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TC97-027

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TC97-027

DOCKET NO.

In the Matter of — IN THE MATTER OF THE
APPLICATION OF THE SOUTHLAND
CORPORATION FOR A CERTIFICATE
OF AUTHORITY TO PROVIDE
TELECOMMUNICATIONS SERVICES IN
SOUTH DAKOTA

Public Utilities Commission of the State of South Dakota

DATE	MEMORANDA
3/19/97	Filed and Docketed;
3/20/97	TC for Filing;
5/21/97	Order Granting COA,
5/21/97	Docket Closed.

Harbor Consulting Group Inc.

Telecommunications Regulatory Consultants

TC97-027

P.O. Box 2461
c/o Harbor, 958 98135
Telephone: 206.265.1910
Facsimile: 206.265.1912
E-Mail: hcg@midlink.com

VIA OVERNIGHT DELIVERY

17 March 1997

Mr. William Bullard, Jr.
Executive Director
South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol Avenue
Pierre, South Dakota 57501-5070

RECEIVED

MAR 19 1997

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

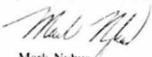
Dear Mr. Bullard:

Enclosed are an original and ten (10) copies of The Southland Corporation's Application for a Certificate of Authority to provide intrastate telecommunications services within the State of South Dakota, along with \$250.00 to cover the cost of filing.

Please acknowledge receipt of this filing by file-stamping and returning the extra copy of the first page of the Application in the self-addressed, stamped envelope provided for this purpose. Questions concerning this filing may be directed to me.

Sincerely,

for HARBOR CONSULTING GROUP INC.


Mark Nyhus

Enclosures

cc. The Southland Corporation

TC97-027

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

RECEIVED

MAR 19 1997

In the Matter of the Application)
of The Southland Corporation for)
Authority to Provide Specialized)
Telecommunications Services in the)
State of South Dakota)

No. _____

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

APPLICATION

The Southland Corporation ("Applicant"), a publicly-held corporation organized under the laws of the State of Texas, hereby applies for registration as a Provider of Intrastate Telecommunications Services within the State of South Dakota on a resold basis, pursuant to SDCL 49-13-3 and ARSD 20:10:24-02. In support of its application, Applicant states as follows:

(1) Section 20:10:24-02(1). Applicant's name, address, telephone number and facsimile number are:

The Southland Corporation
2711 North Haskell Avenue
Dallas, Texas 75204
Telephone: 214.828.7011
Facsimile: 214.828.7119

(2) Section 20:10:24-02(2). Applicant will provide its service under the name The Southland Corporation.

(3) Section 20:10:24-02(3)(a). Applicant is a publicly-held Corporation organized under the Laws of the State of Texas on November 21, 1961. A copy of Applicant's Articles of Incorporation is attached as Exhibit A, and a copy of Applicant's Certificate of Authority to Transact Business in South Dakota is attached as Exhibit B.

(4) Section 20:10:24-02(3)(b). Applicant will not establish an office in the State of

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CT Corporation System
319 South Coteau Street
Pierre, South Dakota 57501

- (5) Section 20-10-24-02(3)(c). The name is, titles and addresses of Applicant's directors and officers are attached as Exhibit C.
- (6) Section 20-10-24-02(3)(d). Applicant does not own nor control any subsidiaries.
- (7) Section 20-10-24-03(5). Applicant is a non-facilities-based interexchange telecommunications resale provider proposing to offer discretionary, switched access prepaid calling card services throughout the State of South Dakota. Applicant's services will be available to subscribers twenty-four (24) hours a day, seven (7) days a week, at rates, terms and conditions set by Applicant. Applicant does not propose to offer alternative operator services to the transient public.

All network facilities are the property of, and controlled by Applicant's underlying carrier, AT&T. Applicant's local access is provided as part of the network services purchased from Applicant's underlying carrier.

Applicant offers discretionary, switched access calling card services designed primarily for those who frequently travel and must place calls away from their presubscribed locations. Applicant's services are meant to compete directly with services provided by other interexchange carriers authorized to provide such services by the Commission.

- (8) Section 20.10.24.02(6). As a non-facilities-based provider of telecommunications services, Applicant relies solely on the network of its underlying carrier for local access, switching and transport. Applicant's service will be available twenty-four (24) hours a day, three hundred sixty-five (365) days a year.
- (9) Section 20.10.24.02(7). Applicant's service is available from any dual tone.

multifrequency instrument in the State of South Dakota. As such, it is not limited by "service boundaries". No map is included, accordingly.

(10) Section 20.10.24.02(8) Applicant's current balance sheet and income statement are attached as Exhibit D. Applicant will require no additional debt to finance its operations in South Dakota. Applicant's Annual Report is attached as Exhibit E. Applicant's terms and condition of service are included in its Proposed Tariff, attached as Exhibit F.

(11) Section 20.10.24.02(9) Correspondence and communications concerning this application and tariff should be directed to:

Mark Nyhus
c/o Harbor Consulting Group Inc.
P.O. Box 2461
Gig Harbor, Washington 98335
Telephone: 206.265.3910
Facsimile: 206.265.3912

Official point of contact for the ongoing operations of the company and customer complaints/inquiries from the Commission is:

Thomas R. Hennen
Senior Attorney/Assistant Secretary
The Southland Corporation
2711 North Haskell Avenue
Dallas, Texas 75204
Telephone: 214.828.7931

Customer inquiries or complaints may be directed to Applicant's Customer Service Department at 888.345.0997 (English), 888.348.4513 (Spanish), or in writing to:

The Southland Corporation
2711 North Haskell Avenue
Dallas, Texas 75204

(13) Section 20.10.24.02.(10) Applicant holds intrastate operating authority in Colorado, Washington and Utah. Applicant has initiated applications for regulatory authority

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in Alaska, Arizona, California, Idaho, Kansas, Minnesota, Missouri, Montana, Nevada, New Mexico, Nebraska, North Dakota, Oregon, Texas, Washington and Wyoming. In no instance has any of Applicant's applications been suspended or rejected.

(14) Section 20.10.24.02(11). Applicant markets its services through an its own sales staff. Applicant provides ongoing training to its sales staff, and is solely responsible for development of all marketing material provided to prospective subscribers. Applicant targets residential and business subscribers. It does not engage in multilevel marketing. A copy of Company marketing brochures is attached as Exhibit G.

(15) Section 20.10.24.02(12). Not applicable. Applicant's service is a competitive service.

(16) Applicant submits the following reasons in support of its belief that the public interest will be served by the approval of this Application:

(a) Applicant's proposed intrastate services are developed to serve the long distance needs of subscribers who cannot otherwise realize similar cost savings through major carriers.

(b) While providing its subscribers with cost advantages realized by the resale of communications facilities, Applicant's service will necessarily utilize existing carrier communications facilities more efficiently through increased usage and provider greater revenues for local exchange carriers by way of additional access purchase through other carriers.

(c) Commission approval of the instant Application will bring the following long-term benefits to the public:

- (i) greater value to subscribers through lower priced better quality services;
- (ii) innovative telecommunications services;
- (iii) increased consumer choice in telecommunications service;

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- (iv) efficient use of existing telecommunications resources as well as increased diversification and reliability in the supply of telecommunications services;
 - (v) an additional tax revenue source for the State of South Dakota; and
 - (vi) additional access revenues to local exchange providers.

WHEREFORE, The Southland Corporation respectfully requests the South Dakota Public Utilities Commission grant a Certificate of Public Convenience and Necessity authorizing the provision of competitive intrastate telecommunications resale services within the State of South Dakota.

Respectfully submitted this 12th day of March, 1997.

The Southland Corporation

By: Thomas R. Hennen

Thomas R. Hennen
Senior Attorney/Assistant Secretary
2711 North Haskell Avenue
Dallas, Texas 75204
Telephone: 214 828 7931

Harbor Consulting Group Inc.
P.O. Box 2461
Gig Harbor, WA 98335
Telephone: 206.265.3910

Applicant's Regulatory Consultants

9142-31-7

VERIFICATION OF APPLICANT

STATE OF TEXAS)

COUNTY OF DALLAS)

ss.

I, Thomas R. Hennen, being first duly sworn and deposed, state that I am Senior Attorney/Assistant Secretary of The Southland Corporation, the Applicant in the proceeding entitled above, that I have read the foregoing application and know the contents thereof; as to matters that are therein stated on information or belief, I believe them to be true.

Thomas R. Hennen
Thomas R. Hennen

Subscribed and sworn to before me this 6th day of March, 1997.

Ronda K. Brundage
Notary Public in and for the State of Texas

residing at: 2310 High Bank

Mesquite, TX 75181



BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

In the Matter of the Application)
of The Southland Corporation for)
Authority to Provide Specialized)
Telecommunications Services in the)
State of South Dakota.)

No. _____

LIST OF EXHIBITS

EXHIBIT A	Articles of Incorporation
EXHIBIT B	Authority to Transact Business
EXHIBIT C	Directors and Officers
EXHIBIT D	Current Balance Sheet and Income Statement
EXHIBIT E	Annual Report
EXHIBIT F	Proposed Tariff
EXHIBIT G	Marketing Brochure

EXHIBIT A

ARTICLES OF INCORPORATION
(Attached)



The State of Texas

SECRETARY OF STATE

CERTIFICATE OF RESTATED ARTICLES
OF INCORPORATION
OF

THE SOUTHLAND CORPORATION

The undersigned, as Secretary of State of Texas, hereby certifies that Restated Articles of Incorporation of the above corporation, duly executed pursuant to the provisions of the Texas Business Corporation Act, have been received in this Office and are found to conform to law.

ACCORDINGLY the undersigned, as such Secretary of State, and by virtue of the authority vested in the Secretary by law, hereby issues this certificate of Restated Articles of Incorporation and attaches hereto a copy of the Restated Articles of Incorporation.

Dated _____ MARCH 05, 19 91.

John Hannah Jr.
Secretary of State

yd



SECOND
 RESTATED ARTICLES OF INCORPORATION
 (with amendment)

of

THE SOUTHLAND CORPORATION

FILED
In the Office of the
Secretary of State of Texas
MAR 05 1991
Corporations Section

1. The Southland Corporation (the "Corporation"), pursuant to the provisions of Article 4.14 of the Texas Business Corporation Act (the "Act"), hereby adopts these Second Restated Articles of Incorporation which accurately copy the Restated Articles of Incorporation of the Corporation and all amendments thereto that are in effect to date and as further amended by these Second Restated Articles of Incorporation as hereinafter set forth and which contain no other change in any provision thereof.

2. The Restated Articles of Incorporation of the Corporation are hereby amended by the Second Restated Articles of Incorporation as follows:

(a) Current paragraph (a) of Article Four is amended to increase from 300,000,000 to 1,000,000,000 the aggregate number of shares of Common Stock, which the Corporation is authorized to issue, and to change the par value of such shares of common stock from \$.01 par value per share to \$.0001 par value per share.

(b) Current Article Four is amended to delete current paragraph (b) of Article Four in its entirety and to replace it with a new paragraph (b) which provides for the combination of each ten previously issued shares of Common Stock, \$.01 par value per share, into one share of Common Stock, \$.0001 par value per share.

(c) Current Article Four is amended to delete current section (c) of Article Four relating to Junior Preferred Stock, all of the shares of which were cancelled pursuant to the Corporation's plan of reorganization under Chapter 11 of the United States Bankruptcy Code (the "Plan").

(d) Current Article Four is amended to add a new Section (c) which changes the par value of the Preferred Stock previously provided for in the deleted paragraph (b) from no par value to \$.01 par value per share and authorizes actions that may be taken by the Board of Directors of the Corporation (the "Board") relating to such shares.

(e) A new Article Five is added to prohibit the issuance by the Corporation of non-voting equity securities.

(f) Current Article Five is renumbered as Article Six.

(g) Current Article Six is amended to alter the wording so as to conform to the provisions of the Act and is renumbered as Article Seven.

(h) Current Article Seven is amended to authorize only the Board, the Chairman of the Board, the President and the holders of not less than 50% of the voting stock to call a special shareholders meeting and is renumbered as Article Eight.

(i) Current Article Eight is deleted in its entirety.

(j) Current Article Nine is amended to delete the names and addresses of directors currently listed and insert the number, names and addresses for the directors of the Corporation

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elected by the shareholders at the 1991 annual meeting of shareholders of the Corporation held on February 25, 1991.

(k) Current Article Eleven is amended to correct the address of the registered office of the corporation.

(l) Current Article Thirteen is deleted in its entirety.

(m) Current Article Fourteen is amended to alter the wording so as to conform to provisions of the Act and is renumbered as Article Thirteen.

(n) Current Article Fifteen is renumbered as Article Fourteen.

(o) A new Article Fifteen is added to allow action by written consent of the shareholders with less than unanimous consent pursuant to Article 9.10 of the Act.

3. Each such amendment made by these Second Restated Articles of Incorporation has been effected in conformity with the provisions of Article 4.14B of the Act.

pursuant to the Order Confirming Southland's Plan of Reorganization (the "Order") entered by the United States Bankruptcy Court for the Northern District of Texas, Dallas Division (the "Court") on February 21, 1991 in Case No. 390-37119-HCA-11, file name In re The Southland Corporation. The Court had jurisdiction over the proceedings under Title 28 of the United States Code, Section 1334.

4. The amendments effected by these Second Restated Articles of Incorporation effect a reduction in the amount of stated capital of the Corporation by reflecting the cancellation of the previously outstanding shares of Junior Preferred Stock pursuant to the Plan and combining each ten shares of issued and outstanding Common Stock, par value \$.01 per share, into one share of Common Stock, par value \$.0001 per share. The amount of stated capital as changed by such amendments is \$2048.08.

5. The Restated Articles of Incorporation of the Corporation and all amendments and supplements thereto are hereby superseded by the following Second Restated Articles of Incorporation which accurately copy the entire text thereof as further amended as above set forth:

ARTICLE ONE

The name of this Corporation is THE SOUTHLAND CORPORATION.

ARTICLE TWO

The period of duration of this Corporation shall be perpetual.

ARTICLE THREE

The purpose for which the Corporation is organized is to engage in the transaction of any and all lawful business for which corporations may be incorporated under the Texas Business Corporation Act (the "Act").

ARTICLE FOUR

(a) The aggregate number of shares of Common Stock which this Corporation shall have authority to issue is 1,000,000,000 shares of Common Stock, par value one-hundredth of a cent (\$.0001) per share;

(b) Each ten (10) shares of previously authorized Common Stock, par value \$.01 per share, of the Corporation issued and outstanding immediately prior to the time these Second Restated Articles of Incorporation become effective (the "Original Common Stock") shall automatically and without further action on the part of the holders thereof be combined into one (1) validly issued, fully paid and nonassessable share of common stock, par value \$.0001 per share, of the Corporation (the "New Common Stock"). Upon surrender by a holder of the certificates representing shares of Original Common Stock, the Corporation shall issue to such holder a certificate or certificates representing the number of shares of New Common Stock into which the Original Common Stock represented by the certificate so surrendered shall have been combined as aforesaid. The surrender of certificates representing shares of Original Common Stock shall not be necessary to effect the combination contemplated hereby. The Corporation shall not issue fractional shares of New Common

Stock with respect to the foregoing described combination. In lieu thereof, the Corporation shall issue a whole share of New Common Stock for any fractional share to which such holder otherwise would be entitled.

(c) The aggregate number of shares of Preferred Stock which this Corporation shall have authority to issue is five million (5,000,000) shares, par value one cent (\$.01) per share. Shares of the Preferred Stock may be issued from time to time in one or more series, the shares of each series to have such designations, preferences, limitations, and relative rights, including voting rights, as shall be stated and expressed herein or in a resolution or resolutions providing for the issue of such series adopted by the Board of Directors of the Corporation (the "Board"). Each such series of Preferred Stock shall be designated so as to distinguish the shares thereof from the shares of all other series and classes. The Board is hereby expressly authorized, subject to limitations provided by law and by contractual restrictions binding on the Corporation or its property at the time of the issuance of such Preferred Stock, to establish and designate series of the Preferred Stock, to fix the number of shares constituting each series, to fix the designations and the preferences, limitations, and relative rights, including voting rights, of the shares of each such series and the variations of the relative rights and preferences as between series, and to increase and to decrease the number of shares constituting each series, provided that the Board may not decrease the number of shares within a series to less than the number of shares within such series that are then issued. The relative powers, rights, preferences, and limitations may vary between and among series of Preferred Stock in any and all respects. The authority of the Board with respect to each series shall further include, but shall not be limited to, the authority to determine the following:

(1) The rate or rates and the times at which dividends on the shares of such series shall be paid, the periods in respect of which dividends are payable, the conditions upon such dividends, the relationship and preferences, if any, of such dividends to dividends payable on any other class or series of shares, whether or not such dividends shall be cumulative, partially cumulative, or noncumulative, if such dividends shall be cumulative or partially cumulative, the date or dates from and after which, and the amounts in which, they shall accumulate, whether such dividends shall be share dividends, cash or other dividends, or any combination thereof, and if such dividends shall include share

dividends, whether such share dividends shall be payable in shares of the same or any other class or series of shares of the Corporation (whether now or hereafter authorized), or any combination thereof and the other terms and conditions, if any, applicable to dividends on shares of such series;

(2) Whether or not the shares of such series shall be redeemable or subject to repurchase at the option of the Corporation or the holder thereof or upon the happening of a specified event, if such shares shall be redeemable, the terms and conditions of such redemption, including but not limited to the date or dates upon or after which such shares shall be redeemable, the amount per share which shall be payable upon such redemption, which amount may vary under different conditions and at different redemption dates, and whether such amount shall be payable in cash, property, or rights, including securities of the Corporation or another corporation;

(3) The rights of the holders of shares of such series (which may vary depending upon the circumstances or nature of such liquidation, dissolution, or winding up) in the event of the voluntary or involuntary liquidation, dissolution, or winding up of the Corporation and the relationship or preference, if any, of such rights to rights of holders of stock of any other class or series;

(4) The voting powers and the terms and conditions thereof, including, but not limited to, the right of the holder of such shares to vote as a separate class either alone or with the holders of shares of one or more other classes or series of stock and the right to have more (or less) than one vote per share;

(5) Whether or not a sinking fund shall be provided for the redemption of the shares of such series and, if such a sinking fund shall be provided, the terms and conditions thereof;

(6) Whether or not the shares of such series, at the option of either the Corporation or the holder or upon the happening of a specified event, shall be convertible into stock of any other class or series and, if such shares shall be so convertible, the terms and conditions of conversion, including, but not limited to, any provision for the adjustment of the conversion rate

or the conversion price:

(7) Whether or not the shares of such series, at the option of either the Corporation or the holder or upon the happening of a specified event, shall be exchangeable for securities, indebtedness, or property of the Corporation and, if such shares shall be so exchangeable, the terms and conditions of exchange, including, but not limited to, any provision for the adjustment of the exchange rate or the exchange price; and

(8) Any other preferences, limitations, and relative rights as shall not be inconsistent with the provisions of this Article Four, Article Five hereof or the limitations provided by law or by contractual restrictions binding on the Corporation or its property.

ARTICLE FIVE

The Corporation shall not issue nonvoting equity securities; provided, however, that any series of Preferred Stock designated pursuant to paragraph (c) of Article Four as having the right, voting separately as a class, to elect any directors of the Corporation if and when dividends payable on such shares of Preferred Stock shall have been in arrears and unpaid for a period of time to be specified (such directors to be in addition to the number of directors constituting the Board immediately prior to the accrual of such right) shall not be nonvoting equity securities for purposes of this Article Five.

ARTICLE SIX

Cumulative voting in the election of directors shall be prohibited.

ARTICLE SEVEN

No holder of any shares of capital stock of the Corporation shall be entitled, as a matter of right, to subscribe for or purchase any additional, unissued or treasury shares of capital stock of the Corporation, or securities convertible into or carrying a right to subscribe for or acquire such shares.

ARTICLE EIGHT

A special meeting of the shareholders of the Corporation may only be called by the Board, the Chairman of the Board or the President of the Corporation or the holders of not less than fifty (50%) percent of the shares of capital stock of the Corporation entitled to vote at the proposed meeting.

ARTICLE NINE

The names and addresses of the directors of this Corporation now serving and who shall hold office until their respective successors shall be elected and qualified and who shall have the authority to direct the affairs of the Corporation are:

<u>Name</u>	<u>Address</u>
Yoshitami Arai	Systems International Inc. Tameike Tokyo Building 1-1-14 Akasaka Minato-ku, Tokyo 107 Japan
Timotny N. Ashida	A.K.E. Associates, Inc. P.O. Box 4388 Glendale, CA 91202-4388
Jay W. Chai	C. Itoh & Co. (America) Inc. 335 Madison Avenue New York, NY 10017
Masatoshi Ito	Ito-Yokado Co., Ltd. 1-4, Shibakoen 4-chome Minato-ku, Tokyo 105 Japan
Masaaki Kamata	Seven-Eleven Japan Co., Ltd. 1-4, Shibakoen 4-chome Minato-ku, Tokyo 105 Japan
Clark J. Matthews, II	The Southland Corporation 2711 North Haskell Avenue Dallas, TX 75204-2906
Robert J. McGuire	Kroll Associates 900 Third Avenue New York, NY 10022

Kazuo Otsuka	Ito-Yokado Co., Ltd. 1-4, Shibakoen 4-chome Minato-ku, Tokyo 105 Japan
Asher O. Pacholder	Pacholder Associates, Inc. The Spectrum Office Tower 1126 Chester Road, Suite 700 Cincinnati, OH 45256
Walter J. Salmon	Harvard University Graduate School of Business Administration Soldiers Field Road Boston, MA 02163
Nobutake Sato	Ito-Yokado Co., Ltd. 1-4, Shibakoen 4-chome Minato-ku, Tokyo 105 Japan
Toshifumi Suzuki	Ito-Yokado Co., Ltd. 1-4, Shibakoen 4-chome Minato-ku, Tokyo 105 Japan
Jere W. Thompson	100 Crescent Court Suite 1000 Dallas, TX 75201
Joe C. Thompson	100 Crescent Court Suite 1000 Dallas, TX 75201
John P. Thompson	100 Crescent Court Suite 1000 Dallas, TX 75201

Each director designated by a shareholder which owns, directly or indirectly, a majority of the shares of New Common Stock shall fully comply with any fiduciary or legal duties under applicable law.

ARTICLE TEN

This Corporation has heretofore complied with the requirements of law as to initial minimum capital without which it could not commence business under the Act.

ARTICLE ELEVEN

The registered office of this Corporation is 350 North St. Paul, Suite 2900, Dallas, Texas 75201, and the name of its registered agent at such address is CT Corporation System.

ARTICLE TWELVE

The Corporation shall indemnify any person who (i) is or was a director or officer of this Corporation or (ii) while a director or officer of this Corporation is or was serving at the request of the Corporation as a director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan, or other enterprise, to the fullest extent that a corporation may or is required to grant indemnification to a director under the Act. The Corporation may indemnify any person to such further extent as permitted by applicable law, such person to be so indemnified in accordance with the provisions hereof in respect of such person's own negligence.

ARTICLE THIRTEEN

To the fullest extent permitted by applicable law, no director of this Corporation shall be liable to this Corporation or its shareholders for monetary damages for an act or omission in such director's capacity as a director of this Corporation; provided, however, that this Article Thirteen does not eliminate or limit the liability of a director of this Corporation to the extent the director is found liable for:

1. a breach of such director's duty of loyalty to this Corporation or its shareholders;
2. an act or omission not in good faith that constitutes a breach of duty of the director to this Corporation or an act or omission that involves intentional misconduct or a knowing violation of the law;
3. a transaction from which such director received an improper benefit, whether or not the

0142.J.1.23

benefit resulted from an action taken within the scope of the director's office; or

4. an act or omission for which the liability of such director is expressly provided for by an applicable statute.

The foregoing provisions of this Article Thirteen shall not eliminate or limit the liability of a director for any act or omission occurring prior to August 31, 1987. Any repeal or amendment of this Article by the shareholders of this Corporation shall be prospective only, and shall not adversely affect any limitation on the personal liability of a director of this Corporation existing at the time of such repeal or amendment. In addition to the circumstances in which a director of this Corporation is not personally liable as set forth in the foregoing provisions of this Article Thirteen, a director shall not be liable to the fullest extent permitted by any amendment to the Texas Miscellaneous Corporation Laws Act or the Act hereafter enacted that further limits the liability of a director.

ARTICLE FOURTEEN

Any action of the Corporation which, under the provisions of the Act or any other applicable law, is required to be authorized or approved by the holders of any specified fraction which is in excess of one-half or any specified percentage which is in excess of fifty percent of the outstanding shares (or of any class or series thereof) of the Corporation shall, notwithstanding any law, be deemed effectively and properly authorized or approved if authorized or approved by the vote of the holders of more than fifty percent of the outstanding shares entitled to vote thereon (or, if the holders of any class or series of the Corporation's shares shall be entitled by the Act or any other applicable law to vote thereon separately as a class, by the vote of the holders of more than fifty percent of the outstanding shares of each such class or series). Without limiting the generality of the foregoing, the provisions of this Article Fourteen shall be applicable to any required shareholder authorization or approval of: (a) any amendment to these Second Restated Articles of Incorporation; (b) any plan of merger, consolidation, or reorganization involving the Corporation; (c) any sale, lease, exchange, or other disposition of all, or substantially all, the property and assets of the Corporation; and (d) any voluntary dissolution

of the Corporation. Except as otherwise provided in this Article Fourteen or as otherwise required by the Act or other applicable law, the vote of the holders of a majority of the Corporation's shares entitled to vote at any meeting of shareholders at which a quorum is present shall be the act of such meeting. Nothing contained in this Article Fourteen is intended to require shareholder authorization or approval of any action of the Corporation whatsoever unless such approval is specifically required by the other provisions of these Second Restated Articles of Incorporation, the Bylaws of the Corporation, or by the Act or other applicable law.

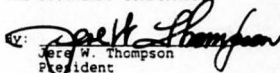
ARTICLE FIFTEEN

Any action which may be taken, or which is required by law or these Second Restated Articles of Incorporation or the Bylaws of the Corporation to be taken, at any annual or special meeting of the shareholders, may be taken without a meeting, without prior notice, and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holder or holders of shares having not less than the minimum number of votes that would be necessary to take such action at a meeting at which the holders of all shares entitled to vote on the action were present and voted. In determining the minimum number of votes that would be necessary to take such action, the provisions of Article Fourteen of these Second Restated Articles of Incorporation shall control in those circumstances to which Article Fourteen applies.

IN WITNESS WHEREOF, the undersigned, having been designated by the Court to execute these Second Restated Articles of Incorporation, has executed same on behalf of the Corporation as of the date set forth below.

DATED THIS 5TH DAY OF MARCH, 1991.

THE SOUTHLAND CORPORATION

By: 
Jere W. Thompson
President

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EXHIBIT B

AUTHORITY TO TRANSACT BUSINESS
(Attached)

62-111-2448

NEXT

DOCUMENT (S)

DISREGARD

BACKGROUND

STATE OF SOUTH DAKOTA

OFFICE OF
THE SECRETARY OF STATE

Certificate Of Authority

I, LORNA B. HERSETH, Secretary of State of the State of South Dakota, hereby certify that
duplicate originals of Application of

THE SOUTHLAND CORPORATION (TEX)
for a Certificate of Authority to transact business in this State, duly signed and verified, pursuant to the
provisions of the South Dakota Business Corporation Act, have been received in this office and are found to
conform to law.

ACCORDINGLY and by virtue of the authority vested in me by law, I hereby issue this Certificate of
Authority to

THE SOUTHLAND CORPORATION
to transact business in this State under the name of

THE SOUTHLAND CORPORATION
and attach hereto a duplicate original of the Application for such Certificate.

IN TESTIMONY WHEREOF, I have hereunto
set my hand and affixed the Great Seal of the
State of South Dakota, at Pierre, the Capital,

this 31st day of
October, A.D. 19 78


Secretary of State

Assistant Secretary of State

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EXHIBIT C

DIRECTORS AND OFFICERS

(Attached)

**THE SOUTHLAND CORPORATION
OFFICERS AND DIRECTORS**

Name	Title	Residence Address	Date and Place of Birth
OFFICERS			
Magatoshi Ito	Chairman of the Board	1-25-16, Minamiazabu Minami-ku, Tokyo, Japan	April 30, 1924 Tokyo, Japan
Toshifumi Suzuki	Vice Chairman of the Board	3-26-6, Kichijoji-minamimachi Musashino-shi, Tokyo, Japan	December 1, 1932 Nagano, Japan
Clark J. Matthews, II	President and Chief Executive Officer, Secretary, Director	7005 Stefani Dallas, Texas 75225	October 1, 1936 Arkansas City, Kansas
Stephen D. Krumholz	Executive Vice President and Chief Operating Officer	7725 Watson Drive Plano, Texas 75025	September 8, 1949 Peoria, Illinois
James W. Keyes	Executive Vice President and Chief Financial Officer	16316 Ashbourne Dallas, Texas 75248	March 17, 1955 Worcester, Massachusetts
Rodney A. Drehan	Senior Vice President, Distribution	4103 Oxford Court Colleyville, Texas 76034	September 3, 1947 Minden, Nebraska
Michael R. Cutler	Senior Vice President, Merchandising	2915 Scarborough Lane West Colleyville, Texas 76034	July 13, 1951 Glendale, California
Adrian O. Evans	Senior Vice President, Construction and Maintenance	2409 Pistachio Drive Irving, Texas 75063	July 5, 1936 Thomas, West Virginia
Stephen B. Lefroy	Senior Vice President, International and Real Estate	2508 Deacon Crest Plano, Texas 75093	May 28, 1952 St. Louis, Missouri
Bryan F. Smith, Jr.	Senior Vice President and General Counsel	47 Hallshire Court Dallas, Texas 75225	January 6, 1953 Dallas, Texas
Robert E. Bailey	Vice President, Northwest Division	7504 South Sahda Court Aurora, Colorado 80016	May 4, 1942 Bowling Green, Kentucky
Terry L. Blocher	Vice President, Southwest Division	8294 Round Hills Circle Las Vegas, Nevada 89113	March 30, 1944 Ventura, California
Paul L. Bureau, Jr.	Vice President, Corporate Tax	6457 Glendora Avenue Dallas, Texas 75230	February 24, 1942 Escanabe, Michigan
Kathleen Callahan-Guion	Vice President, Chesapeake Division	419 N. Fairfax Street Alexandria, Virginia 22314	July 10, 1951 Chicago, Illinois
Frank Crivello	Vice President, Northeast Division	2 Penny Lane St. James, New York 11780	November 8, 1953 Brooklyn, New York
Joseph F. Gones	Vice President, Central Division	2613 Panbourne Circle Plano, Texas 75093	January 17, 1940 Sacramento, California
John W. Harris	Vice President, Florida Division	2110 Hamilton Road Orlando, Florida 32720	July 28, 1946 Austin, Texas
James Notaricola	Vice President, Communications	3514 Raintree Drive Flower Mound, Texas 75028	May 21, 1951 New York, New York

THE SOUTHLAND CORPORATION
OFFICERS AND DIRECTORS

Name	Title	Home or Residence Address	Date and Place of Birth
OFFICERS (continued)			
Gary R. Rose	Vice President, Gasoline and Environmental Services	3705 Edgewater Drive Bedford, Texas 76021	December 15, 1945 New York, New York
Jeffrey A. Schenck	Vice President, Greater Midwest Division	3844 Sunshine Trail Brighton, Michigan 48116	March 12, 1950 Chicago, Illinois
David A. Urbel	Vice President, Planning and Treasurer	4062 Modlin Ft. Worth, Texas 76107	July 29, 1941 Amsterdam, New York
Donald E. Thomas	Controller	4129 Dundee Lane Plano, Texas 75093	November 16, 1958 Hamilton, Texas
DIRECTORS			
Masatoshi Ito	Chairman of the Board	1-25-16, Minamiazabu Minato-ku, Tokyo 106, Japan	April 30, 1924 Tokyo, Japan
Toshifumi Suzuki	Vice Chairman of the Board	3-24-6, Kichijoji-muramiouchi Minamishinjuku-shi, Tokyo, Japan	December 1, 1932 Nagano, Japan
Clark J. Matthews, II	Director and President and Chief Executive Officer	7005 Siefani Dallas, Texas 75225	October 1, 1936 Arkansas City, Kansas
Yoshitami Arai	Director	3-26-18 Kanukitazawa Setagaya-ku, Tokyo 156, Japan	May 5, 1931 Chiba, Japan
Tsun Ashida	Director	535 Cumberland Road Glendale, California 91202	September 13, 1939 Tokyo, Japan
Jay W. Chai	Director	15 Dayberry Lane Greenwich, Connecticut 06831	February 11, 1934 Taegu, Korea
Gary J. Fernandez	Director	3508 Beverly Drive Dallas, Texas 75205	August 10, 1943 San Angelo, Texas
Masashi Kamata	Director	6-10-2, Shimodanachi Kokubun-ku, Yokohama-shi Kanagawa, Japan	July 30, 1939 Osaka, Japan
Kazuo Otsuka	Director	2-25-36 Nishitsuman Yamato-shi, Kanagawa 242, Japan	May 5, 1946 Kanagawa, Japan
Asher O. Pecholsky	Director	19 Windermere Lane Houston, Texas 77063	March 19, 1937 Warsaw, Poland
Nobutake Sato	Director	6-70-9, Hanakoganei Kodaira-shi, Tokyo 187, Japan	August 8, 1938 Niigata, Japan

EXHIBIT D

CURRENT BALANCE SHEET AND INCOME STATEMENT
(Attached)

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

(Mark One)

- ☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1996

OR

- ☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Numbers 0-676 and 0-16626

The Southland Corporation

(Exact name of registrant as specified in its charter)

Texas

(State or other jurisdiction of
incorporation or organization)

75-1685131

(I.R.S. Employer
Identification No.)

2711 North Haskell Ave., Dallas, Texas

(Address of principal executive offices)

75204-2906

(Zip code)

Registrant's telephone number, including area code, 214/826-7011

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 ☒ No ☐

APPLICABLE ONLY TO CORPORATE ISSUERS:

409,922,935 shares of common stock, \$.0001 par value (the issuer's only class of common stock), were outstanding as of September 30, 1996.

**THE SOUTHLAND CORPORATION
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*Submitted with filing only; not included in printed copies

**Submitted in electronic format only

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (Dollars in thousands, except per-share data)

ASSETS

	September 30, 1996 (Unaudited)	December 31, 1995
CURRENT ASSETS:		
Cash and cash equivalents	\$ 46,431	\$ 43,047
Accounts and notes receivable	95,837	107,224
Inventories	101,419	102,020
Other current assets	107,936	103,816
TOTAL CURRENT ASSETS	351,623	356,107
PROPERTY AND EQUIPMENT	1,339,574	1,335,783
OTHER ASSETS	345,738	389,227
	\$ 2,036,935	\$ 2,081,117

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)

CURRENT LIABILITIES:		
Trade accounts payable	\$ 193,460	\$ 195,154
Accrued expenses and other liabilities	349,216	329,429
Commercial paper	61,130	50,198
Long-term debt due within one year	125,581	145,346
TOTAL CURRENT LIABILITIES	729,387	720,127
DEFERRED CREDITS AND OTHER LIABILITIES	207,215	236,545
LONG-TERM DEBT	1,605,070	1,705,237
CONVERTIBLE QUARTERLY INCOME DEBT SECURITIES	300,000	300,000
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY (DEFICIT):		
Common stock, \$.0001 par value	41	41
Additional capital	625,574	625,574
Accumulated deficit	(1,430,352)	(1,506,407)
TOTAL SHAREHOLDERS' EQUITY (DEFICIT)	(804,737)	(880,792)
	\$ 2,036,935	\$ 2,081,117

See notes to condensed consolidated financial statements.

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(UNAUDITED)

	Nine Months Ended September 30,	
	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 73,562	\$ 85,443
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	122,870	107,974
Other amortization	14,270	14,270
Deferred income taxes	19,748	272
Noncash interest expense	1,332	1,522
Other noncash expense (income)	144	(1,854)
Net loss (gain) on property and equipment	54	(259)
Decrease in accounts and notes receivable	19,263	13,216
Decrease (increase) in inventories	601	(2,402)
Increase in other assets	(3,166)	(1,256)
Decrease in trade accounts payable and other liabilities	(12,353)	(19,421)
NET CASH PROVIDED BY OPERATING ACTIVITIES	235,325	197,505
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for purchase of property and equipment	(137,371)	(144,827)
Proceeds from sale of property and equipment	12,214	11,800
Other	2,938	1,255
NET CASH USED IN INVESTING ACTIVITIES	(122,219)	(131,772)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from commercial paper and revolving credit facilities	3,012,509	2,981,083
Payments under commercial paper and revolving credit facilities	(3,004,127)	(3,039,459)
Principal payments under long-term debt agreements	(118,104)	(45,679)
Other	-	(787)
NET CASH USED IN FINANCING ACTIVITIES	(109,722)	(104,842)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,384	(39,109)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	43,047	59,288
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 46,431	\$ 20,179
RELATED DISCLOSURES FOR CASH FLOW REPORTING:		
Interest paid, excluding SFAS No. 15 Interest	\$ (77,622)	\$ (72,689)
Net income taxes paid	\$ (15,485)	\$ (23,235)

See notes to condensed consolidated financial statements.

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THE SOUTHLAND CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Nine Months Ended September 30, 1996

(UNAUDITED)

1. Basis of Presentation:

The condensed consolidated balance sheet as of September 30, 1996, and the condensed consolidated statements of earnings for the three-month and nine-month periods ended September 30, 1996 and 1995, and the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 1996 and 1995, have been prepared by the Company without audit. In the opinion of management, all adjustments (which included only normal, recurring adjustments) necessary to present fairly the financial position at September 30, 1996, and the results of operations and cash flows for all periods presented have been made. The results of operations for the interim periods are not necessarily indicative of the operating results for the full year.

The condensed consolidated balance sheet as of December 31, 1995, is derived from the audited financial statements but does not include all disclosures required by generally accepted accounting principles. The notes accompanying the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 1995, include accounting policies and additional information pertinent to an understanding of both the December 31, 1995, balance sheet and the interim financial statements. The information has not changed except as a result of normal transactions in the nine months ended September 30, 1996.

2. Impairment of Long-Lived Assets:

As of January 1996, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets." SFAS No. 121 establishes accounting standards for the impairment of long-lived assets to be held and used and for long-lived assets to be disposed of. The adoption of SFAS No. 121 did not have a material effect on the Company's earnings.

Report of Independent Accountants

To the Board of Directors and Shareholders of
The Southland Corporation

We have reviewed the accompanying condensed consolidated balance sheet of The Southland Corporation and Subsidiaries as of September 30, 1996, the related condensed consolidated statements of earnings for the three-month and nine-month periods ended September 30, 1996 and 1995, and the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 1996 and 1995. These financial statements are the responsibility of the company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements of The Southland Corporation and Subsidiaries for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet as of December 31, 1995, and the related consolidated statements of earnings, shareholders' equity (deficit), and cash flows for the year then ended (not presented herein), and in our report dated February 14, 1996, which included an explanatory paragraph describing the change in method of accounting for postemployment benefits and for income taxes in 1993, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 1995, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

COOPERS & LYBRAND L.L.P.

Dallas, Texas
October 24, 1996

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

RESULTS OF OPERATIONS - Nine Months Ended September 30, 1996

Summary of Results of Operations

The Company's net earnings for the third quarter and first nine months of 1996 were \$37.7 million (\$0.08 per share) and \$73.6 million (\$0.17 per share), respectively, compared to net earnings of \$49.6 million (\$0.12 per share) and \$85.4 million (\$0.21 per share) for the same periods in 1995. Pre-tax earnings of \$62.8 million for the third quarter of 1996 were \$1.5 million higher than the same period in 1995.

Financial Statement Changes

Certain expense reclassifications were noted in the Company's December 31, 1995 annual report and 10-K filing, resulting in the restatement of comparative results. Subsequent quarterly filings on Form 10-Q during 1996 have restated prior period results to maintain consistency. The most significant change related to reclassifying buying and occupancy costs (i.e., store rent, depreciation and other store-related occupancy expenses) out of Cost of Goods Sold and into Operating, Selling, General & Administrative expenses.

Management Strategies

Since 1992, the Company has been committed to several key strategies that it believes, over the long term, will provide further differentiation and allow 7-Eleven to maintain its position as the premier convenience retailer. These strategies include:

- Continued upgrades to the Company's store base by remodeling existing stores, closing underperforming stores and developing new sites.
- A customer-driven approach to merchandising which focuses on providing the customer an expanded selection of quality products at a good value.
- Everyday-fair-pricing strategy which provides consistent, reasonable prices on all items.
- Daily delivery of fresh perishable items and high-quality, ready-to-eat foods providing fresher products, improved in-stock conditions and lower product costs.
- Implementation of a retail information system which has initially automated accounting and other store-level tasks. When fully complete, the system will provide each store, as well as suppliers and distributors, with on-line information to make improved ordering decisions.

The Company made considerable progress toward implementation of these strategies during the third quarter, accelerating the development of its retail information system, making the transition to three new combined distribution centers and two new commissaries, and

locating new store opportunities. The Company believes that these strategies have contributed to its improved results over the past two years, although in the short term they have resulted in additional costs, and that continuing to implement these strategies will lead to sustainable, profitable growth over the long-term.

(Except where noted, all per-store numbers refer to an average of all stores rather than only stores open more than one year.)

Sales

The Company recorded net sales of \$1.84 billion for the third quarter and \$5.19 billion in the first nine months of 1996, compared to net sales of \$1.83 billion and \$5.12 billion during the same periods last year. Growth in total sales was achieved during the third quarter primarily as a result of gasoline prices, which overcame the decline from store closings (see Management Strategies) and the slight same-store merchandise sales decrease. During the third quarter, the Company operated an average of 114 fewer stores than the same period in 1995.

The Company's ongoing challenge to balance short-term performance with its long-term objectives, along with the unseasonably cool and wet weather in some of its largest markets (primarily the East Coast), contributed to the less than desired merchandise sales results during the third quarter. Merchandise sales growth per store was as follows:

<u>Increase/(Decrease) from prior year</u>	<u>Periods Ending September 30, 1996</u>	
	<u>Three Months</u>	<u>Nine Months</u>
U.S. same-store sales	(0.3)%	1.5%
U.S. same-store real growth, excluding inflation	(2.8)%	(0.7)%
7-Eleven inflation	2.5%	2.3%

Gasoline sales dollars per store increased 7.9% for the third quarter and 6.4% for the first nine months of 1996 in comparison to the same periods in 1995, due to an average increase in sales price of 8.7 and 7.3 cents per gallon for the quarter and the nine months, respectively. Sales in gallons per store increased 0.6% during the third quarter and 0.3% for the first nine months.

Gross Profits

	<u>Periods Ending September 30, 1996</u>			
	<u>Three Months</u>		<u>Nine Months</u>	
	<u>Merchandise</u>	<u>Gasoline</u>	<u>Merchandise</u>	<u>Gasoline</u>
Gross Profit - dollars in millions	\$488.0	\$53.4	\$1,361.9	\$146.9
<u>Increase/(Decrease) from prior year</u>				
Average per-store gross profit dollar change	0.0%	(3.4)%	2.1%	0.8%
Margin point change (gasoline in cents per gallon)	(.33)	(.62)	(.24)	.06
Average per-store sales (gasoline in gallons)	1.0%	0.6%	2.8%	0.3%

Merchandise gross profit decreased by \$10.1 million in the third quarter and \$5.9 million for the nine months, when compared to the same periods in 1995. These decreases are attributable to the Company operating fewer stores and the decrease in merchandise margin.

The lower merchandise margin during the third quarter was the result of several factors. Rising product costs and more aggressive retail pricing continue to present a challenge in today's increasingly more competitive environment. Initial costs associated with new, fresh-food products from the further roll-out of the Company's fresh-food program have affected margin as well. In addition, margin was impacted negatively from the cool and wet weather experienced in some of its largest markets that suppressed sales of higher-margin products such as non-alcoholic beverages and related categories.

During the third quarter and first nine months of 1996, gasoline gross profits decreased \$2.5 million and \$0.9 million, respectively, versus the same periods in 1995. Margin in the third quarter also declined compared to last year due to high wholesale costs.

Operating, Selling, General and Administrative Expenses ("OSG&A")

	Periods Ending September 30, 1996			
	Three Months		Nine Months	
	1996	1995	1996	1995
Total OSG&A expenses	\$476.7	\$490.3	\$1,375.5	\$1,396.4
Ratio of OSG&A to sales	25.9%	26.9%	26.5%	27.3%

The Company will continue to eliminate unnecessary costs, while devoting resources to the implementation of its retail information system and other strategic initiatives (see Management Strategies). Despite the incremental costs of these initiatives, which exceeded \$5 million, OSG&A expenses during the third quarter declined \$13.7 million, compared to the same period in 1995. The decrease in OSG&A expenses during the third quarter was primarily due to fewer stores, higher store closing costs in 1995, and lower insurance costs from adjustment to the Company's self-insurance reserves as a result of favorable claims experience. For the nine-month comparison, OSG&A expenses declined \$20.9 million due to reductions in force, lower insurance and benefit costs, reduced advertising and environmental remediation expenses, and the effect of having fewer stores.

Interest Expense, Net

In November 1995, the Company consummated a \$216.7 million tender offer to purchase a portion (\$263.3 million face value) of its public debt securities (see Liquidity and Capital Resources). The purchase was financed by the issuance of \$300 million 4.5% Convertible Quarterly Income Debt Securities due 2010 ("Convertible Debt"). The annual interest expense of \$13.7 million from issuing the Convertible Debt has not been offset by a corresponding reduction in interest expense for the retired debentures, because the retired debentures were accounted for pursuant to Statement of Financial Accounting Standards No. 15 ("SFAS No. 15"). SFAS No. 15 provides that future interest payments on the Company's currently outstanding public debt securities be recorded as debt on the balance sheet and charged against such balances when paid rather than being recorded as interest expense in the income statement.

Net interest expense increased \$1.5 million and \$4.5 million over 1995, during the third quarter and first nine months of 1996, respectively. Several factors caused the change in net interest expense during the third quarter including increases from the Convertible Debt interest (explained in the paragraph above) and lower interest income, offset by declines from lower

principal balances and lower rates on floating rate debt. The lower interest income was primarily the result of a new money order agreement. The new agreement eliminates interest income from the funding arrangement; however, it provides lower cost of goods and operating costs, which will more than offset the impact of the lost interest. While the Company expects interest expense to remain relatively flat for 1996, interest income is expected to decline approximately \$6 million.

Approximately 33% of the Company's debt contains floating rates, which had a weighted average interest rate of 5.75% for the third quarter and 5.86% for the first nine months of 1996 versus 6.53% and 6.71% for the same time periods in 1995. In early 1996, the Company reduced its exposure to short-term fluctuations in rates on a substantial portion of its floating rate bank debt by selecting six-month and one-year LIBOR maturities at favorable rates rather than the shorter terms it has selected in the past.

LIQUIDITY AND CAPITAL RESOURCES

The majority of the Company's working capital is provided from three sources: i) cash flows generated from its operating activities; ii) a \$400 million commercial paper facility (guaranteed by Ito-Yokado Co., Ltd.); and iii) short-term seasonal borrowings of up to \$150 million under its revolving credit facility. The Company believes that operating activities coupled with available short-term working capital facilities will provide sufficient liquidity to fund current operating and capital expenditure programs, as well as to service debt requirements.

On November 22, 1995, the Company completed a tender offer for 40% of the face value of both its 5% First Priority Senior Subordinated Debentures due December 15, 2003 (\$180.6 million) and 4 1/2% Second Priority Senior Subordinated Debentures - Series A (\$82.7 million) due June 15, 2004 (collectively, the "Debentures"). Under the terms of the offer, the final clearing prices were \$840 and \$786 for the 5% and 4 1/2% Debentures, respectively, per \$1,000 face amount, resulting in a cash outlay by the Company of \$216.7 million.

To finance the purchase of the Debentures, the Company issued \$300 million in Convertible Debt to Ito-Yokado Co., Ltd., and Seven-Eleven Japan Co., Ltd., the joint owners of IYG Holding Company, which is the Company's majority shareholder. The remaining proceeds of \$83.3 million were made available for general corporate purposes. The Convertible Debt is subordinated to all existing debt, has a 15-year term with no amortization and is convertible into the Company's common shares at \$4.16 per share.

The Credit Agreement contains certain financial and operating covenants requiring, among other things, the maintenance of certain financial ratios, including interest coverage, fixed-charge coverage and senior indebtedness to earnings before interest, taxes, depreciation and amortization ("EBITDA"). The covenant levels established by the Credit Agreement generally require continuing improvement in the Company's financial condition.

For the period ended September 30, 1996, the Company was in compliance with all of the covenants required under the Credit Agreement, including compliance with the principal financial and operating covenants (calculated over the latest 12-month period) as follows:

Covenants	Actuals	Requirements:	
		Minimum	Maximum
Interest coverage*	3.22 to 1.0	2.70 to 1.0	
Fixed-charge coverage	1.11 to 1.0	1.00 to 1.0	
Senior indebtedness to EBITDA	3.03 to 1.0		4.10 to 1.0

*includes effects of the SFAS No. 15 interest payments.

During the first nine months of 1996, the Company has repaid \$118.1 million of debt, which included \$75.0 million representing all of the quarterly installments due in 1996 under the Credit Agreement, \$20.6 million for principal payments on the Company's yen-denominated loan (secured by the royalty income stream from its area licensee in Japan) and \$11.2 million for SFAS No. 15 interest. Outstanding balances at September 30, 1996, for the commercial paper, the Term Loan and the Revolver, were \$361.1 million, \$225.0 million and zero, respectively. As of September 30, 1996, outstanding letters of credit issued pursuant to the Credit Agreement totaled \$79.4 million.

Cash From Operating Activities

Net cash provided by operating activities was \$83.9 million for the third quarter and \$235.3 million for the first nine months of 1996, a decrease of \$32.1 million and increase of \$37.8 million over the same periods, respectively, in 1995. The decreased operating cash flow for the third quarter resulted primarily from the timing of payments of trade payables and other liabilities. The year-to-date increase in operating cash flow was mostly due to improved operating performance (previously discussed in the Results of Operations section).

Capital Expenditures

In the first nine months, net cash used in investing activities consisted primarily of payments of \$137.4 million for property and equipment, the majority of which was used for remodeling stores, upgrading retail gasoline facilities, replacing equipment and complying with environmental regulations.

The Company expects to spend approximately \$195 million on capital improvements in 1996, excluding lease commitments. The current capital expenditure funding will depend upon the level of EBITDA generated relative to fixed-charge coverage requirements. Capital expenditures are being used to complete remodels started in 1995; to remodel about 1,050 additional stores; to further implement a retail information system; for development or acquisition of new stores; to replace equipment; to upgrade gasoline facilities and to comply with environmental regulations. While the Company will look at the economics of each new site, it anticipates that it will finance new store construction primarily through leases containing initial terms of 15-20 years with typical option renewal periods.

Capital Expenditures - Gasoline Equipment

The Company incurs ongoing costs to comply with federal, state and local environmental laws and regulations primarily relating to underground storage tank ("UST") systems. The Company anticipates it will spend approximately \$11 million in 1996 on capital improvements required to comply with environmental regulations relating to USTs, as well as above-ground

vapor recovery equipment at store locations, and approximately an additional \$28 million on such capital improvements from 1997 through 1999.

Environmental Compliance - Stores

The Company accrues for the anticipated future costs of environmental clean-up activities (consisting of environmental assessment and remediation) relating to detected releases of regulated substances at its existing and previously owned or operated sites at which gasoline has been sold (including store sites and other facilities that have been sold by the Company). At September 30, 1996, the Company has an accrued liability of \$54.0 million for such activities and anticipates that substantially all such expenditures will be incurred within the next five years. This estimate is based on the Company's prior experience with gasoline sites and its consideration of such factors as the age of the tanks, location of tank sites and experience with contractors who perform environmental assessment and remedial work.

Under state reimbursement programs, the Company is eligible to receive reimbursement for a portion of future costs, as well as a portion of costs previously paid. At September 30, 1996, the Company has recorded a gross receivable of \$63.1 million (a net receivable of \$51.3 million after an allowance of \$11.8 million) for the estimated probable state reimbursements. There is no assurance of the timing of the receipt of state reimbursement funds; however, based on its experience, the Company expects to receive the majority of state reimbursement funds within one to four years after payment of eligible assessment and remediation expenses, assuming that the state administrative procedures for processing such reimbursements have been fully developed.

The estimated future assessment and remediation expenditures and related state reimbursement amounts could change in the future as governmental requirements and state reimbursement programs continue to be implemented or revised.

Environmental Compliance - Chemical Plant

In December 1988, the Company closed its chemical manufacturing facility in New Jersey. As a result, the Company is required to conduct environmental remediation at the facility and has accrued a liability for this purpose. As required, the Company has submitted a clean-up plan to the New Jersey Department of Environmental Protection (the "State"), which provides for remediation of the site for approximately a three- to five-year period, as well as continued groundwater treatment for a projected 20-year period. While the Company has received initial comments from the State, the clean-up plan has not been finalized. The Company has recorded liabilities representing its best estimates of the clean-up costs of \$36.9 million at September 30, 1996. Of this amount, \$30.1 million was included in deferred credits and other liabilities and the remainder in accrued expenses and other liabilities. In 1991, the Company entered into a settlement agreement with a large chemical company that formerly owned the facility. Under the settlement agreement, the former owner agreed to pay a substantial portion of the clean-up costs described above. The Company has recorded a receivable of \$21.5 million at September 30, 1996, representing the former owner's portion of the clean-up costs.

None of the amounts related to environmental liabilities have been discounted.

PART II.

OTHER INFORMATION

Item 1. Legal Proceedings.

There are no reportable suits or proceedings pending or threatened against the Company, other than as previously reported.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

1. Exhibit (3) – Bylaws of The Southland Corporation as Amended April 24, 1996.
2. Exhibit (11) – Statement re Computation of Per-Share Earnings.
3. Exhibit (15) – Letter re Unaudited Interim Financial Information. Letter of Coopers & Lybrand L.L.P., Independent Accountants.
4. Exhibit (27) – Financial Data Schedule.
Submitted in electronic format only.

(b) 8-K Reports:

During the third quarter of 1996, the Company filed no reports on Form 8-K.

SIGNATURES

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

THE SOUTHLAND CORPORATION
(Registrant)

Date: October 31, 1996

/s/ Clark J. Matthews, II
(Officer)
Clark J. Matthews, II
President and Chief Executive Officer

Date: October 31, 1996

/s/ Don Thomas
(Principal Accounting Officer)
Donald E. Thomas
Controller

EXHIBIT 11

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

STATEMENT RE COMPUTATION OF PER-SHARE EARNINGS
(In thousands, except per-share data)

CALCULATION OF EARNINGS PER COMMON SHARE

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996	1995	1996	1995
Net earnings	\$ 37,886	\$ 49,647	\$ 73,562	\$ 85,443
Add interest on Convertible Debt, net of tax	2,105	-	6,270	-
Net earnings applicable to common stock and equivalents outstanding	<u>\$ 39,791</u>	<u>\$ 49,647</u>	<u>\$ 79,832</u>	<u>\$ 85,443</u>
Weighted average number of common shares outstanding	409,923	409,923	409,923	409,923
Weighted average number of common shares issuable upon conversion of Convertible Debt	72,112	-	72,112	-
Dilutive effect of stock options after application of treasury stock method	-	-	99	-
Weighted average number of common shares and equivalents outstanding	<u>482,035</u>	<u>409,923</u>	<u>482,134</u>	<u>409,923</u>
Net earnings per common share and equivalents (Primary and Fully Diluted)	<u>\$.08</u>	<u>\$.12</u>	<u>\$.17</u>	<u>\$.21</u>

Coopers
& Lybrand

Coopers & Lybrand L.L.P.

a professional services firm

Securities and Exchange Commission
450 Fifth Street, Northwest
Washington, D.C. 20549
Attention: Document Control

Re: The Southland Corporation Form 10-Q

We are aware that our report dated October 24, 1996 on our review of the condensed consolidated balance sheet of The Southland Corporation and Subsidiaries as of September 30, 1996, the related condensed consolidated statements of earnings for the three-month and nine-month periods ended September 30, 1996 and 1995, and the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 1996 and 1995, included in this Form 10-Q, is incorporated by reference in the following registration statements.

	<u>Registration No.</u>
On Form S-8 for:	
Post-Effective Amendment No. 3 to The Southland Corporation Equity Participation Plan	33-23312
Post-Effective Amendment No. 1 to The Southland Corporation Grant Stock Plan	33-25327
The Southland Corporation 1995 Stock Incentive Plan	33-63617

Pursuant to Rule 436(c) under the Securities Act of 1933, this report should not be considered a part of the registration statement prepared or certified by us within the meaning of Sections 7 and 11 of that Act.

COOPERS & LYBRAND L.L.P.

Dallas, Texas
November 4, 1996

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EXHIBIT E
ANNUAL REPORT
(Attached)

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DOCUMENT (S)

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TORN

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

FORM 10-K

(Mark One)

☒ [X]

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934. [FEE REQUIRED]

For the fiscal year ended December 31, 1995

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 Numbers 0-676 and 0-16626

The Southland Corporation

(Exact name of registrant as specified in its charter)

Texas

(State or other jurisdiction of
incorporation or organization)

2711 North Haskell Ave., Dallas, Texas
(Address of principal executive offices)

75-1085131

(I.R.S. Employer
Identification No.)

75204-2906

(Zip code)

Registrant's telephone number, including area code: 214-828-7011

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

Title of Each Class

None

Name of Each Exchange

on Which Registered

N/A

Securities Registered pursuant to Section 12(g) of the Act

Common Stock, \$ 0001 Par Value

Warrants to Purchase Common Stock at \$1.75 per share (expired on February 23, 1996)

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 ☒ 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. ☐

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$457,709,132 at March 8, 1996, based upon 140,833,579 shares held by persons other than officers, directors and 5% owners.

**APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☒ No ☐

409,922,935 shares of Common Stock, \$ 0001 par value (the registrant's only class of Common Stock), were outstanding as of March 8, 1996.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference into the listed Parts and Items of Form 10-K: Definitive Proxy Statement for April 24, 1996 Annual Meeting of Shareholders; Part III, a portion of Item 10 and Items 11, 12 and 13

NEXT

DOCUMENT (S)

DISREGARD

BACKGROUND

ANNUAL REPORT ON FORM 10-K
For the year ended December 31, 1995

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*Included in Form 10-K by incorporation by reference to the Registrant's Proxy Statement, dated March 21, 1996, for the April 24, 1996 Annual Meeting of Shareholders.

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PART I

Item 1. BUSINESS.

GENERAL

The Southland Corporation ("Southland," the "Company" or "Registrant"), conducting business principally under the name 7-ELEVEN, is the largest convenience store chain in the world, with almost 15,400 Company-operated, franchised and licensed locations worldwide, and is among the nation's largest retailers.

The 7-ELEVEN trademark has been registered since 1961 and is well known throughout the United States and in many other parts of the world. The Company believes that 7-ELEVEN is the leading name in the convenience store industry. Notwithstanding its divestitures of stores and other businesses since 1987, the Company remains geographically diversified. The Company has, over the past several years, implemented its strategic plan to divest all its non-convenience store operations, and has trimmed its store operations by consolidating its efforts in certain market areas and by closing less profitable stores. Convenience retailing is now the Company's only business focus.

The Company, with executive offices at 2711 North Haskell Avenue, Dallas, Texas 75204 (telephone 214/828-7011), was incorporated in Texas in 1961 as the successor to an ice business organized in 1927. Unless the context otherwise requires, the terms "Company," "Southland" and "Registrant" as used herein include The Southland Corporation and its subsidiaries and predecessors. In 1995, Southland's operations (for financial reporting purposes) were conducted in one business segment: the Operating and Franchising of Convenience Food Stores.

At December 31, 1995, the Company's operations included 5,361 7-ELEVEN convenience stores in the United States and Canada, 19 High's Dairy Stores, and 44 Quik Mart and SUPER-7 high-volume gasoline outlets with mini-convenience stores. The Company also has an equity interest in 220 convenience stores in Mexico (almost all of which are now using the 7-ELEVEN name). Area licensees, or their franchisees, operate additional 7-ELEVEN stores in certain areas of the United States, in 18 foreign countries and the U.S. territories of Guam and Puerto Rico. As of the end of 1995, the Company has an equity interest in three of the licensees whose area licenses cover six foreign countries and Puerto Rico.

During 1995, the Company continued to focus on its business concept of providing superior service to its customers through better merchandising, with item-by-item control of inventory at each store, emphasizing the importance of ordering the right products, on an individual store level, to remain in stock, at all times, on each particular store's best-selling items. Through proper ordering and successful implementation of other store functions, the Company continues to work toward providing convenience-oriented customers with the SPEED, QUALITY, SELECTION, PRICE and shopping ENVIRONMENT that will give the Company a sustainable competitive advantage.

THE RESTRUCTURINGS. In 1987 the Company was financially restructured through a leveraged buyout (the "LBO") and in October 1990 filed a voluntary bankruptcy petition under Chapter 11 of the U.S. Bankruptcy Code. In March 1991, the Company emerged from

bankruptcy with a \$430 million infusion of capital from its new majority owner, IYG Holding Company, which is jointly owned by Ito-Yokado Co., Ltd. ("Ito-Yokado") and Seven-Eleven Japan Co., Ltd. ("Seven-Eleven Japan"), both Japanese corporations. Seven-Eleven Japan is the Company's largest area licensee, operating over 6,200 7-ELEVEN stores in Japan and, through its wholly-owned subsidiary Seven-Eleven (Hawaii), Inc., 46 7-ELEVEN stores in Hawaii.

On February 21, 1991, the U.S. Bankruptcy Court for the Northern District of Texas issued an order (the "Confirmation Order") confirming the Company's Plan of Reorganization (the "Plan") and on March 4, 1991, the Confirmation Order became final and non-appealable. (See "Legal Proceedings," below.) The Plan provided for holders of the Company's then outstanding debt and equity securities (the "Old Securities") to receive new debt securities, common stock and, in certain cases, cash, in exchange for their Old Securities and, pursuant to a Stock Purchase Agreement, for Ito-Yokado and Seven-Eleven Japan to acquire approximately 70% of the Company for \$430 million in cash. In addition, among other things, the Plan provided for the amendment and restatement of the Company's Credit Agreement with its Senior Lenders (the "Credit Agreement") and for the Company to effect a one-for-ten reverse stock split of its common stock (the "Stock Split"). The closing (the "Closing") under the Stock Purchase Agreement (the "Stock Purchase Agreement"), occurred on March 5, 1991, and the Company issued 286,634,619 shares of common stock, \$0.001 par value (the "Common Stock"), to IYG Holding Company, a Delaware corporation, jointly owned by Ito-Yokado and Seven-Eleven Japan, and received \$430 million in cash. In connection with the Closing, the Company entered into a Shareholders Agreement, a Warrant Agreement and Employment Agreements with the Thompsons (described below, see "Other Information About the Company").

Pursuant to the Plan, holders of the Company's Old Securities were entitled to exchange, until March 5, 1993, their Old Securities for new debt, equity and, in some cases, cash, and newly issued warrants (the "Thompson Warrants"), exercisable at \$1.75 per share (until February 23, 1996) to acquire certain shares of common stock owned by the Thompsons and certain other holders of the old common stock (the "Warrant Shareholders"), pursuant to a Warrant Agreement with Wilmington Trust Company as Warrant Agent (the "Warrant Agreement").

THE PURCHASER IYG Holding Company, a Delaware corporation (the "Purchaser" or "IYG"), is a jointly owned subsidiary of Ito-Yokado and Seven-Eleven Japan, formed for the specific purpose of purchasing the Common Stock of the Company pursuant to the Stock Purchase Agreement. Ito-Yokado owns 51% and Seven-Eleven Japan owns 49%, respectively, of IYG.

Ito-Yokado Ito-Yokado is among the largest retailing companies in Japan. Its principal business consists of the operation of 155 superstores that sell a broad range of food, clothing and household goods. In addition, its activities include operating two restaurant chains doing business under the names "Denny's" and "Famif" and a chain of supermarkets. All of Ito-Yokado's operations are located in Japan except for some limited purchasing activities. Prior to 1990, Ito-Yokado had no affiliation with the Company, other than through its majority-owned subsidiary, Seven-Eleven Japan (see below) which is the Company's area licensee in Japan. In 1990, in addition to entering into the Stock Purchase Agreement, Ito-Yokado provided the Company with much-needed interim liquidity through a \$25 million term loan.

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agreement. This term loan, plus interest, was repaid on March 5, 1991. In addition, in 1992 Ito-Yokado guaranteed the Company's \$400 million commercial paper facility and in November 1995, Ito-Yokado purchased \$153 million of 4.5% Convertible Quarterly Income Debt Securities due 2010 (see "Refinancing of Certain Debt Securities" below) issued by the Company.

Seven-Eleven Japan. Seven-Eleven Japan is the largest convenience store chain in Japan. Seven-Eleven Japan is a 50.3%-owned subsidiary of Ito-Yokado. Seven-Eleven Japan is the largest area licensee of the Company with approximately 6,269 stores in Japan and owns Seven-Eleven (Hawaii), Inc., which, as of year-end 1995, operated an additional 46 7-ELEVEN stores in Hawaii under a separate area license agreement covering that state. In November 1995, Seven-Eleven Japan purchased \$147 million of 4.5% Convertible Quarterly Income Debt Securities (see "Refinancing of Certain Debt Securities" below) issued by the Company.

REFINANCING OF BANK DEBT. On December 21, 1994, the Company refinanced all of its remaining debt under the Credit Agreement, originally entered into in 1987. The bank group, led by Citicorp North America, Inc., as Agent, and The Sakura Bank, Limited, as Co-Agent, is comprised of six Japanese banks, four American banks and one Canadian bank. The amended Credit Agreement, which will mature at the end of 1999, provides for a \$300 million term loan, \$150 million letter of credit facility and a \$150 million revolving credit facility. The term loans and any revolver borrowings carry a floating interest rate of either the Citibank, N.A. base rate or a reserve-adjusted Eurodollar rate plus .975%.

REFINANCING OF CERTAIN DEBT SECURITIES. On November 22, 1995, the Company issued \$300 million aggregate principal amount of 4.5% Convertible Quarterly Income Debt Securities due 2010 (the "Convertible Debt Securities") to Ito-Yokado and Seven-Eleven Japan. The Convertible Debt Securities are subordinated to all existing debt and pay interest quarterly; however, the Company has the right to defer interest payments thereon for up to 20 consecutive quarters. The Convertible Debt Securities are convertible into shares of the Company's common stock at a price of \$4.1602 per share, subject to adjustment in certain cases.

In addition, on November 21, 1995, the Company successfully concluded its "Dutch auction" tender offer for 40 percent of both its 5% First Priority Senior Subordinated Debentures due December 15, 2003 ("5% Debentures") and 4½% Second Priority Senior Subordinated Debentures (Series A) due June 15, 2004 ("4½% Debentures," together with the 5% Debentures, the "Debentures"). Under the terms of the tender offer, approximately \$180,621,000 million face amount was purchased at the final clearing price of \$840.00 per \$1,000 principal amounts for the 5% Debentures and approximately \$82,719,000 million face amount was purchased at the final clearing price of \$786.00 per \$1,000 principal amount for the 4½% Debentures. All Debentures tendered below the final clearing price were purchased at the final clearing price. Debentures tendered at the final clearing price were prorated, and those tendered at prices above the final clearing price were returned. The 5% Debentures acquired by the Company through the tender offer have been used to satisfy the Company's sinking fund obligations for several years under the terms of the Indenture governing the 5% Debentures.

The Company received total proceeds from the issuance of the Convertible Debt Securities of \$300 million, of which approximately \$217 million was used to purchase the tendered Debentures. Additional open market purchases of the Debentures may be made in the future. The remaining proceeds will be used for general corporate purposes including, initially, the repayment of currently outstanding commercial paper and revolving debt, if any.

Operating and Franchising of Convenience Food Stores

7-ELEVEN STORES. On December 31, 1995, there were 5,361 7-ELEVEN convenience stores included in the Company's operations and 625 stores (in the United States) operated by area licensees. Such stores are operated principally under the name 7-ELEVEN and are located in 41 states, the District of Columbia, and five provinces of Canada. During 1995, the Company opened 22 convenience stores (of which 11 were rebuilds or relocations of existing stores) and closed 228 convenience stores, due to changing market patterns, lease expirations and the closing of selected stores that were not profitable.

The Company's convenience stores are extended-hour retail stores, emphasizing convenience to the customer and providing fresh take-out foods, groceries and beverages, gasoline (at about 2,000 stores), dairy products, non-food merchandise, specialty items, certain financial services, lottery tickets, and incidental services. Generally, the Company's stores are open every day of the year and are located in neighborhood areas, on main thoroughfares, in shopping centers, or on other sites where they are easily accessible and have ample parking facilities for quick in-and-out shopping. Stores are generally from 2,400 to 3,100 square feet in size and carry 2,300 to 2,600 items. The vast majority of the stores operate 24 hours a day. The stores attract early and late shoppers, lunch-time customers, weekend and holiday shoppers and customers who may need only a few items at any one time and desire rapid service. The Company has been emphasizing its new product mix and expanding its selection of higher quality fresh foods and is experimenting with other merchandising innovations to encourage existing customers to increase their shopping frequency and to enhance the stores' appeal to new customers. The Company has also taken a new approach to providing fresh food merchandise to the stores, through the introduction of daily delivery of freshly made sandwiches and bakery products from commissaries and newly opened baking facilities operated to serve only the needs of 7-ELEVEN stores, with such products, as well as many others, now being distributed in several markets from local area combined distribution centers that serve only 7-ELEVEN stores. In addition, there has been an increased focus on novelty and seasonal items to spur impulse buying and stores are being further encouraged to introduce items that are new to the market, or new to convenience stores, in order to encourage customers to shop in 7-ELEVEN stores frequently to see the constantly updated array of new items in the stores, which are designed to appeal to a broader mix of customers.

Substantially all convenience store sales are for cash (including sales for which checks are accepted), although major credit cards, along with the "Citgo Plus" credit card, are accepted in most markets, for purchases of both merchandise and gasoline. Credit card sales currently account for approximately 6.8% of sales, including gasoline.

REMODELING OF STORES. During 1995, the Company continued the most extensive remodeling in its history. By the end of 1995, approximately 4,100 stores had been remodeled to conform to the new store image. The Company anticipates that approximately 1,100

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additional stores will be remodeled in 1996. The remodeled stores have increased interior and exterior lighting, wider aisles, shopper-friendly aisle markers, lower shelf heights to help shoppers locate items faster, less cluttered aisles and counters, upgraded gasoline island equipment, and a new tri-striped exterior store facade that replaces the mansard roofs of many existing stores. In addition, closed circuit TV cameras have been added at the remodeled stores as a further security upgrade. The remodeling process has been greatly streamlined to be less disruptive of the store's business and to focus on the changes that customers notice and appreciate most, such as brighter lighting and more user-friendly store layouts.

MERCHANDISING During 1995, the Company further intensified its focus on better order forecasting to avoid lost sales opportunities caused by out-of-stock conditions. Through case studies and other examples, the entire field organization has been kept informed on ways to identify and track each store's best-selling items in each product category. Store employees are responsible for placing orders with a view toward forecasting the demand for the highest selling items in the store, based on specific local conditions.

Each store's merchandise includes a selection of core items as well as optional items selected by the individual store operators to meet their customers' local needs and preferences. During 1995, the Company continued to expand its selection of seasonal and novelty items, taking advantage of each holiday or other identifiable event (such as graduation time, start of the football or baseball season, etc.) with a preplanned mix of merchandise made available to the stores on attractive end cap merchandisers in anticipation of possible impulse or last-minute shopping at such times as Valentine's Day, Easter, Mother's Day, Halloween and Christmas. In addition, the Company developed promotions that were tied to both the NFL football season and the NHL hockey season using novelty items in the stores, supported by radio and print media advertising.

During 1995, as part of the Company's new merchandising focus, between 20 and 25 new items were made available to the stores each week. Store operators were encouraged to try new items and, through case-study experiments, store operators were able to see the incremental benefits derived by offering the new items in the stores.

In addition, during 1995 the Company continued to implement its everyday-fair-price strategy, which minimizes discounting, but lowers prices on some items to provide consistent, competitive prices throughout the store. The Company is applying a more flexible approach to pricing on different products in different markets, while working with suppliers to find ways to lower costs to the Company, so that any savings can be reflected in the price to the customer.

NEW PRODUCTS *Fresh Foods and Food Products.* During 1995, the Company continued its initiative to introduce more fresh food products of a higher quality into the stores. Daily deliveries are being made of sandwiches, salads, breakfast items and fresh-made pastries -- all items marketed under 7-ELEVEN's proprietary DELI CENTRAL and WORLD OVENS brand names. Under this initiative, 7-ELEVEN aligns itself with local bakeries and "kitchens" or commissaries. These companies prepare food to 7-ELEVEN's specifications exclusively for the stores and have the product delivered in the exact quantities ordered by the stores through the combined distribution center program (see "Distribution, Fresh Products," below).

By the end of 1995, there were four commissary facilities providing fresh-made foods to the stores. One commissary, operated by Prime Deli Corporation in Dallas, Texas, provides a wide range of freshly prepared food to approximately 228 stores. In late 1994, with the help of The Pillsbury Company, WORLD OVENS fresh bakery products were developed and introduced to 7-ELEVEN stores in Texas. These high-quality products are proprietary to 7-ELEVEN and are manufactured in a new bakery facility just outside Dallas, specifically opened and operated to serve 7-ELEVEN's needs. The commissary in Austin, Texas, which has been operating since 1992, has begun testing new proprietary sandwiches and breakfast sandwiches in the Austin area.

In addition, during 1994, food production began from a newly built commissary facility (Fresh to Go Foods) in the Philadelphia/New Jersey market area that produces fresh food items for approximately 400 franchised stores in that market area. The area served by this facility will be expanded to include the Baltimore area during 1996. Another commissary is also servicing approximately 160 franchised stores in the Long Island, New York market area. In addition, WORLD OVENS products are also being supplied to stores in the Philadelphia/New Jersey market area from a bakery facility in Baltimore. In late 1995, the Company signed a commissary agreement for parts of Denver and surrounding areas. The Company is also in the process of finalizing arrangements for additional commissaries and bakeries in 1996 covering markets in parts of California, Virginia, Baltimore, Washington, D.C., Chicago, Denver, Colorado Springs, Tampa and Orlando. The Company plans to have the DELI CENTRAL and WORLD OVENS products in almost all of its stores within a few years.

Through the use of the commissaries and other suppliers, several new categories of fresh food products were added to the cold sandwich food offerings in 1995 in selected areas of the country including ethnic products, such as Mexican items, unique hot sandwich offerings, new salads, fresh bagels and prepared fruit and vegetable products, as well as afternoon pastry products, such as cookies and brownies. Over 200 new fresh food items were introduced across the country and these new products accounted for a significant portion of the growth in the fresh food category in 1995. In addition, several new lines of signature products are being tested in various areas, including Teriyaki Rice Bowls and unique signature sandwiches such as Chicken Focaccia and Chicken Caesar Pita.

Proprietary products were a big part of the Company's initiative to offer higher quality food and beverage selections, with the Company continuing to expand its corporate brand QUALITY CLASSIC SELECTION spring water and soft drinks with the addition of flavored teas, new packages like a one-liter sports bottle for the spring water and sparkling waters in some markets. QUALITY CLASSIC SELECTION was launched in Canada in 1995.

In the hot beverage area, as a complement to promoting its ever-popular 7-ELEVEN coffee, the Company continued to emphasize its own proprietary regular and sugar-free CAFE SELECT line of gourmet-flavored coffees, hot chocolates and cappuccinos, which added hot beverages that had appeal throughout the day, in addition to the traditional peak morning coffee hours. Approximately 95% of 7-ELEVEN stores offer the new hot chocolate and cappuccino products.

Non-Food Items. 7-ELEVEN also continued its emphasis on staying ahead of its competitors by providing a selection of non-food services, such as the continued aggressive

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marketing of branded prepaid telephone cards for long distance service. The prepaid telephone cards, which were originally introduced in November 1994, now include collectors' series and 90-minute varieties. During 1995, the Company became the largest retailer of prepaid long distance telephone cards in the U.S. using extensive advertising and promotions like its 7-ELEVEN NFL Quarterback Collectible Phone Card. By year end over 5,000 stores were selling the 7-ELEVEN PHONE CARDS for prepaid long distance calling in 15-, 30-, 60- and 90-minute increments. In 1995, 7-ELEVEN sold over 3 million cards. The Company expects to introduce the 180-minute card, and two collector series cards, in 1996, and to continue to seek expanded sales in the burgeoning phone card market.

The Company also continued to install more automatic teller machines under its 1993 agreement with Electronic Data Systems Corporation ("EDS") and continued its ATM program with other vendors, as well. By year-end there were approximately 4,600 ATMs in 7-ELEVEN stores around the U.S. as well as 350 machines in its Canadian stores. EDS pays the Company a flat fee per month per ATM as well as transaction-based fees dependent upon the number of transactions per month. During 1995, a surcharge (a fee charged by the ATM owner/operator) added to each ATM transaction was tested in markets in California and Nevada, as well as other areas. A portion of the surcharge is shared with 7-ELEVEN, resulting in significant growth in income from this category. EDS plans to continue the surcharge rollout in 1996.

The Company is one of the nation's leading retailers of money orders and, in 1995, began upgrading the money order processing equipment in the stores in an effort to make this product even more appealing to customers and to make it easier for store operators to provide a more efficient and faster transaction, satisfying the needs of the convenience shopper.

The Company continued to focus on adding new and popular seasonal merchandise and in May introduced a new selection of 36 styles of sunglasses with the sophisticated look of certain very expensive brands - but at extremely reasonable prices. Eighty percent of the stores participated and ordered the new display which holds 18 pairs of sunglasses. As a result of this new program, sunglass sales were up 94% in 1995 over 1994.

GASOLINE In 1995, the Company sold over 1.4 billion gallons of gasoline at retail at approximately 2,000 7-ELEVEN stores and other Southland self-serve outlets. The Company monitors gasoline sales to maintain a steady supply of petroleum products to the Company's stores, to determine competitive retail pricing, to provide the appropriate product mix at each location and to manage inventory levels, based on market conditions. During 1995, the Company continued its program to upgrade the gasoline pump area of the stores, by adding canopies and new equipment. Approximately 900 stores are now equipped to accept credit cards for the purchase of gasoline at the pump, which makes gasoline shopping at 7-ELEVEN stores even more convenient for the credit customer. Almost all of the Company's stores offer CITGO-branded gasoline.

During 1995, the Company discontinued the sale of gasoline at approximately 56 locations (due, in many cases, to the closing or divestiture of the entire store, with the others eliminated due to the strategic decision to discontinue the sale of gasoline at the particular location), and may discontinue gasoline sales at about 30 additional locations in 1996. In 1995, the

Company assumed responsibility for gasoline operations at 45 locations where the gasoline facilities had previously been operated by third parties.

The Company has a long-term product purchase agreement with CITGO Petroleum Corporation ("Citgo") under which Southland purchases substantially all its U.S. gasoline requirements from Citgo at market-related prices through the year 2006.

Holders of the "Citgo Plus" credit card can use the card to finance purchases of gasoline, as well as other merchandise, at 7-ELEVEN stores. At year-end, there were more than 1.3 million active "Citgo Plus" credit card accounts.

DISTRIBUTION. Fresh Products. To further facilitate the sale of fresh products in the stores, the Company continued to roll-out its combined distribution program through the strategic alliance with companies that specialize in distribution. These third-party distribution companies provide distribution and cross-dock facilities where the products of multiple vendors, many of whom formerly delivered directly to 7-ELEVEN stores themselves, are combined to make one delivery to the store. This enables the stores to receive daily shipments of products where freshness is paramount and avoids the inconvenience of multiple daily deliveries to the stores by several vendors. By the end of 1995, 825 stores in Texas, Long Island, Philadelphia and New Jersey were receiving daily deliveries of the freshest dairy products, produce, packaged baked goods, bread products and even products like fresh-cut flowers, through 7-ELEVEN's combined distribution center ("CDC") program. In 1994, the Company entered into a five-year agreement with E.A. Sween Company for E.A. Sween to provide distribution services through operation of (i) a CDC facility in the Dallas/Fort Worth area to service approximately 250 stores in that area and (ii) a CDC facility in the Austin market area to service approximately 50 stores in that area. Included in the products distributed through the CDCs are those produced by Prime Deli Corporation from its commissary and the WORLD OVENS products from Southbury Bakery, both in the Dallas area, and products from the commissary facility in Austin, which has now been open and serving 7-ELEVENs since 1992. As of year-end 1995, there were CDCs operating in Dallas and Austin, Texas, in New Jersey (serving the Philadelphia/New Jersey market area) and on Long Island, New York. The Company plans to further align itself with additional CDC facility operators in 1996 in Tampa and Orlando, Florida, Long Island, New York, Denver and Colorado Springs, Colorado, the southern Maryland/northern Virginia market, including Washington, D.C.; and in San Jose, California, and is in various stages of finalizing agreements with several operators who will provide the distribution services covering each of these new areas.

In addition, the Company experimented in 1995 with utilizing the delivery capabilities of the Dallas CDC for perishable items other than food. Fresh-cut flowers, including roses, are now being distributed by the Dallas CDC.

Warehouse Products - The Company continued to utilize the distribution services of McLane Company, Inc., pursuant to a ten-year contract entered into in 1992, for delivery of warehouse products to all of the Company's corporate stores and those franchise stores that utilize McLane for distribution services. McLane serves Southland using two former Southland distribution centers and eight additional distribution centers throughout the country. The Company has worked with McLane to minimize out-of-stock conditions and to assist McLane to be increasingly responsive to individual store's needs.

Most franchisees are required only to carry merchandise of a type, quality, quantity and variety consistent with the 7-ELEVEN image. Except for consigned merchandise and certain proprietary items, franchisees are not required to purchase merchandise from the Company or vendors if recommends, or to sell their merchandise at prices suggested by the Company.

SUPPLY AGREEMENTS In connection with the sale of the Company's Reddy Ice and Dairies Group divisions, both in 1988, the Company entered into long-term contracts to purchase the products historically supplied to the Company's stores by such divested operations. Although the Reddy Ice contract expired by its terms in May 1995, the Company has continued to buy ice from Reddy Ice.

PRODUCT CATEGORIES The Company does not record sales on the basis of product categories. However, based upon the total dollar volume of store purchases, management estimates that the percentages of its 7-ELEVEN convenience store sales in the United States by principal product categories for the last five years were as follows:

Years Ended December 31

Product Categories	1995	1994	1993	1992	1991
Gasoline	24.9%	24.2%	23.5%	22.5%	21.5%
Tobacco Products	16.6	17.2	18.0	19.2	19.1
Groceries	9.8	9.6	9.2	8.5	8.1
Beer/Wine	9.0	9.4	9.5	10.0	10.7
Soft Drinks	8.7	8.8	9.7	10.0	10.3
Food Service	8.7	8.5	8.5	8.4	8.4
Non-Foods	6.1	6.2	5.8	5.8	5.8
Dairy Products	4.4	4.6	4.8	4.9	5.0
Candy	3.6	3.8	3.7	3.8	3.9
Baked Goods	3.4	3.6	3.5	3.4	3.4
Customer Services	3.1	2.4	2.1	1.9	1.8
Health/Beauty Aids	1.7	1.7	1.7	1.6	2.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%

LOCAL REGULATIONS In certain areas where stores are located, state or local laws limit the hours of operation or sale of certain products, most significantly alcoholic beverages, tobacco products, possible inhalants and lottery tickets. State and local regulatory agencies have the authority to approve, revoke, suspend or deny applications for and renewals of permits and licenses relating to the sale of these products or to seek other remedies. In most states, such agencies have discretion to determine if a licensee is qualified to be licensed, and denials may be based on past noncompliance with applicable statutes and regulations as well as on the involvement of the licensee in criminal proceedings or activities which in such agencies' discretion are determined to adversely reflect on the licensee's qualifications. Such regulation is subject to legislative and administrative change from time to time.

Since 1984, the Company has had in place an extensive program entitled COME OF AGE, to train store personnel in the laws relating to the proper handling and sale of age-restricted products. This training program is provided to all sales associates in corporate stores and is made available to all franchisees and licensees.

FRANCHISES At December 31, 1995, 2,896 7-ELEVEN stores were operated by independent franchisees under the Company's franchise program for individual 7-ELEVEN stores. Sales by stores operated by franchisees (which are included in the Company's net sales) were approximately \$2,832,131,000 for the year ended December 31, 1995.

In its franchise program for individual 7-ELEVEN stores, the Company selects qualified applicants and trains the individuals who will participate personally in operating the store. The franchisee pays the Company an initial fee, which varies by store, and is generally calculated based upon gross profit experience for the store or market area, to cover certain costs including: training; an allowance for travel; meals and lodging for the trainees; and other costs relating to the franchising of the store. Under the standard form of franchise agreement, the Company leases or subleases, to the franchisee, a ready-to-operate 7-ELEVEN store that has been fully equipped and stocked. The Company bears the costs of acquiring the land, building and equipment, as well as most utility costs and property taxes.

Under the standard franchise arrangement, which typically has an initial term of 10 years, the franchisee pays for all business licenses and permits, as well as all in-store selling expenses, including: payroll, inventory and cash variations; supplies; inventory; payroll and other business taxes; certain repairs and maintenance; and other controllable in-store expenses, and is required to invest an amount equal to the cost of the store's inventory and cash register fund. The Company finances a portion of the cost of business licenses and permits and of the investment in inventory, as well as the ongoing operating expenses and purchases of inventory.

Under the standard franchise agreements currently in effect, the Company shares in the gross profit of the store (ranging from 50% to 58%, depending on the hours of store operation, adjusted if necessary to assure the franchisee a specified gross income before selling expenses), based on all sales of merchandise and services except those on which the Company pays the franchisee a commission (such as consigned gasoline). The Company's share of gross profit, called the "7-ELEVEN Charge," is its continuing royalty charge to the franchisee for the license to use the 7-ELEVEN operating system and trademarks, for the lease and use of the store premises and equipment and for continuing services provided by the Company. These services include merchandising, advertising, recordkeeping, store audits, contractual indemnification, business counseling services and preparation of financial statements. Other optional services are available from or through the Company for additional fees.

During 1995, the Company continued testing a new franchise agreement that provided a three-tiered structure for calculating the 7-ELEVEN Charge. This test, which is limited to Washington, Idaho and Oregon, will continue, in those states only, during 1996. The Company has been working on the development of a new franchise agreement with the help of a committee of franchisees from the National Advisory Council. The Company anticipates that there will be an ongoing process to revise the franchise agreement, on a periodic basis, to ensure it stays in step with the Company's business concept.

In addition, during the first part of 1996, the Company increased the training program being offered for franchisees. The program now consists of 7 weeks of intensified instruction in the new strategies that are being implemented by the Company.

The Company is also encouraging existing successful franchisees to franchise multiple locations. This will provide growth opportunities for current franchisees within the 7-ELEVEN system by encouraging them to pursue additional stores which also will result in increased income for the franchisee, partly by creating opportunities for lower per unit operating expenses for the franchisee and the Company. To stimulate this multiple growth, the Company has offered certain incentives during the first quarter of 1996 to qualified franchisees (and corporate store managers in a franchise area), by recalculating and reducing the franchise fee in such situations.

Under Southland's standard franchise agreement, the franchise may be terminated by the franchisee at any time or by the Company for the causes, and upon the notices, as specified in the franchise agreement and as provided by applicable law. In the event of expiration or termination of the franchise, the Company has the right to (i) acquire the franchisee's interest in inventory of a type, quantity, quality and variety consistent with the 7-ELEVEN image and the other tangible assets in the franchise business; and, (ii) take possession of the real property on which the store is located, and, in such event, the franchisee has no continuing lease obligations. Certain franchisees have contractual rights to sign new franchise agreements upon expiration of their existing agreements, so long as they meet certain specified conditions.

Many states in which the Company franchises individual 7-ELEVEN stores have enacted legislation governing the offer, sale, termination and/or renewal of franchises, and the Federal Trade Commission has a trade regulation rule regarding required disclosures to prospective franchisees.

AREA LICENSES As of December 31, 1995, the Company had granted domestic area licenses to eight companies which were operating 625 convenience stores using the 7-ELEVEN system and name in certain areas of Alaska, Arkansas, Hawaii, Indiana (using the name Super-7 in Indianapolis), Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Ohio, Oklahoma, Pennsylvania, South Dakota, Texas, Utah, West Virginia and Wyoming. Although parts of both Nevada and Virginia are also covered by area licenses, there are no stores currently operated under the area licenses in those states. The 46 stores in Hawaii are operated under an area license agreement with Seven-Eleven (Hawaii), Inc. (a subsidiary of Seven-Eleven Japan). During the first quarter of 1995, Southguard Corporation and the Company agreed to terminate Southguard's two area licenses, covering parts of Texas and Oklahoma, in exchange for the payment of a one-time termination fee from Southguard to the Company.

As of the end of 1995, foreign area license agreements covered the operation of 6,269 7-ELEVEN stores in Japan, 1,158 in Taiwan, 554 in Thailand, 328 in Hong Kong, 153 in Australia, 110 in South Korea, 93 in Malaysia, 83 in the Philippines, 80 in Spain, 77 in Singapore, 53 in the United Kingdom, 39 in Norway, 31 in Sweden, 22 in China, 14 in Brazil, 12 in Puerto Rico, 11 in Denmark, 10 in Guam and nine in Turkey. In connection with the granting of area licenses in Brazil, Norway (which license now also includes Denmark, Finland and Sweden), the Philippines and Puerto Rico, the Company acquired an equity interest in those area licensees. Nine "12+12" stores in Spain, not included in the 80 stores mentioned above, are also under license agreement.

Stores operating under area licenses are not included in the number of Company operating units, and their sales are not included in the Company's revenue. Revenues from initial fees paid for area licenses and continuing royalties based on the sales volume of the stores are included in Other Income.

INTERNATIONAL AFFILIATES The Company also has an equity interest in 220 convenience stores in Mexico operated by 7-Eleven Mexico, and one store in Mexico is operating under a license agreement with 7-Eleven Mexico. These stores, which feature merchandise and services essentially the same as 7-ELEVEN stores, had been operating under the name SUPER SIETE until 1991; however, now almost all stores are using the 7-ELEVEN name. Sales from the stores in Mexico are not included in Southland's revenues, but Southland's equity in their operating results is included in Other Income and has not been material.

HIGH'S DAIRY STORES As of December 31, 1995, the Company operated 19 High's Dairy Stores located in Maryland, Pennsylvania, Virginia and West Virginia, which are similar in size and location to 7-ELEVEN stores and feature a product mix that emphasizes a variety of dairy products.

QUIK MART AND SUPER-7 GASOLINE UNITS At December 31, 1995, 44 Quik Mart and SUPER-7 gasoline units were in operation in nine states. A typical Quik Mart is a high-volume gasoline outlet combined with a mini-convenience store ranging in size from 300 to 1,600 square feet of sales space stocked primarily with snack food, candy, cold drinks and other immediately consumable items, while a Super-7 gasoline unit is a high-volume, multi-pump, self-service gasoline-dispensing operation.

Corporate

CITYPLACE The Company's headquarters are located in "Cityplace Center East," its 42-story office tower located on the east side of Dallas' Central Expressway north of Dallas' central business district. The Company currently occupies approximately 525,000 square feet, about 39% of Cityplace Center East. During 1995, leases covering approximately 60,000 additional square feet were signed, both with new tenants and with current tenants. The building is now virtually completely leased or reserved for expansion under current leases. The Company is in the process of a further consolidation of its offices, which would make additional space available for subleasing.

DIVESTITURES

During 1995, the Company sold its former food center in Salt Lake City, Utah to McLane (the lessee). This property consisted of a 21.5 acre tract on which a 77,000 square foot food processing plant is located, including 6,930 square feet of office space.

OTHER INFORMATION ABOUT THE COMPANY

CREDIT AGREEMENT AND DEBT COVENANTS The Company's amended Credit Agreement contains a number of financial and operating covenants requiring, among other things, the maintenance of certain financial ratios, including interest coverage, fixed-charge coverage, and senior indebtedness to EBITDA (defined in the Credit Agreement as earnings

before interest, income taxes, depreciation and amortization, with adjustments for certain extraordinary and unusual gains and losses) The covenant levels established by the Credit Agreement generally require a continuing improvement in the Company's financial condition. The Credit Agreement also contains various covenants which, among other things, (a) limit the Company's ability to incur or guarantee indebtedness or other liabilities other than under the Credit Agreement, (b) restrict the Company's ability to engage in asset sales and sale/leaseback transactions, (c) restrict the types of investments the Company can make and (d) restrict the Company's ability to pay cash dividends, redeem or prepay principal and interest on any subordinated debt and certain senior debt. These covenants contain exceptions that are customary in credit agreements associated with financings of companies having creditworthiness similar to Southland's, as well as exceptions consistent with the specific nature of the business and financial operations of the Company.

The Company's outstanding Debt Securities contain certain covenants which, among other things, (i) limit the payment of dividends and certain other restricted payments by both the Company and its subsidiaries, (ii) require the purchase by the Company of the Debt Securities at the option of the holder upon a change of control (as defined in the indentures governing the Debt Securities), (iii) limit additional indebtedness, (iv) limit future exchange offers, (v) limit the repayment of subordinated indebtedness, (vi) require board approval of certain asset sales, (vii) limit transactions with certain stockholders and affiliates and (viii) limit consolidations, mergers and the conveyance of all or substantially all of the Company's assets.

The Company's outstanding Convertible Debt Securities, which were issued in November, 1995, to Ito-Yokado and Seven-Eleven Japan, are subordinated to all existing debt, convertible into the Company's Common Stock at a premium and carry certain registration rights that require the Company to register the Convertible Debt Securities (or Common Stock issued upon conversion) under the Securities Act of 1933. The holders may elect to convert the Convertible Debt Securities in denominations of \$1,000 principal amount or integral multiples thereof, into shares of the Company's Common Stock. The number of shares obtained is determined by dividing the principal amount of the Convertible Debt Securities being converted by \$4.16 which represents an average of Southland's share price at the time the Convertible Debt Securities were issued, plus a premium. The \$300 million Convertible Debt Securities are convertible into approximately 72 million shares of the Company's Common Stock.

SHAREHOLDERS AGREEMENT. Upon the Closing, the Company, the Purchaser, Ito-Yokado and various holders of the Company's Common Stock who held the common stock prior to the Closing (the "Existing Shareholders") entered into a shareholders agreement (the "Shareholders Agreement") pursuant to which the parties were not permitted to offer, sell, assign, transfer, grant a participation in, pledge or otherwise dispose of any shares of Common Stock except in compliance with the Shareholders Agreement.

The Shareholders Agreement, which terminated on March 5, 1996, provided each of the Existing Shareholders (and any persons who hold employee options or employee convertible debentures) to purchase shares of Common Stock as a result of employment with the Company) with the right and option to require the Purchaser to purchase up to all of the shares of Common Stock held by such person on the fifth anniversary of the date of the Shareholders Agreement at the fair market value (to be determined in accordance with the terms of the Shareholders Agreement) of such shares on such date. In addition, the Shareholders Agreement, as amended on December 30, 1992, provided that the parties to the agreement

shall cause Southland's Board of Directors to consist of, and would vote their shares as to the election of directors so that the Board shall consist of, (i) two individuals designated by Existing Shareholders holding a majority of shares held by the Existing Shareholders, (ii) ten individuals selected by the Purchaser, (iii) two individuals initially designated by the Official Committee of Bondholders appointed by the Bankruptcy Court and, from and after the next annual or special meeting of the Company's shareholders at which the election of directors occurs, designated by the holders (the "Other Shareholders") of shares of Common Stock other than the Purchaser and the Existing Shareholders (the "Other Shareholder Nominees") and (iv) although no such obligation then existed, two independent directors if, and to the extent, required to meet the listing or quotation requirements of any exchange or quotation system upon which the Common Stock is or shall be listed or traded (and only if, and to the extent that, the Other Shareholder Nominees fail to qualify as such independent directors). Because the Shareholders Agreement terminated on March 5, 1996, (except for certain continuing registration rights) the holders of shares that were subject to the Shareholders Agreement are no longer restricted by the terms of the agreement as to voting, transfer, or sale of such shares.

Moreover, under the Shareholders Agreement, Ito-Yokado provided the Thompsons and certain of the parties to the Shareholders Agreement (other than participants in the Company's Grant Stock Plan with respect to shares acquired pursuant to participation in such Grant Stock Plan) with certain loans (the "Loans") based on the pledge of shares of Common Stock as collateral for the Loans (the "Collateral Shares"). Such Loans are nonrecourse obligations of the borrower except to the extent of the Collateral Shares. Such Collateral Shares may not be sold unless the Loan secured by such Shares is repaid simultaneously with such sales. Certain of these loans have been extended and refinanced. In addition, under the terms of the Shareholders Agreement, IYG has the obligation to purchase, if requested to do so, certain shares (including those pledged as collateral) from the Thompsons and other signatories to the Shareholders Agreement. The Shareholders Agreement was amended in February 1996, so that the price to be paid for any shares purchased would be determined by the average of the closing price for the Common Stock on February 27, 1996 through March 12, 1996. Any purchase of such shares is now scheduled to occur on April 22, 1996.

THE WARRANT AGREEMENT As part of the Plan and the Closing on March 5, 1991, Thompson Brothers, L.P., The Hayden Company, The Philp Co., The Williamsburg Corporation and Thompson Capital Partners, L.P. (collectively, the "Warrant Shareholders") entered into a Warrant Agreement with Wilmington Trust Company as Warrant Agent, the Company and Ito-Yokado. Pursuant to the Plan, the Company agreed to issue, on behalf of the Warrant Shareholders, the Thompson Warrants exercisable by the holders thereof to purchase up to an aggregate of 10,214,842 shares of Common Stock owned by the Warrant Shareholders.

Under the Warrant Agreement, each Thompson Warrant entitled the holder to purchase, at the exercise price (the "Exercise Price") of \$175 per Thompson Warrant, one of the underlying common shares, subject to adjustment as provided in the Warrant Agreement, during the period beginning three months after the date of the Warrant Agreement and ending on February 23, 1996. As of February 23, 1996, the expiration date of the Thompson Warrants, a total of 10,098,089 Thompson Warrants had been exercised.

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THE EMPLOYMENT AGREEMENTS As a condition to the Closing, the Company entered into five-year Employment Agreements with Messrs. John P. Thompson, Jere W. Thompson and Joe C. (Jodie) Thompson, Jr. As of December 30, 1992, the Employment Agreement with Joe C. Thompson, Jr. was terminated and Mr. Thompson was paid the present discounted value of the remaining balance payable to him under the Employment Agreement. The Employment Agreements were effective upon the Closing and provided for an annual base salary of \$600,000 and an annual bonus equal to \$360,000 under each agreement, as well as providing for vacation, holidays and expense reimbursement in accordance with current Company policy. The Employment Agreements terminated on March 5, 1996, according to their terms and John and Jere Thompson are not standing for re-election to the Company's Board of Directors.

Research and Development

The Company did not incur any significant expenses for product testing or traditional research and development activities in 1994 or 1995. During 1995, the Company's Strategic Planning Department conducted certain market research studies, which include concept tests, consumer preference tests, and tracking of changes in image and store usage patterns. In addition, the Company's test kitchen spent approximately \$60,000 for new product development and taste testings and to test equipment used for cooking and displaying food products.

Retail Automation

In 1993, the Company began development of its own proprietary retail automation system, which it plans to implement in phases, over a multi-year period. The system is being designed to build efficiencies into ordering, distribution and merchandising processes and to provide timely and accurate information on an item by item basis. The system is being designed to provide information about every important detail of the store's operations and to facilitate inventory tracking. The first phase implementation which began at the end of 1993 and is expected to be completed in early 1996, will automate basic in-store accounting processes. The second phase will consist of an ordering and distribution system, that will provide the foundation for the future phases that will include retail scanning. The Pre-POS system, which provides new cash registers in each store and builds the foundation for item-level scanning, will begin in a pilot program in the summer of 1996 with a complete roll-out thereafter.

Trademarks

The Company's 7-ELEVEN trademark has been registered since 1961 and is well known throughout the United States and in many other parts of the world. Other trademarks and service marks owned by the Company include SUPER-7, SLURPEE, BIG GULP and BIG BITE, as well as many additional trade names, marks and slogans relating to other individual types of food and beverage items. In connection with the Company's emphasis on the introduction of more fresh food items, the DELI CENTRAL and WORLD OVENS trademarks are being introduced in stores nationwide, along with the QUALITY CLASSIC SELECTION trademark, covering the Company's proprietary brand spring water, soft drinks, and other beverage products, and CAFE SELECT, covering the Company's gourmet coffees,

cappuccino and hot chocolate products. As part of the collateral securing the Credit Agreement, the Company granted the lenders a security interest in its various trademarks.

Advertising

During 1995, the Company continued its very successful "Comedians" campaign, which first aired in December 1993 and will be continued into 1996. This campaign delivered the message of "So many changes it's not even funny" and emphasized the store remodeling program, daily distribution of fresh food items and the Company's everyday fair pricing strategy. The Company also introduced several new promotional and seasonal advertising campaigns such as the BRAIN FREEZE television commercials in connection with SLURPEE drinks during the summer selling season and a very successful tie-in promotion with the MTV Beach House. Also featured in various advertisements in 1995 was the collectible Quarterback series of 7-ELEVEN PHONE CARDS featuring five different members of the NFL Quarterback Club, which enhanced the promotion of the NFL licensed coffee mugs sold at the stores - each featuring one of the 30 NFL teams. During the year, the Company used several promotions on radio to highlight specific products, such as ATMs, fountain soft drinks, gasoline pay-at-the-pump convenience, hot dogs and the 7-ELEVEN PHONE CARD, and, beginning in early 1996, a tie-in promotion with the National Hockey League. In addition, during the year, the Company offered free or discounted pastries or DELI-CENTRAL items, with the frequent purchase of coffee or soft drinks, and distributed coupons for price discounts or free items, to encourage customers in neighborhoods close to 7-ELEVEN stores to sample some of the new fresh food items that were introduced during 1995.

Competition

During the past few years the Company, like other traditional convenience retailers, has experienced increased competitive pressures from supermarkets and drug stores offering extended hours and services, as well as from an increasing number of convenience-type stores built by the oil companies. The convenience retailing industry is also being negatively impacted by demographic factors (such as an aging population) and an erosion of demand for certain of its traditional core products, including cigarettes, soft drinks and beer.

Although 7-ELEVEN is the most widely recognized name in the convenience retailing industry, the Company's convenience retailing operations represent only a very small percentage of the highly competitive food retailing industry. Independent industry sources estimate that in the United States annual sales in 1994 (the most recent data available) for the convenience store industry were approximately \$132.2 billion (including \$67.8 billion of gasoline) and that over 93,200 store units were in operation. The industry traditionally has narrow net profit margins. In addition, the Company's stores compete with a number of national, regional, local and independent retailers, including grocery and supermarket chains, grocery wholesalers and buying clubs, other convenience store chains, oil company gasoline/mini-convenience "g-stores," independent food stores, and fast food chains as well as variety, drug and candy stores. In sales of gasoline, the Company's stores compete with other food stores and service stations and generate only a very small percentage of the gasoline sales in the United States. Each store's ability to compete is dependent on its location, accessibility and individual service. Growing competitive pressures from new participants in the convenience retailing industry and the rapid growth in numbers of convenience-type stores

opened by oil companies over the past few years have intensified competitive pressures for the Company.

Cityplace Center East, the Company's headquarters office building in Dallas, Texas, is occupied by the Company and other third party tenants, with the Company having the right to sublease the remaining space (see "Cityplace," above). During 1995, the Company entered into subleases with new tenants and expansions with existing tenants covering about 60,000 additional square feet. The building is now virtually completely leased or reserved for expansion under current leases, however, the Company is currently in the process of consolidating its offices to create additional space that will be available for lease. In seeking tenants, this project competes with other downtown, Oak Lawn, North Dallas and North Central Expressway luxury office space developments. It is anticipated that competition for tenants will remain strong in the Dallas commercial real estate market.

Environmental Matters

The operations of the Company are subject to various federal, state and local laws and regulations relating to the environment. Certain of the more significant federal laws are described below. The implementation of these laws by the United States Environmental Protection Agency ("EPA") and the states will continue to affect the Company's operations by imposing increased operating and maintenance costs and capital expenditures required for compliance. Additionally, the procedural provisions of these laws can result in increased lead times and costs for new facilities.

The Resource Conservation and Recovery Act of 1976, as amended, affects the Company through its substantial reporting, recordkeeping and waste management requirements. In addition, standards for underground fuel storage tanks and associated equipment may increase operating expenses and the costs of marketing petroleum products. In response to this legislation, and various state and local regulations, the Company established a comprehensive program to manage underground storage tanks and associated equipment that established procedures for tank testing, repair and corrective action.

The Comprehensive Environmental Response Compensation and Liability Act of 1980 ("CERCLA"), as amended, creates the potential for substantial liability for the costs of study and clean-up of waste disposal sites and includes various reporting requirements. This Act may result in joint and several liability even for parties not primarily responsible for hazardous waste disposal sites. As a consequence of past waste disposal, the Company may be potentially liable for cleanup costs at several sites which are being considered or which may be considered for federal clean-up action under CERCLA. Additional requirements imposed by the Superfund Amendments and Reauthorization Act of 1986 also have resulted in additional reporting duties.

The Clean Air Act, as amended, and similar regulations at the state and local levels, impose significant responsibilities on the Company through certain requirements pertaining to vapor recovery, sales of reformulated gasoline and related recordkeeping.

Violation of any federal environmental statutes or regulations or orders issued thereunder, as well as relevant state and local laws and regulations, could result in civil or criminal enforcement actions.

CURRENT ENVIRONMENTAL PROJECTS AND PROCEEDINGS As previously reported, in December 1988, the Company closed its chemical manufacturing facility in Great Meadows, New Jersey ("Great Meadows"). The Company had previously been issued an Administrative Consent Order relating to groundwater conditions at this facility by the New Jersey Department of Environmental Protection ("NJDEP"). The Administrative Consent Order required the Company to pay a civil penalty of \$50,000, to conduct a remedial investigation/feasibility study ("RI/FS") and to provide financial assurance for the ultimate clean-up.

The Company has submitted a proposed clean-up plan to the NJDEP, which provides for remediation at the site for an approximate three- to five-year period as well as continued groundwater treatment for a projected 20-year period. While the Company has received initial comments from the NJDEP, a final clean-up plan has not been finalized. At December 31, 1995, the Company's recorded liability is \$37.8 million, which represents its best estimate of the clean-up and treatment costs to be incurred. Some remedial actions have commenced.

As previously reported, the Company filed suit in the United States District Court for the District of New Jersey against a large chemical company that formerly owned the Great Meadows property. In 1991, the parties executed a final settlement agreement pursuant to which the former owner agreed to pay a substantial portion of the cleanup costs described above. The Company has recorded a receivable of \$22.0 million, at year-end 1995, representing the former owner's portion of the accrued clean-up costs.

As of December 31, 1995, the Company had approximately 2,000 operating retail outlets involved in the sale of gasoline and other motor fuels. In the ordinary course of business, the Company incurs ongoing costs to comply with federal, state and local environmental laws and regulations primarily relating to underground storage tank ("UST") systems. The Company has established a comprehensive program to manage USTs and associated equipment and to ensure compliance with applicable laws.

The Company anticipates that it will spend approximately \$12 million in 1996 on capital improvements required to comply with environmental regulations relating to USTs as well as above-ground vapor recovery equipment at store locations and approximately an additional \$21 million on such capital improvements from 1997 through 1999.

Additionally, the Company accrues for the anticipated future costs of environmental clean-up activities (consisting of environmental assessment and remediation) relating to detected releases of regulated substances at its existing and previously owned or operated sites at which gasoline has been sold (including store sites and other facilities that have been sold by the Company). At December 31, 1995, the Company has an accrued liability of \$63.7 million for such activities and anticipates that substantially all such expenditures will be incurred within the next five years. This estimate is based on the Company's prior experience with gasoline sites and its consideration of such factors as the age of the tanks, location of tank sites and experience with contractors who perform environmental assessment and remedial work.

Under state reimbursement programs the Company is eligible to receive reimbursement for a portion of future costs, as well as a portion of costs previously paid. At December 31, 1995, the Company has recorded a gross receivable of \$73.4 million (a net receivable of \$59.7 million after an allowance of \$13.7 million) for the estimated probable state reimbursement. There is no assurance of the timing of the receipt of state reimbursement funds; however, based on its experience, the Company expects to receive the majority of state reimbursement funds within one to four years after payment of eligible assessment and remediation expenses, assuming that the state administrative procedures for processing such reimbursements have been fully developed.

The estimated future assessment and remediation expenditures and related state reimbursement amounts could change within the near future as governmental requirements and state reimbursement programs continue to be implemented or revised.

In general, the Company's capital expenditures for environmental matters will continue to be affected by federal, state and local environmental laws and regulations. It is possible that future environmental requirements may be more stringent than current requirements, thereby requiring additional expenditures. As described above, the Company also anticipates future maintenance expenditures in connection with environmental requirements relating to continuing upkeep of USTs at store locations.

See also "Legal Proceedings," below, at pages 26 through 29, for a discussion of other pending legal proceedings relating to environmental matters.

Employees

At December 31, 1995, the Company had 30,523 employees, of whom approximately 31 percent were considered to be either temporary or part-time employees. None of the Company's employees were subject to collective bargaining agreements at year-end.

The Company has in the past been able to satisfy substantially all of its requirements for managerial personnel from within its organization. The Company's store managers and supervisory staff personnel are compensated on some form of incentive basis.

EXECUTIVE OFFICERS OF THE REGISTRANT

The names, ages, positions and offices with the registrant of all current executive officers, as well as the Chairman of the Board and the Vice Chairman of the Board, of the Company are shown in the following chart. The term of office of each executive officer is at the pleasure of the board of directors. The business experience of each such executive officer for at least the last five years, and the period during which he or she served in office, as well as the date each was employed by the Company, are reflected in the applicable footnotes to the chart. All executive officers of Southland named herein, were officers or employees of the Company at the time Southland filed its voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code, as described above. Mr. Ito and Mr. Suzuki became Chairman and Vice Chairman, respectively, on March 5, 1991, after Southland emerged from bankruptcy.

<u>Name</u>	<u>Age at 3/31/94</u>	<u>Current Positions and Offices with Resistant</u>
Masatoshi Ito	71	Chairman of the Board and Director (1)
Toshifumi Suzuki	63	Vice Chairman of the Board and Director (2)
Clark J. Matthews, II	59	President, Chief Executive Officer, Secretary and Director (3)
Stephen B. Krumholz	46	Executive Vice President and Chief Operating Officer (4)
Rodney A. Brehm	48	Senior Vice President, Distribution and Foodservice (5)
James W. Keyes	40	Senior Vice President, Finance (5)
Stephen B. LeRoy	43	Senior Vice President, International and Real Estate (7)
Bryan F. Smith, Jr.	43	Senior Vice President and General Counsel (8)
Robert E. Bailey	53	Vice President, Northwest Division (9)
Terry L. Blocher	51	Vice President, Southwest Division (10)
Paul L. Bureau, Jr.	54	Vice President, Corporate Tax (11)
Kathleen Callahan-Guon	44	Vice President, Chesapeake Division (12)
Michael R. Cuffey	44	Vice President, Merchandising (13)
Adrian O. Evans	59	Vice President, Construction and Maintenance (14)
James Notarnicola	44	Vice President, Communications (15)
Gary R. Rose	50	Vice President, Gasoline and Environmental Services (16)
David A. Urbel	54	Vice President, Planning and Treasurer (17)
Donald E. Thomas	37	Controller (18)

(1) Chairman of the Board and Director of the Company since March 5, 1991. Director and Honorary Chairman of Ito-Yokado Group, which includes Ito-Yokado Co., Ltd., Seven-Eleven Japan Co., Ltd. and Denny's Japan Co., Ltd., as well as other companies. Ito-Yokado Co., Ltd. is one of Japan's leading diversified retailing companies which, together with its subsidiaries and affiliates, operates superstores, convenience stores, department stores, supermarkets, specialty shops and discount stores. President of Ito-Yokado Co., Ltd. from 1958 to 1992. Chairman of Seven-Eleven Japan Co., Ltd. from 1978 to 1992, and President from 1973 to 1978. Chairman of Denny's Japan Co., Ltd. from 1981 to 1992, and President from 1973 to 1981. Chairman of Famile Co., Ltd. since 1986. Chairman of York Mart Co., Ltd. since 1979. Chairman of Robinson's Japan Co., Ltd. since 1995. Chairman of Maryann Co., Ltd. since 1977. President of Oshman's Japan Co., Ltd. since 1984. Statutory Auditor of Steps Co., Ltd. since 1992. Chairman of York-Keibi Co., Ltd. since 1989. President of Union Lease Co., Ltd. since 1985. Statutory Auditor of Daikuma Co., Ltd. since 1982. Chairman of Marudai Co., Ltd. since 1989. Director of Seven-Eleven (Hawaii), Inc. since 1989. Chairman of Umeya Co., Ltd. since 1981. Director of Shop America Limited since 1990. Director and Chairman of the Board of IYG Holding Company since 1990.

(2) Vice Chairman of the Board and Director of the Company since March 5, 1991. President and Chief Executive Officer of Ito-Yokado Co., Ltd., one of Japan's leading diversified retailing companies which, together with its subsidiaries and affiliates, operates superstores, convenience stores, department stores, supermarkets, specialty shops and discount stores, since October 1992 and Director since 1971; Executive Vice President from 1985 to 1992; Senior Managing Director from 1983 to 1985; Managing Director from 1977 to 1983; employee since 1963. Chairman of the Board and Chief Executive Officer of Seven-Eleven Japan Co., Ltd. since October 1992 and Director since 1973. President from 1975 to 1992; Senior Managing Director from 1973 to 1975. Statutory Auditor of Robinson's Japan Co., Ltd. since 1984. Chairman of Daikuma Co., Ltd. since 1985. President of Seven-Eleven (Hawaii), Inc. since 1989. President of Shop America Limited since 1990. President and Director of IYG Holding Company since 1990.

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(3) Director since March 5, 1991, and from 1981 until December 15, 1987, President and Chief Executive Officer since March 5, 1991 and Secretary since April 26, 1995; Executive Vice President (or Senior Executive Vice President) and Chief Financial Officer from 1979 to 1991, Vice President and General Counsel from 1973 to 1979; employee of the Company since 1965.

(4) Executive Vice President and Chief Operating Officer since June 1993; Senior Vice President, Operations, from August 1992 to June 1993; Senior Vice President, 7-ELEVEN Stores Operations, from 1990 to August 1992; Vice President, Marketing, from 1989 to 1990; Vice President, Northern Region, 7-ELEVEN Stores, from January 1989 to October 1989; Vice President, Northwest Region, 7-ELEVEN Stores, from 1987 to 1988; Division Manager, Mountain Division, 7-ELEVEN Stores, from 1986 to 1987; Regional Marketing Manager from 1981 to 1986; employee of the Company since 1972.

(5) Senior Vice President, Distribution and Foodservice, since June 1993; Vice President, Merchandising, from February 1992 to June 1993; Vice President, Marketing, from 1990 to 1992; Vice President, Northwest Region, 7-ELEVEN Stores, from 1989 to 1990; National Marketing Manager from 1986 to 1989; Division Manager, Central Pacific Division, 7-ELEVEN Stores, from 1979 to 1986; employee of the Company since 1972.

(6) Senior Vice President, Finance, since June 1993; Vice President, Planning and Finance, from August 1992 to June 1, 1993; Vice President and/or Vice President, National Gasoline, from August 1991 to August 1992; General Manager, National Gasoline, from 1986 to 1991; employee of the Company since 1985.

(7) Senior Vice President, International and Real Estate since May 1, 1995; Vice President, International and Real Estate, May, 1994 to April, 1995; Vice President Real Estate and Licensed Operations, from August 1992 until May 1994; Vice President, Atlantic Region, 7-ELEVEN Stores, from 1990 to 1992; Vice President, Chesapeake Region, 7-ELEVEN Stores, from 1987 to 1990; Regional Manager, Chesapeake Stores Region, in 1987; Division Manager, Capitol Stores Division, from 1986 to 1987; Division Manager, Great Lakes Stores Division, from 1984 to 1986; Operations Manager, Great Lakes Stores Division, from 1981 to 1984; employee of the Company since 1975.

(8) Senior Vice President and General Counsel since May 1, 1995; Vice President and General Counsel from August 1992 to April 30, 1995; Assistant General Counsel from January 1990 to July 1992; Associate General Counsel from January 1987 to December 1989; employee of the Company since 1980.

(9) Vice President, Northwest Division since May 1, 1995; Division Manager from November, 1990 to April, 1995; Regional Vice President from May, 1986 to October, 1990; employee of the Company since 1970.

(10) Vice President, Southwest Division since May 1, 1995; Division Manager from February 1, 1985 to April 30, 1995; employee of the Company since 1971.

(11) Vice President, Corporate Tax, since May 1993; Corporate Tax Manager from March 1983 to May 1993; Partner, Touche Ross & Co., from 1978 to 1983; employee of the Company since 1983.

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(12) Vice President, Chesapeake Division since May 1, 1995; Division Manager from November 1, 1986 to April 30, 1995; employee of the Company since 1979.

(13) Vice President, Merchandising since May 1, 1995; National Field Merchandising Manager from July, 1994 to April, 1995; Regional Merchandising Manager from January, 1990 to July, 1994; Division Merchandising Manager from July, 1986 to December, 1989; employee of the Company since 1975.

(14) Vice President, Construction and Maintenance, since August 1992; Vice President, Stores Development, from January 1989 to August 1992; Vice President, Mid-America Region, 7-ELEVEN Stores, from 1987 to 1988; Vice President, Central Stores Region, from 1980 to 1987; Central Stores Regional Manager from 1978 to 1980; Division Manager, Canada, from 1976 to 1978; employee of the Company from 1962 to 1972 and since 1975.

(15) Vice President, Communications since May 1, 1995; Manager, Advertising and Promotions from July, 1992 to April, 1995; National Sales Manager from November, 1990 to July, 1992; Regional Marketing Manager from August, 1989 to October, 1990; employee of the Company since 1978.

(16) Vice President, Gasoline and Environmental Services since May 1, 1995; National Gasoline Manager from January, 1991 to April, 1995; Manager, East/West Gasoline from November, 1987 to January, 1991; employee of the Company since 1968.

(17) Vice President, Planning and Treasurer since August, 1992; Vice President since April, 1992 and Treasurer since December 16, 1987; Deputy Treasurer from 1984 to 1987; Assistant Treasurer from 1983 to 1984; employee of the Company since 1970.

(18) Controller since August 1, 1995; Assistant Controller from January, 1993 to July, 1995; employee of the Company since 1993. Financial Manager, The Trane Company, from April 1992 to December 1992; Senior Manager, Audit Department, Deloitte & Touche, from January 1990 to March 1992; Audit Department, Deloitte & Touche, from June 1981 to March 1992. Deloitte & Touche was formed in 1989 from the merger of Touche Ross & Co. and Deloitte, Haskins, and Sells.

FORMER OFFICERS

The names, ages, positions and offices formerly held with the registrant and the business experience for at least the five years preceding their departure from Southland of all persons who served as officers of the Company during 1995 but who no longer serve as such are shown below. Also shown for each such person is the period during which he served in his office, as reflected in the footnotes to the following chart.

Name	Age at 3/01/96
David M. Finley (1)	55
Vernon P. Lotman (2)	56
John H. Rodgers (3)	52
Michael Roemer (4)	47

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(1) Vice President, Human Resources, from December 1987 to May 1995; Manager, Stores Human Resources, January 1987 to December 1987; Manager, Organizational Research & Development, from 1985 to 1987; Department Manager, Organizational Research and Development, from 1984 to 1985; Manager, Organizational Research and Development, from 1982 to 1984; employee of the Company from 1977 to 1995.

(2) Vice President from April 1992, and Controller from December 1987, to July 1995; Assistant Corporate Controller from 1977 to 1982; employee of the Company from 1973 to 1995.

(3) Executive Vice President from June 1993, Chief Administrative Officer from 1991 and Secretary of the Company from 1987 until February 1995; Senior Vice President from 1987 to June 1993; General Counsel from 1979 to 1992; Vice President from 1980 to 1987; employee of the Company from 1973 to 1995.

(4) Senior Vice President, Merchandising, from June 1993 until February 1995; Vice President, Line Management, from August 1992 to June 1993; Vice President, Central Region, 7-Eleven Stores, from October 1990 to August 1992; Vice President, Northeast Region or Eastern Region, 7-Eleven Stores, from 1987 to 1990; Division Manager, Northeast Stores Region, from 1984 to 1987; Vice President, Retail Marketing, of Citgo Petroleum Corporation from 1983 to 1984; Marketing Manager, Eastern Stores Region, 7-Eleven Stores, from 1981 to 1983; employee of the Company from 1966 to 1995.

Item 2. PROPERTIES

Under the Credit Agreement, virtually all the Company's assets, not previously subject to liens, are encumbered, including both tangible and intangible property rights, as well as stock in the Company's non-foreign subsidiaries, where such encumbrance is not otherwise prohibited. As of December 31, 1995, there were approximately 3,581 operating stores, 168 non-operating stores and 12 other properties throughout the United States subject to mortgages (including both owned and leased properties). The lien against the Company's ownership or leasehold interest in any property will be released, with the consent of the Company's Senior Lenders, if the Company sells the property, the lease to the Company terminates or upon payment by the Company of the amounts due under the Credit Agreement.

Operating and Franchising of Convenience Food Stores

7-ELEVEN. At the end of 1995, the 7-ELEVEN stores group was using 85 offices in 21 states and Canada. The following table shows the location and number of the Company's 7-ELEVEN convenience stores (excluding stores under area licenses and of certain affiliates) in operation on December 31, 1995.

State/Province	Operating 7-ELEVEN Convenience Stores		Total
	Owned	Leased(a)	
U.S.			
Arizona	39	57	96
California	224	949	1,173
Colorado	61	180	241
Connecticut	7	31	38
Delaware	10	17	27
District of Columbia	4	14	18
Florida	227	184	411
Idaho	6	8	14
Illinois	51	86	137
Indiana	6	10	16
Kansas	7	10	17
Maryland	86	224	310
Massachusetts	10	24	34
Michigan	51	47	98
Missouri	32	50	82
Nevada	86	101	187
New Hampshire	1	7	8
New Jersey	74	129	203
New York(b)	43	176	219
North Carolina	2	5	7
Ohio	10	5	15
Oregon	37	97	134
Pennsylvania	59	105	164
Rhode Island	0	8	8
Texas	104	182	286
Utah	37	78	113
Virginia	190	411	601
Washington	59	172	231
West Virginia	10	12	22
Canada (b)			
Alberta	19	98	117
Manitoba	13	37	50
Ontario	30	81	111
British Columbia	21	115	136
Saskatchewan	14	23	37
Total	1,630	3,731	5,361

(a) Of the 7-ELEVEN convenience stores set forth in the foregoing table, 769 are leased by the Company from The Southland Corporation Employees' Savings and Profit Sharing Plan (the "Savings and Profit Sharing Plan"). As of year-end 1995, the Company also leased 62 closed convenience stores or office locations from the Savings and Profit Sharing Plan.

(b) The above numbers include 17 stores in Canada (that operate under a management contract) and two stores in New York (operating under a special franchise agreement ("Genesis")), on which the Company has no interest in the real property.

OTHER RETAIL. As shown in the following table, at year-end 1995, the Company operated 44 Quik Mart and SUPER-7 stores in California, Illinois, Indiana, Massachusetts, Missouri, New Hampshire, Texas, Virginia and Wisconsin and 19 High's Dairy Stores located in Maryland, Virginia, Pennsylvania and West Virginia.

The following table shows the location and number of the Company's Quik Mart, High's and SUPER-7 locations in operation on December 31, 1995.

State	Other Operating Retail Locations		Total
	Owned	Leased	
California	3	0	3
Illinois	9	0	9
Indiana	3	1	4
Maryland	1	10	11
Massachusetts	2	0	2
Missouri	2	0	2
New Hampshire	2	1	3
Pennsylvania	0	3	3
Texas	2	0	2
Virginia	4	4	8
West Virginia	0	1	1
Wisconsin	<u>15</u>	<u>0</u>	<u>15</u>
Total	<u>43</u>	<u>20</u>	<u>63</u>

OTHER INFORMATION ABOUT PROPERTIES AND LEASES. At December 31, 1995, there were eight 7-ELEVEN stores in various stages of construction, all but one on property leased by the Company. The Company owned 21, and had leases on 17, undeveloped convenience store sites. In addition, the Company held 157 7-ELEVEN, High's and Quik Mart properties available for sale consisting of 78 unimproved parcels of land, 64 closed store locations and 15 parcels of excess property adjoining store locations. At December 31, 1995, 35 of these properties were under contract for sale.

On December 31, 1995, the Company held leases on 457 closed store or other non-operating facilities, 62 of which were leased from the Savings and Profit Sharing Plan. Of these, 344 were subleased to outside parties.

Generally, the Company's store leases are for primary terms of from 14 to 20 years, with options to renew for additional periods. Many leases contain provisions granting the Company a right of first refusal in the event the lessor decides to sell the property. Many of the Company's store leases, in addition to minimum annual rentals, provide for percentage rentals based upon gross sales in excess of a specified amount and for payment of taxes, insurance and maintenance.

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ACQUISITIONS On March 7, 1996, the Company acquired from The Store 24 Companies, Inc. of Boston, Massachusetts 13 stores located in Queens, the Bronx and Brooklyn, New York, all of which are leased. The Company plans to add these stores to its franchised locations.

OTHER PROPERTIES The Company leases a 10,700-square-foot satellite commissary constructed in 1991 in Austin, Texas, for fresh deli-style food preparation and distribution. The Company also leases 64,447-square-feet of office/warehouse space and an additional 43,600-square-feet of land in Denver, Colorado, for a regional equipment warehouse and service center.

The Company plans to dispose of a five-acre tract of land in Delanco, New Jersey, on which a 19,000-square-foot branch distribution facility is located. This is residual property from the Company's distribution and food processing operations that were divested in late 1992.

The Company also owns a 287-acre tract in Great Meadows, New Jersey, with a closed chemical plant, a part of which is currently involved in environmental clean-up. (See "Current Environmental Projects and Proceedings," pages 18 through 19, above.)

Corporate

The Company's corporate office headquarters is in Dallas, Texas in a 42-story office building, known as Cityplace Center East. The Company's lease covers the entire Cityplace Tower, but gives the Company the right to sublease to other parties. As of early 1996, subleases had been signed with third parties so that (including the space leased by Southland) the building is virtually completely leased or reserved for expansion under current leases. The Company currently utilizes other office space in and around Dallas (although most corporate office space is consolidated in Cityplace Center East). During 1995, the Company sold a 22-acre tract of land outside Dallas and now holds tracts in Dallas, Texas, not included in Cityplace, totaling about 6.5 acres.

Item 3. LEGAL PROCEEDINGS

As previously reported, on October 24, 1990, the Company filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the Northern District of Texas, Dallas Division, Case No. 390-37119-HCA-11. The Company's Plan of Reorganization was confirmed by the Court on February 21, 1991. Subsequent to the Company's bankruptcy filing, the Company's senior lenders under the Credit Agreement ("Old Senior Lenders") filed a proof of claim demanding, among other things, default interest, as a result of the Company's failure to make an interest payment due June 15, 1990. The Bankruptcy Court issued its opinion, on March 17, 1992, awarding approximately \$12.2 million in additional interest to the Credit Agreement Banks. The Company has appealed this decision but recognized the approximately \$12.2 million of additional interest expense in its financial statements for 1991. During 1994, a letter of credit was issued for the account of the Company to provide to the Old Senior Lenders assurance of payment of such additional interest expense if the Old Senior Lenders are successful in the appeal. There were no material developments in this matter in 1995.

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As previously reported, on September 23, 1993, the Company was served with a Summons and Complaint in a purported class action lawsuit entitled 7-ELEVEN Owners for Fair Franchising, et al v. The Southland Corporation, et al, Case No. 722272-6, in the Superior Court for Alameda County, California. Also named as defendants in the Complaint are Southland's majority owners and various vendors who supply goods to 7-ELEVEN franchisees in the State of California. The named plaintiffs purportedly represent all persons who have owned 7-ELEVEN franchises in California at any time since August 1987. The Complaint alleges a variety of violations of California state antitrust laws, breaches of contract and other claims relating to discounts and allowances, vendor-supplied equipment, Southland's accelerated inventory management program and the 24-hour operation of 7-ELEVEN stores. Discovery in this matter is proceeding. The Company intends to contest the certification of a class in this litigation and to defend vigorously against all of the plaintiffs' allegations. In addition, on March 15, 1996, the Company was advised that a similar suit, brought by the same attorneys representing the plaintiffs in the 7-Eleven OFFF case, had been filed in federal court in the northern district of California, on behalf of a purported class consisting of all persons who owned 7-Eleven franchises during the last six years, except those located in California. The Company has not yet formally received service of process in this action.

On August 17, 1990, the Superior Court for Alameda County, California approved the settlement of a class action suit filed against the Company. The suit was consolidated under the title Market Franchise Cases (Jud. Council Dkt. No. 387). The plaintiff class consisted of all persons who owned 7-ELEVEN franchises in California at any time from May 24, 1973, to June 15, 1990. The Company has made settlement payments and credits (including attorneys' fees and litigation expenses awarded to class counsel) totalling approximately \$16.5 million. Class members' claims totalling less than \$50,000 remain to be resolved. The case was dismissed with prejudice in 1995 under the terms of the settlement.

As previously reported, the Company filed a lawsuit in the U.S. District Court for the Northern District of Texas against Occidental Petroleum Corporation and OXY Oil & Gas USA, Inc., ("OXY") to enforce certain contractual indemnification provisions relating to environmental clean-up expenses incurred by the Company at locations acquired in 1983 from OXY. During the second quarter of 1995, the Company and OXY agreed to submit the matter to binding arbitration, and, pursuant to the agreement, the Company received \$4.7 million (net of expenses) from OXY. Arbitration concluded in January of 1996 and the Company received a favorable ruling from the arbitrator.

As previously reported, a lawsuit entitled Emil V. Sparano, et al v. The Southland Corporation, et al, was filed against the Company in the United States District Court for the Northern District of Illinois, in March 1994. Plaintiffs are several franchisees of 7-ELEVEN stores in Illinois, Pennsylvania, New Jersey and Nevada; they purport to represent a nationwide class of all persons who have owned 7-ELEVEN franchises anywhere in the United States at any time since 1987. In addition to the Company, several of the Company's current or former officers and directors (John P. Thompson, Jere W. Thompson, Joe C. Thompson, Jr. (collectively, the "Thompsons"), Clark J. Matthews, II, Walton Grayson, III, John H. Rodgers and Frank Gangi) collectively, the "Individual Defendants") and Ito-Yokado Co., Ltd. Seven-Eleven Japan Co., Ltd. and IYG Holding Company (collectively, the "Foreign Companies") were named as defendants in this case.

The third amended complaint alleges (1) that, starting with Southland's leveraged buyout in 1987, and continuing until the present time, Southland has breached its contractual obligations to 7-ELEVEN franchisees under the 7-Eleven Franchise Agreements by failing to spend adequate sums of money for advertising and other services and for maintaining and remodeling 7-ELEVEN stores and the equipment therein, and (2) fraudulent misrepresentations relating to the LBO. Additional claims were asserted against the Foreign Companies and the Thompsons for alleged tortious interference with, and conspiracy to tortiously interfere with, the franchise agreements by completing Southland's Plan of Reorganization in 1991, the court dismissed all of these claims in November 1995. Additional claims were asserted against the Thompsons alleging fraudulent misrepresentations and fraudulent conveyance relating to the LBO, against all Individual Defendants other than the Thompsons for alleged fraudulent conveyance tortious interference with, and conspiracy to tortiously interfere with, the franchisees' agreements by authorizing Southland's completion of the LBO and execution of its Credit Agreement in 1987. The third amended complaint requests damages, interest, costs and attorneys' fees "in excess of \$1 billion."

Southland filed a motion to dismiss all claims asserted against it, except the breach of contract claim. The Individual Defendants and the Foreign Companies filed motions to dismiss, motions for reconsideration or motions for summary judgment. As noted above, the court dismissed all claims against the Foreign Companies and the Thompsons involving the tortious interference and conspiracy to tortiously interfere claims. As a result, there are no claims pending against the Foreign Companies. The court has not ruled on the other motions. The court has also not yet decided whether the case will be permitted to proceed as a class action.

Southland intends to contest plaintiffs' effort to prosecute the lawsuit as a class action, and it also intends to vigorously defend all of the claims on the merits. Southland believes that it has meritorious defenses to each of the claims. At this time, however, the litigation is still at an early stage of development and the ultimate outcome cannot be predicted.

As previously reported, on June 21, 1995, a lawsuit was filed against the Company by T&L Property Service, an affiliate of Tal-Tex, Inc. ("Tal-Tex"). Tal-Tex is a water supply company located near Round Rock, Texas. The complaint was subsequently amended to include claims by Tal-Tex, its principals and certain individuals who reside in or near Round Rock on behalf of themselves and a purported class of similarly-situated residents, alleging personal injuries and property damage as a result of the release of petroleum from underground storage tanks at a 7-ELEVEN store in Round Rock. In March, 1996, the individual claims of the Tal-Tex entities were severed from the class action. The Company strongly contests and is vigorously defending against both lawsuits. At this stage in the litigation, the Company is unable to predict the ultimate outcome of these cases.

On or about August 31, 1995, Southland was named as a defendant in a class action filed in the 361st District Court in Brazos County, Texas. The case is styled Arturo M. Vasquez et al. v. The Southland Corporation, et al. and asserts certain claims on behalf of a purported class of property owners whose properties have allegedly been damaged by petroleum releases from underground storage tanks at approximately 150 former or current Southland locations in Texas. Southland's motion to transfer venue to Dallas County, Texas, was approved but the plaintiffs have filed a motion for rehearing and the hearing on that motion is scheduled for April 15, 1996. Southland strongly contests and is vigorously defending against

the claims in the lawsuit. At this early stage in the litigation, it is impossible to predict Southland's exposure, if any, to liability.

Information concerning other legal proceedings is incorporated herein from "Environmental Matters," pages 17 through 19, above.

In the ordinary course of business, the Company is also involved in various other legal proceedings which, in the Company's opinion, are not material, either individually or in the aggregate.

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

No matters were submitted to a vote of security holders during the fourth quarter of 1995.

PART II

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

The Company's Common Stock, \$.0001 par value per share, is the only class of common equity of the Company and represents the only voting securities of the Company. There are 409,922,935 shares of Common Stock issued and outstanding and, as of March 8, 1996, there were 3,097 record holders of the Common Stock. The Company's Common Stock is traded on The NASDAQ Stock Market under the symbol "SLCM". The following information has been provided to the Company by the NASDAQ Stock Market.

QUARTERS	PRICE RANGE		
	HIGH	LOW	CLOSE
1995			
FIRST	\$ 4 23/32	\$ 3 7/16	\$ 3 3/4
SECOND	4 3/8	3 7/16	3 7/16
THIRD	4 1/8	2 7/8	3
FOURTH	4 1/4	2 15/16	3 5/16
1994			
FIRST	\$ 6 3/4	\$ 3 13/16	\$ 3 7/8
SECOND	6 1/4	3 7/8	6 1/4
THIRD	6 3/8	4 1/2	5 3/4
FOURTH	5 13/16	4 1/4	4 1/2

(a) These quotations reflect inter-dealer prices without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

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The indentures governing the Company's outstanding debt securities do not permit the payment of cash dividends except in limited circumstances. The Credit Agreement also restricts the Company's ability to pay cash dividends on the Common Stock.

Under Texas law, cash dividends may only be paid (a) out of the surplus of a corporation, which is defined as the excess of the total value of the corporation's assets over the sum of its debt, the par value of its stock and the consideration fixed by the corporation's board of directors for stock without par value, and (b) only if, after giving effect thereto, the corporation would not be insolvent, which is defined to mean the inability of a corporation to pay its debts as they become due in the usual course. Surplus may be determined by a corporation's board of directors by, among other things, the corporation's financial statements or by a fair valuation or information from any other method that is reasonable in the circumstances. No assurances can be given that the Company will have sufficient surplus to pay any cash dividends even if the payment thereof is not otherwise restricted.

Item 6. SELECTED FINANCIAL DATA.

SELECTED FINANCIAL DATA
THE SOUTHLAND CORPORATION AND SUBSIDIARIES

	Years Ended December 31				
	1995	1994	1993	1992	1991
	(Dollars in Millions, Except Per-Share Data)				
Net sales	\$6,745.8	\$6,684.5	\$6,744.3	\$7,425.8	\$8,009.5
Net income (a)	71.0	66.4	61.6	57.9	54.4
Net revenues (a)	6,816.8	6,750.9	6,805.9	7,483.7	8,063.9
SGD charge (credit)	2.6	3.0	(8.7)	1.5	(7.2)
Depreciation and amortization	166.4	162.7	154.4	180.3	200.1
Goodwill expense, net (a)(b)	85.6	95.0	81.8	97.4	153.8
Earnings (loss) before income taxes, extraordinary items and cumulative effect of accounting changes	101.5	73.5	(2.6)	(119.9) (c)	(66.3)
Income taxes (benefit)	(66.1) (d)	(18.5) (e)	8.7	11.5	8.0
Earnings (loss) before extraordinary items and cumulative effect of accounting changes	167.6	92.0	(11.3)	(131.4)	(74.3)
Net earnings (loss)	270.8 (f)	92.0	71.2 (g)	(131.4)	82.5 (h)
Earnings (loss) per common share (primary and fully diluted)					
Before extraordinary items and cumulative effect of accounting changes	0.40	0.22	(0.03)	(0.32)	(0.22)
Net earnings (loss)	0.65	0.22	0.17	(0.32)	0.24
Net assets	2,081.1	2,000.6	1,990.0	2,039.7	2,607.7
Long-term debt, including current portion (b)	1,850.6	2,351.2	2,419.9	2,560.4	3,037.1

Prior-year amounts have been reclassified to conform to current-year presentation.

The Company's 1991 public debt securities are accounted for in accordance with SFAS No. 15 as explained in Note 8 to the Consolidated Financial Statements.

Loss before income taxes, extraordinary items and cumulative effect of accounting changes include a \$45,000,000 loss on the sale and closing of the Company's distribution and food processing facilities.

Income taxes (benefit) includes an \$84,289,000 tax benefit from recognition of the remaining portion of the Company's net deferred tax assets as explained in Note 14 to the Consolidated Financial Statements.

Income taxes (benefit) includes a \$30,000,000 tax benefit from recognition of a portion of the Company's net deferred tax assets as explained in Note 14 to the Consolidated Financial Statements.

Net earnings include an extraordinary gain of \$103,189,000 on debt redemption as explained in Note 8 to the Consolidated Financial Statements.

Net earnings include an extraordinary gain of \$88,968,000 on debt redemption and a charge for the cumulative effect of an accounting change for preemployment benefits of \$16,537,000 as explained in Notes 8 and 12 to the Consolidated Financial Statements, respectively.

Net earnings include an extraordinary gain on debt restructuring of \$156,824,000.

**Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS**

RESULTS OF OPERATIONS

Summary of Results of Operations

The Company's net earnings for 1995 were \$270.8 million, compared to net earnings of \$92.0 million in 1994 and \$71.2 million in 1993. Continued improvement in the Company's operating performance resulted in a 38% increase in 1995 earnings before income taxes.

Years Ended December 31

(Dollars in Millions, Except Per-Share Data)

	<u>1995</u>	<u>1994</u>	<u>1993</u>
Earnings (loss) before income taxes, extraordinary gain and cumulative effect of accounting change	\$ 101.5	\$ 73.5	\$ (2.6)
Income tax benefit (expense)	66.1	18.5	(8.7)
Extraordinary gain from partial redemption of the Company's 4 1/2 and 5% debentures in November 1995	103.2		
Extraordinary gain from redemption of the Company's 12% Senior Notes (refinanced in August 1993)			99.0
Cumulative effect of accounting change for postemployment benefits			(16.5)
Net earnings	<u>\$ 270.8</u>	<u>\$ 92.0</u>	<u>\$ 71.2</u>
Net earnings per common share (primary and fully diluted)	<u>\$.65</u>	<u>\$.22</u>	<u>\$.17</u>

Each year's results included the following special or unusual items, in addition to the items noted above:

Years Ended December 31

(Dollars in Millions)

	<u>1995</u>	<u>1994</u>	<u>1993</u>
Severance and related costs	\$ (13.4)	\$ (7.4)	(7.2)
Deferred income tax benefit	84.3	30.0	
Loss for store closings and dispositions of properties		(3.7)	(48.2)
Disposition of Citijet, a fixed-base operation at Dallas Love Field Airport			(10.8)

The Company's operating improvement in 1995 was primarily due to savings in "Operating, Selling, General and Administrative" (OSG&A) expenses. Although store closings (173 average) resulted in a decline in total merchandise gross profit compared to 1994, average per-store merchandise sales and gross profits improved in each quarter in 1995 over 1994.

(Except where noted, all per-store numbers refer to an average of all stores rather than only stores open more than one year)

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Financial Statement Changes

The Company has made the following changes to its financial statements for all years presented, and has restated such items in the comparisons provided to maintain consistency:

- i) Total Revenues - interest income was reclassified from "Other Income" to "Interest Expense, Net." (See Note 1 of "Notes to Consolidated Financial Statements"); and
- ii) Cost of Goods Sold (COGS) - Buying and occupancy expenses were reclassified to OSG&A expenses. Although these changes were made for financial statement purposes during the fourth quarter of 1995, prior Management's Discussion and Analysis had been excluding buying and occupancy expenses, as well as certain merchandise and gasoline inventory-related expenses, from per-store gross profit and margin results.
- iii) Profit Sharing Contribution - this expense is now included in OSG&A expenses.

Management Strategies

Since 1992, the Company has been committed to several key strategies that it believes, over the long term, will further differentiate it from its competitors and allow 7-Eleven to maintain its position as the premier convenience store chain in the industry. These strategies include: an upgraded store base; a customer-driven approach to product selection; an everyday-fair-pricing policy on all items; daily delivery of fresh perishable items; introduction of high-quality, ready-to-eat fresh foods; and the implementation of a retail automation system.

The Company plans to upgrade its store base by remodeling existing stores, closing underperforming stores and developing new sites. Over the last few years, the Company has devoted the majority of its capital resources toward the most extensive remodeling of its store base ever undertaken. In conjunction with the remodeling program, the Company has been pruning its store base by closing or disposing of those stores that are not expected to achieve an acceptable level of profitability in the future. As a result, the Company closed 228 stores in 1995, 184 in 1994, and 401 in 1993. The Company expects to complete its remodeling program by the end of this year; however, it will continue to refurbish its store base as necessary. The planning process for new store sites is well underway. The Company's capital investment focus will shift to store development (see Liquidity and Capital Resources - Capital Expenditures). Initial plans are to strengthen its position by expanding the store base in existing markets, with store openings in 1996 expected to offset store closings/dispositions. However, by 1997 the Company expects new store openings to significantly outpace closures each year.

The customer-driven approach to merchandising, which was adopted by the Company in 1992, continues to focus on providing the customer an expanded selection of quality products at a good value. This is being accomplished by emphasizing the importance of ordering at the store level, removing slow-moving items and aggressively introducing new products in the early stages of their life cycle. This process, which has contributed to improved sales and profits, will be an ongoing part of managing our business in a continual effort to satisfy the ever-changing preferences of our customers.

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The Company's everyday-fair-pricing strategy, which was introduced in 1992, has provided consistent prices on all items by reducing its reliance on discounting. As a result, some product prices were increased, while others were lowered to achieve more consistent pricing on all products. Going forward, the Company plans to migrate toward lower retail prices as lower product costs are achieved through contract negotiations or strategic alliances with suppliers and distributors.

Daily delivery of fresh perishable items and high-quality ready-to-eat foods is another key management strategy. Implementation of this strategy includes third-party development and operation of combined distribution centers ("CDCs"), fresh-food commissaries and bakery facilities in most of the Company's markets around the country. The commissary and bakery ready-to-eat items, like fresh sandwiches and pastries, along with goods from multiple vendors such as dairy products, produce and other perishable goods, are "combined" at a distribution center and delivered daily to each store. In addition to providing fresher products and improving in-stock conditions from daily deliveries, the combined distribution is also intended to provide lower product costs, in part from vendors' savings, through this approach. The Company expects the improved freshness and lower cost of the products from these operations to improve sales and gross profits. At the end of 1995, over 800 stores were serviced by the CDCs and carried fresh food products manufactured by the commissaries. Further expansion of these programs is anticipated in 1996 in the following markets: Denver/Colorado Springs, Baltimore, Richmond/Norfolk, San Jose, Orlando/Tampa, and Chicago. When operational, CDCs in these markets will make daily-delivered fresh food available to nearly one-half of the Company's stores.

The development of a retail automation system began in 1994. The initial phase, which will be completed in early 1996, involves installing in-store processors ("ISPs") in each store that will automate accounting and other store-level tasks. The second phase involves installing cash registers which, among other things, will feed data directly to the ISP. After future phases are complete, the system will provide each store and its suppliers and distributors with on-line information to make better decisions in anticipating customer needs.

Sales

The Company recorded net sales of \$6.75 billion for the year ended December 31, 1995, compared to sales of \$6.68 billion in 1994 and \$6.74 billion in 1993. To strengthen its store base (see Management Strategies), the Company has closed more than 800 underachieving stores over the last three years. Same-store merchandise sales increases since 1993 have minimized the lost sales from store closings, resulting in total sales remaining flat during this time period. In addition, 1994 and 1993 merchandise sales results were adversely impacted by the deflationary effect of cigarette price reductions (on certain premium brands) associated with manufacturers' cost reductions starting in August, 1993. The total sales increase in 1995 was primarily due to higher gasoline gallons and retail sales price per gallon.

U.S. same-store merchandise sales increases or (decreases) as compared to the prior year and inflation information is presented below:

Years Ended December 31

<i>Increase/(Decrease) from prior year</i>	<u>1995</u>	<u>1994</u>	<u>1993</u>
Same-store sales	2.0%	2.1%	(2.7)%
Same-store real growth, excluding inflation	-	2.8%	(4.7)%
7-Eleven inflation (deflation)	2.1%	(.7)%	2.2%

Overall, domestic same-store merchandise sales growth continued its positive trend in 1995, however, results varied by geographic region. The largest increases occurred in those areas with the highest percentage of completed remodels (Florida 4.8% and Texas/Colorado 4.1%). Conversely, the Southern California area, which includes 18% of the Company's domestic stores, experienced a decline of almost 1.5% due to a sluggish economy. In addition, this is the area where the lowest percentage of remodels has been completed.

Gasoline sales dollars per store increased 4.0%, 8.7% and 9.1% in 1995, 1994 and 1993, respectively. This improvement is primarily due to per-store gallonage improvement of 1.0% in 1995, 7.8% in 1994, and 11.1% in 1993, reflecting the impact of several successful business strategies. Gallon volumes in 1995 did not sustain the high growth levels experienced in 1993 and 1994 as a result of market factors which affect the way the Company manages its gasoline business.

Other Income

Other income of \$71.0 million for 1995 was \$4.6 million higher than 1994 and \$9.4 million higher than 1993. The improvement is primarily the result of increased royalty income from licensed operations.

Gross Profits

Merchandise Gross Profit Data

	<u>Years Ended December 31</u>		
	<u>1995</u>	<u>1994</u>	<u>1993</u>
Merchandise gross profit - dollars in millions	\$1,790.2	\$1,791.1	\$1,847.9
<i>Increase/(decrease) from prior year</i>			
Average per-store gross profit dollar change	3.1%	1.7%	2.4%
Margin percentage point change	(.01)	(.50)	1.21
Average per-store merchandise sales	3.1%	3.2%	(1.1)%

Even though total merchandise gross profits have declined primarily from fewer stores, merchandise gross profit per store has consistently improved over prior year results for each of the last twelve quarters.

Merchandise gross profit margins in 1993 increased as a result of the Company's implementation of its everyday-fair-pricing strategy, which reduced discounting and promotional activities (see Management Strategies). Margins have also been favorably affected by lower cigarette costs (beginning in August 1993) and lower product costs under the

Company's supply agreement with McLane. In 1994, with the reduction of discounting in place, the Company tested lower prices in certain parts of the country as part of a more aggressive everyday-fair-pricing strategy. These lower prices, combined with increased costs for disposal of slow-moving merchandise, were primarily responsible for the decrease in 1994 merchandise margins.

During 1995, merchandise margin declined slightly compared to 1994. While some higher margin categories, such as services, showed good growth throughout the year, overall merchandise margin declined in the fourth quarter almost .5 percent compared to the same period last year. This decline was the result of several factors including rising costs that were not entirely passed on to the consumer, initial introductory costs associated with new fresh-food products and increased focus on deleting slower-moving items. Management is actively working to maintain a merchandise margin level consistent with last year.

Gasoline Gross Profit Data

	Years Ended December 31		
	1995	1994	1993
Gasoline gross profit - dollars in millions	\$ 192.9	\$ 199.6	\$ 195.6
<i>Increase/(decrease) from prior year</i>			
Average per-store gross profit dollar change	(3.3)%	8.2%	33.4%
Margin point change (in cents per gallon)	(.60)	.06	2.37
Average per-store gas gallonage	1.0%	7.8%	11.1%

In 1995, gasoline gross profits declined \$6.7 million from the levels achieved in 1994 due to lower margins (in cents per gallon), which were affected by market conditions that kept wholesale costs high for much of the year while competitive pressures kept retail prices soft. Gasoline gross profit dollars and margin were unusually high in the fourth quarter of 1994 as a result of favorable market conditions created by the federally mandated fuel reformulation program. Contributing factors to the strong results in 1993, 1994 and the first three quarters of 1995, were the Company's business strategies which closed low-volume locations, enhanced the appeal and convenience of its gas facilities and placed increased emphasis on on-store management of gasoline merchandising.

Operating, Selling, General and Administrative Expenses

Years Ended December 31

(Dollars in Millions)

	1995	1994	1993
Total operating, selling, general and administrative expenses	\$ 1,867.0	\$ 1,888.6	\$ 2,030.4
Ratio of reported OSG&A to sales	27.7%	28.3%	30.1%
Decrease in reported OSG&A compared to prior year	\$ (21.6)	\$ (141.8)	\$ (93.7)
Decrease in adjusted OSG&A compared to prior year *	\$ (23.9)	\$ (86.7)	\$ (98.1)

* adjusted to exclude severance and related costs and the loss for store closings and disposition of properties, including Citijet (see Summary of Results of Operations)

The majority of the decrease in OSG&A expenses, as adjusted, resulted from cost savings realized from reductions in force that began late in 1992 and continued through 1995, combined with the effect of having fewer stores (see Management Strategies).

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The Company continues to review the functions necessary to enable its stores to respond faster and more cost efficiently to rapidly changing customer needs and preferences. In conjunction with this review, the Company continues to realign and reduce personnel and office facilities, in order to eliminate non-essential costs.

In December 1995, the Company's plans resulted in a \$13.4 million accrual, of which \$5.0 million was for severance benefits and \$8.4 million for reduction of office space. Reductions of more than 400 employees throughout the Company will result in annualized savings of approximately \$20 million. The office closings and consolidations involve field operating and staff locations, as well as the Company's headquarters facilities ("Cityplace"). While the execution of the office plans will take most of the year, future years' annualized savings from these initiatives will be approximately \$5 million, including potential income from additional Cityplace leases.

In December 1994, the Company accrued \$7.4 million for severance costs and office reductions. The employee terminations were completed in 1995, while the office realignments will be completed in 1996 along with those previously discussed. Changes from the estimates for 1994's original \$7.4 million accrual did not have a material impact on 1995 earnings.

Interest Expense, Net

The Company's net interest expense in 1995 decreased \$9.4 million compared to 1994. Most of the savings related to non-cash interest which declined due to the refinancing of the term loans under the senior bank debt credit agreement ("Credit Agreement") in December 1994 and the extension of the repayment of the debt relating to its headquarters facilities (Cityplace) at a lower interest rate in February 1995 (see Liquidity and Capital Resources - Financing Activities). The adverse impact of the 1.1% rise in the weighted average interest rate on the Company's floating rate debt during 1995 increased interest expense approximately \$8 million. However, the 1.5% reduction in the margin that the Company negotiated with its bank lenders in the refinancing in late 1994 offset a portion (\$5 million) of this increase.

In November 1995, the Company consummated a \$216.7 million tender offer to purchase a portion (\$263.3 million face value) of its public debt securities (see Liquidity and Capital Resources - Financing Activities). The purchase was financed by the issuance of \$300 million of 4.5% Convertible Quarterly Income Debt Securities due 2010 ("Convertible Debt"). The annual interest expense of \$13.7 million from issuing the Convertible Debt will not be offset by a corresponding reduction in interest expense for the retired debentures, since the retired debentures are subject to Statement of Financial Accounting Standards No. 15 ("SFAS No. 15") treatment. Despite the incremental interest expense from the Convertible Debt, the Company expects total interest expense to remain flat in 1996, due to the expectation of lower floating rates and debt balances coupled with lower short-term borrowings from use of the convertible debt proceeds not used in the tender offer.

Net interest expense in 1994 increased \$13.2 million over 1993, primarily due to the refinancing of the 12% Senior Notes with working capital and bank debt in August 1993. Unlike the interest on the bank debt, interest on the 12% Senior Notes was subject to SFAS No. 15 treatment with interest payments recorded as a reduction of principal rather than interest expense (see Note 8 of "Notes to Consolidated Financial Statements"). Net interest

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expense in 1993 was \$15.6 million lower than in 1992 primarily due to lower interest rates on floating rate debt, combined with greater use of commercial paper, which has lower interest rates than other debt instruments. Partially offsetting the decline in interest expense was lower interest income resulting from the receipt in 1992 of \$5.8 million in interest on tax refunds.

Approximately 35% of the Company's debt contains floating rates, which had a weighted average interest rate of 6.62% for 1995 versus 5.51% and 4.52% for 1994 and 1993, respectively. In the first quarter of 1996, the Company reduced its exposure to short-term fluctuations in rates on a substantial portion of its floating rate bank debt by selecting one year LIBOR maturities at current favorable rates rather than the shorter terms it has selected in the past.

Income Taxes

The Company recorded tax benefits in 1995 and 1994 of \$66.1 million and \$18.5 million, respectively, compared to a tax expense of \$8.7 million in 1993. During the fourth quarter of 1994, as a result of the Company's anticipated 1995 taxable earnings, the valuation allowance for deferred taxes was reduced \$30 million. During the fourth quarter of 1995, due to the Company's demonstrated ability to produce higher levels of taxable income, the remaining portion of the valuation allowance was reversed producing an \$84.3 million benefit.

LIQUIDITY AND CAPITAL RESOURCES

The majority of the Company's working capital is provided from three sources: i) cash flows generated from its operating activities; ii) a \$400 million commercial paper facility (guaranteed by Ito-Yokado Co., Ltd.); and iii) short-term seasonal borrowings of up to \$150 million under its revolving credit facility. The Company believes that operating activities coupled with available short-term working capital facilities will provide sufficient liquidity to fund current operating and capital expenditure programs, as well as to service debt requirements.

Financing Activities

On November 22, 1995, the Company completed a tender offer for 40% of the face value of both its 5% First Priority Senior Subordinated Debentures due December 15, 2003 (\$180.6 million) and 4 1/2% Second Priority Senior Subordinated Debentures (Series A) (\$82.7 million) due June 15, 2004 (collectively, the "Debentures"). Under the terms of the offer, the final clearing prices were \$840.00 and \$786.00 for the 5% and 4 1/2% Debentures, respectively, per \$1,000 face amount, resulting in a cash outlay by the Company of \$216.7 million.

To finance the purchase of the Debentures, the Company issued \$300 million in Convertible Debt to Ito-Yokado Co., Ltd. and Seven-Eleven Japan Co., Ltd., the joint owners of IYG Holding Company, which is the Company's majority shareholder. The remaining proceeds of \$83.3 million were made available for general corporate purposes. The Convertible Debt is subordinated to all existing debt, has a 15-year term with no amortization and is convertible into the Company's common shares at \$4.16 per share.

The Company recognized a \$103.2 million after-tax extraordinary gain on the purchase of the Debentures in the fourth quarter of 1995. The gain results from purchasing the

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Debentures below their face value and from retiring the future undiscounted interest payments on that portion of the Debentures being purchased. As a result of the Company's financial restructuring in 1991, SFAS No. 15 required the Company to include its future undiscounted interest payments on the Debentures in the carrying value of the debt on the balance sheet.

The Company's Credit Agreement contains a \$300 million term loan and a revolving credit facility. The term loan has scheduled quarterly repayments of \$18.75 million commencing March 31, 1996, through December 31, 1999. The revolving credit facility contains both a revolving loan ("Revolver") and letter of credit subfacility, each having a maximum limit of \$150 million and expiring on December 31, 1999. Interest on the Revolver and Term Loan is generally based on a variable rate equal to the administrative agent bank's base rate or, at the Company's option, at a rate equal to the Eurodollar rate plus .975% per year.

The Credit Agreement contains certain financial and operating covenants requiring, among other things, the maintenance of certain financial ratios, including interest coverage, fixed charge coverage and senior indebtedness to earnings before interest, taxes, depreciation and amortization ("EBITDA"). The covenant levels established by the Credit Agreement generally require continuing improvement in the Company's financial condition.

For the period ended December 31, 1995, the Company was in compliance with all of the covenants required under the Credit Agreement, including compliance with the principal financial and operating covenants (calculated over the latest 12-month period) as follows:

Covenants	Actuals	Requirements	
		Minimum	Maximum
Interest coverage *	2.82 to 1.0	2.70 to 1.0	
Fixed charge coverage	1.10 to 1.0	1.00 to 1.0	
Senior indebtedness to EBITDA	3.56 to 1.0		4.10 to 1.0

* includes effects of the SFAS No. 15 interest payments.

The issuance of the Convertible Debt and the tender offer for the Debentures did not require the approval of the Company's lenders under the Credit Agreement. However, during the fourth quarter, the Company obtained an amendment to the Credit Agreement that allows greater flexibility on uses of the proceeds from the issuance of the Convertible Debt and how the refinancing is treated under certain financial covenants. The amendment allows the Company, among other things, to make subsequent purchases of subordinated debt with any remaining proceeds and to exclude payments for such purchases from the Company's fixed charge coverage ratio.

In 1995, the Company repaid \$289.4 million of debt, of which \$216.7 million related to the tender offer for the Debentures. Other principal reductions during the year were \$72.7 million, of which \$34.6 million was for SFAS No. 15 interest and \$23.9 million was for principal payments on the Company's Yen-denominated loan (secured by the royalty income stream from its area licensee in Japan). Outstanding balances at December 31, 1995, for the Commercial Paper, the Term Loan and the Revolver were \$350.2 million, \$300.0 million and zero, respectively. As of December 31, 1995, outstanding letters of credit issued pursuant to the Credit Agreement totaled \$80.4 million.

As a result of an agreement reached in conjunction with the Company's bankruptcy proceedings in 1990, on February 15, 1995, the 7 7/8% Cityplace notes, issued by Cityplace Center East Corporation ("CCEC"), a wholly owned subsidiary of the Company, were repaid under a drawing of a letter of credit issued by The Sanwa Bank, Ltd. Under such agreement, the term of maturity of the indebtedness of CCEC resulting from such draw has been extended by ten years to March 1, 2005. New terms include monthly payments of principal and interest over the ten-year period, based upon a 25-year amortization at 7 1/2%, with the remaining principal due upon maturity.

Cash From Operating Activities

Net cash provided by operating activities was \$236.2 million for 1995, compared to \$271.6 million in 1994 and \$232.1 million in 1993 (see "Results of Operations" section). In 1995, other items affecting operating cash flows included a \$13.4 million payment related to an IRS examination of the Company's filings for 1990 and 1991. Such payment had no material effect on 1995 earnings.

Capital Expenditures

During 1995, net cash used in investing activities consisted primarily of payments of \$192.2 million for property and equipment, the majority of which was used for remodeling stores, upgrading retail gasoline facilities, replacing equipment and complying with environmental regulations. Through December 31, 1995, approximately 4,100 stores have been remodeled. The remodels are focusing on the features that are most noticeable to customers and have the most immediate and positive impact on store performance, such as lighting and security, food service equipment, necessary maintenance and consistent image.

The Company expects 1996 capital expenditures to be approximately \$210 million (excluding lease commitments), primarily to complete remodels started in 1995 and to remodel about 1,100 additional stores. The remaining capital will be used for development of new store sites, to replace equipment, to upgrade gasoline facilities and to comply with environmental regulations. While the Company will look at the economics of each new site, it anticipates that it will finance new store construction primarily through leases containing initial terms of 15-20 years with typical option renewal periods.

Capital Expenditures - Gasoline Equipment

The Company incurs ongoing costs to comply with federal, state and local environmental laws and regulations primarily relating to underground storage tank ("UST") systems. The Company anticipates it will spend approximately \$12 million in 1996 on capital improvements required to comply with environmental regulations relating to USTs, as well as above-ground vapor recovery equipment at store locations, and approximately an additional \$21 million on such capital improvements from 1997 through 1999.

Environmental Compliance - Stores

The Company accrues for the anticipated future costs of environmental clean-up activities (consisting of environmental assessment and remediation) relating to detected releases of regulated substances at its existing and previously owned or operated sites at which gasoline

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has been sold (including store sites and other facilities that have been sold by the Company). At December 31, 1995, the Company has an accrued liability of \$63.7 million for such activities and anticipates that substantially all such expenditures will be incurred within the next five years. This estimate is based on the Company's prior experience with gasoline sites and its consideration of such factors as the age of the tanks, location of tank sites and experience with contractors who perform environmental assessment and remedial work.

Under state reimbursement programs, the Company is eligible to receive reimbursement for a portion of future costs, as well as costs previously paid. At December 31, 1995, the Company has recorded a gross receivable of \$73.4 million (a net receivable of \$59.7 million after an allowance of \$13.7 million) for the estimated probable state reimbursement. There is no assurance of the timing of the receipt of state reimbursement funds; however, based on its experience, the Company expects to receive the majority of state reimbursement funds within one to four years after payment of eligible assessment and remediation expenses, assuming that the state administrative procedures for processing such reimbursements have been fully developed.

The estimated future assessment and remediation expenditures and related state reimbursement amounts could change within the near future as governmental requirements and state reimbursement programs continue to be implemented or revised.

Environmental Compliance - Chemical Plant

In December 1988, the Company closed its chemical manufacturing facility in New Jersey. As a result, the Company is required to conduct environmental remediation at the facility and has accrued a liability for this purpose. As required, the Company has submitted a clean-up plan to the New Jersey Department of Environmental Protection (the "State"), which provides for remediation of the site for approximately a three- to five-year period, as well as continued groundwater treatment for a projected 20-year period. While the Company has received initial comments from the State, the clean-up plan has not been finalized. The Company has recorded liabilities representing its best estimates of the clean-up costs of \$37.8 million at December 31, 1995. Of this amount, \$31.7 million was included in deferred credits and other liabilities and the remainder in accrued expenses and other liabilities. In 1991, the Company entered into a settlement agreement with a large chemical company that formerly owned the facility. Under the settlement agreement, the former owner agreed to pay a substantial portion of the clean-up costs described above. The Company has recorded a receivable of \$22.0 million at December 31, 1995, representing the former owner's portion of the clean-up costs.

None of the amounts related to environmental liabilities has been discounted.

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Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements for the
Years Ended December 31, 1995, 1994 and 1993

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1995 AND 1994

(Dollars in Thousands, Except Per-Share Data)

ASSETS	1995	1994
CURRENT ASSETS:		
Cash and cash equivalents	\$ 43,047	\$ 59,288
Accounts and notes receivable	107,224	102,230
Inventories	102,020	101,468
Other current assets	103,816	40,411
Total current assets	356,107	303,397
PROPERTY AND EQUIPMENT	1,335,783	1,314,499
OTHER ASSETS	389,227	382,698
	<u>\$ 2,081,117</u>	<u>\$ 2,000,594</u>
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Trade accounts payable	\$ 195,154	\$ 203,315
Accrued expenses and other liabilities	329,429	316,183
Commercial paper	50,198	41,322
Long-term debt due within one year	145,346	123,989
Total current liabilities	720,127	684,809
DEFERRED CREDITS AND OTHER LIABILITIES	236,545	245,807
LONG-TERM DEBT	1,705,237	2,227,209
CONVERTIBLE QUARTERLY INCOME DEBT SECURITIES	300,000	-
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY (DEFICIT):		
Common stock, \$.0001 par value; 1,000,000,000 shares authorized; 409,922,935 shares issued and outstanding	41	41
Additional capital	625,574	625,574
Accumulated deficit	(1,508,407)	(1,782,846)
Total shareholders' equity (deficit)	(880,792)	(1,157,231)
	<u>\$ 2,081,117</u>	<u>\$ 2,000,594</u>

See notes to consolidated financial statements

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THE SOUTHLAND CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS
YEARS ENDED DECEMBER 31, 1995, 1994 AND 1993
(Dollars in Thousands, Except Per-Share Data)

	<u>1995</u>	<u>1994</u>	<u>1993</u>
REVENUES:			
Net sales (including \$991,788, \$992,970 and \$962,955 in excise taxes)	\$ 6,745,820	\$ 6,684,495	\$ 6,744,333
Other income	70,969	66,407	61,592
	<u>6,816,789</u>	<u>6,750,902</u>	<u>6,805,925</u>
COSTS AND EXPENSES:			
Cost of goods sold	4,762,707	4,693,826	4,696,309
Operating, selling, general and administrative expenses	1,866,971	1,888,610	2,030,382
Interest expense, net	85,582	94,970	81,814
	<u>6,715,260</u>	<u>6,677,406</u>	<u>6,808,505</u>
EARNINGS (LOSS) BEFORE INCOME TAXES, EXTRAORDINARY GAIN AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	101,529	73,496	(2,580)
INCOME TAXES (BENEFIT)	<u>(66,065)</u>	<u>(18,500)</u>	<u>8,700</u>
EARNINGS (LOSS) BEFORE EXTRAORDINARY GAIN AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	167,594	91,996	(11,280)
EXTRAORDINARY GAIN ON DEBT REDEMPTION (net of tax effect of \$8,603 in 1995 and \$0 in 1993)	103,169	-	98,968
CUMULATIVE EFFECT OF ACCOUNTING CHANGE FOR POSTEMPLOYMENT BENEFITS	-	-	(16,537)
NET EARNINGS	<u>\$ 270,763</u>	<u>\$ 91,996</u>	<u>\$ 71,151</u>
EARNINGS (LOSS) PER COMMON SHARE (Primary and fully diluted):			
Before extraordinary gain and cumulative effect of accounting change	\$ 40	\$ 22	\$(.03)
Extraordinary gain	25	-	24
Cumulative effect of accounting change	-	-	(.04)
Net earnings	<u>\$ 65</u>	<u>\$ 22</u>	<u>\$ 17</u>

See notes to consolidated financial statements.

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
YEARS ENDED DECEMBER 31, 1995, 1994 AND 1993
(Dollars in Thousands, Except Share Amounts)

	COMMON STOCK SHARES	STOCK AMOUNT	ADDITIONAL CAPITAL	ACCUMULATED DEFICIT	TOTAL SHAREHOLDERS EQUITY(DEFICIT)
Balance, January 1, 1993	410,022,481	\$ 41	\$ 625,724	\$ (1,944,524)	\$ (1,318,759)
Net earnings	-	-	-	71,151	71,151
Cancellation of shares	(99,546)	-	(150)	112	(38)
Foreign currency translation adjustments	-	-	-	(704)	(704)
Balance, December 31, 1993	409,922,935	41	625,574	(1,873,965)	(1,248,350)
Net earnings	-	-	-	91,996	91,996
Foreign currency translation adjustments	-	-	-	(877)	(877)
Balance, December 31, 1994	409,922,935	41	625,574	(1,782,846)	(1,157,231)
Net earnings	-	-	-	270,763	270,763
Foreign currency translation adjustments	-	-	-	(2,470)	(2,470)
Other	-	-	-	8,146	8,146
Balance, December 31, 1995	409,922,935	\$ 41	\$ 625,574	\$ (1,506,407)	\$ (880,792)

See notes to consolidated financial statements.

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1995, 1994 AND 1993**

(Dollars in Thousands)

	<u>1995</u>	<u>1994</u>	<u>1993</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	\$ 270,763	\$ 91,996	\$ 71,151
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Extraordinary gain on debt redemption	(103,169)	-	(98,968)
Cumulative effect of accounting change for postemployment benefit	-	-	16,537
Depreciation and amortization of property and equipment	147,423	143,670	134,920
Other amortization	19,026	19,026	19,430
Deferred income taxes	(84,269)	(30,000)	-
Noncash interest expense	1,974	11,384	8,497
Other noncash (income) expense	(409)	614	3,393
Net loss on property and equipment	7,274	7,504	36,226
(Increase) decrease in accounts and notes receivable	(2,708)	(3,066)	24,937
(Increase) decrease in inventories	(552)	7,895	16,347
(Increase) decrease in other assets	(1,053)	24,273	3,344
Decrease in trade accounts payable and other liabilities	(18,083)	(1,729)	(3,737)
Net cash provided by operating activities	236,217	271,567	232,077
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for purchase of property and equipment	(192,221)	(171,636)	(195,146)
Proceeds from sale of property and equipment	15,720	15,867	22,809
Other	2,770	2,371	4,982
Net currency exchange principal transactions	-	(5,133)	(8,894)
Cash utilized by distribution and food center assets	-	(2,790)	(17,739)
Proceeds from sale of distribution and food center assets	-	6,305	44,889
Net cash used in investing activities	(173,731)	(155,016)	(149,099)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from commercial paper and revolving credit facilities	4,171,927	4,451,774	4,111,500
Payments under commercial paper and revolving credit facilities	(4,256,918)	(4,418,693)	(3,927,234)
Proceeds from issuance of long-term debt	-	300,000	150,000
Principal payments under long-term debt agreements	(289,372)	(400,580)	(403,125)
Proceeds from issuance of convertible quarterly income debt securities	300,000	-	-
Debt issuance costs	(4,364)	(3,250)	(2,437)
Net cash used in financing activities	(78,727)	(70,749)	(71,296)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENT	(16,241)	45,802	11,682
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	59,288	13,486	1,804
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 43,047	\$ 59,288	\$ 13,486
RELATED DISCLOSURES FOR CASH FLOW REPORTING:			
Interest paid, excluding SFAS No. 15 Interest	\$ (97,945)	\$ (98,157)	\$ (87,631)
Net income taxes paid	\$ (34,674)	\$ (7,810)	\$ (7,969)

See notes to consolidated financial statements.

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SOUTHLAND CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1995, 1994 AND 1993

ACCOUNTING POLICIES

Principles of Consolidation - The Southland Corporation and subsidiaries ("the Company") is owned approximately 64% by IYG Holding Company, which is jointly owned by Ito-Yokado Co., Ltd. ("IY") and Seven-Eleven Japan Co., Ltd. ("SEJ").

The consolidated financial statements include the accounts of The Southland Corporation and its subsidiaries. Intercompany transactions and account balances are eliminated. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates. Prior year and quarterly amounts have been reclassified to conform to the current-year presentation. Buying and occupancy expense of \$492,499,000 and \$513,393,000 for the years ended December 31, 1994 and 1993, respectively, was reclassified from cost of goods sold to operating, selling, general and administrative expenses ("OSG&A").

The Company operates more than 5,400 7-Eleven and other convenience stores in the United States and Canada. Area licensees, or their franchisees, and affiliates operate approximately 10,000 additional 7-Eleven convenience stores in certain areas of the United States, in 18 foreign countries and in the U. S. territories of Guam and Puerto Rico. The Company's net sales are comprised of sales of groceries, take-out foods and beverages, gasoline (at certain locations), dairy products, non-food merchandise, specialty items and services. Net sales and cost of goods sold of stores operated by franchisees are consolidated with the results of Company-operated stores. Net sales of stores operated by franchisees are \$2,832,131,000, \$2,820,685,000 and \$2,810,270,000 from 2,896, 2,962 and 2,998 stores for the years ended December 31, 1995, 1994 and 1993, respectively. Under the present franchise agreements, initial franchise fees are recognized in income currently and are generally calculated based upon gross profit experience for the store or market area. These fees cover certain costs including training, an allowance for travel, meals and lodging for the trainees and other costs relating to the franchising of the store.

The gross profit of the franchise stores is split between the Company and its franchisees. The Company's share of the gross profit of franchise stores is its continuing franchise fee, generally ranging from 50% to 58% of the gross profit of the store, which is charged to the franchisee for the license to use the 7-Eleven operating system and trademarks, for the lease and use of the store premises and equipment, and for continuing services provided by the Company. These services include merchandising, advertising, recordkeeping, store audits, contractual indemnification, business counseling services and preparation of financial statements. The gross profit earned by the Company's franchisees of \$515,610,000,

\$517,955,000 and \$530,436,000 for the years ended December 31, 1995, 1994 and 1993, respectively, is included in the Consolidated Statements of Earnings as OSG&A.

Sales by stores operated under domestic and foreign area license agreements are not included in consolidated revenues. All fees or royalties arising from such agreements are included in other income. Initial fees, which have been immaterial, are recognized when the services required under the agreements are performed.

Other Income - Other income is primarily area license royalties and franchise fee income. The area license royalties include amounts from area license agreements with SEJ of approximately \$44,000,000, \$42,000,000 and \$39,000,000 for the years ended December 31, 1995, 1994 and 1993, respectively.

Operating, Selling, General and Administrative Expenses - Buying and occupancy expenses are included in OSG&A.

Interest Expense - Interest expense is net of interest income of \$16,975,000, \$13,618,000 and \$12,745,000 for the years ended December 31, 1995, 1994 and 1993, respectively.

Cash and Cash Equivalents - Cash and cash equivalents include temporary cash investments of \$8,787,000 and \$1,028,000 at December 31, 1995 and 1994, respectively, stated at cost, which approximates market. The Company considers all highly liquid investment instruments purchased with maturities of three months or less to be cash equivalents.

Inventories - Inventories are stated at the lower of cost or market. Cost is generally determined by the LIFO method for stores in the United States and by the FIFO method for stores in Canada.

Depreciation and Amortization - Depreciation of buildings and equipment is based upon the estimated useful lives of these assets using the straight-line method. Amortization of capital leases, improvements to leased properties and favorable leaseholds is based upon the remaining terms of the leases or the estimated useful lives, whichever is shorter.

Foreign and domestic area license royalty intangibles were recorded in 1987 at the fair value of future royalty payments and are being amortized over 20 years using the straight-line method. The 20-year life is less than the estimated lives of the various royalty agreements, the majority of which are perpetual.

Store Closings - Provision is made on a current basis for the write-down of identified owned-store closings to their net realizable value. For identified leased-store closings, leasehold improvements are written down to their net realizable value and a provision is made on a current basis if anticipated expenses are in excess of expected sublease rental income.

Business Segment - The Company operates in a single business segment - the operating, franchising and licensing of convenience food stores, primarily under the 7-Eleven name.

ACCOUNTS AND NOTES RECEIVABLE

	December 31	
	1995	1994
	(Dollars in Thousands)	
Notes receivable (net of long-term portion of \$14,606 and \$15,309)	\$ 2,273	\$ 5,773
Trade accounts receivable	48,599	42,856
Franchisee accounts receivable	43,556	47,682
Environmental cost reimbursements (net of long-term portion of \$64,034 and \$67,546) - see Note 13	<u>17,654</u>	<u>12,709</u>
	112,082	109,020
Allowance for doubtful accounts	<u>(4,853)</u>	<u>(6,792)</u>
	<u>\$ 107,224</u>	<u>\$ 102,230</u>

INVENTORIES

Inventories stated on the LIFO basis that are included in inventories in the accompanying Consolidated Balance Sheets were \$62,705,000 and \$63,340,000 at December 31, 1995 and 1994, respectively, which is less than replacement cost by \$30,907,000 and \$28,286,000, respectively. At December 31, 1993, inventories were reduced resulting in a liquidation of LIFO inventory layers recorded at costs that were lower than the costs of current purchases. The effect of this reduction was to decrease cost of goods sold by approximately \$3,900,000 in 1993.

OTHER CURRENT ASSETS

	December 31	
	1995	1994
	(Dollars in Thousands)	
Prepaid expenses	\$ 17,775	\$ 18,474
Deferred tax assets (net of allowance of \$77,218 in 1994)	78,665	13,861
Other	<u>7,376</u>	<u>8,076</u>
	<u>\$103,816</u>	<u>\$ 40,411</u>

5. PROPERTY AND EQUIPMENT

	December 31	
	1995	1994
	(Dollars in Thousands)	
Cost:		
Land	\$ 461,585	\$ 475,611
Buildings and leaseholds	1,274,651	1,223,128
Equipment	697,673	623,755
Construction in process	<u>32,725</u>	<u>35,634</u>
	2,466,634	2,358,128
Accumulated depreciation and amortization	<u>(1,130,851)</u>	<u>(1,043,622)</u>
	<u>\$ 1,335,783</u>	<u>\$ 1,314,492</u>

During 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets." The statement establishes accounting standards for the impairment of long-lived assets to be held and used and for long-lived assets to be disposed of, and must be adopted no later than 1996. The impact on the Company's earnings is not expected to be material when the Company adopts the statement in 1996.

6. OTHER ASSETS

	December 31	
	1995	1994
	(Dollars in Thousands)	
Japanese license royalty intangible (net of accumulated amortization of \$132,988 and \$116,972)	\$ 185,513	\$ 201,528
Other license royalty intangibles (net of accumulated amortization of \$23,750 and \$20,914)	32,854	35,690
Environmental cost reimbursements (net of allowance of \$13,705 and \$18,890) - see Note 13	64,034	67,546
Deferred tax assets (net of allowance of \$97,371 in 1994)	30,396	16,139
Other (net of accumulated amortization of \$5,023 and \$7,281)	<u>76,430</u>	<u>61,725</u>
	<u>\$ 389,227</u>	<u>\$ 382,628</u>

ACCRUED EXPENSES AND OTHER LIABILITIES

	December 31	
	1995	1994
	(Dollars in Thousands)	
Accrued insurance	\$ 83,068	\$ 95,372
Accrued payroll	43,025	51,024
Accrued taxes, other than income	40,710	40,372
Accrued environmental costs (see Note 13)	40,659	35,574
Other	<u>121,267</u>	<u>93,841</u>
	<u>\$ 329,422</u>	<u>\$ 316,183</u>

Other includes accounts payable to The Southland Corporation Employees' Savings and Profit Sharing Plan (see Note 12) for contributions and contingent rent payables of \$13,635,000 and \$13,186,000 as of December 31, 1995 and 1994, respectively.

The Company continues to review the functions necessary to enable its stores to respond faster, more creatively and more cost efficiently to rapidly changing customer needs and preferences. To accomplish this goal, the Company continues to realign and reduce personnel and office facilities.

In December 1995, the Company accrued \$13,415,000 for severance benefits for employees to be terminated and for reduction in office space. The cost of the reorganization plan was recorded in OSG&A and is comprised of \$4,979,000 for severance benefits and \$8,436,000 for reductions in office facilities.

In December 1994, the Company accrued \$7,405,000 for severance benefits for employees terminated and for changes in office facilities. The employee terminations were substantially completed in 1995, and the office realignments are scheduled for completion in 1996. Changes in estimates from the original \$7,405,000 accrual did not have a material impact on 1995 earnings.

8. DEBT

	December 31	
	1995	1994
	(Dollars in Thousands)	
Bank Debt Term Loans	\$ 300,000	\$ 300,000
Bank Debt revolving credit facility	-	50,000
Commercial paper	300,000	350,000
5% First Priority Senior Subordinated Debentures due 2003	377,558	615,539
4-1/2% Second Priority Senior Subordinated Debentures (Series A) due 2004	170,952	294,597
4% Second Priority Senior Subordinated Debentures (Series B) due 2004	25,146	25,897
12% Second Priority Senior Subordinated Debentures (Series C) due 2009	57,082	59,696
6-1/4% Yen Loan	229,243	253,114
7-1/2% Cityplace Term Loan due 2005	286,949	289,698
Canadian revolving credit facility	11,179	5,678
Capital lease obligations	90,852	105,159
Other	<u>1,622</u>	<u>1,820</u>
	1,850,583	2,351,198
Less long-term debt due within one year	<u>145,346</u>	<u>122,983</u>
	<u>\$ 1,705,237</u>	<u>\$ 2,227,203</u>

Bank Debt - The Company is obligated to a group of lenders under a credit agreement ("Credit Agreement") that includes term loans and a revolving credit facility (collectively "Bank Debt"). In December 1994, the Credit Agreement was amended to extend its maturity through December 31, 1999, and to change various financial and operating covenants to reduce certain restrictions. The financial and operating covenants require, among other things, the maintenance of certain financial ratios including interest coverage, fixed-charge coverage and senior indebtedness to earnings before interest, income taxes, depreciation and amortization. The Credit Agreement also contains various covenants which, among other things, (a) limit the Company's ability to incur or guarantee indebtedness or other liabilities other than under the Credit Agreement, (b) restrict the Company's ability to engage in asset sales and sale/leaseback transactions, (c) restrict the types of investments the Company can make and (d) restrict the Company's ability to pay cash dividends, redeem or prepay principal and interest on any subordinated debt and certain senior debt. Under the Credit Agreement, all of the assets of the Company, with the exception of certain specified property, serve as collateral.

The amendment to the Credit Agreement refinanced the existing term loans and revolving credit facility with a new term loan and a new revolving credit facility. The new term loan provided proceeds of \$300 million, which were primarily used to retire the existing term loans. The new term loan is to be repaid in 16 quarterly installments of \$18,750,000 commencing March 31, 1996. The new revolving credit facility makes available borrowings and letters of credit totaling a maximum of \$300 million.

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DOCUMENT (S)

DISREGARD

BACKGROUND

Maximum borrowings and letters of credit under the revolving credit facility are set at \$150 million each. Upon expiration of the facility, all the then outstanding letters of credit must expire and may need to be replaced, and all other amounts then outstanding will be due and payable in full. At December 31, 1995, outstanding letters of credit related to the Credit Agreement totaled \$80,409,000.

Interest on the Bank Debt is generally payable quarterly and is based on a variable rate equal to the administrative agent bank's base rate or, at the Company's option, at a rate equal to a reserve-adjusted Eurodollar rate plus .975% per year. The weighted-average interest rate on the term loan outstanding at December 31, 1995 and 1994 was 6.9% and 7.1%, respectively. The weighted-average interest rate on revolving credit facility borrowings outstanding at December 31, 1994, was 8.5%. A fee of .925% per year on the outstanding amount of letters of credit is required to be paid quarterly. A .5% per year commitment fee on unadvanced funds, which for purposes of this calculation includes unissued letters of credit, is payable quarterly.

Commercial Paper - The Company has a facility that provides for the issuance of up to \$400 million in commercial paper. At December 31, 1995, \$300 million of the \$350,198,000 outstanding principal, net of discount, was classified as long-term debt since the Company intends to maintain at least this amount outstanding during the next year. Such debt is unsecured and is fully and unconditionally guaranteed by IY. IY has agreed to continue its guarantee of all commercial paper issued through 1996. While it is not anticipated that IY would be required to perform under its commercial paper guarantee, in the event IY makes any payments under the guarantee, the Company and IY have entered into an agreement by which the Company is required to reimburse IY subject to restrictions in the Credit Agreement. The weighted-average interest rate on commercial paper borrowings outstanding at December 31, 1995 and 1994, respectively, was 5.8% and 6.0%.

Notes and Debentures - The Notes and Debentures are accounted for in accordance with SFAS No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructuring," and were initially recorded at an amount equal to the future undiscounted cash payments, both principal and interest ("SFAS No. 15 Interest"). Accordingly, no interest expense will be recognized over the life of these securities, and cash interest payments will be charged against the recorded amount of such securities. Interest on all of the Notes and Debentures is payable in cash semiannually on June 15 and December 15 of each year.

The 5% First Priority Senior Subordinated Debentures, due December 15, 2003, had an outstanding principal amount of \$269,993,000 at December 31, 1995, and are redeemable at any time at the Company's option at 100% of the Principal amount.

The Second Priority Senior Subordinated Debentures were issued in three series, and each series is redeemable at any time at the Company's option at 100% of the principal amount and are described as follows:

- 4-1/2% Series A Debentures, due June 15, 2004, with an outstanding Principal amount of \$123,654,000 at December 31, 1995.

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- 4 1/2% Series B Debentures, due June 15, 2004, with an outstanding principal amount of \$18,766,000 at December 31, 1995.
 - 12% Series C Debentures, due June 15, 2009, with an outstanding principal amount of \$21,787,000 at December 31, 1995.

In November 1995, the Company purchased \$180,621,000 of the principal amount of its First Priority Senior Subordinated Debentures due 2003 ("5% Debentures") and \$82,719,000 of the principal amount of its 4-1/2% Second Priority Senior Subordinated Debentures (Series A) due 2004 ("4-1/2% Debentures") (collectively, "Refinanced Debentures") with a portion of the proceeds from the issuance of \$300 million principal amount of Convertible Quarterly Income Debt Securities (see Note 9). The purchase of the Refinanced Debentures resulted in an extraordinary gain of \$103,169,000 (net of current tax effect of \$8,603,000) as a result of the discounted purchase price and the inclusion of SFAS No. 15 Interest in the carrying amount of the debt.

Prior to the refinancing, the 5% Debentures were subject to annual sinking fund requirements of \$27,037,000 due each December 15, commencing 1996 through 2002. The Company used its purchase of the 5% Debentures to satisfy such sinking fund requirements in direct order of maturity until December 15, 2002, at which time a sinking fund payment of \$8,638,000 will be due.

The Debentures contain certain covenants that, among other things, (a) limit the payment of dividends and certain other restricted payments by both the Company and its subsidiaries, (b) require the purchase by the Company of the Debentures at the option of the holder upon a change of control, (c) limit additional indebtedness, (d) limit future exchange offers, (e) limit the repayment of subordinated indebtedness, (f) require board approval of certain asset sales, (g) limit transactions with certain stockholders and affiliates, and (h) limit consolidations, mergers and the conveyance of all or substantially all of the Company's assets.

The First and Second Priority Senior Subordinated Debentures are subordinate to the outstanding Bank Debt and to previously outstanding mortgages and notes that are either backed by specific collateral or are general unsecured, unsubordinated obligations. The Second Priority Debentures are subordinate to the First Priority Debentures.

The Company had an issuance of 12% Senior Notes, which were redeemed in 1993 resulting in an extraordinary gain of \$98,968,000, which had no tax effect.

Yen Loan - In March 1988, the Company monetized its future royalty payments from SEJ, its area licensee in Japan, through a loan that is nonrecourse to the Company as to principal and interest. The original amount of the yen-denominated debt was 41 billion yen (approximately \$327,000,000 at the exchange rate in March 1988) and is collateralized by the Japanese trademarks and a pledge of the future royalty payments. By designating its future royalty receipts during the term of the loan to service the monthly interest and principal payments, the Company has hedged the impact of future exchange rate fluctuations. Payment of the debt is required no later than March 2006 through future royalties from the Japanese licensee.

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and the Company believes it is a remote possibility that there will be any principal balance remaining at that date. Upon the later of February 28, 2000, or the date which is one year following the final repayment of the loan, royalty payments from the area licensee in Japan will be substantially reduced in accordance with the terms of the license agreement. The current interest rate of 6-1/4% will be reset after March 1998.

Cityplace Debt - Cityplace Center East Corporation ("CCEC"), a subsidiary of the Company, issued \$290 million of notes in 1987 to finance the construction of the headquarters tower, a parking garage and related facilities of the Cityplace Center development. The interest rate on these notes was 7-7/8%, payable semiannually on February 15 and August 15, and the principal amount was due on February 15, 1995. Because of the application of purchase accounting in 1987, the effective interest rate was 9.0%. The principal amount was paid to noteholders on February 15, 1995, by drawings under letters of credit issued by The Sanwa Bank, Limited, Dallas Agency ("Sanwa"), which has a lien on the property financed. At that time, the Company deferred the maturity of the debt by exercising its option of extending the term of maturity ten years to March 1, 2005, with monthly payments of principal and interest to Sanwa based on a 25-year amortization at 7-1/2%, with the remaining principal due upon maturity (the "Cityplace Term Loan").

The Company is occupying part of the building as its corporate headquarters and the balance is subleased. As additional consideration through the extended term of the debt, CCEC will pay to Sanwa an amount that it receives from the Company which is equal to the net sublease income that the Company receives on the property and 60% of the proceeds, less \$275 million and permitted costs, upon a sale or refinancing of the building.

Southland Canada Debt - In November 1995, Southland Canada, Inc., entered into a revolving credit facility with a Canadian chartered bank, which replaces a similar facility established in 1988. The facility provides bank financing of up to Canadian \$15 million (approximately U.S. \$10,994,000 at December 31, 1995) until December 31, 1999, when the facility will expire, and all amounts outstanding will be due and payable in full. At December 31, 1995, the Company was fully drawn under this facility. Interest on such facility is generally payable monthly and is based upon the Canadian Prime rate (7.5% at December 31, 1995) plus .25% per year or a bankers' acceptance rate plus 1.25% per year. The weighted-average interest rate on revolving credit facility borrowings outstanding at December 31, 1995 and 1994, respectively, was 7.5% and 7.3%.

The previous revolving credit facility with the same Canadian chartered bank provided financing in which the maximum amount available declined each year until the facility was scheduled to expire on June 30, 1998. At such time, all amounts outstanding were then due and payable in full. Interest payment terms on this facility were similar to those of the new facility, but interest rates were slightly less favorable.

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Maturities - Long-term debt maturities assume the continuance of the commercial paper program. The maturities, which include capital lease obligations and sinking fund requirements, as well as SFAS No. 15 Interest accounted for in the recorded amount of the Debentures, are as follows (dollars in thousands):

1996	\$ 145,346
1997	144,164
1998	147,855
1999	158,238
2000	81,654
Thereafter	<u>1,173,326</u>
	<u>\$1,850,583</u>

9. CONVERTIBLE QUARTERLY INCOME DEBT SECURITIES DUE 2010

In November 1995, the Company issued \$300 million principal amount of Convertible Quarterly Income Debt Securities due 2010 ("Convertible Debt") to IV and SEJ. The Company used \$216,739,000 of the proceeds to purchase the Refinanced Debentures (see Note 8), and the remaining proceeds were designated for general corporate purposes. The Convertible Debt has an interest rate of 4-1/2% and gives the Company the right to defer interest payments thereon for up to 20 consecutive quarters. The holder of the Convertible Debt can convert it into a maximum of 72,112,000 shares of the Company's common shares. The conversion rate represents a premium to the market value of Southland's common stock at the time of issuance of the Convertible Debt. As of December 31, 1995, no shares had been issued as a result of debt conversion. The Convertible Debt is subordinate to all existing debt.

In addition to the principal amount of the Convertible Debt, the 1995 financial statements include interest payable of \$638,000 and interest expense of \$1,313,000 related to the Convertible Debt.

10. PREFERRED STOCK

The Company has 5,000,000 shares of preferred stock authorized for issuance. Any preferred stock issued will have such rights, powers and preferences as determined by the Company's Board of Directors.

ENCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The disclosure of the estimated fair value of financial instruments has been determined by the Company using available market information and appropriate valuation methodologies as indicated below.

The carrying amounts of cash and cash equivalents, trade accounts receivable, trade accounts payable and accrued expenses and other liabilities are reasonable estimates of their fair values. Letters of credit are included in the estimated fair value of accrued expenses and other liabilities.

The carrying amounts and estimated fair values of other financial instruments at December 31, 1995, are listed in the following table:

	Carrying Amount	Estimated Fair Value
	(Dollars in Thousands)	
Bank Debt	\$ 300,000	\$ 300,000
Commercial Paper	350,198	350,198
Debentures	630,738	358,267
Yen Loan	229,243	294,565
Cityplace Term Loan	286,949	304,504
Convertible Debt	300,000	301,530

The methods and assumptions used in estimating the fair value for each of the classes of financial instruments presented in the table above are as follows:

- The carrying amount of the Bank Debt approximates fair value because the interest rates are variable.
- Commercial paper borrowings are sold at market interest rates and have an average remaining maturity of less than 40 days. Therefore, the carrying amount of commercial paper is a reasonable estimate of its fair value. The guarantee of the commercial paper by IV is an integral part of the estimated fair value of the commercial paper borrowings.
- The fair value of the Debentures is estimated based on December 31, 1995, bid prices obtained from investment banking firms where traders regularly make a market for these financial instruments. The carrying amount of the Debentures includes \$196,538,000 of SFAS No. 15 Interest.
- The fair value of the Yen Loan is estimated by calculating the present value of the future yen cash flows at current interest and exchange rates.
- The fair value of the Cityplace Term Loan is estimated by calculating the present value of the future cash flows at current interest rates.
- The fair value of the Convertible Debt at December 31, 1995, is estimated by an investment banking firm and includes both an interest rate and an equity component.

12. EMPLOYEE BENEFIT PLANS

Profit Sharing Plans - The Company maintains profit sharing plans for its U.S. and Canadian employees. In 1949, the Company excluding its Canadian subsidiary ("Southland") adopted The Southland Corporation Employees' Savings and Profit Sharing Plan (the "Savings and Profit Sharing Plan") and, in 1970, the Company's Canadian subsidiary adopted the Southland Canada, Inc. Profit Sharing Pension Plan. These plans provide retirement benefits to eligible employees.

Contributions to the Savings and Profit Sharing Plan, a 401(k) defined contribution plan, are made by both the participants and Southland. Southland contributes the greater of approximately 10% of its net earnings or an amount determined by Southland's president. Net earnings as amended during 1995 is calculated without regard to the contribution to the Savings and Profit Sharing Plan, federal income taxes, gains from debt repurchases and refinancings and, at the discretion of Southland's president, income from accounting changes. The contribution by Southland is generally allocated to the participants on the basis of their individual contribution, years of participation in the Savings and Profit Sharing Plan and age. The provisions of the Southland Canada, Inc. Profit Sharing Pension Plan are similar to those of the Savings and Profit Sharing Plan. Total contributions to these plans for the years ended December 31, 1995, 1994 and 1993 were \$11,318,000, \$10,513,000 and \$11,956,000 (including amounts allocated to the distribution and food centers in 1994 and 1993), respectively, and are included in OSG&A.

Postretirement Benefits - The Company's group insurance plan (the "Insurance Plan") provides postretirement medical and dental benefits for all retirees that meet certain criteria. Such criteria include continuous participation in the Insurance Plan ranging from 10 to 15 years depending on hire date, and the sum of age plus years of continuous service equal to at least 70. The Company contributes toward the cost of the Insurance Plan a fixed dollar amount per retiree based on age and number of dependents covered, as adjusted for actual claims experience. All other future costs and cost increases will be paid by the retirees. The Company continues to fund its cost on a cash basis; therefore, no plan assets have been accumulated.

Net periodic postretirement benefit costs for 1995, 1994 and 1993 include the following components:

	1995	1994	1993
	(Dollars in Thousands)		
Service cost	\$ 585	\$ 752	\$ 824
Interest cost	1,678	1,732	2,048
Amortization of unrecognized gain	(583)	(61)	-
	<u>\$ 1,680</u>	<u>\$ 2,423</u>	<u>\$ 2,872</u>

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 7% and 8% at December 31, 1995 and 1994, respectively. Components of the accrual recorded in the Company's consolidated balance sheets are as follows:

	December 31,	
	1995	1994
	(Dollars in Thousands)	
Accumulated Postretirement Benefit Obligation:		
Retirees	\$ 11,960	\$ 11,197
Active employees eligible to retire	5,234	4,716
Other active employees	<u>6,328</u>	<u>5,354</u>
	23,522	21,267
Unrecognized gains	<u>5,198</u>	<u>7,953</u>
	<u>\$ 28,720</u>	<u>\$ 29,220</u>

Postemployment Benefits - The Company adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits," in 1993 and recorded an accumulated postemployment benefit obligation of \$16,537,000. The obligation primarily represents future medical costs relating to short-term and long-term disability. The accumulated postemployment benefit obligation, which had no tax effect, was recorded as the cumulative effect of an accounting change. As of December 31, 1995 and 1994, the amount of the obligation was \$19,390,000 and \$18,460,000, respectively.

Equity Participation Plan - In 1988, the Company adopted The Southland Corporation Equity Participation Plan (the "Participation Plan"), which provides for the granting of both incentive options and nonstatutory options and the sale of convertible debentures to certain key employees and officers of the Company. In the aggregate, not more than 3,529,412 shares of common stock of the Company can be issued pursuant to the Participation Plan; however, the Company has no present intent to grant additional options or debentures under this plan. The shares available for issuance under the Participation Plan are reduced by the number of shares issued under the Grant Stock Plan, which is described in a following paragraph.

Options were granted in 1988 at the fair market value on the date of grant, which is the same as the conversion price provided in the debentures. All options and convertible debentures that were vested became exercisable as of December 31, 1994, pursuant to the terms of the Participation Plan. At December 31, 1995, there were vested options outstanding to acquire 948,499 shares, of which 909,999 were at \$7.50 per share and 38,500 were at \$7.70 per share, and vested debentures outstanding that were convertible at \$7.50 per share into 5,000 shares. During 1995, options to acquire 811,304 shares and debentures convertible into 12,833 shares expired for those participants who are no longer with the Company. All options expire, and the debentures mature, no later than December 31, 1997.

Grant Stock Plan - In 1988, the Company adopted The Southland Corporation Grant Stock Plan (the "Stock Plan"). Under the provisions of the Stock Plan, up to 750,000 shares of common stock are authorized to be issued to

certain key employees and officers of the Company. Shares issued under the Stock Plan decrease the number of shares that can be issued pursuant to the Participation Plan. The stock is fully vested upon the date of issuance. As of December 31, 1995, 480,844 shares had been issued pursuant to the Stock Plan. No shares have been issued since 1988, and the Company has no present intent to grant additional shares.

Stock Incentive Plan - The Company adopted The Southland Corporation 1995 Stock Incentive Plan (the "Stock Incentive Plan") in October 1995, subject to shareholder approval, which is being sought at the annual meeting of shareholders to be held in April 1996. The Stock Incentive Plan provides for the granting of stock options, stock appreciation rights, performance shares, restricted stock, restricted stock units, bonus stock and other forms of stock-based awards and authorizes the issuance of up to 41 million shares over a ten-year period. In October 1995, 3,863,600 options were granted, which remain outstanding at December 31, 1995, at the fair market value of \$3.1875 per share on the date of grant to certain key employees and officers of the Company. The options granted in 1995 are exercisable in five equal installments beginning one year after grant date with possible acceleration thereafter based upon certain improvements in the stock price of a share of Southland's common stock.

During 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation." The statement must be adopted no later than 1996. The Company intends to adopt the disclosure-only requirements of SFAS No. 123 and will therefore continue to apply the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees."

13. LEASES, COMMITMENTS AND CONTINGENCIES

Leases - Certain property and equipment used in the Company's business is leased. Generally, real estate leases are for primary terms from 14 to 20 years with options to renew for additional periods, and equipment leases are for terms from one to ten years. The leases do not contain restrictions that have a material effect on the Company's operations.

The composition of capital leases reflected as property and equipment in the consolidated balance sheets is as follows:

	December 31	
	1995	1994
	(Dollars in Thousands)	
Buildings	\$ 116,412	\$ 125,600
Equipment	225	225
	116,637	125,825
Accumulated amortization	(77,425)	(78,103)
	<u>\$ 39,209</u>	<u>\$ 47,722</u>

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The present value of future minimum lease payments for capital lease obligations is reflected in the consolidated balance sheets as long-term debt. The amount representing imputed interest necessary to reduce net minimum lease payments to present value has been calculated generally at the Company's incremental borrowing rate at the inception of each lease.

Future minimum lease payments for years ending December 31 are as follows:

	Capital <u>Leases</u>	Operating <u>Leases</u>
	(Dollars in Thousands)	
1996	\$ 21,965	\$ 116,621
1997	20,424	105,284
1998	18,793	85,471
1999	17,449	64,869
2000	15,485	48,704
Thereafter	<u>60,405</u>	<u>185,645</u>
Future minimum lease payments	154,521	<u>\$ 606,594</u>
Estimated executory costs	(399)	
Amount representing imputed interest	<u>(63,270)</u>	
Present value of future minimum lease payments	<u>\$ 90,852</u>	

Minimum noncancelable sublease rental income to be received in the future, which is not included above as an offset to future payments, totals \$23,126,000 for capital leases and \$21,695,000 for operating leases.

Rent expense on operating leases for the years ended December 31, 1995, 1994 and 1993, totaled \$125,456,000, \$120,850,000 and \$124,402,000, respectively, including contingent rent expense of \$8,508,000, \$8,576,000 and \$8,214,000, but reduced by sublease rent income of \$7,296,000, \$7,858,000 and \$8,545,000. Contingent rent expense on capital leases for the years ended December 31, 1995, 1994 and 1993, was \$2,399,000, \$2,822,000 and \$3,084,000, respectively. Contingent rent expense is generally based on sales levels or changes in the Consumer Price Index.

Leases With The Savings and Profit Sharing Plan - At December 31, 1995, the Savings and Profit Sharing Plan owned 197 stores leased to the Company under capital leases and 634 stores leased to the Company under operating leases at rentals which, in the opinion of management, approximated market rates at the date of lease. In addition, 67, 43 and 62 properties were sold by the Savings and Profit Sharing Plan to third parties in 1995, 1994 and 1993, respectively, and at the same time, the related leases with the Company were either cancelled or assigned to the new owner. Included in the consolidated financial statements are the following amounts related to leases with the Savings and Profit Sharing Plan:

	<u>December 31</u>	
	<u>1995</u>	<u>1994</u>
	(Dollars in Thousands)	
Buildings (net of accumulated amortization of \$8,853 and \$9,619)	<u>\$ 2,041</u>	<u>\$ 3,191</u>
Capital lease obligations (net of current portion of \$1,664 and \$1,945)	<u>\$ 2,310</u>	<u>\$ 4,109</u>

	<u>Years Ended December 31</u>		
	<u>1995</u>	<u>1994</u>	<u>1993</u>
	(Dollars in Thousands)		
Rent expense under operating leases and amortization of capital lease assets	<u>\$ 26,850</u>	<u>\$ 28,195</u>	<u>\$ 30,028</u>
Imputed interest expense on capital lease obligations	<u>\$ 483</u>	<u>\$ 696</u>	<u>\$ 948</u>
Capital lease principal payments included in principal payments under long-term debt agreements	<u>\$ 1,818</u>	<u>\$ 2,075</u>	<u>\$ 2,200</u>

Commitments

McLane Company, Inc. - In connection with the 1992 sale of distribution and food center assets to McLane, the Company and McLane entered into a ten-year service agreement under which McLane is making its distribution services available to 7-Eleven stores in the United States. If the Company does not fulfill its obligation to McLane during this time period, the Company must reimburse McLane on a pro-rata basis for the transitional payment received at the time of the transaction. The original payment received of \$9,450,000 in 1992 is being amortized to cost of goods sold over the life of the agreement. The Company has exceeded the minimum annual purchases each year and expects to exceed the minimum required purchase levels in future years.

Citgo Petroleum Corporation - In 1986, the Company entered into a 20-year product purchase agreement with Citgo to buy specified quantities of gasoline at market prices. These prices are determined pursuant to a formula based on the prices posted by gasoline wholesalers in the various market areas where the Company purchases gasoline from Citgo. Minimum required annual purchases under this agreement are generally the lesser of 750 million gallons or 35% of gasoline purchased by the Company for retail sale. The Company has exceeded the minimum required annual purchases each year and expects to exceed the minimum required annual purchase levels in future years.

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Contingencies

Gasoline Store Sites - The Company accrues future costs, as well as records the related probable state reimbursement amounts, for remediation of gasoline store sites where releases of regulated substances have been detected. At December 31, 1995 and 1994, respectively, the Company's estimated liability for sites where releases have been detected was \$63,669,000 and \$63,424,000, of which \$29,174,000 and \$32,924,000 are included in deferred credits and other liabilities and the remainder in accrued expenses and other liabilities. The Company has recorded receivables of \$59,652,000 and \$57,246,000 (net of allowances of \$13,705,000 and \$18,890,000) for the estimated probable state reimbursements, of which \$45,653,000 and \$47,746,000 are included in other assets and the remainder in accounts and notes receivable. The Company reduced the estimated net environmental cost reimbursements at the end of 1994 by approximately \$6,000,000 as a result of completing a review of state reimbursement programs. The estimated future remediation expenditures and related state reimbursement amounts could change within the near future as governmental requirements and state reimbursement programs continue to be implemented or revised.

The Company anticipates that substantially all of the future remediation costs for sites with detected releases of regulated substances at December 31, 1995, will be incurred within the next five years. There is no assurance of the timing of the receipt of state reimbursement funds. However, based on the Company's experience, the Company expects to receive the majority of state reimbursement funds within one to four years after payment of eligible remediation expenses, assuming that the state administrative procedures for processing such reimbursements have been fully developed.

Chemical Manufacturing Facility - In December 1988, the Company closed its chemical manufacturing facility in New Jersey. As a result, the Company is required to conduct environmental remediation at the facility and has accrued a liability for this purpose. As required, the Company has submitted a clean-up plan to the New Jersey Department of Environmental Protection (the "State"), which provides for remediation of the site for approximately a three-to-five-year period as well as continued groundwater treatment for a projected 20-year period. While the Company has received initial comments from the State, the clean-up plan has not been finalized. The Company has recorded liabilities representing its best estimates of the clean-up costs of \$37,824,000 and \$39,254,000 at December 31, 1995 and 1994, respectively. Of this amount, \$31,660,000 and \$34,180,000 are included in deferred credits and other liabilities and the remainder in accrued expenses and other liabilities for the respective years.

The closed chemical manufacturing facility was previously owned by a large chemical company. In 1991, the Company and the former owner executed a final settlement agreement pursuant to which the former owner agreed to pay a substantial portion of the clean-up costs. The Company has recorded receivables of \$22,035,000 and \$23,009,000 at December 31, 1995 and 1994, respectively, representing the former owner's portion of the clean-up costs. Of this amount, \$18,381,000 and \$19,800,000 are included in other assets and the remainder in accounts and notes receivable for 1995 and 1994, respectively.

14. INCOME TAXES

As of January 1, 1993, the Company adopted SFAS No. 109, "Accounting for Income Taxes." There was no cumulative effect adjustment upon adoption, and there was no effect on net earnings for the year ended December 31, 1993.

SFAS No. 109 requires the use of the liability method, in which deferred tax assets and liabilities are recognized for differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets include tax carryforwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The components of earnings (loss) before income taxes, extraordinary gain and cumulative effect of accounting change are as follows:

	<u>Years Ended December 31</u>		
	<u>1995</u>	<u>1994</u>	<u>1993</u>
	(Dollars in Thousands)		
Domestic	\$ 98,775	\$ 70,615	\$ 3,795
Foreign	<u>2,754</u>	<u>2,881</u>	<u>(5,375)</u>
	<u>\$101,529</u>	<u>\$ 73,496</u>	<u>\$ (1,580)</u>

The provision for income taxes in the accompanying Consolidated Statements of Earnings consists of the following:

	<u>Years Ended December 31</u>		
	<u>1995</u>	<u>1994</u>	<u>1993</u>
	(Dollars in Thousands)		
Current:			
Federal	\$ 8,251	\$ 6,799	\$ 2,759
Foreign	8,968	8,515	5,941
State	985	350	-
Tax benefit of operating loss carryforward	-	(4,164)	-
Subtotal	<u>18,204</u>	<u>11,500</u>	<u>8,700</u>
Deferred:			
Provision	60,709	-	-
Beginning of year valuation allowance adjustment	<u>(144,978)</u>	<u>(30,000)</u>	<u>-</u>
Subtotal	<u>(84,269)</u>	<u>(30,000)</u>	<u>-</u>
Income taxes before extraordinary gain and cumulative effect of accounting change	<u>\$ (66,065)</u>	<u>\$ (18,500)</u>	<u>\$ 8,700</u>

Included in Shareholders' Equity at December 31, 1995, is \$5,208,000 of income taxes provided in 1995 on an unrealized gain on marketable securities.

Reconciliations of income taxes before extraordinary gain and cumulative effect of accounting change at the federal statutory rate to the Company's actual income taxes provided are as follows:

	<u>Years Ended December 31</u>		
	<u>1995</u>	<u>1994</u>	<u>1993</u>
	(Dollars in Thousands)		
Taxes (benefit) at federal statutory rate	\$ 35,535	\$ 25,724	\$ (903)
State income taxes, net of federal income tax benefit	640	228	-
Foreign tax rate difference	886	1,212	2,232
Net change in valuation allowance excluding the tax effect of extraordinary items and the cumulative effect of accounting changes	<u>(108,632)</u>	<u>(47,943)</u>	<u>4,112</u>
Other	<u>5,506</u>	<u>2,279</u>	<u>3,259</u>
	<u>\$ (66,065)</u>	<u>\$ (18,500)</u>	<u>\$ 8,700</u>

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The valuation allowance for deferred tax assets decreased in 1995 by \$174,589,000. The decrease consisted of a \$90,320,000 decrease resulting from changes in the Company's gross deferred tax assets and liabilities and an \$84,269,000 decrease resulting from a change in estimate regarding the realizability of the Company's deferred tax assets. Based on the Company's trend of positive earnings during the past three years and future expectations, the Company determined that it is more likely than not that its deferred tax assets will be fully realized. In 1994, the valuation allowance decreased by \$42,078,000 due to changes in the Company's gross deferred tax assets and liabilities and the realization of \$30,000,000 of the Company's net deferred tax asset.

Significant components of the Company's deferred tax assets and liabilities at December 31, 1995 and 1994, are as follows:

	<u>Years Ended December 31</u>	
	<u>1995</u>	<u>1994</u>
	(Dollars in Thousands)	
Deferred tax assets:		
SPAS No. 15 interest	\$ 81,038	\$ 125,694
Accrued insurance	55,497	58,514
Accrued liabilities	39,665	43,890
Compensation and benefits	32,365	34,029
Tax credit carryforwards	14,833	48,765
Debt issuance costs	6,820	15,445
Other	<u>5,561</u>	<u>6,172</u>
Subtotal	235,779	332,509
Deferred tax liabilities:		
Area license agreements	(85,164)	(92,515)
Property and equipment	(32,853)	(29,192)
Other	<u>(8,701)</u>	<u>(6,213)</u>
Subtotal	(126,718)	(127,920)
Valuation allowance	-	<u>(174,589)</u>
Net deferred taxes	<u>\$ 109,061</u>	<u>\$ 30,000</u>

The Company's net deferred tax asset is recorded in other current assets and other assets (see Notes 4 and 6).

At December 31, 1995, the Company had approximately \$2,849,000 of general business credit carryforwards and \$11,984,000 of alternative minimum tax ("AMT") credit carryforwards. The AMT credits have no expiration date. The general business credits expire during the period from 2007 to 2010.

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15. EARNINGS (LOSS) PER COMMON SHARE

Primary earnings (loss) per common share is computed by dividing net earnings, plus Convertible Debt interest (see Note 9) net of tax benefits, by the weighted average number of common shares and common share equivalents outstanding during each year. The exercise of outstanding stock options would not result in a dilution of earnings per share.

16. QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data for 1995 and 1994 as adjusted for reclassifications to conform to the current-year presentation (see Note 1) is as follows:

Year Ended December 31, 1995:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
	(Dollars in Millions, Except Per-Share Data)				
Net sales	\$1,545	\$1,750	\$1,826	\$1,625	\$6,746
Gross profit	449	512	554	468	1,983
Income taxes (benefit)	2	9	12	(89)	(66)
Earnings (loss) before extraordinary gain	(1)	37	50	82	168
Net earnings (loss)	(1)	37	50	185	271
Primary and fully diluted earnings (loss) per common share before extraordinary gain	-	.09	.12	.19	.40

The second quarter includes a \$4,679,000 environmental reimbursement related to outstanding litigation. The fourth quarter includes a \$103,169,000 extraordinary gain on redemption of debt related to the refinancing of certain debt securities (see Note 8), \$84,269,000 from realization of a deferred tax asset (see Note 14) and \$13,415,000 of expenses accrued for severance and related costs (see Note 7).

Year Ended December 31, 1994:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
	(Dollars in Millions, Except Per-Share Data)				
Net sales	\$ 1,512	\$ 1,720	\$ 1,811	\$ 1,641	\$ 6,684
Gross profit	442	513	544	492	1,991
Income taxes (benefit)	1	6	6	(32)	(19)
Net earnings (loss)	(8)	32	43	25	92
Primary and fully diluted earnings (loss) per common share	(.02)	.08	.10	.06	.22

The second quarter includes a \$4,500,000 recovery on a 1992 insurance claim. The fourth quarter includes \$30 million from realization of a deferred tax asset (see Note 14), \$7,405,000 of expenses accrued for severance and related costs (see Note 7), \$7,696,000 of expense related to store closings and dispositions of properties, and approximately \$6,000,000 in expense relating to the reduction of estimated net environmental cost reimbursements (see Note 13).

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
The Southland Corporation

We have audited the accompanying consolidated balance sheets of The Southland Corporation and Subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of earnings, shareholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 1995. These financial statements are the responsibility of the Company'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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Southland Corporation and Subsidiaries as of December 31, 1995 and 1994, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1995 in conformity with generally accepted accounting principles.

As discussed in Notes 12 and 14 to the financial statements, in 1993 the Company changed its method of accounting for postemployment benefits and for income taxes to conform with Statements of Financial Accounting Standards No. 112 and No. 109, respectively.

COOPERS & LYBRAND L.L.P.

Dallas, Texas
February 14, 1996

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

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Certain of the information required in response to this Item is incorporated by reference from the Registrant's Definitive Proxy Statement for the April 24, 1996 Annual Meeting of Shareholders.

See also "Executive Officers of the Registrant" beginning on page 19, herein.

Item 11. EXECUTIVE COMPENSATION.

The information required in response to this Item is incorporated herein by reference from the Registrant's Definitive Proxy Statement for the April 24, 1996 Annual Meeting of Shareholders.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required in response to this Item is incorporated herein by reference from the Registrant's Definitive Proxy Statement for the April 24, 1996 Annual Meeting of Shareholders.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required in response to this Item is incorporated herein by reference to the Registrant's Definitive Proxy Statement for the April 24, 1996 Annual Meeting of Shareholders.

PART IV

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

(a) The following documents are filed as a part of this report:

1. The Southland Corporation and Subsidiaries' Financial Statements for the three years in the period ended December 31, 1995 are included herein:

	Page
Consolidated Balance Sheets - December 31, 1995 and 1994	43
Consolidated Statements of Earnings - Years Ended December 31, 1995, 1994 and 1993	44
Consolidated Statements of Shareholders' Equity (Deficit) - Years Ended December 31, 1995, 1994 and 1993	45
Consolidated Statements of Cash Flows - Years Ended December 31, 1995, 1994 and 1993	46
Notes to Consolidated Financial Statements	47
Independent Auditors' Report of Coopers & Lybrand L.L.P.	69

2. The Southland Corporation and Subsidiaries' Financial Statement Schedule, included herein.

	Page
Independent Auditors' Report of Coopers & Lybrand L.L.P. on Financial Statement Schedule	76
II - Valuation and Qualifying Accounts	77

All other schedules have been omitted because they are not applicable, are not required, or the required information is shown in the financial statements or notes thereto.

3. The following is a list of the Exhibits required to be filed by Item 601 of Regulation S-K.

Exhibit No.

2. Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession.

- 2 (1) Debtor's Plan of Reorganization, dated October 24, 1990, as filed in the United States Bankruptcy Court, Northern District of Texas, Dallas Division, and Addendum to Debtor's Plan of Reorganization dated January 23, 1991, incorporated by reference to The Southland Corporation's Current Report on Form 8-K dated January 23, 1991, File Numbers 0-676 and 0-16626, Exhibits 2.1 and 2.2.
- 2 (2) Stock Purchase Agreement, dated as of January 25, 1991, by and among The Southland Corporation, Ito-Yokado Co., Ltd. and Seven-Eleven Japan Co., Ltd., incorporated by reference to The Southland Corporation's Current Report on Form 8-K dated January 23, 1991, File Numbers 0-676 and 0-16626, Exhibit 2.3.
- 2 (3) Confirmation Order issued on February 21, 1991 by the United States Bankruptcy Court for the Northern District of Texas, Dallas Division, incorporated by reference to The Southland Corporation's Current Report on Form 8-K dated March 4, 1991, File Numbers 0-676 and 0-16626, Exhibit 2.1.

3. Articles of Incorporation and Bylaws.

3 (1) Second Restated Articles of Incorporation of The Southland Corporation, as amended through March 5, 1991, incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1990, Exhibit 3 (1)

3 (2) Bylaws of The Southland Corporation, restated as amended through March 5, 1991, incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1990, Exhibit 3 (2)

4. Instruments defining the rights of security holders, including indentures (see Exhibits (3) (1) and (3) (2), above).

4 (i)(1) Specimen Certificate for Common Stock, \$.0001 par value, incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1990, Exhibit 4 (i)(2)

4 (i)(2) Form of Voting Agreement and Stock Transfer Restriction and Buy-Back Agreement relating to shares of common stock, \$.01 par value, issued pursuant to Grant Stock Plan, incorporated by reference to Registration Statement on Form S-8, Reg. No. 33-25327, Exhibits 4.5 and 4.4

4 (i)(3) Shareholders Agreement dated as of November 1, 1988, by and among The Southland Corporation, Thompson Brothers, L.P., Thompson Capital Partners, L.P., The Hayden Company, The Williamsburg Corporation, Four J Investment, L.P., each Limited Partner of Thompson Capital Partners, L.P. as of the date thereof, and The Philp Co., incorporated by reference to File No. 0-676, Annual Report on Form 10-K for year ended December 31, 1988, Exhibit 4(i)(7), Tab 2

4 (i)(4) Shareholders Agreement dated as of March 5, 1991, among The Southland Corporation, Ito-Yokado Co., Ltd., IYG Holding Company, Thompson Brothers, L.P., Thompson Capital Partners, L.P., The Hayden Company, The Williamsburg Corporation, Four J Investment, L.P., The Philp Co., participants in the Company's Grant Stock Plan who are signatories thereto and certain limited partners of Thompson Capital Partners, L.P. who are signatories thereto, incorporated by reference to Schedule 13D filed by Ito-Yokado Co., Ltd., Seven-Eleven Japan Co., Ltd. and IYG Holding Company, Exhibit A

4 (i)(5) First Amendment, dated December 30, 1992, to Shareholders Agreement, dated as of March 5, 1991, incorporated by reference to File Nos. 0-676 and 0-16626, Annual Report on Form 10-K for year ended December 31, 1992, Exhibit 4 (i)(5), Tab 1

4 (i)(6) Second Amendment, dated February 28, 1996, to Shareholders Agreement, dated as of March 5, 1991 *

4 (i)(7) Warrant Agreement dated as of March 5, 1991, among certain Holders of Common Shares of The Southland Corporation named therein, Wilmington Trust Company, as Warrant Agent, The Southland Corporation and Ito-Yokado Co., Ltd., incorporated by reference to Schedule 13D filed by Ito-Yokado Co., Ltd., Seven-Eleven Japan Co., Ltd. and IYG Holding Company, Exhibit B

4 (i)(8) Specimen Warrant Certificates to Purchase Common Shares of The Southland Corporation pursuant to Warrant Agreement dated as of March 5, 1991, with Wilmington Trust Company as Warrant Agent, incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1990, Exhibit 4 (i)(7)

- 4 (ii)(1) Indenture, including Debenture, with Ameritrust Company National Association, as trustee, providing for 5% First Priority Senior Subordinated Debentures due December 15, 2003, incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1990, Exhibit 4 (ii)(2).
- 4 (ii)(2) Indenture, including Debentures, with The Riggs National Bank of Washington, D.C. as trustee providing for 4 1/2% Second Priority Senior Subordinated Debentures (Series A) due June 15, 2004, 4% Second Priority Senior Subordinated Debentures (Series B) due June 15, 2004, and 12% Second Priority Senior Subordinated Debentures (Series C) due June 15, 2009, incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1990, Exhibit 4 (ii)(3).
- 4 (ii)(3) Indenture among Cityplace Center East Corporation, Security Pacific National Bank, as trustee, and The Sanwa Bank Limited, Dallas Agency, dated as of February 15, 1987, providing for 7 7/8% Notes due February 15, 1995, incorporated by reference to File No. 0-676, Annual Report on Form 10-K for the year ended December 31, 1986, Exhibit 4(ii)(8).
- 4 (ii)(4) Specimen 7 7/8% Note due February 15, 1995, issued by Cityplace Center East Corporation, incorporated by reference to File No. 0-676, Annual Report on Form 10-K for the year ended December 31, 1986, Exhibit 4(ii)(9).
- 4 (ii)(5) Form of 4% Convertible Quarterly Income Debt Securities due 2010, incorporated by reference to File Nos. 0-676 and 0-16626, Form 8-K, dated November 21, 1995, Exhibit 4(v)-1.
9. **Voting Trust Agreement. None.** (Except see Exhibits 4.(i)(2) and 4.(i)(4), above.)
10. **Material Contracts.**
- 10 (i)(1) Stock Purchase Agreement among The Southland Corporation, Ito-Yokado Co., Ltd. and Seven-Eleven Japan Co., Ltd., dated as of January 25, 1991. See Exhibit 2 (2), above.
- 10 (i)(2) Credit Agreement, dated as of July 31, 1987, amended and restated as of December 16, 1994, among The Southland Corporation, the financial institutions party thereto as Senior Lenders, the financial institutions party thereto as Issuing Banks, Citicorp North America, Inc., as Administrative Agent, and The Sakura Bank, Limited, New York Branch, as Co-Agent, incorporated by reference to File Nos. 0-676 and 0-16626, Annual Report on Form 10-K for the year ended December 31, 1994, Exhibit 10(i)(2).
- 10 (i)(3) Second Amendment, dated as of November 28, 1995, to Third Amended and Restated Credit Agreement, dated as of July 31, 1987, as subsequently amended and restated (See Exhibit 10(i)(2) above), incorporated by reference to File Nos. 0-676 and 0-16626, Form 8-K, dated November 21, 1995, Exhibit 10(i)-1.
- 10 (i)(4) Credit and Reimbursement Agreement by and between Cityplace Center East Corporation, an indirect wholly owned subsidiary of Southland, and The Sanwa Bank Limited, Dallas Agency, dated February 15, 1987, relating to \$290 million of 7 7/8% Notes due February 15, 1995, issued by Cityplace Center East Corporation (to which Southland is not a party and which is non-recourse to Southland), incorporated by reference to File No. 0-676, Annual Report on Form 10-K for the year ended December 31, 1986, Exhibit 10(i)(6).

10 (i)(5)	Third Amendment to Credit and Reimbursement Agreement, dated as of February 10, 1995, by and between The Sanwa Bank, Limited, Dallas Agency and Cityplace Center East Corporation, incorporated by reference to File Nos. 0-676 and 0-16626, Annual Report on Form 10-K for the year ended December 31, 1994. Exhibit 10(i)(4).	
10 (i)(6)	Amended and Restated Lease Agreement between Cityplace Center East Corporation and The Southland Corporation relating to The Southland Tower, Cityplace Center, Dallas, Texas, incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1990. Exhibit 10 (i)(7).	
10 (i)(7)	Limited Recourse Financing for The Southland Corporation relating to royalties from Seven-Eleven (Japan) Company, Ltd. in the amount of Japanese Yen 41,000,000,000, dated March 21, 1988, incorporated by reference to File No. 0-575, Annual Report on Form 10-K for year ended December 31, 1988. Exhibit 10 (i)(6).	
10 (i)(8)	Issuing and Paying Agency Agreement, dated as of August 17, 1992, relating to commercial paper facility, Form of Note, Indemnity and Reimbursement Agreement and amendment thereto and Guarantee *	Tab 2
10 (ii)(B)(1)	Standard Form of 7-Eleven Store Franchise Agreement *	Tab 3
10 (iii)(A)(1)	John P. Thompson Employment Agreement dated as of March 5, 1991, incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1990. Exhibit 10 (iii)(A)(1).	
10 (iii)(A)(2)	Jere W. Thompson Employment Agreement dated as of March 5, 1991, incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1990. Exhibit 10 (iii)(A)(2).	
10 (iii)(A)(3)	The Southland Corporation Executive Protection Plan Summary, incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1993. Exhibit 10 (iii)(A)(3).	
10 (iii)(A)(4)	The Southland Corporation Officers' Deferred Compensation Plan, sample agreement, incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1993. Exhibit 10 (iii)(A)(4).	
10 (iii)(A)(5)	Executive Interest Differential Reimbursement Program, incorporated by reference to File No. 0-676, Annual Report on Form 10-K for the year ended December 31, 1982. Exhibit 10(iii)(A)(9). Tab 4.	
10 (iii)(A)(6)	Bonus Deferral Agreement relating to deferral of Bonus Payment, incorporated by reference to File No. 0-676, Annual Report on Form 10-K for the year ended December 31, 1988. Exhibit 10(iii)(A)(9). Tab 7.	
10 (iii)(A)(7)	Form of documents relating to Collateral Assignment of Insurance Program, incorporated by reference to File Nos. 0-676 and 0-16626, Annual Report on Form 10-K for the year ended December 31, 1989. Exhibit 10 (iii)(A)(10). Tab 4.	
10 (iii)(A)(8)	1995 Performance Plan, as amended July 1995 *	Tab 4
10 (iii)(A)(9)	1995 Stock Incentive Plan, incorporated by reference to Registration No. 33-63617, Exhibit 4.10.	
10 (iii)(A)(10)	Form of Award Agreement granting options to purchase Common Stock, dated October 23, 1995, under the 1995 Stock Incentive Plan *	Tab 5

10 (iii)(A)(11)	Consultant's Agreement between The Southland Corporation and Timothy N. Ashida, incorporated by reference to File No. 0-676, Annual Report on Form 10-K for the year ended December 31, 1991, Exhibit 10(iii)(A)(10), Tab 4	
11.	Statement re computation of per-share earnings. Calculation of earnings per share.*	Tab 6
21.	Subsidiaries of the Registrant as of March 1996.*	Tab 7
23.	Consents of Experts and Counsel. Consent of Coopers & Lybrand L.L.P., Independent Auditors.*	Tab 8
27.	Financial Data Schedule. Filed electronically only, not attached to printed reports.	

*Filed or furnished herewith

(b) Reports on Form 8-K.

During the fourth quarter of 1995, the Company filed one report on Form 8-K reporting the issuance of \$300 million of 4½% Convertible Quarterly Income Debt Securities to Ito-Yokado Co., Ltd. (\$153 million) and Seven-Eleven Japan Co., Ltd. (\$147 million) and the successful completion of the Company's tender offer to purchase 40% of both its outstanding 5% First Priority Senior Subordinated Debentures due 2003 and its outstanding 4½% Second Priority Senior Subordinated Debentures (Series A) due 2004.

- (c) The exhibits required by Item 601 of Regulation S-K are attached hereto or incorporated by reference herein.
- (d)(3) The financial statement schedule for The Southland Corporation and Subsidiaries is included herein, as follows:

Schedule II - The Southland Corporation and Subsidiaries
Valuation and Qualifying Accounts
(for the Years Ended December 31, 1995; 1994 and 1993).

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
The Southland Corporation

Our report on the consolidated financial statements of The Southland Corporation and Subsidiaries, which includes an explanatory paragraph describing the changes in methods of accounting for postemployment benefits and income taxes in 1993, is included on page 69 of this Form 10-K. In connection with our audits of such financial statements, we have also audited the related financial statement schedule listed in the index on page 71 of this Form 10-K.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

COOPERS & LYBRAND L.L.P.

Dallas, Texas
February 14, 1996

SCHEDULE II

THE SOUTHLAND CORPORATION AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTSYears Ended December 31, 1995, 1994 and 1993
(Dollars in Thousands)

	Balance at beginning of period	Additions		Deductions	Balance at end of period
		Charged to costs and expenses	Charged to other accounts		
<i>Allowance for doubtful accounts</i>					
Year ended December 31, 1995	\$ 6,790	\$ 931	\$ -	\$ (2,863) (1)	\$ 4,858
Year ended December 31, 1994	7,822	307	153 (2)	(1,492) (1)	6,790
Year ended December 31, 1993	11,925	6,021	1,209 (2)	(11,333) (1)	7,822
<i>Allowance for environmental cost reimbursements</i>					
Year ended December 31, 1995	18,890	-	-	(5,185) (3)	13,705
Year ended December 31, 1994	12,529	6,361	-	-	18,890
Year ended December 31, 1993	-	-	12,529 (4)	-	12,529

(1) Uncollectible accounts written off, net of recoveries

(2) Represents amounts charged to the reserve for the sale and closing of the distribution and food centers

(3) Includes an adjustment due to the reassessment of the estimated reimbursement collectibility

(4) Prior to year ended December 31, 1993, the allowance and related receivables were netted with the environmental liability

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

THE SOUTHLAND CORPORATION (Registrant)

March 27, 1996

/s/ Clark J. Matthews, II
Clark J. Matthews, II
President and Chief Executive 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 dates indicated.

	Title	Date
<u>/s/ Masatoshi Ito</u> Masatoshi Ito	Chairman of the Board and Director	March 27, 1996
<u>/s/ Toshifumi Suzuki</u> Toshifumi Suzuki	Vice Chairman of the Board and Director	March 27, 1996
<u>/s/ Clark J. Matthews, II</u> Clark J. Matthews, II	President and Chief Executive Officer and Director (Principal Executive Officer)	March 27, 1996
<u>/s/ James W. Keyes</u> James W. Keyes	Senior Vice President, Finance (Principal Financial Officer)	March 27, 1996
<u>/s/ Donald E. Thomas</u> Donald E. Thomas	Controller (Principal Accounting Officer)	March 27, 1996
<u>/s/ Yoshitami Arai</u> Yoshitami Arai	Director	March 27, 1996
<u>/s/ Timothy N. Ashida</u> Timothy N. Ashida	Director	March 27, 1996
<u>/s/ Jay W. Chai</u> Jay W. Chai	Director	March 27, 1996
<u>/s/ Gary J. Fernandes</u> Gary J. Fernandes	Director	March 27, 1996
<u>/s/ Masaaki Kamata</u> Masaaki Kamata	Director	March 27, 1996
<u>/s/ Kazuo Otsuka</u> Kazuo Otsuka	Director	March 27, 1996
<u>/s/ Asher O. Pacholder</u> Asher O. Pacholder	Director	March 27, 1996
<u>/s/ Nobutake Sato</u> Nobutake Sato	Director	March 27, 1996
<u>/s/ Tatsuhiro Sekine</u> Tatsuhiro Sekine	Director	March 27, 1996
<u>/s/ John P. Thompson</u> John P. Thompson	Director	March 27, 1996
<u>/s/ Jere W. Thompson</u> Jere W. Thompson	Director	March 27, 1996

002422312242

EXHIBIT F

PROPOSED TARIFF

(Attached)

SOUTH DAKOTA TELECOMMUNICATIONS TARIFF

OF

The Southland Corporation

2711 North Haskell Avenue, Dallas, Texas 75204

RESALE INTEREXCHANGE TELECOMMUNICATIONS SERVICE

This tariff contains the descriptions, regulations, and rates applicable to the furnishing of telecommunications services provided by The Southland Corporation within the State of South Dakota. This tariff is on file with the South Dakota Public Utilities Commission ("Commission"). Copies may be inspected during normal business hours at the Company's principal place of business: 2711 North Haskell Avenue, Dallas, Texas 75204.

Issued: March 13, 1997
Issued By:

Thomas R. Hennen
The Southland Corporation
2711 North Haskell Avenue
Dallas, Texas 75204
214.828.7011

Effective Date:

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The Southland Corporation

South Dakota P.U.C. Tariff No. 1
Original Sheet No. 1

CHECK SHEET

The Title Sheet and Sheets 1 through 16 inclusive of this tariff are effective as of the date shown at the bottom of the respective sheet(s).

SHEET

Title

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Issued: March 13, 1997
Issued By:

Thomas R. Hennen
The Southland Corporation
2711 North Haskell Avenue
Dallas, Texas 75204
214.828.7011

Effective Date:

TABLE OF CONTENTS

	Title
Title Sheet	1
Check Sheet	2
Table of Contents	3
Explanation of Symbols	4
Tariff Format	5
Application of Tariff	6
Section 1 - Technical Terms and Abbreviations	7
Section 2 - Rules and Regulations	15
Section 3 - Description of Service	16
Section 4 - Rates	

Issued: March 13, 1997

Issued By:

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The Southland Corporation
2711 North Haskell Avenue
Dallas, Texas 75204
214 828 7011

Effective Date:

CONCURRING CARRIERS

None

CONNECTING CARRIERS

None

OTHER PARTICIPATING CARRIERS

None

EXPLANATION OF SYMBOLS

- (C) To signify **changed** condition or regulation
- (D) To signify **deleted or discontinued** rate, regulation or condition
- (I) To signify a change resulting in an **increase** to a Customer's bill
- (M) To signify that material has been **moved from** another tariff location
- (N) To signify a **new** rate, regulation condition or sheet
- (R) To signify a change resulting in a **reduction** to a Customer's bill
- (T) To signify a change in **text** but no change to rate or charge

Issued: March 13, 1997
Issued By:

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The Southland Corporation
2711 North Haskell Avenue
Dallas, Texas 75204
214.828.7011

Effective Date:

TARIFF FORMAT

- A. **Sheet Numbering** - Sheet numbers appear in the upper right corner of the sheet. Sheets are numbered sequentially. However, occasionally, 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. Because of various suspension periods, deferrals, etc. the Commission follows in their tariff approval process, the most current sheet number on file with the Commission is not always the sheet in effect. Consult the Check Sheet for the sheet currently in effect.
- C. **Paragraph Numbering Sequence** - There are nine levels of paragraph coding. Each level of code is subservient to its next higher level:
- 2.
 - 2.1
 - 2.1.1
 - 2.1.1.A.
 - 2.1.1.A.1.
 - 2.1.1.A.1.(a).
 - 2.1.1.A.1.(a).1.
 - 2.1.1.A.1.(a).1.(i).
 - 2.1.1.A.1.(a).1.(i).(1).
- 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. All revisions made in a given filing are designated by and asterisk (*). There will be no other symbols used on this sheet if these are the only changes made to it (i.e., the format, etc., remains the same, just revised revision levels on some sheets). The Tariff user should refer to the latest Check Sheet to find if a particular sheet is the most current on file with the Commission.

Issued: March 13, 1997
Issued By:

Thomas R. Hennen
The Southland Corporation
2711 North Haskell Avenue
Dallas, Texas 75204
214.828.7011

Effective Date:

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Original Sheet No. 5

APPLICATION OF TARIFF

This tariff contains the rates applicable to the provision of specialized intrastate resale common carrier telecommunications services by The Southland Corporation between various locations within the State of South Dakota.

All services are interstate offerings. Intrastate service is an add-on service available only if Customer subscribes to the Company's interstate offerings.

Issued By:

Effective Date

Thomas R. Hennen
The Southland Corporation
2711 North Haskell Avenue
Dallas, Texas 75204
214.828.7011

SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS

Called Station:

The terminating point of a call (i.e., the called number).

Commission:

South Dakota Public Service Commission

Company:

The Southland Corporation

Customer:

The person, firm, corporation or other entity which orders or uses service and is responsible for payment of charges and compliance with tariff regulation.

Disconnect or Disconnection:

The termination of a circuit connection between the originating station and the called station or the Company's operator.

Personal Identification Number ("PIN"):

A numerical code, which is available to Customers to enable identification of individual users and to allocate costs of service accordingly.

Prepaid Calling Card:

A card issued by Company containing a personal identification number assigned to the card which enables the charges for calls made to be properly billed on a pre-arranged basis.

Issued: March 13, 1997

Issued By:

Thomas R. Hennen
The Southland Corporation
2711 North Haskell Avenue
Dallas, Texas 75204
214.828.7011

Effective Date:

SECTION 2 - RULES AND REGULATIONS

2.1. UNDERTAKING OF THE COMPANY

- 2.1.1. Company's services are furnished for telecommunications originating and/or terminating in any area within the State of South Dakota.
- 2.1.2. Company is a non-facilities-based provider of interexchange telecommunications to Customers for their direct transmission and reception of voice, data and other types of communications.
- 2.1.3. Company resells access, switching, transport, and termination services provided by interexchange carriers.
- 2.1.4. Customer's monthly charges for Company's service are based on the total time Customer actually uses the service. For billing purposes, the duration of each call will be rounded up in one (1) minute increments unless otherwise specified.
- 2.1.5. Subject to availability, the Customer uses a personal identification number to identify the user on an account. The numerical composition of the codes shall be set by Company to assure compatibility with the Company's accounting systems and to avoid the duplication of codes.
- 2.1.6. The Company's services are available twenty-four (24) hours per day, seven (7) days per week.

2.2. LIMITATIONS

- 2.2.1. Service is offered subject to availability of the necessary facilities and/or equipment and subject to the provisions of this tariff.
- 2.2.2. Company reserves the right to immediately disconnect service without incurring liability when necessitated by conditions beyond the Company's control or when the Customer is using the service in violation of either the provisions of this tariff or the Commission rules.

Issued: March 13, 1997

Issued By:

Thomas R. Hennen
The Southland Corporation
2711 North Haskell Avenue
Dallas, Texas 75204
214.828.7011

Effective Date:

SECTION 2 - RULES AND REGULATIONS, Continued

2.2. LIMITATIONS, Continued

- 2.2.3. The Company does not undertake to transmit messages, but offers the use of its facilities when available.
- 2.2.4. Title to all facilities provided by Company under these regulations remains in Company's name.
- 2.2.5. All regulations and conditions contained in this tariff shall apply to all such permitted assignees or transferees, as well as all conditions of service.

2.3. USE

- 2.3.1. Service may be used for the transmission of communications by the Customer for any lawful purpose for which the service is technically suited.
- 2.3.2. Service may not be used for any unlawful purpose or for any purpose for which any payment or other compensation is received by the Customer, except when the Customer is a duly authorized and regulated common carrier. This provision does not prohibit an arrangement between the Customer, authorized user or joint user to share the cost of service.
- 2.3.3. The Company strictly prohibits use of the Company's services without payment or an avoidance of payment by the Customer by fraudulent means or devices, including providing falsified calling card numbers or invalid calling card numbers to the Company or in any way misrepresenting the identity of the Customer.

Issued: March 13, 1997
Issued By:

Thomas R. Hennen
The Southland Corporation
2711 North Haskell Avenue
Dallas, Texas 75204
214.828.7011

Effective Date:

2.4. LIABILITIES OF THE COMPANY

- Issued: March 13, 1997
Issued By:

Effective Date:

Thomas R. Hennen
The Southland Corporation
2711 North Haskell Avenue
Dallas, Texas 75204
214 828 701

SECTION 2 - RULES AND REGULATIONS, Continued

2.4. LIABILITIES OF THE COMPANY, Continued

- 2.4.5. Company shall not be liable for and the Customer indemnifies and holds harmless from any and all loss claims, including any claim based upon the advertising or marketing of the 7-Eleven® Phone Card by Company, demands, suits, or other action or liability whatsoever, whether suffered, made instituted or asserted by the Customer or by any other party or person, for any personal injury to, death of any person or persons, and for any loss, damage, defacement or destruction of the premises of the Customer or any other property, whether owned by the Customer or by others, caused or claimed to have been caused directly or indirectly by the operation, failure to operate, presence, condition, location or use of equipment provided by Company where such operation, failure to operate, condition, location or use is not the direct result of Company's negligence.
- 2.4.6. No agents or employees of connecting, concurring or other participating carriers or companies shall be deemed to be agents or employees of the Company without written authorization.
- 2.4.7. The Company is not liable for any failure of performance hereunder due to causes beyond its control, including, but not limited to, unavoidable interruption in the working of its circuits or those of another common carrier; acts of nature, storms, fire, floods, or other catastrophes; 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 or any one or more of such instrumentality or any one of more of such governmental entities, or of any civil or military authority; national emergencies, insurrections, riots, rebellions, wars, strikes, lockouts, work stoppages, or other labor difficulties; or notwithstanding anything in this tariff to the contrary, the unlawful acts of the Company's agents and employees, if committed beyond the scope of their employment.

Issued: March 13, 1997
Issued By:

Thomas R. Hennen
The Southland Corporation
2711 North Haskell Avenue
Dallas, Texas 75204
214 828 7011

Effective Date:

SECTION 2 - RULES AND REGULATIONS, Continued

2.4. LIABILITIES OF THE COMPANY, Continued

- 2.4.8 The Company shall not be liable for damages or adjustments, refunds, 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, after the invoice is rendered by the Company for the call giving rise to such dispute or claim, unless ordered by the Commission pursuant to South Dakota law. 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 demands.
- 2.4.9 The Company shall not be liable for any damages, including usage charges, that the Customer may incur as a result of the unauthorized use of its communications equipment. The unauthorized use of the Customer's communications equipment includes, but is not limited to, the placement of calls from the Customer's premises and the placement of calls through Customer-controlled or Customer-provisioned equipment that are transmitted or carried over the Company's network services without the authorization of the Customer. The Customer shall be fully liable for all such charges.

2.5. INTERRUPTION OF SERVICE

- 2.5.1 Credit allowance for interruptions of service which are not due to Company's testing or adjusting, to the negligence of the Customer, or to the failure of channels, equipment and/or communications equipment provided by the Customer, are subject to the general liability provisions set forth in Section 2.4, herein. It shall be the obligation of the Customer to notify Company of any interruptions of service. Before giving such notice, the Customer shall ascertain that the trouble is not being caused by any action or omission of the Customer, not within the Customer's control.
- 2.5.2 No credit shall be allowed for an interruption of a continuous duration of less than two hours.

Issued: March 13, 1997
Issued By:

Thomas R. Hennen
The Southland Corporation
2711 North Haskell Avenue
Dallas, Texas 75204
214.828.7011

Effective Date:

SECTION 2 - RULES AND REGULATIONS, Continued

2.6. RESTORATION OF SERVICE

The use and restoration of service in emergencies shall be in accordance with part 64, Subpart D of the Federal Communications Commission's Rules and Regulations which specifies the priority system for such activities.

2.7. CHARGES

2.7.1. Disputes related to charges should be addressed to the customer service organization via one of the toll-free numbers: 888.345.0997 (English) or 888.348.4513 (Spanish). Customer service representatives are available twenty-four (24) hours per day, seven (7) days per week.

2.7.2. In the case of a dispute between the Customer and the Company for service furnished to the Customer, which cannot be settled with mutual satisfaction, the Customer can take the following course of action:

- A. First, the Customer may request, and the Company will perform, an in-depth review of the disputed amount.
- B. Second, if there is still disagreement over the disputed amount after the investigation and review by a manager of the Company, the Customer may appeal to the South Dakota State Corporation Commission for its investigation and decision.

The address and telephone number of the Commission are:

South Dakota Public Utilities Commission
500 East Capitol Street
Pierre, South Dakota 57501-5070
(605) 773-3201

Issued: March 13, 1997

Issued By:

Thomas R. Hennen
The Southland Corporation
2711 North Haskell Avenue
Dallas, Texas 75204
214.828.7011

Effective Date:

SECTION 2 - RULES AND REGULATIONS, Continued

2.8. CANCELLATION BY COMPANY

- 2.8.1. Company reserves the right to immediately discontinue furnishing the service to Customers without incurring liability:
- 2.8.1.A. In the event of a condition determined to be hazardous to the Customer, to other customers of the utility, to the utility's equipment, the public or to employees of the utility; or
- 2.8.1.B. By reason of any order or decision of a court or any other governmental authority which prohibits the Company from furnishing such service; or
- 2.8.1.C. If the Company deems such refusal necessary to protect itself or third parties against fraud or to otherwise protect its personnel, agents, facilities or services without notice; or
- 2.8.1.D. For unlawful use of the service or use of the service for unlawful purposes; or
- 2.8.1.E. If the Customer provides false information to the Company regarding the Customer's identity, past, current or planned use of Company's services; or
- 2.8.1.F. Fifteen (15) months from the date the first call is made using a prepaid phone card.

2.9. INTERCONNECTION

- 2.9.1. Service furnished by Company may be interconnected with services or facilities of other authorized communications common carriers and with private systems, subject to the technical limitations established by Company. Any special interface of equipment or facilities necessary to achieve compatibility between the facilities of Company and other participating carriers shall be provided at the Customer's expense.

Issued: March 13, 1997
Issued By:

Thomas R. Hennen
The Southland Corporation
2711 North Haskell Avenue
Dallas, Texas 75204
214 828 7011

Effective Date:

SECTION 2 - RULES AND REGULATIONS, Continued

2.9. INTERCONNECTION, Continued

- 2.9.2. Interconnection between the facilities or services of other carriers shall be under the applicable terms and conditions of the other carriers' tariffs. The Customer is responsible for taking all necessary legal steps for interconnecting Customer-provided terminal equipment or communications equipment with Company's facilities. The Customer shall secure all licenses, permits, rights-of-way, and other such arrangements necessary for interconnection.

2.10. DEPOSITS

The Company does not require a deposit from the Customer.

2.11. TAXES

Federal and state excise taxes, state and local telecommunications taxes, gross receipts taxes and sales taxes and surcharges are included in the tariffed rates. Company's underlying network service provider, AT&T ("Connect n' Save"), will collect and remit the taxes and will debit the appropriate taxes from the value of the 7-Eleven® Phone Card and remit the taxes to the appropriate jurisdiction.

Issued: March 13, 1997

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214.828.7011

Effective Date:

SECTION 3 - DESCRIPTION OF SERVICE

3.1. TIMING OF CALLS

- 3.1.1. The Customer's long distance usage charge is based on the actual usage of Company's service. Usage begins when the receiver of the called number is answered. The moment of the called party's answer is determined by hardware supervision in which the local telephone company sends a signal to the underlying carrier's switch or the software utilizing audio tone detection. The timing of the call occurs when called party answers and terminated when either party hangs up.
- 3.1.2. The minimum call duration for billing purposes for all services is one (1) minute with one (1) minute billing increments thereafter.
- 3.1.3. Any portion of an applicable increment, after the appropriate minimum time for the call, will be rounded upward to the next increment. Calls less than the minimum length will be rounded to the minimum length.
- 3.1.4. There is no billing for incomplete calls.

3.2. THE SOUTHLAND CORPORATION TELECOMMUNICATIONS SERVICES

7-Eleven® Prepaid Phone Card Service is a discretionary, switched-access service available to Customers via a toll-free number from any dual-tone, multi-frequency telephone in the United States. Customers purchase the Company's 7-Eleven™ Prepaid Phone Cards which immediately enables the user to place calls from any dual-tone, multi-frequency telephone, at the Company's tariffed rates. The user's account is credited for the amount of calling purchased and is debited as the Customer places calls pursuant to the Company's tariffed rates, until the account balance is depleted. Customers are informed of the amount of calling time remaining on the card at the time they access the Company's equipment and enter a personal identification number. The Customer is also notified by voice prompt when there is one minute remaining on the card.

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SECTION 4 - RATES**4.1. SERVICE CHARGES**

Service charges per account are based on the following schedule:

4.1.1. 7-Eleven® Prepaid Calling Card Service

Denomination of Prepaid Calling Card	Initial One Minute	Additional One Minute
15 Minutes	\$ 3999	\$ 3999
30 Minutes	\$ 3663	\$ 3663
60 Minutes	\$ 3331	\$ 3331
90 Minutes	\$ 3110	\$ 3110
180 Minutes	\$ 2777	\$ 2777

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The Southland Corporation
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Dallas, Texas 75204
214.828.7011

EXHIBIT G

MARKETING BROCHURE
(Attached)

NEXT

DOCUMENT (S)

DISREGARD

BACKGROUND

**SAVE
UP TO 75% ON
LONG DISTANCE
WITH THE
PREPAID 7-ELEVEN
PHONE CARD.**



- Budget Your Long Distance Expenses
No Monthly Bills
- Long Distance From Any Touch Tone Phone
- Same Low Domestic Rate - 24 Hours A Day

8142 · 31 · 153

\$5⁹⁹

408 a minute

\$ 10⁹⁹

578 *Journal of Interpersonal Violence*

\$ 19⁹⁹

\$27⁹⁹

TLC 4 minute

\$49⁹⁹

NEW!

***Look At The Savings For A 3 Minute Phone Call**

7-Eleven Phone Card	84¢	% Savings
Collect Call	\$3.38	75%
Pay Phone	\$2.96	72%
Telephone Credit Card	\$1.93	56%

8
7
4
2
3
1
0
4

HARBOR CONSULTING GROUP INC.
P O BOX 2481
GIG HARBOR, WA 98335

0707

19-28-1250

PAY TO THE
ORDER OF

13 March 1997
South Dakota Public Utilities Commission \$ 250.00

Two Hundred Fifty Dollars

DOLLARS



First Interstate Bank
of Washington, N.A.
Headquarters Center Branch 108
1601 4th Avenue
Seattle, WA 98101

South Dakota Commission

1250002861 309 043448 0707

South Dakota
Public Utilities Commission
State Capitol 500 E. Capitol
Pierre, SD 57501-5070
Phone: (800) 332-1782
Fax: (605) 773-3809

TELECOMMUNICATIONS SERVICE FILINGS

These are the telecommunications service filings that the Commission has received for the period of:

03/14/97 through 03/20/97

If you need a complete copy of a filing faxed, overnight expressed, or mailed to you, please contact Delaine Kolbo within five days of this filing.

DOCKET NUMBER	TITLE/STAFF/SYNOPSIS	DATE FILED	INTERVENTION DEADLINE
REQUEST FOR CERTIFICATION OF AUTHORITY			
TC97-027	Application by The Southland Corporation for a Certificate of Authority to operate as a telecommunications company within the state of South Dakota. (Staff: TS/KC) Applicant is seeking authority "to offer discretionary, switched access prepaid calling card services. Applicant does not propose to offer alternative operator services to the transient public."	03/19/97	04/04/97
FULLY COMPETITIVE TELECOMMUNICATIONS FILINGS			
NA	Minnesota Independent Interexchange Company filed to revise its tariff in its entirety. The revision is effective March 11, 1997.	03/13/97	NA
NA	AT&T filed to increase the Non-Subscriber Service Charge from \$.80 to \$1.30 in its Message Telecommunications Service tariff. The revision is effective March 17, 1997.	03/14/97	NA
NA	TCIC Communications, Inc. filed to introduce "Right Choice" Plans and associated rates. The revision is effective March 17, 1997.	03/17/97	NA
NA	Long Distance Wholesale Club filed to introduce new products and to revise rates for a number of current offerings. The revisions are effective March 18, 1997.	03/17/97	NA
NA	WorldCom Network Services, Inc. d/b/a WiTel Network Services filed to increase the surcharge for LEC Billed Measured Service and to increase the Directory Assistance rate. The revisions are effective March 24, 1997.	03/20/97	NA
NA	WorldCom, Inc. filed to increase the surcharge for LEC Billed Measured Service, OnLine Card Service, EasyAnswer Service, Other Service Arrangements, and Directory Assistance and to adjust the Peak and Off-peak periods for selected service offerings. The revisions are effective March 24, 1997.	03/20/97	NA

Important Notice: The Commission is compiling a list of internet addresses. If you have an internet address please notify the Commission by E-mailing it to Terry Norum at: terryn@pub.state.sd.us. Faxing the address to the Commission at: 605-773-3809.

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION OF)	ORDER GRANTING
THE SOUTHLAND CORPORATION FOR A)	CERTIFICATE OF
CERTIFICATE OF AUTHORITY TO PROVIDE)	AUTHORITY
TELECOMMUNICATIONS SERVICES IN)	
SOUTH DAKOTA)	TC97-027

On March 19, 1997, the Public Utilities Commission (Commission), in accordance with SDCL 49-31-3 and ARSD 20 10 24 02, received an application for a certificate of authority from The Southland Corporation (Southland).

Southland proposes to offer discretionary, switched access prepaid calling card services. Southland does not propose to offer alternative operator services to the transient public. A proposed tariff was filed by Southland. The Commission has classified long distance service as fully competitive.

On March 20, 1997, the Commission electronically transmitted notice of the filing and the intervention deadline of April 4, 1997, to interested individuals and entities. No petitions to intervene or comments were filed and at its regularly scheduled May 13, 1997, meeting, the Commission considered Southland's request for a certificate of authority. Commission Staff recommended granting a certificate of authority.

The Commission finds that it has jurisdiction over this matter pursuant to Chapter 49-31, specifically 49-31-3 and ARSD 20 10 24 02 and 20 10 24 03. The Commission finds that Southland has met the legal requirements established for the granting of a certificate of authority. Southland has, in accordance with SDCL 49-31-3, demonstrated sufficient technical, financial and managerial capabilities to offer telecommunications services in South Dakota. The Commission approves Southland's application for a certificate of authority. As the Commission's final decision in this matter, it is therefore

ORDERED, that Southland's application for a certificate of authority is hereby granted. It is

FURTHER ORDERED, that Southland shall file informational copies of tariff changes with the Commission as the changes occur.

Dated at Pierre, South Dakota, this 31st day of May, 1997.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by first class mail in properly addressed envelopes, with charges prepaid thereon.

By

Date

(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION:

James A. Burg
JAMES A. BURG, Chairman

Pam Nelson
PAM NELSON, Commissioner

014223157

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

CERTIFICATE OF AUTHORITY

To Conduct Business As A Telecommunications Company
Within The State Of South Dakota

Authority was Granted May 13, 1997
Docket No. TC97-027

This is to certify that

THE SOUTHLAND CORPORATION

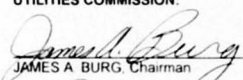
is authorized to provide telecommunications services in South Dakota.

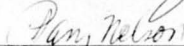
This certificate is issued in accordance with SDCL 49-31-3 and ARSD 20 10 24 02, and is subject to all of the conditions and limitations contained in the rules and statutes governing its conduct of offering telecommunications services

Dated at Pierre, South Dakota, this 21st day of May, 1997

**SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION:**




JAMES A. BURG, Chairman


PAM NELSON, Commissioner