost on projected benefit obligation	**514**	486	464
Actual return on plan assets	**(1,209)**	(2,017)	149
Other—net	**642**	1,495	(670)
Net pension cost	**$ 129**	$ 127	$ 100

The following table sets forth the pension plans' funded status and the amounts included in SBC's Consolidated Balance Sheets at December 31:

	1996	1995
Fair value of plan assets	**$ 9,293**	$ 8,529
Less: Actuarial present value of projected benefit obligation	**7,376**	7,276
Plan assets in excess of projected benefit obligation	**1,917**	1,253
Unrecognized prior service cost	**842**	950
Unrecognized net gain	**(2,447)**	(1,608)
Unamortized transition asset	**(605)**	(686)
Accrued pension cost	**$ (293)**	$ (91)

Significant assumptions used in developing pension information include:

	1996	1995	1994
Discount rate for determining projected benefit obligation	**7.5%**	7.25%	7.5%
Long-term rate of return on plan assets	**8.0%**	8.0%	8.0%
Composite rate of compensation increase	**4.6%**	4.6%	4.6%

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.

The actuarial estimate of the accumulated benefit obligation does not include assumptions about future compensation levels. The accumulated benefit obligation as of December 31, 1996, was $6,562, of which $5,512 was vested. At December 31, 1995, these amounts were $6,350 and $5,607.

In December 1996, under the provisions of Section 420 of the Internal Revenue Code, SBC transferred $73 in pension assets to a health care benefit account for the reimbursement of retiree health care benefits paid by SBC.

Supplemental Retirement Plans SBC also provides senior and middle management employees with nonqualified, unfunded supplemental retirement and savings plans. The plans allow employees to defer and invest portions of their current compensation for later payment, and SBC matches a percentage of the compensation deferral according to thresholds specified in the plans. Expenses related to these plans were $69, $68 and $68 in 1996, 1995 and 1994. Liabilities of $626 and $584 related to these plans have been included in other noncurrent liabilities in SBC's Consolidated Balance Sheets at December 31, 1996 and 1995.

Dollars in millions except per share amounts

Postretirement Benefits SBC provides certain medical, dental and life insurance benefits to substantially all retired employees and accrues actuarially determined postretirement benefit costs as active employees earn these benefits.

Postretirement benefit cost is composed of the following:

	1996	1995	1994
Service cost—benefits earned during the period	$ 55	$ 48	$ 49
Interest cost on accumulated postretirement benefit obligation (APBO)	230	228	225
Actual return on assets	(188)	(202)	(16)
Other—net	126	144	(24)
Postretirement benefit cost	$ 223	$ 218	$234

SBC maintains collectively bargained Voluntary Employee Beneficiary Association (CBVEBA) trusts to fund postretirement benefits. During 1996 and 1995, SBC contributed $57 and $151 into the CBVEBA trusts to be ultimately used for the payment of postretirement benefits. Assets consist principally of stocks and U.S. government and corporate bonds.

The following table sets forth the plans' funded status and the amount included in SBC's Consolidated Balance Sheets at December 31:

	1996	1995
Retirees	$1,743	$1,828
Fully eligible active plan participants	438	353
Other active plan participants	1,025	1,063
Total APBO	3,206	3,244
Less: Fair value of plan assets	1,155	923
APBO in excess of plan assets	2,051	2,321
Unrecognized prior service cost	(68)	(77)
Unrecognized net gain	752	459
Accrued postretirement benefit obligation	$2,735	$2,703

In December 1995, the life insurance benefit plan and the medical plan were merged. Also in December 1995, $109 of postretirement life insurance assets were transferred to the CBVEBA trusts. The fair value of plan assets restricted to the payment of life insurance benefits only were $265 and $245 at December 31, 1996 and 1995. At December 31, 1996 and 1995, the accrued life insurance benefits included in the accrued postretirement benefit obligation were $107 and $91.

The assumed medical cost trend rate in 1997 is 8%, decreasing gradually to 5.5% in 2002, prior to adjustment for cost-sharing provisions of the plan for active and certain recently retired employees. The assumed dental cost trend rate in 1997 is 6.25%, 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, 1996 by $135 and increases the aggregate service and interest cost components of the net periodic postretirement benefit cost for the year ended December 31, 1996 by approximately $16. 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 were the same as those used in developing the pension information.

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 two leveraged Employee Stock Ownership Plans (ESOPs) as part of the existing savings plans. The ESOPs were funded with notes issued by the savings plans, the proceeds of which were used to purchase shares of SBC's common stock in the open market. The notes are unconditionally guaranteed by SBC and will be repaid with SBC contributions to the savings plans, dividends paid on SBC shares and interest earned on funds held by the ESOPs.

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. 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:

	1996	1995	1994
Benefit expense—net of dividends and interest income	$23	$23	$26
Interest expense—net of dividends and interest income	11	14	17
Net ESOP expense	34	37	43
Additional savings plans stock purchases	-	-	(1)
Total expense	$34	$37	$42
Company contributions for ESOPs	$37	$40	$40
Dividends and interest income for debt service	$29	$28	$27

SBC shares held by the ESOPs are summarized as follows at December 31:

	1996	1995
Unallocated	6,401,613	7,922,909
Committed to be allocated	13,554	25,353
Allocated to participants	11,350,052	10,183,433
Total	17,765,219	18,131,695

10. Stock Option Plans

Various SBC plans authorize the issuance of stock options to senior and other management employees to purchase up to 69 million shares of SBC common stock, of which 32 million have been issued. Options issued through December 31, 1996 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 plan, vesting of options occurs one to three years from the date of grant.

In 1996 SBC elected to continue measuring compensation cost for these plans using the intrinsic value based method of accounting prescribed in the Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation" (FAS 123). Accordingly, no compensation cost has been recognized for the stock option plans. 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 1996 and 1995 as defined by FAS 123, SBC's net income (loss) would have been $2,075 and $(959) and net income (loss) per share would have been $3.42 and $(1.54).

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 three 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 1996 and 1995: risk-free interest rate of 6.37% and 6.31%; dividend yield of 3.45% and 3.45%; expected volatility factor of 16% and 18%; and expected option life of 4.5 and 4.6 years.

Information related to options is summarized below:

	Number of Options	Weighted Average Exercise Price Per Option
Outstanding at December 31, 1993 (2,297,538 exercisable)	9,794,665	$36.30
Granted	5,226,551	41.71
Exercised	(386,331)	31.34
Forfeited/Expired	(498,315)	38.09
Outstanding at December 31, 1994 (5,352,273 exercisable)	14,136,570	38.37
Granted	8,101,794	47.19
Exercised	(1,413,276)	34.79
Forfeited/Expired	(362,691)	42.11
Outstanding at December 31, 1995 (8,539,081 exercisable)	20,462,397	42.04
Granted	8,287,849	50.09
Exercised	(816,179)	37.26
Forfeited/Expired	(445,448)	45.89
Outstanding at December 31, 1996 (11,962,332 exercisable)	**27,488,619**	**$44.55**

Information related to options outstanding at December 31, 1996:

Exercise Price Range	$27.00-39.99	$40.00-44.99	$45.00-57.38
Number of options:			
Outstanding	3,283,091	8,500,278	15,705,250
Exercisable	3,280,699	7,166,462	1,515,171
Weighted average exercise price:			
Outstanding	$ 32.73	$ 41.23	$ 48.81
Exercisable	$ 32.72	$ 41.12	$ 47.36
Weighted average remaining contractual life	5.6 years	7.2 years	6.2 years

The weighted-average grant-date fair value of each option granted during the year was $8.32 for 1996 and $8.45 for 1995.

11. Shareowners' Equity

Share Repurchases From time to time, SBC has repurchased shares of common stock for distribution, to offset shares distributed through its employee benefit plans and SBC's Dividend Reinvestment Plan, in connection with certain acquisitions or for general purposes. In January 1997, the Board of Directors of SBC (Board) rescinded all authorizations to repurchase common stock.

Guaranteed Obligations of Employee Stock Ownership Plans SBC's guarantee of the ESOPs' notes issued by the savings plans (see Note 9) is presented as a reduction to shareowners' equity and an increase in long-term debt. The amount of debt guaranteed decreases as the notes are repaid.

Shareowners' Rights Plan The Shareowners' Rights Plan (Plan) becomes operative in certain events involving the acquisition of 20% or more of SBC's common stock by any person or group in a transaction not approved by the Board, or the designation by the Board of a person or group owning more than 10% of the outstanding stock as an adverse person, as provided in the Plan. Upon the occurrence of these events, each right, unless redeemed by the Board, generally entitles the holder (other than the holder triggering the right) to purchase an amount of common stock of SBC (or, in certain circumstances, of the potential acquiror) having a value equal to two times the exercise price of $160. The rights expire in January 1999. After giving effect to a stock split in May 1995, effected in the form of a stock dividend, each share of common stock represents one-half of a right.

Dollars in millions except per share amounts

The rights have certain antitakeover effects. The rights will cause substantial dilution to a person or group that attempts to acquire SBC on terms not approved by the Board.

The rights should not interfere with any merger or other business combination approved by the Board since the rights may be redeemed.

12. Acquisitions and Dispositions

In October 1995, SBC combined its United Kingdom cable television operations with those of TeleWest Communications, P.L.C., a publicly held joint venture between Telecommunications, Inc. and U S WEST, Inc. The resulting entity, TeleWest P.L.C. (TeleWest), is the largest cable television operator in the United Kingdom. SBC owns approximately 15% of the new entity and accounts for its investment using the cost method of accounting. Restrictions expiring over the next four years exist on the sale of SBC's interest in TeleWest. SBC recorded an after-tax gain of $111 associated with the combination.

During 1994, SBC purchased two cable television systems located in Montgomery County, Maryland, and Arlington County, Virginia, for $650. Also in 1994, SBC acquired the domestic wireless business of Associated Communications Corporation (Associated) for $705, including wireless systems in Buffalo, Rochester, Albany and Glens Falls, New York, and in two separate transactions purchased smaller wireless systems in Syracuse, Utica and Ithaca, New York, which are adjacent to the Associated properties.

In October 1994, SBC formed a strategic alliance with Compagnie Génerale des Eaux (CGE), a French diversified public company. Through this alliance, SBC acquired an indirect 10% ownership of Société Francaise du Radiotelephone S.A. (SFR), a nationwide cellular company in France, and minority ownership interests in other communications businesses controlled by CGE, and CGE obtained an effective 10% interest in SBC's wireless operations in Washington, D.C.-Baltimore and surrounding rural markets. SBC and CGE both made contributions to the alliance. SBC's effective contribution was $376. This investment is accounted for under the equity method of accounting.

In addition to payments shown in the Consolidated Statements of Cash Flows, the 1994 acquisitions were also financed through the issuance of 16 million new and treasury shares, valued at approximately $660, and the issuance of approximately $360 of long-term debt. All of the acquisitions were 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 1995 and 1994, nor would they had they occurred on January 1 of the respective periods.

13. Additional Financial Information

		December 31,	
Balance Sheets		**1996**	1995
Accounts payable and accrued liabilities			
Accounts payable		**$1,118**	$1,029
Accrued taxes		**799**	438
Advance billing and customer deposits		**351**	333
Compensated future absences		**211**	199
Accrued interest		**144**	141
Accrued payroll		**163**	117
Other		**1,053**	868
Total		**$3,839**	$3,125
Statements of Income	**1996**	1995	1994
Interest expense incurred	**$493**	$520	$480
Capitalized interest	**(21)**	(5)	–
Total interest expense	**$472**	$515	$480
Allowance for funds used during construction	**–**	$ 11	$ 19
Statements of Cash Flows	**1996**	1995	1994
Cash paid during the year for:			
Interest	**$469**	$504	$481
Income taxes	**$830**	$690	$928

No customer accounted for more than 10% of consolidated revenues in 1996 or 1995. Approximately 10% of SBC's consolidated revenues in 1994 were from services provided to AT&T Corp. No other customer accounted for more than 10% of consolidated revenues in 1994.

Three subsidiaries of SBC have negotiated contracts with the Communications Workers of America (CWA), none of which is subject to renegotiation in 1997. Approximately 67% of SBC's employees are represented by the CWA.

14. Quarterly Financial Information (Unaudited)

Calendar Quarter	Total Operating Revenues	Operating Income	Net Income (Loss)	Earnings per Common Share	Stock Price High	Stock Price Low	Stock Price Close
1996							
First	$ 3,197	$ 800	$ 464	$ 0.76	$60.250	$49.750	$52.625
Second	3,333	845	501	0.82	50.750	46.250	49.250
Third	3,600	980	593	0.97	51.000	46.000	48.125
Fourth	3,768	931	543	0.90	55.250	47.000	51.875
Annual	$13,898	$3,556	$ 2,101	$ 3.46			
1995							
First	$ 2,910	$ 708	$ 395	$ 0.65	$43.875	$39.625	$42.000
Second	3,025	754	442	0.73	47.875	41.625	47.625
Third(1)	3,292	883	(2,285)	(3.75)	55.125	45.500	55.000
Fourth(2)	3,443	692	518	0.85	58.500	53.125	57.250
Annual(1)	$12,670	$3,037	$ (930)	$ (1.53)			

(1) Net Loss and Earnings per Common Share reflect an extraordinary loss of $2,819, or $4.63 per share, from discontinuance of regulatory accounting.

(2) Operating Income reflects $139 in selling, general and administrative expenses associated with a strategic realignment of functions. These expenses include postemployment benefits for approximately 2,400 employees arising from the consolidation of operations within the five-state area, streamlining support and administrative functions and integrating financial systems.

Net Income and Earnings per Common Share reflect after-tax charges of $88 for the strategic realignment of functions and $11 for refinancing of debt and an after-tax gain of $111 from the merger of SBC's United Kingdom cable television operations into TeleWest. The net of these transactions was $12, or $0.02 per share.

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 six 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

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. (SBC) as of December 31, 1996 and 1995, and the related consolidated statements of income, shareowners' equity and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of SBC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SBC Communications Inc. at December 31, 1996 and 1995, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, SBC discontinued its application of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" in 1995.

Ernst + Young LLP

San Antonio, Texas
February 14, 1997

Executives of SBC and its Subsidiaries

SBC Senior Executives

Edward E. Whitacre Jr., *55*, chairman of the board and chief executive officer.

Royce S. Caldwell, *58*, president, Southwestern Bell Operations.

James W. Callaway, *50*, senior vice president-strategic planning.

Cassandra C. Carr, *52*, senior vice president-human resources.

William E. Dreyer, *59*, senior executive vice president-external affairs.

James D. Ellis, *53*, senior executive vice president and general counsel.

Charles E. Foster, *60*, president, SBC Operations.

James S. Kahan, *49*, senior vice president-corporate development.

Donald E. Kiernan, *56*, senior vice president, treasurer and chief financial officer.

Linda S. Mills, *45*, senior vice president-corporate communications.

Other Executives

Thomas M. Barry, *52*, senior vice president-federal relations, SBC Telecommunications.

Liam S. Coonan, *61*, senior vice president and assistant general counsel.

Patricia Diaz Dennis, *50*, senior vice president and assistant general counsel-regulation and law.

Pat F. Parker, *49*, president, SBC Center for Learning.

Alfred G. Richter Jr., *46*, senior vice president and assistant general counsel.

A. Dale Robertson, *48*, senior vice president-FCC, SBC Telecommunications.

Charles J. Roesslein, *48*, vice president-strategic planning.

Judith M. Sahm, *51*, vice president and secretary of the Corporation.

Van H. Taylor, *48*, president and chief executive officer, Southwestern Bell Technology Resources and Southwestern Bell Communications Services.

SBC's Five-state Businesses

Stephen M. Carter, *43*, vice president-general manager (special markets), Southwestern Bell Telephone.

Lea Ann Champion, *38*, vice president-general manager (St. Louis), Southwestern Bell Telephone.

David A. Cole, *45*, president (Texas), Southwestern Bell Telephone.

Durward D. Dupre, *53*, vice president and associate general counsel-federal external affairs, Southwestern Bell Telephone.

J. Cliff Eason, *49*, president and chief executive officer, Southwestern Bell Communications.

Melanie S. Fannin, *46*, president (Kansas), Southwestern Bell Telephone.

James D. Gallemore, *45*, vice president-marketing, Southwestern Bell Communications.

R. McRae Geschwind, *53*, president and chief executive officer, Southwestern Bell Yellow Pages.

Michael N. Gilliam, *44*, vice president-general manager (Arkansas), Southwestern Bell Telephone.

Edward L. Glotzbach, *48*, president and chief executive officer, SBC Services.

Karen Jennings, *46*, president (Missouri), Southwestern Bell Telephone.

Ronald M. Jennings, *55*, vice president-general manager-operator services & public communications, Southwestern Bell Telephone.

Michael Kaufman, *51*, vice president-general manager (Central/West Texas), Southwestern Bell Telephone.

Richard G. Lindner, *42*, vice president and chief financial officer, Southwestern Bell Telephone.

David R. Lopez, *45*, president (Oklahoma), Southwestern Bell Telephone.

Robert M. Lynch, *46*, vice president and general counsel-external affairs, Southwestern Bell Telephone.

Mary T. Manning, *46*, president and chief executive officer, Southwestern Bell Wireless.

Norma Martinez, *40*, vice president-diversity marketing, Southwestern Bell Communications.

Wayne Masters, *51*, vice president-customer services, Southwestern Bell Telephone.

Tom E. Morgan, *50*, vice president-general manager (Dallas/Fort Worth), Southwestern Bell Telephone.

Edward A. Mueller, *49*, president and chief executive officer, Southwestern Bell Telephone.

T. Michael Payne, *46*, vice president, general counsel-operations and secretary, Southwestern Bell Telephone.

James B. Shelley, *43*, president (Arkansas), Southwestern Bell Telephone.

J. Michael Turner, *47*, vice president-general manager (Houston/Southeast Texas), Southwestern Bell Telephone.

Richard J. Vehige, *51*, vice president-procurement services, Southwestern Bell Telephone.

Joe W. Walkoviak, *49*, senior vice president-network, Southwestern Bell Communications.

Horace Wilkins Jr., *46*, vice president-general manager (South Texas), Southwestern Bell Telephone.

Rayford Wilkins Jr., *45*, vice president-general manager (Kansas City), Southwestern Bell Telephone.

SBC's National and International Businesses

Wayne Alexander, *48*, president, SBC International (Chile).

John H. Atterbury III, *48*, president and chief executive officer, SBC International Operations.

Richard C. Dietz, *50*, president, SBCI Mexico, SBC International.

Drew A. Roy, *50*, executive vice president and chief operating officer, Southwestern Bell Mobile Systems.

Stanley T. Sigman, *49*, president and chief executive officer, Southwestern Bell Mobile Systems.

SBC Board of Directors

Edward E. Whitacre Jr., *55*[2,4,5]
Chairman of the Board
and Chief Executive Officer
SBC Communications Inc.
San Antonio, Texas
SBC Director since October 1986
Background: Telecommunications

August A. Busch III, *59*[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

Jess T. Hay, *66*[1,6]
Chairman
Texas Foundation for Higher Education
HCB Enterprises Inc
Dallas, Texas
SBC Director since April 1986
Background: Financial services

Ing. Carlos Slim Helú, *57*[3,5]
Chairman of the Board
Grupo Carso, S.A. de C.V.
Mexico City, Mexico
SBC Director since September 1993
Background: Telecommunications, consumer goods, automobile parts, construction, retailing

Clarence C. Barksdale, *64*[1,3]
Vice Chairman, Board of Trustees
Washington University
St. Louis, Missouri
SBC Director since October 1983
SWBT Director 1982-1983
Background: Banking

Ruben R. Cardenas, *66*[1,3]
Partner
Cardenas, Whitis & Stephen, L.L.P.
McAllen, Texas
SBC Director since October 1983
SWBT Director 1975-1983
Background: Law

Admiral Bobby R. Inman, *65*[5,6]
United States Navy, Retired
Austin, Texas
SBC Director since March 1985
Background: Private investment

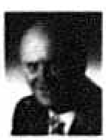
Patricia P. Upton, *58*[1,3]
President and Chief Executive Officer
Aromatique, Inc.
Heber Springs, Arkansas
SBC Director since June 1993
Background: Decorative home fragrances

James E. Barnes, *63*[1,2]
Chairman of the Board, President
and Chief Executive Officer
MAPCO Inc.
Tulsa, Oklahoma
SBC Director since November 1990
Background: Diversified energy

Martin K. Eby Jr., *62*[1,5]
Chairman of the Board and
Chief Executive Officer and
President
The Eby Corporation
Wichita, Kansas
SBC Director since June 1992
Background: General building construction

Charles F. Knight, *61*[2,4,5]
Chairman, President and
Chief Executive Officer
Emerson Electric Co.
St. Louis, Missouri
SBC Director since October 1983
SWBT Director 1974-1983
Background: Electrical manufacturing

Committees of the Board:
(1) *Audit*
(2) *Corporate Development*
(3) *Corporate Public Policy and Environmental Affairs*
(4) *Executive*
(5) *Finance/Pension*
(6) *Human Resources*



Jack S. Blanton, *69*[4,6]
Chairman
Houston Endowment, Inc.
President and Chief Executive Officer
Eddy Refining Company
Houston, Texas
SBC Director since October 1983
SWBT Director 1977-1983
Background: Petroleum products

Tom C. Frost, *69*[2,4,5]
Senior Chairman of the Board
and Chief Executive Officer
Cullen/Frost Bankers, Inc.
San Antonio, Texas
SBC Director since October 1983
SWBT Director 1974-1983
Background: Banking

Dr. Haskell M. Monroe Jr., *65*[3,5]
Professor of History
The University of Missouri-Columbia
Columbia, Missouri
SBC Director since October 1983
SWBT Director 1982-1983
Background: Education, administration

SBC Communications Inc.
175 E. Houston
P.O. Box 2933
San Antonio, Texas 78299-2933
210-821-4105

ATTACHMENT M

DIRECTORS AND OFFICERS

<table>
<tr><th colspan="2">Southwestern Bell Communications Services, Inc.
d/b/a Southwestern Bell Long Distance
Officers and Directors</th></tr>
<tr><td>Name / Title</td><td>Business Address</td></tr>
<tr><td>Karol M. Sweitzer
Vice President - Business Planning and Chief Financial Office</td><td rowspan="2">1651 N. Collins Blvd., Suite 220
Richardson, Texas 75080
(972) 497-0152</td></tr>
<tr><td>Lowery Harper
Vice President-Operations</td></tr>
<tr><td>Michael Kaufman
President, CEO, and Director</td><td>5850 W. Las Positas Blvd.
Pleasanton, CA 94588
(510) 468-6194</td></tr>
<tr><td>Timothy P. Leahy
Secretary, Attorney, and Director</td><td rowspan="2">175 E. Houston
San Antonio, Texas 78205
(210) 821-4105</td></tr>
<tr><td>Stan Sigman
Director</td></tr>
<tr><td>Van Taylor
Director</td><td>9505 Arboretum Blvd.
Austin, Texas 78759
(512) 372-5900</td></tr>
</table>

Southwestern Bell
Communications Services, Inc.

DEPOSIT D539
DATE JUN 05 1997

June 3, 1997

Mr. Walter D'Haeseleer
Florida Public Service Commission
Division of Records and Reporting
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399

Dear Mr. D'Haeseleer:

Enclosed are the original and twelve (12) copies Application Form for Authority To Provide Interexchange Telecommunications Service Within The State of Florida of Southwestern Bell Communications Services, Inc. d/b/a Southwestern Bell Long Distance. So that our records will be complete, please date stamp the extra copy of this transmittal letter and return in the enclosed envelope. Also enclosed is a check for $250 made payable to the Florida Public Service Commission to cover the filing fee.

Any questions regarding the ongoing operations of the Applicant should be directed to Thomas A. Weckel, Senior Manager - Regulatory, c/o Southwestern Bell Mobile Systems, Inc., 17330 Preston Road, Suite 100A, Dallas, Texas 75252 who may be reached via telephone at (972) 733-5544. Any questions regarding this Application or proposed tariff should be directed to Barbara Lowe, Vice President, Visiology, Inc. 16061 Carmel Bay Drive, Northport, Alabama 35475 who may be reached via telephone at (205) 330-1702.

... in this matter is greatly appreciated

Southwestern Bell Mobile Systems

17330 Preston Road, Suite 100A
Dallas, Texas 75252

The Boatmen's National Bank of St. Louis, N.A.
800 Market Street St. Louis, Missouri 63101-2602

CHECK NO.
1322190

PAY Two Hundred Fifty And No/100 Dollars

TO THE ORDER OF

DATE 15-MAY-97

CHECK AMOUNT $*********250.00

STATE OF FLORIDA
FLORIDA PUBLIC SERVICE COMMISSION
101 EAST GAINES STREET ROOM G 50
TALLAHASSEE, FL 32399-0850

5646

C.A. Aken

CHECK VOID AFTER SIX MONTHS