

1.4.3

DOCKET NO.

In the Matter of _____ IN THE MATTER OF THE

APPLICATION OF SOUTHWESTERN

BELL COMMUNICATIONS SERVICES,

INC. D/B/A SOUTHWESTERN BELL

LONG DISTANCE FOR A CERTIFICATE

OF AUTHORITY TO PROVIDE

TELECOMMUNICATIONS SERVICES IN

SOUTH DAKOTA

Public Utilities Commission of the State of South Dakota

DATE	MEMORANDA
7/1/97	Filed and Rejected;
7/17 97	TC Fax Filing;
8/6 97	Memorandum to Applications;
8/27 97	Order Granting COA;
8/27 97	Rebit Clarik.



Southwestern Bell
Communications Services, Inc.

July 11, 1997

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

TC97-132

RECEIVED

JUL 14 1997

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

Re: Application Of Southwestern Bell Communications Services, Inc. d/b/a
Southwestern For A Certificate of Authority To Provide Telecommunications
Services in South Dakota.

Dear Mr. Bulard:

The above referenced Applicant hereby submits the enclosed Application for a Certificate of Authority to provide telecommunications services in South Dakota. An original and ten (10) copies are included for filing. So that our records will be complete, please date stamp the extra copy of this transmittal letter and return in the envelope provided. Also enclosed is a check for \$250 to cover the filing fee.

Please direct any questions regarding this Application to Barbara Lowe, President, Visiology, Inc., 16061 Carmel Bay Drive, Northport, Alabama 35475 who may be reached via telephone at (205) 330-1702. Your assistance in this matter is greatly appreciated.

Sincerely,

Karol Sweitzer
Vice President - Regulatory and
Vice President - Business Planning and Chief Financial Officer

Enclosures

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

TC97-132

RECEIVED

JUL 14 1997

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF
SOUTHWESTERN BELL COMMUNICATIONS
SERVICES, INC. d/b/a SOUTHWESTERN BELL LONG
DISTANCE FOR A CERTIFICATE OF AUTHORITY TO
PROVIDE TELECOMMUNICATIONS SERVICES IN
THE STATE OF SOUTH DAKOTA PURSUANT TO
COMMISSION RULE 20:10:24:02.

Docket No. _____

APPLICATION

COMES NOW Southwestern Bell Communications Services, Inc. (hereinafter "Applicant" or "SBCS Inc.") and submits its Application seeking a certificate of authority to provide telecommunications services in the State of South Dakota. Applicant seeks statewide authority to offer a full line of inbound, outbound, conference, directory assistance, calling card, prepaid calling card, and private line services to business customers and residential customers in the State of South Dakota. Initially, the Applicant will not offer alternative operator services. The Applicant plans to resell the operator services of its underlying carrier. All operator services will only be available to customers that affirmatively select the Applicant as their long distance service provider. There are currently no plans to serve the transient market. Prior to operating as an Alternative Operator Service provider, the Applicant will apply for a certificate of authority pursuant to SDCL 49-31-3 and §20:10:24:02.

In furtherance thereof, Applicant respectfully submits the following as required by Telecommunications Services Rules 20:10:24:02.

(1) The Applicant's name and address are Southwestern Bell Communications Services, Inc., 5850 W. Las Positas Blvd., Pleasanton, California 94588. The Applicant's telephone number is (510) 468-5130.

(2) Applicant will provide service in South Dakota under the d/b/a name, Southwestern Bell Long Distance.

(3) (a) SBCS Inc. was incorporated in the State of Delaware and a Virginia on SBCS was incorporated in Delaware on May 31, 1995 and in Virginia on June 13, 1995. A copy of the Applicant's certificate of authority is attached at Exhibit A.

(b) SBCS Inc. does not maintain an office in South Dakota. The Applicant's registered agent in south Dakota is C T Corporation System, 319 South Coteau Street, Pierre, South Dakota 57501.

(c) The Applicant is a wholly-owned subsidiary of SBC Communications Inc. ("SBC"), 175 E. Houston, San Antonio, Texas 78205.

(d) The Applicant does not own or control subsidiaries.

(4) N/A Applicant is a corporation.

(5) The Applicant plans to offer a full range of long distance outbound and inbound telecommunications services, directory assistance service, calling card service, prepaid calling card services, conference services, private line services, and operator toll assistance services. However, the Applicant plans to initially offer calling card services and the operator toll assistance services and directory assistance services available via the calling card platform of its underlying carrier. A detailed service description is provided in the proposed tariff attached at Exhibit B.

(6) Initially, SBCS Inc. plans to operate as a non-facilities-based reseller of telecommunication services provided by Sprint. The type and quantity of equipment to be used in the operation, the capacity, and the expected use of the equipment is that of the underlying carrier. If at some point in the future it makes economical business sense to do so, the Applicant may choose to install a switch for use by customers for placing calls via the calling card platform. The Applicant may also own, operate, control, or manage transmission facilities.

(7) Service will be offered throughout the State of South Dakota. See Exhibit C for a map describing the service area.

(8) The Applicant's most recent annual report is attached at Exhibit D, SEC FORM 10-K at Exhibit E, and SEC FORM 10-Q at Exhibit F. The Applicant's proposed tariff is attached at Exhibit B.

(9) Any questions regarding the ongoing operations of the Applicant should be directed to Thomas A. Weckel, Senior Manager - Regulatory, c/o Southwestern Bell Mobile Systems, Inc.,

17330 Preston Road, Suite 100A, Dallas, Texas 75252 who may be reached via telephone at (972) 733-5544. Any questions regarding this Application or proposed tariff should be directed to Barbara Lowe, Vice President, Visiology, Inc. 16061 Carmel Bay Drive, Northport, Alabama 35475 who may be reached via telephone at (205) 330-1702.

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

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

(10) The Applicant is registered or certified to do business in the state of Delaware, Idaho, Illinois, Indiana, Kansas, Maryland, Massachusetts, Montana, New Hampshire, New York, North Carolina, Ohio, Oklahoma, Rhode Island, Washington, West Virginia, Wisconsin, and Wyoming. The Applicant has not been denied registration or certification in any state.

(11) At the current time, there are no plans to market the Applicant's services in South Dakota. However, customers from other states where the Applicant will market its calling card service may travel to South Dakota and place intrastate calls. Since the Applicant does not currently

plan to market services in South Dakota, the Applicant has not developed a company brochures to assist in the sale of service in South Dakota.

(12) Initially, the Applicant plans to offer long distance calling card services and the operator services and directory assistance services available via the calling card platform of the underlying carrier. Since all long distance services have been classified as fully competitive services, no cost support is required.

Applicant furnishes the following additional information in support of this Application.

(13) The Applicant possesses the necessary managerial capability to provide the proposed service. The Applicant's officers and directors are listed at Exhibit G. A brief description of the telecommunications background of the key members of the management team is attached at Exhibit H. The Applicant has the requisite managerial capability to provide the services for which it seeks a certificate of authority. The Applicant is staffed with highly qualified management personnel with extensive experience in managing other SBC telecommunications subsidiaries. The management and operations expertise of the Applicant's management team will enable the Applicant to begin offering competitive high-quality service immediately upon the grant of the authority requested herein. Thus, Commission grant of this Petition will significantly serve the public interest through enhanced competition in the market for telecommunications services through the addition of a well managed new entrant into the market.

(14) The Applicant possesses the necessary technical capability to provide the proposed service. Initially, the Applicant will operate as a switchless reseller and utilize the facilities of the

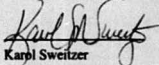
underlying carrier, Sprint. Therefore, the technical ability of Sprint to provide service is more germane than the technical ability of the Applicant. That ability has already been demonstrated by Sprint's prior operations in the State of South Dakota. If at some point in the future it makes economical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

(15) That the public interest will be served by the granting of this Application. An increase in the traffic generated through provision of Applicant's proposed intrastate services over existing major carriers' communications facilities will improve the efficiency and reduce major carriers' costs in provision of these services. The public will benefit from greater consumer choice created through the broadening of innovative telecommunications service alternatives and ongoing affordable rates maintained by the additional competitive pressure placed on other competitors. Local exchange carriers will realize greater access charge revenues through the increase in traffic. As shown in Exhibit H, the key members of Applicant's management team have substantial experience and expertise in the telecommunications market which will enable Applicant to offer competitive high quality service upon approval of this Application.

WHEREFORE, Applicant prays that the Commission issue to Southwestern Bell Communications Services, Inc. d/b/a Southwestern Bell Long Distance a certificate of authority to provide telecommunications services in the state of South Dakota.

Dated at Dallas, Texas this 11th day of July, 1997.

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

A handwritten signature in dark ink, appearing to read 'Karl Sweitzer', is written over the printed name.

Karl Sweitzer

Vice President - Regulatory and

Vice President - Business Planning and Chief Financial Officer

EXHIBITS**Exhibit**

South Dakota Certificate of Authority	A
Proposed Tariff	B
Service Area	C
SBC Annual Report	D
SBC SEC FORM 10-K	E
SBC SEC FORM 10-Q	F
Officers and Directors	G
Management Expertise	H

EXHIBIT A

SOUTH DAKOTA CERTIFICATE OF AUTHORITY

PREPARED FOR

SOUTH DAKOTA

PUBLIC UTILITIES COMMISSION

SOUTH DAKOTA CERTIFICATE OF AUTHORITY

PREPARED FOR

SOUTH DAKOTA

PUBLIC UTILITIES COMMISSION



State of South Dakota

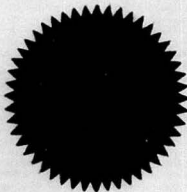


OFFICE OF THE SECRETARY OF STATE

CERTIFICATE OF AUTHORITY

I, JOYCE HAZELTINE, Secretary of State of the State of South Dakota, hereby certify that the Application for a Certificate of Authority of SOUTHWESTERN BELL COMMUNICATIONS SERVICES, INC. (DE) to transact business in this state duly signed and verified pursuant to the provisions of the South Dakota Corporation Acts, 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 and attach hereto a duplicate of the application to transact business in this state under the name of SOUTHWESTERN BELL COMMUNICATIONS SERVICES, INC.



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 October 9, 1996.

Joyce Hazeltine
JOYCE HAZELTINE
Secretary of State

EXHIBIT B

PROPOSED TARIFF

PREPARED FOR

SOUTH DAKOTA

PUBLIC UTILITIES COMMISSION

Southwestern Bell Communications Services, Inc.
d/b/a Southwestern Bell Long Distance
Karol Sweitzer, Vice President - Regulatory
5850 W. Las Positas Blvd.
Pleasanton, California 94588

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

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Effective:

SOUTHWESTERN BELL COMMUNICATIONS SERVICES, INC.

REGULATIONS AND SCHEDULE OF CHARGES FOR

RESALE OF COMPETITIVE INTEREXCHANGE

TELECOMMUNICATIONS SERVICES

WITHIN THE STATE OF SOUTH DAKOTA

Southwestern Bell Communications Services, Inc.
d/b/a Southwestern Bell Long Distance
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Pleasanton, California 94588

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All of the pages of this Tariff are effective as of the date shown at the top of the page. Original and revised pages as named below comprise all changes from the original Tariff.

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CONCURRING, CONNECTING OR
OTHER PARTICIPATING CARRIERS

None

SYMBOLS

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

- C - Changed regulation
- D - Discontinued rate or regulation
- I - Increase
- M - Matter relocated without change
- N - New rate or regulation
- R - Reduction
- S - Reissued matter
- T - Change in text, but no change in rate or regulation

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Service Marks

CELLULARONE® is a registered mark of Cellular One Group.

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

- A. Page Numbering - Page numbers appear in the upper right corner of the page. Pages are numbered sequentially. However, new pages are added to the Tariff from time to time. When a new page is added between pages already in effect, a decimal is added. For example, a new page added between pages 14 and 15 would be 14.1.
- B. Page Revision Numbers - Revision numbers also appear in the upper right corner of each page. These numbers are used to determine the most current page version on file with the Commission. For example, the 4th revised page 14 cancels the 3rd revised page 14.
- C. Paragraph Numbering Sequence - There are six levels of paragraph coding. Each level of coding is subservient to its next higher level:
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- D. Check Pages - When a Tariff filing is made with the Commission, an updated check page accompanies the Tariff filing. The check page lists the pages contained in the Tariff with a cross-reference to the current revision number. When new pages are added, the check page is changed to reflect the revision.

Southwestern Bell Communications Services, Inc.
d/b/a Southwestern Bell Long Distance
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SECTION 1 - DEFINITIONS AND ABBREVIATIONS

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

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

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

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

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

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

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

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

Commission: Commission refers to the South Dakota Public Utilities Commission or any succeeding agency.

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

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SECTION 1 - DEFINITIONS AND ABBREVIATIONS

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

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

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

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

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

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

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

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

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

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SECTION 1 - DEFINITIONS AND ABBREVIATIONS

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

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

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

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

LATA: LATA stands for Local Access Transport Area which is a geographic boundary established by the Modification of Final Judgement.

LEC: LEC stands for Local Exchange Carrier.

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

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

MTS: MTS stands for Message Telecommunications Service.

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SECTION 1 - DEFINITIONS AND ABBREVIATIONS

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

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

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

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

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

P.U.C.: P.U.C. stands for Public Utilities Commission.

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

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

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SECTION 1 - DEFINITIONS AND ABBREVIATIONS

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

State: State refers to the State of South Dakota.

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

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

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

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

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

Southwestern Bell Communications Services, Inc.
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SECTION 2 - RULES AND REGULATIONS

2.1 Application of the Tariff

2.1.1 This Tariff contains the description, regulations, and rates applicable to intrastate InterLATA and intrastate IntraLATA telecommunications Service offered by SBCS with principal offices located at 5850 W. Las Positas Blvd., Pleasanton, California 94588. Service is furnished for communications originating and terminating at points within the State under terms of this Tariff. The Company operates as a reseller and resells the services of the DUC.

2.1.2 The Company shall not be deemed to have waived or impaired any right, power, requirement or option reserved by this Tariff (including, without limitation, the right to demand exact compliance with every term and condition herein), by virtue of any custom or practice of the Company at variance with the terms hereof, or any failure, refusal or neglect of Company to exercise any right under this Tariff or to insist upon exact compliance with its terms, or any waiver, forbearance, delay, failure or omission by Company to exercise any right, power or option hereunder.

2.2 Limitations On Service

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

Southwestern Bell Communications Services, Inc.
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SECTION 2 - RULES AND REGULATIONS

2.2 Limitations On Service (continued)

- 2.2.2 All Services provided according to this Tariff are intrastate add-on Services available from the Company only if the Customer subscribes to the Company's comparable interstate Service offering or interstate promotional offering. Intrastate Service is not sold on a stand-alone basis.
- 2.2.3 A third party call is any call charged to a number other than that of the called or calling party. The Company reserves the right to refuse to process a third party call when the Company or the DUC cannot confirm acceptance of charges at the third number.
- 2.2.4 Without incurring liability, the Company reserves the right to discontinue Service or to limit the use of Service, when necessitated by conditions beyond the Company's control, or when the Customer or End User is using Service in violation of the law or in violation of the provisions of this Tariff.
- 2.2.5 Conditions under which the Company may refuse Service without liability include, but are not limited to:
- (A) An Applicant is indebted to the Company for past bills incurred and refuses to liquidate the debt; or
 - (B) An Applicant refuses to pay a reasonable deposit, advance payment, or installation charge; or
 - (C) An Applicant, although not personally liable to the Company, is attempting to return Service to an indebted household and no attempts are forthcoming to liquidate the debt of that household; or

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2.2 Limitations On Service (continued)

2.2.5 (continued)

- (D) An applicant is unwilling to provide correct information about any of the following:
 - .1 Past telecommunications service;
 - .2 Previous employment; or
 - .3 Previous address
- (E) An Applicant is in violation of governmental or Company rules concerning evasion of payment, use of Service for unlawful purposes, annoyance of other patrons, or interference with or destruction of facilities.
- (F) An Applicant refuses to pay undisputed telecommunication charges owed to the Company for interstate services.
- (G) An Application fails to provide reasonable and legal means of identification.

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2.2 Limitations On Service (continued)

- 2.2.6 Without incurring liability, the Company may disconnect Service pursuant to §20:10:10:03 and §20:10:10:04 of the Administrative Rules of South Dakota.
- 2.2.7 Initial and continuing Service is offered subject to the availability of necessary facilities and/or equipment, including those to be provided by the DUC(s), the Company, CLECs, or the LEC.

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2.2 Limitations On Service (continued)

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

- (A) Service that is used by the Customer or End User to frighten, abuse, torment, or harass another; or
- (B) Service that is used by the Customer or End User in a manner which interferes with the use of Service by one or more other Customers; or
- (C) Service that is used by the Customer or End User to place calls by means of illegal equipment, service, or device; or
- (D) Service that is used by the Customer or End User to transmit a message or to locate a person or otherwise to give or obtain information, without payment of the applicable charge.

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

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2.2 Limitations On Service (continued)

- 2.2.10 The Company reserves the right to change DUCs at any time.
- 2.2.11 The Company reserves the right, without incurring liability, to refuse to provide Service to or from any location where the necessary facilities and/or equipment are not available.
- 2.2.12 Recording of telephone conversations provided pursuant to the Company's Service under this Tariff is prohibited except as authorized by applicable federal, state, and local laws.
- 2.2.13 All outbound Services requiring Switched Access to reach the long distance network are only available to Customers located in those exchanges which have been converted to equal access. All Services that required Dedicated Access to reach the long distance network are available from any point in the State.
- 2.2.14 The Company, when acting at the Customer's request and as its authorized agent, will make reasonable efforts to arrange for service requirements such as special routing, route diversity, alternate access, or circuit conditioning.

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2.3 Limitation of Liability

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

2.3.1 The Company will not be liable for:

- (A) Any act or omission of any other company or companies furnishing a portion of the Service or furnishing facilities or equipment associated with such Service.
- (B) Damages caused by the fault or negligence or willful misconduct of the Customer or End User.
- (C) Any failure to provide or maintain Service under this Tariff due to circumstances beyond the Company's reasonable control.
- (D) Any direct, indirect, consequential, special, actual, or punitive damages, or for any lost revenues or profits of any kind or nature whatsoever arising out of any furnishing of, or interruption in, Service provided hereunder. Under no circumstances whatsoever will the Company's officers, agents, or employees be liable for such damages or lost revenue or lost profits.
- (E) Any indirect, incidental, special or consequential damages, lost revenue or lost profits of any kind, even if Company is advised of the possibility of the same.

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2.3 Limitation of Liability (continued)

2.3.1 (continued)

- (F) The use or abuse of any Service described herein by any party including, but not limited to, the Customer or End User. Use or abuse includes, but is not limited to, any calls placed by means of PBX-reorigination or any other legal or illegal equipment, service, or device.
- (G) Any action, such as Blocking or refusal to accept certain calls, that Company deems necessary in order to prevent unauthorized, fraudulent, or unlawful use of its Service. Compensation for any injury the Customer may suffer due to the fault of parties other than the Company must be sought from such other parties.
- (H) The Company will not be liable for any claim where the Customer indemnifies the Company pursuant to Section 2.5 of this Tariff.
- (I) Customers who subscribe to Private Line Service or to Service that requires the Customer to utilize Dedicated Access to reach the long distance network are liable for any charges, expenses, fees, or penalties incurred by the Company on behalf of the Customer due to cancellation Service as well as any charges, expenses, fees or penalties imposed by the DUC, CLEC, LEC, CAP or other third party providers incurred by the Company on behalf of Customer when the Company acts as the Customer's agent.

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2.3 Limitation of Liability (continued)

- 2.3.2 Interruptions, delays, errors, or defects caused by or contributed to, directly or indirectly, by act or omission of Customer or its customers, affiliates, agents, contractors, representatives, invitees, licensees, successors, or assignees or which arise from, or are caused by, the use of facilities or equipment of Customer or related parties, will not result in the imposition of any liability whatsoever upon the Company. Customer will pay to the Company any reasonable costs, expenses, damages, fees or penalties incurred by the Company as a result thereof. In addition, a portion or all of the Service may be provided over facilities of third parties. The Company will not be liable to Customer or any other person, firm, or entity in any respect whatsoever arising out of defects caused by such third parties. The Company's liability, if any, with regard to the delayed installation of facilities or commencement of Service will not exceed \$1,000.
- 2.3.3 With respect to Service provided hereunder, the Company hereby expressly disclaims, without limitation, all warranties not stated in this Tariff, whether express, implied or statutory, and in particular disclaims all implied warranties of merchantability and of fitness for a particular purpose.
- 2.3.4 The Company may rely on CLECs, LECs, DUCs, or other third parties to provide a portion of the Company's Service.
- 2.3.5 No contractors, agents or employees of connecting, concurring or other participating carriers or companies will be deemed to be contractors, agents or employees of the Company without the Company's written authorization.

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2.3 Limitation of Liability (continued)

- 2.3.6 Under no circumstances whatsoever will the Company's officers, agents, or employees be liable for any damages, including but not limited to direct, indirect, actual, consequential, special, or punitive damages, or lost profits.
- 2.3.7 The Company will not be liable for any failure of performance hereunder due to causes beyond its control including, but not limited to:
- (A) Unavoidable interruption in the working of transmission facilities; or
 - (B) Natural disasters such as storms, fire, flood, or other catastrophes; or
 - (C) Any law, order, regulation, direction, action or request of the United States Government, or any other governmental entity having jurisdiction over the Company or of any department, agency, commission, bureau, corporation or other instrumentality of any one or more of such governmental entity, or of any civil or military authority; or
 - (D) National emergencies, insurrections, riots, rebellions, wars, strikes, lockouts, work stoppages, or other labor difficulties; or
 - (E) Notwithstanding anything in this Tariff to the contrary, the unlawful acts of individuals, including acts of the Company's agents and employees if committed beyond the scope of their employment; or
 - (F) Any failure to provide or maintain Service under this Tariff due to circumstances beyond the Company's control.

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2.3 Limitation of Liability (continued)

- 2.3.8 The Company will use its best efforts to provide Services consistent with industry standards. The Company will have no liability to the Customer for any loss of revenue or any other direct, special, incidental, consequential, or other damages the Customer may sustain resulting from the failure or inability of the Company to provide Service to its Customers; negligent or defective Services to Customers; equipment, computer, network, or electrical malfunctions or any kind, breakdowns, or outages; or any other cause, whether or not within the control of the Company.
- 2.3.9 In the event the Company or the DUC learn of actual or possible unauthorized, fraudulent, or unlawful use of any Company Services, the Company will make an effort to contact the Customer, but Service may be blocked without notice and without liability to the Company. Service may be suspended by the Company without incurring liability by Blocking all calls or by Blocking calls to or from certain NPA-NXXs, certain countries, cities, or individual telephone stations for any Service offered under this Tariff. Service will be restored as soon as it can be provided without undue risk and only after accounts have been brought current.
- 2.3.10 The liability of the Company for damages arising out of mistakes, omissions, interruptions, delays, errors or defects occurring in the course of providing Switched Service hereunder, where such damages were not caused by the Company's willful misconduct, will in no event exceed an amount equivalent to the initial period charge to the Customer as described in Section 4 of this Tariff for the call during which such mistake, omission, interruption, delay, error or defect occurred. The Company shall not be liable for damages caused by the negligence or willful misconduct of the Customer.

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2.3 Limitation of Liability (continued)

- 2.3.11 The Company will not be liable to the Customer for damages or statutory penalties or be obligated to make any adjustment, refund or cancellation of charges unless the Customer has notified the Company in writing of any dispute concerning charges, or the basis of any claim for damages, within sixty (60) calendar days after an invoice is rendered by the Company for the call giving rise to such dispute or claim. Any such notice must set forth sufficient facts to provide the Company with a reasonable basis upon which to evaluate the Customer's claim or demand. If the Customer is not satisfied with the Company's resolution of any dispute, the Customer may make application to the Commission for review and disposition of the matter. The Commission's address and telephone number are South Dakota Public Utilities Commission, 500 East Capitol Avenue, Pierre, South Dakota 57501-5070, 605-773-3201 or 1-800-332-1782.
- 2.3.12 The Company does not undertake to transmit messages but furnishes the use of its Services to its Customers for telecommunications. The Company is not liable for the content of the Customer's messages.
- 2.3.13 The Company may rely on LECs, CLECs, DUCs, CAPs or other third parties for the performance of certain services such as Dedicated Access. Upon Customer request and execution and delivery of appropriate authorizing documents, the Company may act as agent for the Customer in obtaining such other services. Customer's liability for charges hereunder will not be reduced by untimely installation or non-operation of Customer-provided facilities and equipment.

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2.3 Limitation of Liability (continued)

- 2.3.14 In the event parties other than the Customer (e.g., authorized or unauthorized End Users) has use of the Service directly or indirectly through the Customer, then Customer agrees to forever indemnify and hold the Company and any affiliated or unaffiliated third-party provider or operator of facilities employed in provision of the Service harmless from and against any and all claims, demands, suits, actions, losses, damages, assessments or payments which may be asserted by said parties.
- 2.3.15 For Private Line Service or for Service that requires Dedicated Access to reach the long distance network, if the Company's failure of performance is thirty (30) days or less, Service shall not be subject to cancellation by the Customer. An appropriate percentage of charges for the directly affected Service shall be abated for such Service interruption. If the Company's failure of performance is for more than thirty (30) days, then the directly affected Service may be canceled by either the Company or Customer without liability other than Customer's liability for payment for said Service provided prior to cancellation.

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2.4 Use of Service

- 2.4.1 The Company's Services are available for use twenty-four hours per day, seven days per week.
- 2.4.2 The Service offered herein may be used for any lawful purpose, including residential, business, governmental, or other use. The Customer is liable for all obligations under this Tariff not withstanding any sharing or resale of Services and regardless of the Company's knowledge of same. The Company will have no liability to any person or entity other than the Customer and only as set forth herein. The Customer will not use nor permit others to use the Service in a manner that could interfere with Service provided to others or that could harm the facilities of the DUC or others.
- 2.4.3 Service furnished by the Company will not be used for any unlawful or fraudulent purposes including but not limited to use of electronic devices, invalid numbers, and false credit devices to avoid payment for Service contained in this Tariff either in whole or in part. Service furnished by the Company may not be used to make calls which might reasonably be expected to frighten, abuse, torment, or harass another. The Service may not be used for any purpose for which any payment or other compensation is received by the Customer except when the Customer is a communications common carrier, a resale common carrier, or an enhanced or electronic service provider who has subscribed to the Company's Service. However, this provision does not preclude an agreement between the Customer, authorized user, or Joint User to share the cost of the Service as long as this arrangement generates no profit for anyone participating in a joint use or authorized use arrangement.

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2.4 Use of Service (continued)

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

- (A) The Customer must complete and provide to the Company all Service agreements and/or other documentation required by the Company to initiate Service.
- (B) One Joint User or authorized user must be designated as the Customer. The designated Customer does not necessarily have to have communications requirements of its own. The Customer must specifically name all Joint Users or authorized users in the application for Service. Service orders which involve the start, rearrangement or discontinuance of joint use or authorized use Service will be accepted by the Company only from that Customer and will be subject to all requirements of this Tariff.
- (C) All charges for the Service will be computed as if the Service were to be billed to one Customer. The Joint User or authorized user which has been designated as the Customer will be billed for all components of the Service and will be responsible for all payments to the Company. If designated Customer fails to pay the Company, each Joint User or authorized user will be liable to the Company for all charges incurred as a result of its use of the Company's Service. Each joint or authorized user must submit to the designated Customer a letter guaranteeing payment for the joint or authorized user's portion of all charges billed by the Company to the designated Customer. This letter must also specify that the joint or authorized user understands that the Company will receive a copy of the guaranty from the designated Customer. The designated Customer will be responsible for allocating charges to each Joint User or authorized user.

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2.4 Use of Service (continued)

2.4.4 (continued)

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

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

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

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2.5 Obligations of the Customer

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

- (A) Any claim asserted against the Company (and all attorney fees and expenses incurred by the Company with respect thereto) arising out of or relating to the failure of the Company to provide Service to the Customer.
- (B) Any and all liabilities, costs, damages, and expenses (including attorney's fees), resulting from Customer's (or its employees', agent's or independent contractor's) actions hereunder, including, but not limited to breach of any provision in this Tariff, misrepresentation of Company Services or rates, or unauthorized or illegal acts of the Customer or its End User, its employees, agents, or independent contractors.
- (C) Claims for libel, slander, infringement of patent or copyright, or unauthorized use of any trademark, trade name, or service mark arising out of Customer's or End User's material, data, information, or other content transmitted via Service.
- (D) Violation by Customer or End User of any other literary, intellectual, artistic, dramatic, or musical right.
- (E) Violations by Customer or End User of the right to privacy.
- (F) Any other claims whatsoever relating to, or arising from, message content or the transmission thereof.

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2.5 Obligations of the Customer (continued)

2.5.1 (continued)

- (G) All other claims arising out of any act or omission of the Customer or End User in connection with Service provided by the Company.
- (H) Any loss, claim, demand, suit, or other action, or any liability whatsoever, whether suffered, made, instituted or asserted by the Customer or by any other party or persons, for any personal injury to, or death of, any person or persons, and for any loss, damage or destruction of any property, whether owned by the Customer or others, caused or claimed to have been caused directly or indirectly by the provision of Service, whatever the cause and whether negligent or otherwise.
- (I) Claims related to lost or stolen calling cards, except as described in Section 2.24.
- (K) Claims of patent infringement arising from combining or connecting Channels with equipment and systems of the Customer.
- (L) Defacement of, or damage to, the Customer's Premises resulting from the furnishing, installation, and/or removal of Channel facilities or the attachment of instruments, equipment and associated wiring on or from the Customer's Premises.
- (M) Claims arising out of the use of Services or associated equipment in an unsafe manner (such as use in an explosive atmosphere) or the negligent or willful act of any person other than the Company.

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2.5 Obligations of the Customer (continued)

- 2.5.2 If a Customer directly or indirectly authorizes third parties to use the Service, the Customer will indemnify and hold the Company harmless against any and all claims asserted by said party, demands, suits, actions, losses, damages, assessments or payments which may be asserted or demanded by said parties or by others as a result of said parties' actions or omissions.
- 2.5.3 The Company's failure to provide or maintain Service under this Tariff will be excused by the Customer for all circumstances beyond the Company's reasonable control.
- 2.5.4 The Customer will indemnify and save the Company harmless from any and all liability not expressly assumed by the Company in Section 2.3 of this Tariff and arising in connection with the provision of Service to the Customer, and will protect and defend the Company from any suits or claims alleging such liability, and will pay all expenses (including attorneys' fees) and satisfy all judgements which may be incurred by or rendered against the Company in connection therewith.
- 2.5.5 The Customer is responsible for payment for all long distance calls originated at the Customer's number(s), billed to a Customer's calling card, or incurred at the specific request of the Customer. The Customer is responsible for paying for all Services the Company provides to or from the Customer's number(s), regardless of whether the Customer's facilities were fraudulently used or used without Customer's knowledge in full or in part.

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2.5 Obligations of the Customer (continued)

- 2.5.6 The termination or disconnection of Service(s) by the Company pursuant to Sections 2.2.5, 2.2.6, and 2.20 of this Tariff does not relieve the Customer of any obligations to pay the Company for charges due and owing for Service(s) furnished up to the time of termination or disconnection. The remedies set forth herein will not be exclusive and the Company will at all times be entitled to all rights available to it under either law or equity.
- 2.5.7 The Customer is responsible for taking all necessary legal steps for interconnecting Customer-provided terminal equipment with the long distance network. The Customer will ensure that the signals emitted into the network of the DUC do not damage equipment, injure personnel, or degrade Service to other Customers or other users of the DUC's network. The Customer is responsible for securing all licenses, permits, rights-of-way, and other arrangements necessary for such interconnection. In addition, the Customer will comply with applicable LEC signal power limitations.
- 2.5.8 The Customer will be responsible for the payment of all charges for Services provided under this Tariff and for the payment of all excise, sales, use, gross receipts or other taxes that may be levied by a federal, state, or local governing body or bodies applicable to the Service(s) furnished under this Tariff unless specified otherwise herein. Also see Section 2.17 of this Tariff for additional information regarding the Customer's obligations concerning taxes.
- 2.5.9 The Customer will be liable for reimbursing the Company for damages to facilities or equipment caused by the negligence or wilful acts of the Customer's officers, employees, agents, contractors, or authorized End User(s).

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2.5 Obligations of the Customer (continued)

- 2.5.10 If Service is terminated pursuant to Section 2.2.5, Section 2.2.6 or Section 2.20 of this Tariff or if the Customer cancels Service pursuant to Section 2.19 of this Tariff, the Customer will be deemed to have cancelled Service as of the date of such termination or cancellation and will be liable for any cancellation charges set forth in this Tariff.
- 2.5.11 The Customer will indemnify and hold the Company harmless against any and all liabilities, costs, damages, and expenses resulting from claims by third parties that any calling card or PIN have been lost, stolen, or fraudulently issued or used; provided, however, that the Company will have no liability hereunder for special or consequential damages incurred by the Company.
- 2.5.12 If a Customer is to be exempted from the monthly special access surcharge, it is the Customer's responsibility to provide the Company with an Exemption Certificate. The Customer may be exempted from the monthly special access surcharge because the Customer's Service:
- terminates on a device incapable of connecting the long distance network with the local exchange network; or
 - is associated with a Switched Access Service that is subject to carrier common line charges; or
 - constitutes a Private Line facility used for telex service or radio or television transmissions; or,
 - is an open-end termination in a LEC's or CLEC's switch of an FX line; or
 - is a termination that could not make use of a LEC's or CLEC's common lines.

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2.5 Obligations of the Customer (continued)

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

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2.6 Obligations of a Reseller

- 2.6.1 The terms and conditions of this Tariff, including but not limited to the obligations contained in Section 2.5 and in Sections 2.6.2 through 2.6.7 hereof, apply to Customers that are Resellers. Failure to comply with any term, rule, or regulation of this Tariff may result in the Company immediately and irrevocably terminating Service(s) without incurring any liability. Notification of termination of Service(s) may be in writing or in another expeditious manner selected by the Company.
- 2.6.2 In the event of non-payment by a Reseller's subscriber, the Company may be requested by the Reseller to block such subscribers's calling card number and PIN because of non-payment of charges. Before the Company blocks Service to a Reseller's subscriber, the Reseller must certify that proper notice has been given to the subscriber. Proper notice must meet state and federal rules for Blocking Service due to non-payment. The Reseller is responsible for all costs incurred to disconnect or block the location from Service(s).
- 2.6.3 Resellers will be responsible for paying all taxes, surcharges, and fees based upon the taxing jurisdiction's rules and regulations.

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2.6 Obligations of a Reseller (continued)

- 2.6.4 In addition to the other provisions in this Tariff, Customers reselling Service will be responsible for all interaction and interface with their own subscribers or customers. The provision of Service will not create a partnership or joint venture between the Company and the Reseller nor result in a joint offering to third parties.
- 2.6.5 If the Customer resells Services, the Reseller is responsible for providing all billing, collection, and customer service functions for all of its locations, including resolving any unauthorized presubscription disputes.
- 2.6.6 In addition to the other provisions in this Tariff, Resellers must have the appropriate authority in all areas where the Reseller provides service. Resellers of the Company's Services are responsible for maintaining all necessary state and F.C.C. tariffs for operating as a Reseller and for complying with all rules and regulations as set forth by the Commission. Further, the Reseller also assumes full responsibility for complying with the Communications Act of 1934, as amended; the Telecommunications Act of 1996; and the rules, regulations, and decisions of the F.C.C.

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2.7 Obtaining Services

2.7.1 General

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

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2.7 Obtaining Services (continued)

2.7.2 Establishment of Credit

(A) Applicant

The Company reserves the right to require all Applicants to establish credit worthiness to the reasonable satisfaction of the Company. Upon receipt of the signed letter of agency or other authorization the Company deems appropriate, the Applicant will be deemed to have authorized the Company to obtain such routine credit information and verification as the Company requires. The Company shall determine the credit standing of an Applicant for Service based on the information about the Applicant's prior telecommunications bill payment history if the Applicant has had Service before. Such information shall be the major factor in decisions regarding satisfactory or unsatisfactory credit and deposit amounts.

(B) Customer

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

(C) Unsatisfactory Credit

Unsatisfactory credit is defined one or more disconnection in the most recent year of telecommunications service or three or more disconnection notices in the most recent year of service.

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2.8 Customer Deposits / Advance Payments

2.8.1 Customer Deposits

(A) General

Any Applicant whose credit is not acceptable to the Company as provided in Section 2.7.2 of this Tariff may be required to make a deposit to be held by Company as a guarantee of payment for Service provided under this Tariff. In addition, an existing Customer may be required to make a deposit or to increase a deposit presently held by the Company if the conditions of Service or the basis on which credit was originally established have materially changed.

(B) Amount of Deposit

.1 Business Customer

The amount of any deposit will not exceed the estimated charges for three months' Service. The Company will determine the amount of the deposit.

.2 Residential Customer

The Company may require a deposit based on the average cost of Service for two months or \$130, whichever is less, payable in up to three monthly installments.

(C) Interest on Deposits

The Company will pay interest on deposits according to the rules and regulations of the Commission.

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2.8 Customer Deposits / Advance Payments (continued)

2.8.1 Customer Deposits (continued)

(D) Return of Deposit

A deposit will be returned:

- When an application for Service has been canceled prior to the establishment of Service; or
- When the subscriber has paid bills for Service for twelve (12) consecutive months without having Service disconnected for nonpayment and without receiving three or more disconnection notices.
- After disconnection of Service and receipt of the final payment.

Notwithstanding the foregoing, prior to the return, deposits will be applied to any outstanding charges to the Customer for Service, and only the excess, if any, will be returned.

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2.8 Customer Deposits / Advance Payments (continued)

2.8.2 Advance Payments

Customers and Applicants who, in the Company's judgment, present an undue risk of non-payment may be required at any time to provide the Company such other assurances of, or security for, the payment of the Company's charges for its Services as the Company may deem necessary, including, without limitation, advance payments for Service, third party guarantees of payment, pledges or other grants of security interests in the Customers' assets, and similar arrangements. The required advance payments or other security may be increased or decreased by the Company as it deems appropriate in the light of changing conditions. In determining whether a Customer presents an undue risk of nonpayment, the Company shall consider the following factors: (A) the Customer's payment history (if any) with the Company and its affiliates, (B) Customer's ability to demonstrate adequate ability to pay for the Service, (C) credit and related information provided by Customer, lawfully obtained from third parties or publicly available, (D) information relating to Customer's management, owners, and affiliates (if any), and (E) the Applicant's or Customer's actual long distance usage. The Company does not pay interest on advance payments.

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2.9 Rendering Bill

2.9.1 General

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

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2.9 Rendering Bill (continued)

2.9.2 Direct Billing By Company Or Authorized Billing Agent

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

2.9.3 Credit Card Billing

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

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2.9 Rendering Bill (continued)

2.9.4 Automatic Withdrawal From Checking or Savings Account

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

2.9.5 Billing For Dedicated Access Circuits or Channels

Dedicated Access circuits or channels may be provided and billed by the LEC or may be purchased from carriers other than the LEC. Charges for the Dedicated Access circuits or channel are determined by the access provider.

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2.10 Contested Charges

The Company will not be required to consider any Customer claim for damages or statutory penalties, or adjustments, refunds, credits or cancellation of charges, unless the Customer has notified the Company, in writing, of any dispute concerning charges or the basis of any claim for damages, within sixty (60) calendar days after an invoice is rendered or a debit is effected by the Company for the call giving rise to such dispute or claim. Any such notice must set forth sufficient facts to provide the Company with a reasonable basis upon which to evaluate the Customer's claim or demand. Such notice must be sent to the Company's Customer Service Department as per Section 2.11 of this Tariff. If the Customer is not satisfied with the Company's resolution of a billing inquiry, the Customer may make application to the Commission for review and disposition of the matter. If the Customer is not satisfied with the Company's resolution of any dispute, the Customer may make application to the Commission for review and disposition of the matter. The Commission's address and telephone number are South Dakota Public Utilities Commission, 500 East Capitol Avenue, Pierre, South Dakota 57501-5070, 605-773-3201 or 1-800-332-1782.

2.11 Customer Service

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

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2.12 Mileage Measurements

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

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

Where V₁ and H₁ are the V and H coordinates of point 1 and V₂ and H₂ are the coordinates of point 2.

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

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2.13 Timing of Calls

- 2.13.1 Calls are timed and measured by the DUC whose Services are resold by the Company in accordance with this Tariff.
- 2.13.2 On Station-to-Station calls and on Direct Dialed calls chargeable time begins when the called station answers and the connection is established between the calling station and the called station, miscellaneous common carrier, mobile radio system, or PBX system. Answer detection is determined based on standard industry answer detection methods, including hardware and software answer detection. However, when Services are directly connected to a customer-provided communications systems at the Customer's or End User's premises, chargeable time begins when a call terminates in, or passes through, the first Customer equipment on that Customer-provided communications system. It is the Customer's responsibility to furnish appropriate answer supervision to the point of interface with the Company's Service so that chargeable time may begin.
- 2.13.3 On Person-to-Person calls, chargeable time begins when connection is established between the calling person and the particular person or station specified or an agreed alternate.
- 2.13.4 Chargeable times ends when the calling station hangs up thereby releasing the network connection. If the called station hangs up but the calling station does not, chargeable time ends when the network connection is released either by the automatic timing equipment in the telecommunications network or by the operator.

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2.14 Rate Periods

2.14.1 General

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

2.14.2 Day, Evening, and Night Rate Periods

(A) Business Customers

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

(B) Residential Customers

Rate Period	Times Applicable		Days Applicable
	From	To, But Not Including	
Day	7:00 AM	7:00 PM	Mon - Fri
Evening	7:00 PM	7:00 AM	Mon - Fri
Night	All other times.		

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2.15 Determining Rate In Effect

2.15.1 General

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

2.15.2 Call Originates Via Switched Access

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

2.15.3 Call Originates Via Dedicated Access

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

2.15.4 Call Completed By An Operator

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

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2.16 Rounding

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

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2.17 Taxes

- 2.17.1 In addition to the charges specifically pertaining to Services, certain federal, state, and local surcharges, taxes, and fees apply to Services. These taxes, surcharges, and fees are calculated based upon the point of origination of the call, the point of termination of the call, the length of each call, and the taxing jurisdiction's rules and regulations.
- 2.17.2 All federal, state, and local taxes, surcharges, and fees (i.e., sales tax, gross receipts tax, municipal utilities tax, etc.) are listed on the Customer's invoices, and unless otherwise specified herein, are not included in the rates listed in Section 4 of this Tariff.
- 2.17.3 In order to be granted tax exempt status, a Customer claiming tax exempt status must provide the Company with copies of all tax exemption certificates and documents required by the Company at the time Service is ordered. Failure to provide the required documentation at the time Service is ordered will result in all taxes as noted herein being levied by the Company on the Customer's Service, and the Customer will be responsible for the payment of all such charges. At the Company's option, the Company may accord the Customer tax exempt status upon receipt of the required documentation after Service is ordered. However, the Customer will be billed for all applicable taxes and responsible for the payment of same until such time as the Company has ceased billing the applicable taxes. The Company is not liable for refunding the amount of the taxes paid by the Customer. The Customer is responsible for seeking refunds for such taxes from the appropriate taxing authority. Failure to pay the appropriate taxes prior to tax exempt status being accorded by the Company will result in termination of Service.

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2.18 Interruption of Service

- 2.18.1 Without incurring liability, the Company may interrupt the provision of Services at any time in order for tests and inspections to be performed to assure compliance with Tariff regulations and the proper installation and operation of Customer's equipment and facilities and may continue such interruption until any items of non-compliance or improper equipment operation so identified are rectified.
- 2.18.2 To prevent possible unauthorized, fraudulent, or unlawful use of Service, the Company may initiate Blocking all calls or Blocking calls to or from certain NPA-NXXs, cities, or individual telephone stations for any Service offered under this Tariff. Service will be restored as soon as it can be provided without undue risk and only after accounts have been brought current.
- 2.18.3 No credit for recurring monthly charges will be issued for outages less than twenty-four consecutive hours in duration. For Customers with Service subject to a monthly recurring charge, Service interruptions of greater than twenty-four (24) consecutive hours duration will receive a credit equal to the number of hours of Service interruption divided by 720 hours times the monthly recurring charge for the Service. For Private Line Service, credit allowances are subject to the general liability provisions set forth in Section 2.3.15 of this Tariff.
- 2.18.4 For Switched Services including Service that requires Dedicated Access to reach the long distance network, credit allowances for cutoff, wrong number, or poor transmission are subject to the general liability provisions set forth in Section 2.3.10 of this Tariff. It shall be the obligation of the Customer to notify the Company immediately of any interruption in Service for which a credit allowance is desired. Before giving such notice, the Customer shall ascertain that the trouble is not being caused by any action or omission by the Customer within his control, or is not in wiring or equipment, if any, furnished by the Customer.

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2.19 Cancellation of Service By Customer

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

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

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

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

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2.20 Termination of Service By Company

- 2.20.1 Pursuant to §20:10:10:03 and §20:10:10:04 of the Administrative Rules of South Dakota, the Company may terminate Service to the Customer upon five (5) days' written notice to the Customer. If the Company delivers the notice to the Customer's Premises, it will be left in a conspicuous place. When notice is mailed, the notice will be addressed to the Customer's last known billing address and mailed first class or some type of express overnight delivery. The selection of the method of delivery of the notice is made by the Company.
- 2.20.2 The termination of Service(s) by the Company pursuant to this section does not relieve the Customer of any obligations to pay the Company for charges due and owing for Service(s) furnished up to the time of termination. The remedies set forth herein will not be exclusive and the Company will at all times be entitled to all rights available to it under either law or equity.
- 2.20.3 Service will not be disconnected on any Saturday, Sunday, or legal holiday or at any other time that the Company's offices are not open to the public.

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2.21 Restoration of Services

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

2.22 Terminal Equipment

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

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2.23 Notices

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

2.24 Lost Or Stolen Calling Card Or PIN

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

2.25 Special Service Arrangements

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

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2.26 Promotions

From time-to-time, the Company may offer special promotions to its Customers waiving certain charges, offering Service(s) at special rates, and/or offering promotional discounts. Promotional discounts include but are not limited to reduced monthly rates or charges for an existing Service, incentive subscription bonuses, free Service periods, full or partial waivers of installation charges or optional feature charges, full or partial waivers of PIC charges, or any combination thereof. Terms and conditions of promotions may be limited to certain dates, times, market segments, and/or locations. The Company may engage in national and/or intrastate special promotional offerings or trial Service offerings designed to attract new customers, retain existing customers, win back former customers, or stimulate customer usage. The terms of national promotional offerings are set forth in the applicable interstate tariffs governing such programs. To the extent these programs may extend to intrastate Services, the terms of these national offerings are incorporated by reference herein. The Company may require an advance payment as a condition of a promotional offering.

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SECTION 3 - DESCRIPTION OF SWITCHED SERVICES

3.1 Calling Card Services

3.1.1 General

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

3.1.2 Placing A Calling Card Call

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

(A) 1 plus an 800/888 number plus

- 1 the called telephone number, the calling card number, and a valid PIN,
or
- 2 0, the called telephone number, the calling card number, and a valid
PIN, or
- 3 0 and provide the operator the called number, the calling card number,
and a valid PIN.

Southwestern Bell Communications Services, Inc.
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SECTION 3 - DESCRIPTION OF SWITCHED SERVICES

3.1 Calling Card Services (continued)

3.1.2 Placing A Calling Card Call (continued)

- (B) 0 plus the called telephone number, the calling card number, and a valid PIN.
- (C) 00 and request the operator complete a call and bill it to the Customer's calling card. To complete a calling card call, the End User must provide the operator the called number, calling card number, and a valid PIN.
- (D) Depending on the Company's selection of the DUC for any specific calling card service, the Customer and End User may also be able to place a calling card call by dialing 10 plus the carrier identification code, the called telephone number, the calling card number, and a valid PIN. If this option is available to a Customer, the Company will provide the Customer with the appropriate carrier identification code.

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SECTION 3 - DESCRIPTION OF SWITCHED SERVICES

3.2 Directory Assistance

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

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SECTION 3 - DESCRIPTION OF SWITCHED SERVICES

3.3 Operator Services

3.3.1 Operator Toll Assistance

(A) General

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

(B) Calling Card Calls

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

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SECTION 3 - DESCRIPTION OF SWITCHED SERVICES

3.3 Operator Services

3.3.1 Operator Toll Assistance (continued)

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

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

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SECTION 3 - DESCRIPTION OF SWITCHED SERVICES

3.3 Operator Services (continued)

3.3.2 Busy Line Verification

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

3.3.3 Emergency Interrupt

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

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SECTION 4 - SWITCHED SERVICES RATES AND CHARGES

4.1 Calling Card Services

There are two rate elements. They include a usage charge and a surcharge. If an operator does not assist in the placement of the call, the per call surcharge is \$1.05 per call. The usage rates are as follows:

Rate Mileage	Initial Period 1 Minute or Fraction Thereof			Additional Period 1 Minute or Fraction Thereof		
	Day	Evening	Night	Day	Evening	Night
0 - 10	\$3000	\$2400	\$1800	\$1800	\$1440	\$1080
11 - 16	\$3800	\$3040	\$2280	\$2000	\$1600	\$1200
17 - 22	\$3900	\$3120	\$2340	\$2200	\$1760	\$1320
23 - 30	\$4300	\$3440	\$2580	\$2400	\$1920	\$1440
31 - 40	\$4500	\$3600	\$2700	\$2600	\$2080	\$1560
41 - 55	\$4800	\$3840	\$2880	\$2900	\$2320	\$1740
56 - 85	\$5100	\$4080	\$3060	\$3200	\$2560	\$1920
86 - 124	\$5300	\$4240	\$3180	\$3400	\$2720	\$2040
125 - 244	\$5400	\$4320	\$3240	\$3600	\$2880	\$2160
245 - 475	\$5500	\$4400	\$3300	\$3800	\$3040	\$2280

If the operator assists in the placement of a calling card call, then the applicable Operator Toll Assistance call placement charges and the per minute usage rates apply in lieu of the calling card surcharge and the calling card per minute usage rate.

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SECT. ON 4 - SWITCHED SERVICES RATES AND CHARGES

4.2 Directory Assistance Services

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

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SECTION 4 - SWITCHED SERVICES RATES AND CHARGES

4.3 Operator Services

4.3.1 Operator Toll Assistance

(A) Surcharges

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

Station-to-Station sent-paid	\$2.05
Station-to-Station collect	\$2.05
Station-to-Station third number	\$2.11
Person-to-Person (all type calls)	\$4.50
Operator dialed surcharge*	\$1.00
Directory Assistance Call Completion	\$2.05
LEC Calling Card** Station-to-Station	
- Customer Dialed/Automated	\$1.05
- Operator Dialed/Operator Assisted	\$2.05

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

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

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SECTION 4 - SWITCHED SERVICES RATES AND CHARGES

4.3 Operator Services (continued)

4.3.1 Operator Toll Assistance (continued)

(B) Usage Rates

The per minute usage rates are as follows:

Rate Mileage	Initial Period 1 Minute or Fraction Thereof			Additional Period 1 Minute or Fraction Thereof		
	Day	Evening	Night	Day	Evening	Night
0 - 10	\$3000	\$2400	\$1800	\$1800	\$1440	\$1080
11 - 16	\$3800	\$3040	\$2280	\$2000	\$1600	\$1200
17 - 22	\$3900	\$3120	\$2340	\$2200	\$1760	\$1320
23 - 30	\$4300	\$3440	\$2580	\$2400	\$1920	\$1440
31 - 40	\$4500	\$3600	\$2700	\$2600	\$2080	\$1560
41 - 55	\$4800	\$3840	\$2880	\$2900	\$2320	\$1740
56 - 85	\$5100	\$4080	\$3060	\$3200	\$2560	\$1920
86 - 124	\$5300	\$4240	\$3180	\$3400	\$2720	\$2040
125 - 244	\$5400	\$4320	\$3240	\$3600	\$2880	\$2160
245 - 475	\$5500	\$4400	\$3300	\$3800	\$3040	\$2280

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SECTION 4 - SWITCHED SERVICES RATES AND CHARGES

4.3 Operator Services (continued)

4.3.2 Busy Line Verification

The rate is \$.50 per occurrence.

4.3.3 Emergency Interrupt

The rate is \$1.25 per occurrence

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SECTION 4 - SWITCHED SERVICES RATES AND CHARGES

4.4 Miscellaneous Charges

4.4.1 Payphone Surcharge

Pursuant to the FCC's Order in CC Docket 96-128, this surcharge applies only to dial-around calls, i.e., calls originating using a carrier's access code, a Customer's 800/888 and other toll-free numbers and debit card calls, from payphone instruments. This surcharge does not apply for 0+ call for which the payphone provider would otherwise receive compensation. The Customer shall pay the Company a per call surcharge of \$0.35 per call for all such traffic.

EXHIBIT C

SERVICE AREA

PREPARED FOR

SOUTH DAKOTA

PUBLIC UTILITIES COMMISSION

NEXT

DOCUMENT (S)

DISREGARD

BACKGROUND

BACKGROUND

EXHIBIT C

SERVICE AREA

EXHIBIT C

SERVICE AREA

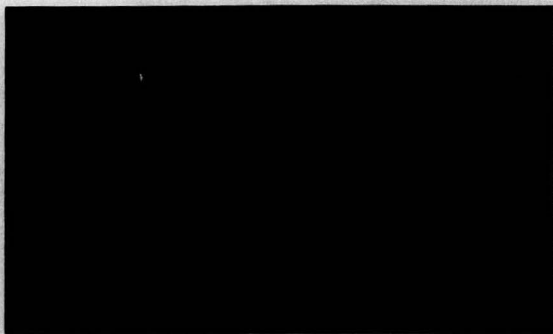


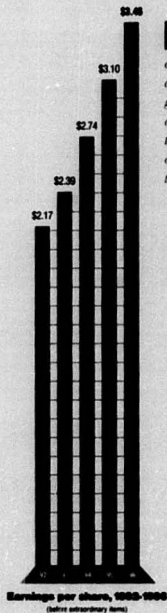
EXHIBIT D

SBC ANNUAL REPORT

PREPARED FOR

SOUTH DAKOTA

PUBLIC UTILITIES COMMISSION

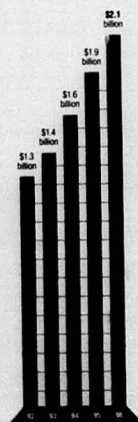


Nineteen ninety-six was SBC's fifth consecutive year of double-digit earnings growth, the best record among the major telecommunications companies, including the regional Bells.

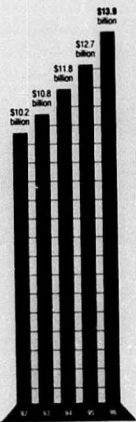
SBC Communications Inc. 1996 Annual Report

SBC's goal is to deliver superior return to shareowners through solid growth in revenues, cash flow and earnings.

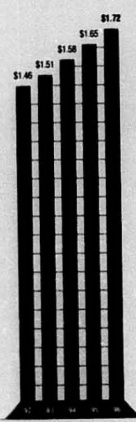
Over the past five years we have led the regional Bell companies in earnings and revenue *growth*.



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



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



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

Dear Fellow Shareowner:

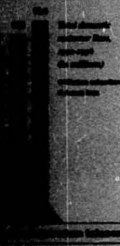
SBC has achieved a record year of double-digit earnings growth. With this momentum, we are well positioned to continue to seek and take advantage of growth opportunities.

As a result of our agreement to merge with Pacific Telesis, we will be able to take full advantage of the new telecommunications law, which will allow us to identify and seize opportunities to provide a broad range of telecommunications services.

The merger with Pacific Telesis is a positive move for customers, shareholders and employees. The merger would create a strong platform from which we can realize the potential of our deep local market presence and our extensive long-distance and wireless networks. The markets served by the combined company include California and Texas, the states that economists project to experience the strongest growth over the next 10 years. And our combined service offerings will allow us to provide a full range of telecommunications services.

The merger is scheduled to be completed by the end of 1997. I will be happy to answer your queries this brief, but not usual, annual report; should the merger be completed, I will be happy to answer SBC's in a follow-up report to all of our shareowners.

Overall, the merger is a move that will allow us to continue to lead our industry and our competitors. We will continue to lead competition, with competitors offering local service in our local markets. We worked hard for passage of the



to an increasingly competitive environment, achieving growth.

SBC's domestic revenue is projected to reach \$14.4 billion when we merge with Pacific Telesis. In addition, we serve (on a percentage of ownership basis) over 10 million wireless users, 307,000 wireless subscribers and over 10 million subscribers in eight countries.

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

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

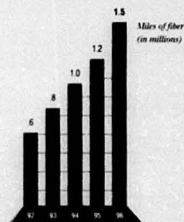
As events unfolded during the year, we became more convinced than ever that our local networks and market presence, combined with the experience we have gained in our international markets, not only enhance SBC's competitive positioning but also provide a superior platform for growth.

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

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

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

In an increasingly competitive environment, achieving growth



requires... increasing our network investment to meet the growing demand for differentiated products and services...

Since 1991, we've invested \$12.1 billion in our networks, including \$3 billion in 1999, to meet expanding consumer demand and continue our revenue growth. Ninety percent of our switches are digital, and our network encompasses 2,702 wireless

cell sites and over 1,100 fiber Sonet rings. But we never forget we're providing solutions, not technology. That's why we were the first U.S. telecommunications company to offer a product that speeds Internet access by routing Internet calls to a separate network.

SBC is positioned to take full advantage of the growth, and we have the strategies, networks, competitive advantages, and financial strength to sustain our record of outstanding performance. We're working quickly to ensure that the Telecommunications Act gives us to provide a full range of telecommunications services to our customers.

Let me highlight some of the key performance highlights:

- **Operating revenue** for the year ended December 31, 1999, increased 11.8 percent, before an accounting change in 1999.
- **Revenue** from our long-distance services increased to \$25.9 billion. Strong revenue growth is the result of our focus on providing solutions to strong demand in our wireline, wireless and Internet services, and our focus on providing our products and services.
- **Customer** growth in our long-distance services increased a record 4.5 percent to 5.1 percent, and our wireless services grew up significantly over the record 4.5 percent to 5.1 percent. Our long-distance services added 720,000 customers during the year, and we achieved 5.5 percent growth in our wireless services, the best among the major U.S. wireless companies. With 4.6 million customers, our long-distance services is an excellent growth platform. We're realizing the potential of our long-distance services – wireless and wireline long distance, Internet access, virtual long distance, and other services outside our five-state region.

Unfortunately, the regulatory environment is – as, in fact, most of the companies in our industry – for these accomplishments. The regulatory environment is not to shareholders – including price appreciation and reinvested distributions. We're working hard to get the regulatory environment to be more favorable.

But I do understand the regulatory environment with confidence in 1999. Investors tell me that industry change creates investment opportunities. We will enter our markets, when we can offer long-distance

In an increasingly competitive environment, achieving growth



...achieving growth... We're working hard to get the regulatory environment to be more favorable.

SBC has entered into a long-term agreement with the five-state region, we're quickly signing the network interconnection agreements that are a major step toward gaining regulatory approval to add wireline long distance to our in-region product offerings.

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

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

My answer is simple: Yes.

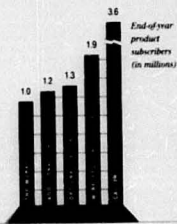
Let me tell you why I'm so confident.

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

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

Second, you can be confident in your investment in SBC because we don't just talk about growth.

We deliver it. We've built our growth momentum by creating strategies that put customers at the center of our plans, then executing those plans well. The results are clear – in our industry-leading sales of additional services



In an increasingly competitive environment, achieving growth

requires... offering new products and services that meet our customers' growing telecommunications needs...

Want a pizza? Dial a single number and your call automatically goes to the nearest store. That's IntelNumber and it's an example of new products – and new packaging – that meet specific customer needs. Of more than 300 products and

services, about one-third are new in the last two years – including products like PC Back-Up, Video Conferencing, Freedom Link and Internet access. These new products join continuing success stories like Caller ID, with 37 percent residential penetration.

to our telecommunications services. In 1996, our largest increase ever, in strong additional line growth, we added 3.5 million lines to our network. In 1996, in the 45 percent growth in our long-distance service, we added 1.5 million lines. In international service, we added 1.5 million lines. In our wireless customer base, we added 1.5 million lines.

I expect that the opportunities the deregulated marketplace will give us to increase revenues and reduce costs by adding many of services to an expanding customer base, to be very powerful. We have already lost some of our retail customers, most of those customers are now in the hands of other providers. We have lost some portions of our expansive local wireline network, but we have increased spending on marketing and advertising offset by pass-through of lower costs.

I view the telecommunications industry as a very rapid growth industry. We have strong positions in essential facilities, in long-distance, in local service, in wireless services that can provide the products and services our customers demand. We are working hard to meet the needs of our customers. And we have a talented management team that is focused on the business because most of them are. They're the primary reason why SBC, for the past several years, has been the "most admired" telecommunications company in America by *Fortune* magazine.

Underlying our success is a strong focus on the creation of shareholder value. Throughout our organization, the primary indicator of our success is our ability to build long-term value for our shareholders. And the primary way we do that is by that yardstick.

On behalf of our shareholders, I would like to express our appreciation to you – our shareholders – for the confidence you have placed in us. We remain determined to justify that confidence with continued leadership in the telecommunications industry.

Edward E. Whitacre Jr.

Edward E. Whitacre Jr.
Chairman of the Board and Chief Executive Officer
February 15, 1997

In an increasingly competitive environment, achieving growth

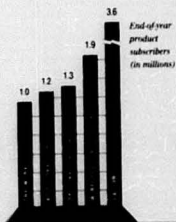
requires... building a strong foundation of new growth opportunities.

In an increasingly competitive environment, achieving growth requires a strong foundation of new growth opportunities. In France with CGE, which not only involves us in that country's second national wireless network but also positions us to pursue other ventures in Europe, and our domestic marketing opportunities with Comstar to promote our Internet access service.

- More than 65 million direct customer contacts every month, and an employee workforce of 100,000 with roots in our communities. This local presence is an important competitive edge, and we have an active, effective program to ensure that the diversity of our communities is reflected throughout the company.
- **Brands** – Southwestern Bell and Cellular One – that customers equate with quality, reliability and performance.
- **Expansive distribution channels** that reach new customers and offer convenient access to our products and services.
- **A strong marketing organization** skilled at identifying and effectively targeting new fast-growing markets.
- **A globally focused corporate development team** with the proven ability to identify and quickly acquire new opportunities for growth.
- **And a skilled management team** focused on creating shareholder value by making investments – in our employees, our networks, and our customer service operations – that grow revenues without sacrificing margins or cash flow.

Second, you can be confident in your investment in SBC because we don't just talk about growth.

We deliver it. We've built our growth momentum by creating strategies that put customers at the center of our plans, then executing those plans well. The results are clear – in our industry-leading sales of additional services



In an increasingly competitive environment, achieving growth requires...

...offering new products and services that meet our customers' growing telecommunications needs...

Want a pizza? Dial a single number and your call automatically goes to the nearest store. That's IntelliNumber and it's an example of new products – and new packaging – that meet specific customer needs. Of more than 300 products and

services, about one-third are new in the last two years – including products like PC Back-Up, Video Conferencing, Freedom Link and Internet access. These new products join continuing success stories like Caller ID, with 37 percent residential penetration.

effect by providing a more efficient growth strategy.

I view this business as a high-growth industry. We have strong positions in critical markets, and we have the systems that can provide the products and services our customers want. We are committed to understanding and meeting the needs of our customers. And we have a talented management team that has been instrumental in most of them. They're the primary reason why SBC, for the past several years, has been the "most admired" telecommunications company in America by *Forbes* magazine.

Understanding our customers and the creation of shareholder value. Throughout our history, the most powerful indicator of our success is our ability to build long-term value for our shareholders. We do this by that yardstick.

On behalf of our shareholders, I would like to express our appreciation to you – our shareholders – for the confidence you have placed in us. We remain determined to justify that confidence with continued performance and growth.

Edmund E. Whitacre Jr.

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

In an increasingly competitive environment, achieving growth requires...

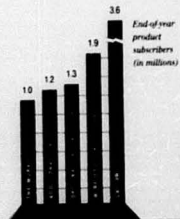
...offering new products and services that meet our customers' growing telecommunications needs...

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



requires... offering new products and services that meet our customers' growing telecommunications needs...

Want a puzzle? Dial a single number and your call automatically goes to the nearest store. That's IntelliNumber, and it's an example of new products – and new packaging – that meet specific customer needs. Of more than 300 products and

services, about one-third are new in the last two years – including products like PC Back-Up, Video Conferencing, Freedom Link and Internet access. These new products join confounding success stories like Caller ID, with 37 percent residential penetration.

Edward E. Whittemore Jr.
Chairman of the Board and CEO
February 18, 1995

In an increasingly competitive environment, achieving growth

requires... building a strong foundation of new growth opportunities.

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Selected Financial and Performance Data

Values in millions, except per share amounts

At December 31 or for the year ended	1995	1994	1993	1992	1991	CAGR*
Financial Data						
Operating revenue	\$12,870	\$12,670	\$11,772	\$10,840	\$10,150	8.2%
Operating expenses	\$10,800	\$ 9,600	\$ 9,010	\$ 8,480	\$ 7,953	6.8%
Operating income	\$ 2,070	\$ 3,067	\$ 2,762	\$ 2,360	\$ 2,197	12.8%
Interest expense	\$ 400	\$ 315	\$ 480	\$ 498	\$ 530	—
Equity in net income of affiliates	\$ 200	\$ 180	\$ 223	\$ 250	\$ 208	—
Income taxes	\$ 1,400	\$ 980	\$ 785	\$ 625	\$ 568	—
Income before extraordinary items and minority interest	\$ 1,470	\$ 1,880	\$ 1,840	\$ 1,435	\$ 1,302	12.7%
Effect of changes in accounting principles	\$ 2,400	\$ 1,800	\$ 1,840	\$ (845)	\$ 1,302	—
Net income (loss)	\$ 3,870	\$ 3,680	\$ 3,680	\$ 590	\$ 1,302	—
Earnings per common share	\$ 3.87	\$ 3.68	\$ 3.68	\$.59	\$ 1.30	12.4%
Earnings before extraordinary items and minority interest	\$ 1,470	\$ 1,880	\$ 1,840	\$ 1,435	\$ 1,302	12.4%

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11. Consolidated Balance Sheet
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13. Consolidated Statements of Shareholders' Equity
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Selected Financial and Statistical Data

Dollars in millions except per share amounts

At December 31 or for the year ended	1993	1992	1991	1990	1989	CAGR*
Financial Data						
Operating revenues	\$12,670	\$12,670	\$11,772	\$10,840	\$10,150	8.2%
Operating expenses	\$8,880	\$ 8,880	\$ 8,010	\$ 6,480	\$ 7,953	6.8%
Operating income	\$ 3,790	\$ 3,790	\$ 2,762	\$ 2,360	\$ 2,197	12.8%
Interest expense	\$ 488	\$ 515	\$ 480	\$ 498	\$ 530	-
Equity in net income of affiliates	\$ 222	\$ 198	\$ 223	\$ 250	\$ 208	-
Income taxes	\$ 1,400	\$ 988	\$ 785	\$ 625	\$ 568	-
Income before extraordinary items and effect of changes in accounting principles ¹	\$ 2,192	\$ 1,885	\$ 1,640	\$ 1,435	\$ 1,302	12.7%
Net income (loss)	\$ 2,192	\$ (988)	\$ 1,640	\$ (845)	\$ 1,302	-
Earnings per common share						
Income before extraordinary items and effect of changes in accounting principles ²	\$ 2.40	\$ 2.10	\$ 2.74	\$ 2.39	\$ 2.17	12.4%
Net income (loss)	\$ 2.40	\$ (1.00)	\$ 2.74	\$ (1.41)	\$ 2.17	-
Total assets	\$26,002	\$26,002	\$26,005	\$24,308	\$23,810	-
Long-term debt	\$ 5,000	\$ 5,072	\$ 5,046	\$ 5,459	\$ 5,716	-
Construction and capital expenditures	\$ 2,330	\$ 2,330	\$ 2,350	\$ 2,221	\$ 2,144	9.0%
Free cash flow ³	\$ 1,200	\$ 1,000	\$ 1,818	\$ 1,220	\$ 1,470	5.2%
Dividends declared per common share ⁴	\$ 1.32	\$ 1.06	\$ 1.58	\$ 1.51	\$ 1.46	4.2%
Book value per common share ⁵	\$ 19.30	\$ 19.27	\$ 13.72	\$ 12.61	\$ 15.47	-
Ratio of earnings to fixed charges ⁶	5.59	5.81	5.41	4.51	3.96	-
Return on weighted average shareholders' equity ⁷	20.0%	24.1%	20.8%	19.2%	14.2%	-
Debt ratio ⁸	24.0%	24.0%	27.5%	27.4%	27.9%	-
Operating Ratio⁹						
EBITDA ¹⁰	\$ 5,700	\$ 5,287	\$ 4,800	\$ 4,367	\$ 4,040	9.4%
Network access lines in service (000)	15,200	14,223	13,812	13,145	12,724	4.1%
Access minutes of use (000,000)	95,000	93,881	48,430	44,203	41,235	-
Long-distance messages (000,000)	900	908	1,018	1,012	974	-
Cellular customers (000)	4,200	3,889	2,982	2,049	1,413	-
Number of employees	80,000	80,380	58,800	58,400	59,500	-

*Operating data may be potentially subject to change without immediate notice.

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Selected Financial and Performance Data

Dollars in millions except per share amounts

At December 31 or for the year ended	1995	1994	1993	1992	1991	CAGR*
Financial Data						
Operating revenue	\$12,570	\$12,570	\$11,772	\$10,840	\$10,150	8.2%
Operating expenses	\$10,500	\$ 9,883	\$ 9,010	\$ 8,480	\$ 7,953	6.9%
Operating income	\$ 2,070	\$ 2,687	\$ 2,762	\$ 2,360	\$ 2,197	12.8%
Interest expense	\$ 488	\$ 315	\$ 485	\$ 498	\$ 530	-
Income before income taxes	\$ 1,582	\$ 2,372	\$ 2,277	\$ 1,862	\$ 1,667	-
Income taxes	\$ 1,435	\$ 1,880	\$ 1,640	\$ 1,435	\$ 1,302	12.7%
Income before extraordinary items and effect of changes in accounting principles	\$ 147	\$ 1,492	\$ 1,637	\$ 1,427	\$ 1,365	-
Net income (loss)	\$ 147	\$ (189)	\$ 1,640	\$ (845)	\$ 1,302	-
Earnings per common share						
Income before extraordinary items and effect of changes in accounting principles	\$ 0.40	\$ 3.10	\$ 2.74	\$ 2.39	\$ 2.17	12.4%
Net income (loss)	\$ 0.38	\$ (1.53)	\$ 2.74	\$ (1.41)	\$ 2.17	-
Total assets	\$28,600	\$28,680	\$28,005	\$24,308	\$23,810	-
Long-term debt	\$ 6,885	\$ 6,672	\$ 5,948	\$ 5,459	\$ 5,716	-
Construction and capital expenditures	\$ 2,687	\$ 2,339	\$ 2,350	\$ 2,221	\$ 2,144	9.0%
Free cash flow ¹	\$ 1,700	\$ 1,886	\$ 1,818	\$ 1,220	\$ 1,470	5.2%
Dividends declared per common share ²	\$ 1.32	\$ 1.86	\$ 1.58	\$ 1.51	\$ 1.46	4.2%
Book value per common share ³	\$ 19.39	\$ 19.37	\$ 13.72	\$ 12.81	\$ 15.47	-
Ratio of earnings to fixed charges ⁴	5.59	9.01	5.41	4.51	3.95	-
Return on weighted average shareholders' equity ⁵	24.10%	24.10%	20.81%	19.29%	14.28%	-
Debt ratio ⁶	24.05%	24.03%	21.38%	22.69%	24.98%	-
Operating ratio ⁷						
EBITDA ⁸	\$ 5,789	\$ 5,387	\$ 4,880	\$ 4,367	\$ 4,040	9.4%
Network access fees to carriers (NAC)	15,000	14,223	13,612	13,145	12,724	4.1%
Access revenues of one carrier	\$8,881	\$8,881	\$8,430	\$8,203	\$8,125	-
Long-distance revenues (LDR)	988	988	1,018	1,012	974	-
Cellular customers (CC)	4,389	3,889	2,982	2,049	1,413	-
Number of employees	55,000	55,389	58,800	58,400	59,500	-

*Operating data may be periodically revised to reflect new accounting principles.

¹1995 Discussion of Regulatory Requirements, "Financial Statement Supplemental Data and Quantitative Effect of Changes in Accounting Principles."

²Free cash flow is net cash provided by operating activities less capital expenditures.

³Shareholders' equity used to buy back common stock includes extraordinary items and changes in accounting principles.

⁴Calculated using income before extraordinary items and changes in accounting principles. These amounts are included in shareholders' equity.

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

⁶Compound Annual Growth Rate from 1991 to 1995.

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¹⁸Compound Annual Growth Rate from 1991 to 1995.

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

Dollars in millions except per share amounts

SBC Communications Inc. ("SBC") is a holding company whose subsidiaries and affiliates operate predominantly in the communications services industry. SBC's subsidiaries and affiliates provide landline and wireless telecommunications services and equipment, directory advertising and cable television services.

SBC's largest subsidiary is Southwestern Bell Telephone Company (Telephone Company), which provides telecommunications services over approximately 15 million access lines in Texas, Missouri, Oklahoma, Kansas and Arkansas (five-state area). The Telephone Company is subject to regulation by each of the state jurisdic-

tions in which it operates and by the Federal Communications Commission (FCC). In 1996, the Telephone Company provided 70% of SBC's operating revenues and 85% of its net income.

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

Results of Operations

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

	1996	1995	1994	Percent Change 1996 vs. 1995	1995 vs. 1994
Operating revenues	\$13,886	\$12,670	\$11,772	9.7%	7.6%
Operating expenses	\$19,342	\$ 9,833	\$ 9,010	7.4%	6.9%
Income before extraordinary loss	\$ 2,181	\$ 1,989	\$ 1,649	11.2%	14.6%
Extraordinary loss	—	\$(2,819)	—	—	—
Net income (loss)	\$ 2,181	\$ (930)	\$ 1,649	—	—

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

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

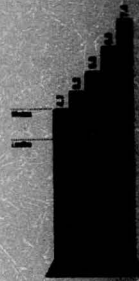
The primary factors contributing to the increase in income before extraordinary loss in 1995 were growth in demand for services

and products at the Telephone Company and Mobile Systems, and an after-tax gain of \$111 associated with the merger of SBC's United Kingdom cable television operations into TeleWest P.L.C. (TeleWest). These factors were partially offset by an after-tax charge of \$88 recorded in connection with SBC's strategic functional realignment.

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



Operating income (dollars in billions)
Operating income has grown by more than half since 1992.



Long-Distance Service Revenues (dollars in billions)
Long-Distance Service Revenues have nearly tripled in the last four years.

Management's Discussion and Analysis, continued

Operating revenues increased \$1,226, or 9.7%, in 1996 and \$898, or 7.6%, in 1995, as a result of increases in total operating revenues, including percentage changes from the prior year, are as follows:

	1996	1995	1994	Percent Change 1996 vs. 1995	1995 vs. 1994
Operating revenues	\$13,886	\$12,670	\$11,772	9.7%	7.6%
Operating expenses	\$19,342	\$ 9,833	\$ 9,010	7.4%	6.9%
Income before extraordinary loss	\$ 2,181	\$ 1,989	\$ 1,649	11.2%	14.6%
Extraordinary loss	—	\$(2,819)	—	—	—
Net income (loss)	\$ 2,181	\$ (930)	\$ 1,649	—	—

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residential message volumes and the impact of optional calling plans and extended area service plans.

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

unchanged from 1994, reflecting the impact of increased competition.

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

Operating Expenses Total operating expenses increased \$709, or 7.4%, in 1996 and \$625, or 6.9%, in 1995. Components of total operating expenses, including percentage changes from the prior year, are as follows:

				Percent Change	
				1996 vs. 1995	1995 vs. 1994
	1996	1995	1994		
Cost of services and products	\$ 4,135	\$3,806	\$3,747	8.6%	1.6%
Selling, general and administrative	3,907	3,657	3,225	6.8	13.4
Depreciation and amortization	2,240	2,170	2,038	3.2	6.5
	\$10,342	\$9,633	\$9,010	7.4%	6.9%

Cost of Services and Products

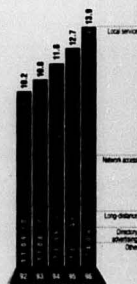
increased in 1996 due to increases at the Telephone Company for network expansion and maintenance, employee compensation and demand-related increases, primarily increases in switching system software license fees. Other increases in 1996 related principally to growth at Mobile Systems. Similarly, in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

Selling, General and Administrative expenses increased in 1996 and 1995 primarily due to growth-related increases at Mobile Systems and the Telephone Company including increases in operating

taxes, which include the Texas Infrastructure Fund assessments, contracted services, employee compensation, advertising and uncollectibles. The increase in 1995 was also attributable to the \$150 charge for costs associated with the strategic realignment discussed in Other Business Matters.

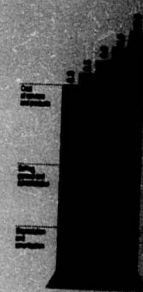
Depreciation and Amortization increased in 1996 and 1995 due primarily to growth in plant levels and changes in plant composition, primarily at Mobile Systems and the Telephone Company. The increase in 1995 also reflects the effect of regulatory depreciation prescription at the Telephone Company.

Interest Expense decreased \$45, or 8.7%, in 1996 due to lower interest rates on short-term debt, lower long-term debt levels, and capitalization of interest during construction required by the discontinuance of regulatory accounting in the third quarter of 1995. Under regulatory accounting, the Telephone Company accounted for a capitalization of both interest and equity costs during periods of construction as



Distribution of Revenues
(dollars in billions)

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



Distribution of Operating Revenues
(dollars in billions)

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

Financial Statements and Analysis, continued

Goodwill Goodwill increased \$100 million in 1996 and \$100 million in 1995. The increase in 1996 was due to the acquisition of the United Kingdom cable television operations. The increase in 1995 was due to the acquisition of the United Kingdom cable television operations.

Deferred Income Taxes Deferred income taxes increased \$100 million in 1996 and \$100 million in 1995. The increase in 1996 was due to the acquisition of the United Kingdom cable television operations. The increase in 1995 was due to the acquisition of the United Kingdom cable television operations.

Other Assets Other assets increased \$100 million in 1996 and \$100 million in 1995. The increase in 1996 was due to the acquisition of the United Kingdom cable television operations. The increase in 1995 was due to the acquisition of the United Kingdom cable television operations.

Other Liabilities Other liabilities increased \$100 million in 1996 and \$100 million in 1995. The increase in 1996 was due to the acquisition of the United Kingdom cable television operations. The increase in 1995 was due to the acquisition of the United Kingdom cable television operations.

Other Equity Other equity increased \$100 million in 1996 and \$100 million in 1995. The increase in 1996 was due to the acquisition of the United Kingdom cable television operations. The increase in 1995 was due to the acquisition of the United Kingdom cable television operations.

Other Income Other income increased \$100 million in 1996 and \$100 million in 1995. The increase in 1996 was due to the acquisition of the United Kingdom cable television operations. The increase in 1995 was due to the acquisition of the United Kingdom cable television operations.

Other Expenses Other expenses increased \$100 million in 1996 and \$100 million in 1995. The increase in 1996 was due to the acquisition of the United Kingdom cable television operations. The increase in 1995 was due to the acquisition of the United Kingdom cable television operations.

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Financial statements. The gain was somewhat offset by expenses associated with the refinancing of long-term debt by the Telephone Company (see Note 6 to the financial statements).

Postpaid Income Tax expense increased \$100 million in 1996 and \$100 million in 1995, primarily due to higher income before some taxes. The elimination of certain deferred taxes and the reduction in the amortization of investment tax credits resulting from the discontinuance of regulatory accounting, as described in Note 2 to the financial statements, also contributed to the increases in both years.

Extraordinary Loss In 1995, SBC recorded an extraordinary loss of \$2.6 billion from the discontinuance of regulatory accounting. The loss included a reduction in the net carrying value of telephone plant partially offset by the elimination of net regulatory liabilities of the Telephone Company (see Note 2 to the financial statements).

Operating Performance and Trends of the Business

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

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

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

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

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

Following is a summary of significant state regulatory developments.

Texas The Public Utility Regulatory Act, which became effective in May 1995

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

LECs electing price regulation must commit to network and infrastructure improvement goals, including expansion of digital switching and advanced high-speed services to qualifying public institutions, such as schools, libraries and hospitals, requesting the services. PURA also established an infrastructure grant fund for use by public institutions in upgrading their communications and computer technology. PURA provided for a total fund assessment of \$150 annually on all telecommunications providers in Texas for a ten-year period, half of which would be paid by the cellular and wireless industry. The provisions establishing different assessment rates for landline and cellular and wireless service providers were ruled unconstitutional under the Texas constitution in January 1996, and the lower rate was ordered to be applied to both categories of service providers, resulting in less than a \$150 annual assessment. Based on this order, SBC's total annual payment is estimated to be approximately \$55 to \$45. The 1997 Texas legislative session is considering this issue with the goal of restoring the assessment to its original \$150 annual amount. As a result, SBC's annual payment could increase.

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

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



Access Lines
(in millions)
Texas accounts for nearly two-thirds of access line growth since 1992.

Competition and Analysis, continued

offered discounts with a retail value of \$208 for certain Telephone Company services. Previously ordered rate reductions of \$100 were lowered to \$94, of which \$57 had already been implemented. The settlement allowed the remaining \$27 in rate reductions to be delivered, with approximately \$9 becoming effective in 1996 and the remainder during 1997. The settlement also provides that no overearnings complaint can be filed against the Telephone Company until January 1, 1998. The Telephone Company began accruing for the order in 1992, and the settlement and associated costs had been fully accrued as of the end of the third quarter of 1995.

Competition Competition continues to expand in the telecommunications industry. Legislation and regulation have increased the opportunities for alternative service providers offering telecommunications services. Technological advances have expanded the types and uses of services and products available. Accordingly, SBC faces increasing competition in significant portions of its business.

Monopoly On February 8, 1996, the Telecom Act was enacted into law. The Telecom Act is intended to address various aspects of competition within, and regulation of, the telecommunications industry. The Telecom Act provides that all post-enactment conduct or activities which were subject to the current decree, referred to as the Modification of Final Judgment (MFJ), issued at the time of AT&T's divestiture of the Regional Holding Companies (RHCs) are now subject to the provisions of the Telecom Act. Among other things, the Telecom Act also defines conditions SBC must comply with before being permitted to offer interLATA long-distance service within the five-state area and establishes certain terms and conditions intended to promote competition for the Telephone Company's local exchange services. Under terms of the Telecom Act, SBC may immediately offer interLATA long-distance outside the five-

states area. The Telecom Act also requires SBC to offer discounts to certain public institutions, such as schools, libraries and hospitals, for telecommunications services. The Telecom Act also requires SBC to provide certain services to qualifying public institutions, such as schools, libraries and hospitals, for telecommunications services. The Telecom Act also requires SBC to provide certain services to qualifying public institutions, such as schools, libraries and hospitals, for telecommunications services.

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state area and over its wireless network both inside and outside the five-state area. Before being permitted to offer landline interLATA long-distance service in any state within the Telephone Company's five-state region, SBC must apply for and obtain state-specific approval from the FCC. The FCC's approval, which involves consultation with the United States Department of Justice, requires favorable determinations that the Telephone Company has entered into interconnection agreement(s) that satisfy a 14-point "competitive checklist" with predominantly facilities-based carrier(s) that serve residential and business customers or, alternatively, that the Telephone Company has a statement of terms and conditions effective in that state under which it offers the "competitive checklist" items. The FCC must also make favorable public interest and structural separation determinations. The Telecom Act directed the FCC to establish rules and regulations to implement the Telecom Act, and to preempt specific state law provisions under certain circumstances. The Telecom Act also allows RHCs to provide cable services over their own networks, but sets limits on RHCs acquiring interests in cable television operations in their telephone service areas.

In April 1996, the United States District Court for the District of Columbia issued its Opinion and Order terminating the MFJ and dismissing all pending motions related to the MFJ as moot. This ruling effectively ended 15 years of RHC regulation under the MFJ.

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

On October 15, 1996, the United States Court of Appeals for the Eighth Circuit (Eighth Circuit) issued an order to stay the

FCC's Pricing Provisions and its rules permitting new entrants to "pick and choose" among the terms and conditions of approved interconnection agreements. The stay provides that it will remain in effect while the Eighth Circuit considers the validity of the rules. Other provisions of rules adopted by the FCC to implement the Telecom Act remain in effect.

The effects of the FCC rules are dependent on many factors including, but not limited to: the ultimate resolution of the pending appeals; the number and nature of competitors requesting interconnection, unbundling or resale; and the results of the state regulatory commissions' review and handling of related matters within their jurisdictions. Accordingly, SBC is not able to assess the impact of the FCC rules.

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

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

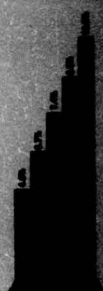


Additional Lines
(in thousands)

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

Management Discussion and Analysis, continued

Telephone Company's interconnection agreements with other carriers, and the FCC's approval of these agreements. The FCC's approval, which involves consultation with the United States Department of Justice, requires favorable determinations that the Telephone Company has entered into interconnection agreement(s) that satisfy a 14-point "competitive checklist" with predominantly facilities-based carrier(s) that serve residential and business customers or, alternatively, that the Telephone Company has a statement of terms and conditions effective in that state under which it offers the "competitive checklist" items. The FCC must also make favorable public interest and structural separation determinations. The Telecom Act directed the FCC to establish rules and regulations to implement the Telecom Act, and to preempt specific state law provisions under certain circumstances. The Telecom Act also allows RHCs to provide cable services over their own networks, but sets limits on RHCs acquiring interests in cable television operations in their telephone service areas.



SBC's relative percentage of total lines in the industry

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In 1996, the FCC adopted an order allocating radio spectrum and outlining the development of licenses for new personal communications services (PCS). PCS utilizes wireless telecommunications digital technology at a higher frequency radio spectrum than cellular. Like cellular, it is designed to permit access to a variety of communications services regardless of subscriber location. In an FCC auction, which concluded in March 1995, PCS licenses were awarded in 51 major markets. SBC acquired PCS licenses in the Major Trading Areas (MTAs) of Memphis, Tennessee; Little Rock, Arkansas; and Tulsa, Oklahoma. SBC is currently in the build out phase of PCS in Tulsa, Oklahoma. During 1996, SBC received several AT&T cellular networks in Arkansas in exchange for SBC's PCS licenses in Memphis, Tennessee and Little Rock, Arkansas and other consideration. In an FCC auction conducted January 1997, SBC acquired eight additional PCS licenses for Basic Trading Areas (BTAs) that are within its five-state area. SBC plans to build out the new BTAs as part of its strategy to be a full service telecommunications provider. Including these new BTAs, SBC will be able to offer approximately 85% of its landline local service customers wireless service as well.

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

In the future, it is likely that additional competitors will emerge in the telecommunications industry. Cable television companies and electric utilities have expressed an interest in, or already are, providing

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

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In the future, it is likely that additional competitors will emerge in the telecommunications industry. Cable television companies and electric utilities have expressed an interest in, or already are, providing

60 interconnection points by January 1, 1997, and more than 200 interconnection points by the year 2000. Several large competitors have announced their intention to compete with Telmex and have filed for licenses, including a joint venture between AT&T and Alfa, a Mexican consortium, and Avante, S.A., a joint venture between MCI and Grupo Financiero Banamex-Accival, Mexico's largest financial group. Balloting for presubscription of long-distance service has begun among Telmex's customers in selected areas.

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

"I'm not a doctor, but I can tell you that
 if you're not taking care of your skin,
 you're not taking care of yourself."
 —Dr. Howard Goldstein, MD, Director
 of the Department of Dermatology,
 Mount Sinai Medical Center, New York City

SBC's total reported 1995 capital expenditures were relatively unchanged compared to 1994. Reported decreases in SBC's capital expenditures related to the change in accounting for its United Kingdom cable television operations were offset by capital expenditures increases of 3% at the Telephone Company and 8% at Mobile Systems.



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

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

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

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

Cash, Lines of Credit and Cash Flows SBC had \$242 of cash and cash equivalents available at December 31, 1996.

Commercial paper borrowings as of December 31, 1996, totaled \$1,518. SBC has entered into agreements with several banks for lines of credit totaling \$750, all of which may be used to support commercial paper borrowings. SBC had no borrowings outstanding under these lines of credit as of December 31, 1996.

During 1996, as in 1995 and 1994, SBC's primary source of funds continued to be cash generated from operations, as shown

in the Consolidated Statements of Cash Flows. In 1996, 1995 and 1994, cash provided by operating activities was reduced by the contribution of \$37, \$154 and \$154 to the collectively bargained Voluntary Employee Beneficiary Association trusts for the future payment of postretirement benefits. Net cash provided by operating activities exceeded SBC's construction and capital expenditures during 1996, as in 1995 and 1994; this excess is referred to as free cash flow, a supplemental measure of liquidity. SBC generated free cash flow of \$1,797, \$1,685 and \$1,618 in 1996, 1995 and 1994.

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

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

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

Share Repurchases See Note 11 to the financial statements.

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

Consolidated Financial Statements

Values in millions unless otherwise indicated

	1996	1995	1994
Operating Revenues			
Local service	\$ 7,304	\$ 6,540	\$ 5,708
Network access	3,044	3,067	2,857
Long-distance service	948	941	917
Directory advertising	864	853	847
Other	1,091	1,290	1,263
Total operating revenues	13,249	12,670	11,772
Operating Expenses			
Cost of service and production	4,136	3,806	3,747
Selling, general and administrative	2,087	2,057	2,225
Depreciation and amortization	5,040	2,170	2,038
Total operating expenses	11,263	8,033	8,010
Operating Income	1,986	3,037	2,762
Other Income (Expense)			
Interest expense	(472)	(515)	(480)
Equity in net income of affiliates	346	156	223
Other income (expense) - net	(81)	114	(71)
Total other income (expense)	(107)	(245)	(328)
Income Before Income Taxes and Minority Interest	1,879	2,792	2,434
Income Taxes			
Federal	1,867	824	684
State and local	100	79	101
Total income taxes	1,967	903	785
Income Before Minority Interest	2,101	1,889	1,649
Extraordinary Loss from Discontinuation of Regulatory Accounting, net of tax	-	(2,816)	-
Net Income (Loss)	\$ 2,101	\$ (927)	\$ 1,649
Earnings Per Common Share			
Income Before Extraordinary Loss	\$ 2.46	\$ 3.10	\$ 2.74
Extraordinary Loss	-	(4.83)	-
Net Income (Loss)	\$ 2.46	\$ (1.53)	\$ 2.74
Weighted Average Shares Outstanding	857	608	601

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

Consolidated Balance Sheets

Dollars in millions except per share amounts

	December 31,	
	1996	1995
Assets		
Current Assets		
Cash and cash equivalents	\$ 242	\$ 490
Short-term cash investments and other current assets	613	310
Accounts receivable - net of allowances for uncollectibles of \$148 and \$154	2,878	2,389
Material and supplies	116	131
Prepaid expenses	261	157
Deferred charges	286	202
Total current assets	3,912	3,679
Property, Plant and Equipment - Net	14,067	12,968
Intangible Assets - Net of Accumulated Amortization of \$667 and \$548	2,466	2,679
Investments in Equity Affiliates	1,966	1,586
Other Assets	1,060	1,070
Total Assets	\$23,448	\$22,002
Liabilities and Shareowners' Equity		
Current Liabilities		
Debt maturing within one year	\$ 1,722	\$ 1,680
Accounts payable and accrued liabilities	3,620	3,125
Dividends payable	268	251
Total current liabilities	5,610	5,056
Long-Term Debt	5,968	5,672
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	784	723
Postemployment benefit obligation	2,720	2,736
Unamortized investment tax credits	266	287
Other noncurrent liabilities	1,538	1,272
Total deferred credits and other noncurrent liabilities	5,208	5,018
Shareowners' Equity		
Preferred shares (\$1 par value, 10,000,000 authorized; none issued)	-	-
Common shares (\$1 par value, 2,200,000,000 authorized; issued 620,485,501 at December 31, 1996 and 1995)	620	620
Capital in excess of par value	6,322	6,298
Retained earnings	1,736	672
Guaranteed obligations of employee stock ownership plans	(229)	(272)
Foreign currency translation adjustment	(633)	(581)
Treasury shares (20,616,939 at December 31, 1996 and 11,122,981 at December 31, 1995, at cost)	(964)	(481)
Total shareowners' equity	6,836	6,256
Total Liabilities and Shareowners' Equity	\$23,448	\$22,002

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

Consolidated

Dollars in millions except per share amounts

	1996	1995	1994
Operating Activities			
Net income (loss) before taxes	\$ 2,101	\$ (300)	\$ 1,848
Adjustments to reconcile net income (loss) before taxes to net cash provided by operating activities:			
Depreciation and amortization	2,349	2,170	2,098
Deferred income taxes	(174)	(94)	(134)
Provision for doubtful accounts	300	178	153
Amortization of investments	(80)	(42)	(61)
Provision for other losses	321	130	202
Losses on disposal of assets	166	463	(124)
Change in net assets	-	2,819	-
Income tax expense	(662)	(263)	(200)
Other nonrecurring items	(100)	33	(80)
Income tax benefit	660	(186)	430
Other - net	(88)	(165)	208
Total adjustments	6,739	4,951	2,319
Net Cash Provided by Operating Activities	8,840	4,651	3,988
Investing Activities			
Construction and capital expenditures	(1,027)	(2,336)	(2,360)
Investments in affiliates	(88)	(16)	(22)
Purchase of short-term investments	(1,000)	(704)	(325)
Proceeds from short-term investments	616	587	380
Dispositions	67	-	141
Acquisitions	(204)	(538)	(1,182)
Net Cash Used in Investing Activities	(1,646)	(3,007)	(3,348)
Financing Activities			
Net change in short-term debt	\$	(111)	463
Issuance of other short-term debt	300	91	36
Repayment of short-term debt	(154)	(91)	(41)
Issuance of long-term debt	300	981	345
Repayment of long-term debt	(300)	(272)	(480)
Early extinguishment of debt	-	(485)	-
Issuance of common shares	-	-	40
Purchase of treasury shares	(66)	(716)	(447)
Issuance of treasury shares	(66)	82	18
Dividends paid	(300)	(300)	(357)
Net Cash Used in Financing Activities	(1,000)	(809)	(872)
Net Increase (Decrease) in Cash and Cash Equivalents	(666)	125	(233)
Cash and cash equivalents at beginning of year	490	365	618
Cash and cash equivalents at end of year	\$ 242	\$ 490	\$ 385
The accompanying financial statements are prepared in accordance with U.S. generally accepted accounting principles.			

Dollars in millions except per share amounts

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

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Deferred charges for deferred and amortized advertising costs are published and charges are recognized.

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

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

	Pre-tax	After-tax
Increase telephone plant accumulated depreciation	\$4,657	\$2,895
Adjust unamortized investment tax credits	(41)	(26)
Eliminate tax-related regulatory assets and liabilities	(88)	(3)
Eliminate other regulatory assets	55	34
Total	\$4,583	\$2,811

The increase in accumulated depreciation of \$4,857 reflects the effects of adopting depreciable lives for many of the Telephone Company's plant categories which more closely reflect the economic and technological lives of the plant. The adjustment was supported by a discounted cash flow analysis which estimated amounts of telephone plant that may not be recoverable from future discounted cash flows. This analysis included consideration of the effects of anticipated competition and technological changes on plant lives and revenues. The adjustment also included elimination of accumulated depreciation deficiencies recognized by regulators and amortized as part of depreciation expense.

	Average Lives (in Years)	
	Regulator-Prescribed	Estimated Economic
Digital switch	17	1
Digital circuit	12	1
Copper cable	24	11
Fiber cable	27	21
Conduit	57	56

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

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

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On April 1, 1988, the two companies jointly announced a plan to merge. The SEC submitted both companies' share of SEC costs to the Federal Reserve Bank of New York, which estimated that the two companies would share a share of SEC costs of approximately \$14 million. The SEC estimated that the two companies would share a share of SEC costs of approximately \$14 million. The SEC estimated that the two companies would share a share of SEC costs of approximately \$14 million.

to be a tax-free investment. The court's decision was a sharp rebuke of the IRS position, which had argued that the directors of such companies were not entitled to the same tax treatment as the United States Department of Education. The court's decision was a sharp rebuke of the IRS position, which had argued that the directors of such companies were not entitled to the same tax treatment as the United States Department of Education. The court's decision was a sharp rebuke of the IRS position, which had argued that the directors of such companies were not entitled to the same tax treatment as the United States Department of Education.

Operating expenses	Operating income	Operating margin
Income before extraordinary items		
and nonrecurring effects of		
accounting changes		
Net income before		
income before extraordinary		
items and nonrecurring effects of		
accounting changes		
per common share		
Net income (loss) per common share		

The plan for this information does not include the effect of changes which will be applied retroactively, to conform with the methodologies between PAC and SBC for, among other items, pensions, postretirement benefits, stock repurchases or merger transaction costs and certain deferred tax adjustments resulting from the merger. Based on information currently available, management estimates these changes will not materially affect the plan form operating revenues or income before extraordinary loss and cumulative effect of accounting changes. Management also estimates the changes will reduce the 1999 extraordinary loss from discontinuance of operations accounting by less than \$100 and \$200.

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

	1995	1994
Wrightson Company (plant & service)	\$ 29,000	\$ 27,000
Wrightson Company (land construction)	512	24
Intangible development and amortization	29,547	28,000
1994 Wrightson Company	(17,000)	(16,000)
1994 Wrightson Company	11,799	11,112
Other	3,487	2,778
Intangible development and amortization	(1,100)	(20)
Other	2,548	1,800
Property, plant and equipment—net	\$ 14,567	\$ 12,596

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

Certain facilities and equipment used in operations are under operating or capital leases. Rental expenses under operating leases for 1998, 1995 and 1994 were \$679, \$720 and \$120. As December 31, 1998, the future minimum rental payments under noncancelable operating leases for the years 1997 through 2001 were \$105, \$93, \$84, \$71 and \$30 and \$167 thereafter. Capital leases were not significant.

5. Equity investments

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

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

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

	1996	1995	1994
Beginning of year	\$1,506	\$1,748	\$1,421
Additional investments	292	409	626
Equity in net income	264	156	223
Dividends received	(78)	(62)	(89)
Currency translation adjustment	(94)	(268)	(560)
Reclassifications and other adjustments	(3)	(397)	127
End of year	\$1,906	\$1,506	\$1,748

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

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

Undistributed earnings from equity affiliates were \$857 and \$665 at December 31, 1996 and 1995.

6. Debt

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

	1996	1995
Telephone Company debentures		
4.50%-5.88% 1997-2006	\$ 600	\$ 600
6.12%-6.88% 2000-2024	1,200	1,200
7.00%-7.75% 2009-2026	1,500	1,500
8.30% 1996	-	200
	3,300	3,500
Unamortized discount—net of premium	(29)	(21)
Total Telephone Company debentures	3,271	3,469
Telephone Company notes		
5.94%-7.67% 1997-2010	1,110	950
Unamortized discount	(8)	(5)
Total Telephone Company notes	1,112	945
Other notes		
5.70%-6.98% 1996-2007	200	206
7.00%-8.81% 1996-2020	1,821	1,129
	1,320	1,435
Unamortized discount	(14)	(21)
Total other notes	1,306	1,414
Guaranteed obligations of employee stock ownership plans ⁽¹⁾		
8.41%-9.40% 1996-2000	200	260
Capitalized leases	12	26
Total long-term debt, including current maturities	6,900	6,114
Current maturities	(404)	(442)
Total long-term debt	\$6,496	\$5,672

(1) See Note 9

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

At December 31, 1996, the aggregate principal amounts of long-term debt scheduled for repayment for the years 1997 through 2001 were \$404, \$302, \$447, \$523 and \$270. As of December 31, 1996, SBC was in compliance with all covenants and conditions of instruments governing its debt.

Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

Debt maturity schedule as at December 31:

Current maturities	404
Long-term debt	6,496
Total	6,900

The weighted average paper debt at December 31, 1996, was 5.7%. SBC has established a program to issue new debt for those of its existing debt instruments that mature in the next five years and are in excess of \$100 million. The program is subject to the availability of debt financing and market conditions.

7. Provisions for income taxes

The carrying amount of SBC's long-term debt is \$6,496, which is substantially in excess of the

Telephone Company debentures Telephone Company notes Other notes Guaranteed obligations of employee stock ownership plans

The fair value of the debt is based on quoted market prices for the debt or on discounted future cash flows at current market rates. The carrying amount of the debt is approximately the same as the fair value.

SBC does not have any debt that is subject to a sinking fund or a call provision. SBC's short-term investments are classified as current assets. Short-term investments are classified as current assets as of December 31, 1996 and 1995. Short-term investments are cash and cash equivalents and are classified as current assets.

8. Accounting for income taxes

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

	1996	1995
Deferred tax liability	\$2,210	\$2,100
Deferred tax asset	600	550
Deferred tax liability	2,811	2,722
Deferred tax asset	1,460	1,373
Deferred tax liability	90	100
Deferred tax asset	2,544	2,095
Deferred tax liability	90	110
Deferred tax asset	\$ 800	\$ 747

As a result of implementing Financial Accounting Standards No. 109, "Accounting for Income Taxes," in 1996, the Telephone Company recorded a net reduction in its deferred tax liability. This reduction was substantially offset by the establishment of a net regulatory liability, which was offset with the discontinued operations of F&B 71 in September 1995 (see Note 2).

The decrease in the valuation allowance is the result of an elimination of the uncertainty associated with the valuation of certain deferred tax assets. The valuation allowance is maintained in deferred tax assets for certain federal and state loss carryforwards.

The components of income tax expense are as follows:

	1996	1995	1994
Current	\$ 940	\$ 821	\$ 967
Deferred—net	140	446	(122)
Deferred tax credits	(29)	(42)	(61)
Total	\$ 1,051	\$ 1,225	\$ 784
Deferred tax liability	90	100	100
Deferred tax asset	17	18	(2)
Total	\$ 1,058	\$ 1,343	\$ 882

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

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

9. Employee Benefits

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

SBC's objective in funding the plans, in combination with the standards of the Employee Retirement Income Security Act of 1974 (as amended), is to accumulate funds sufficient to meet its benefit obligations to employees upon their retirement. Contributions to the plans are made to a trust for the benefit of plan participants. Plan assets consist primarily of stocks, U.S. government and domestic corporate bonds and real estate.

Net pension cost is composed of the following:

	1996	1995	1994
Service cost—benefits earned during the period	\$ 182	\$ 163	\$ 157
Interest cost on projected benefit obligation	814	486	464
Actual return on plan assets	(1,388)	(2,017)	149
Other—net	842	1,495	(670)
Net pension cost	\$ 129	\$ 127	\$ 100

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

	1996	1995
Fair value of plan assets	\$ 9,293	\$ 8,529
Less: Actuarial present value of projected benefit obligation	7,376	7,276
Plan assets in excess of projected benefit obligation	1,917	1,253
Unrecognized prior service cost	842	850
Unrecognized net gain	(2,447)	(1,608)
Unamortized transition asset	(886)	(686)
Accrued pension cost	\$ (298)	\$ (31)

Significant assumptions used in developing pension information include:

	1996	1995	1994
Discount rate for determining projected benefit obligation	7.5%	7.25%	7.5%
Long-term rate of return on plan assets	8.8%	8.0%	8.0%
Composite rate of compensation increase	4.8%	4.6%	4.6%

The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to previously rendered employee service. It is measured based on assumptions concerning future interest rates and employee compensation levels. Should actual experience differ from the actuarial assumptions, the benefit obligation will be affected.

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

In December 1996, under the provisions of Section 420 of the Internal Revenue Code, SBC transferred \$75 in pension assets to a health care benefit account for the reimbursement of retiree health care benefits paid by SBC.

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

Notes to Consolidated Financial Statements

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The assumed medical cost trend rate in 1997 is 6%, decreasing gradually to 5.5% in 2002, prior to adjustment for inflationary provisions of the plan for active and fully vested retired employees. The assumed dental cost trend rate in 1997 is 6.25%, reducing to 5.0% in 2002. Raising the assumed medical and dental cost trend rates to their percentage point increases the APBO as of December 31, 1996 by \$135 and increases the net pension service and interest cost components of the net benefit pensionable benefit cost for the year ended December 31, 1996 by approximately \$16. Significant assumptions for the discount rate, long-term rate of return on plan assets and composite rate of compensation increase used in developing the APBO were the same as those used in developing the pension information.

Employee Stock Ownership Plans SBC maintains two employee savings plans which cover substantially all employees. Under the savings plans, SBC matches the total percentage of eligible employee contributions, subject to a specified ceiling.

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

SBC's match of employee contributions to the savings plans is funded with shares of stock allocated from the ESOPs and with purchases of SBC's stock in the open market. Benefit cost is based on a combination of the contributions to the savings plans and the cost of shares allocated to participating employees' accounts. Both interest cost and interest expense on the notes are allocated to dividends on SBC's shares held by the ESOPs, and interest earned on the ESOP's funds. Information related to the ESOPs and the savings plans is summarized below:

	1996	1995	1994
Notes payable—net of dividends and interest income	888	823	828
Notes payable—net of dividends and interest income	11	14	17
Notes payable	36	37	43
Notes payable—net of dividends and interest income	—	—	(1)
Notes payable	889	837	842
Notes payable for ESOPs	857	840	840
Notes payable for credit service	889	838	827

14. Quarterly Financial Information (Unaudited)

Calendar Quarter	Total Operating Revenues	Operating Income	Net Income (Loss)	Earnings per Common Share	Stock Price		
					High	Low	Close
1996							
First	\$ 3,197	\$ 800	\$ 464	\$ 0.76	\$60.250	\$49.750	\$52.625
Second	3,333	845	501	0.82	50.750	46.250	49.250
Third	3,600	980	593	0.97	51.000	46.000	48.125
Fourth	3,768	943	543	0.90	55.250	47.000	51.875
Annual	\$13,898	\$3,556	\$ 2,101	\$ 3.46			
1995							
First	\$ 2,910	\$ 708	\$ 395	\$ 0.65	\$43.875	\$39.625	\$42.000
Second	3,025	754	442	0.73	47.875	41.625	47.625
Third ⁽¹⁾	3,292	(2,285)	(3,73)	(5.15)	55.125	45.500	55.000
Fourth ⁽²⁾	3,443	692	518	0.85	58.500	53.125	57.250
Annual ⁽¹⁾	\$12,670	\$3,037	\$ (930)	\$ (1.53)			

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

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

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

Report of Management

The consolidated financial statements in this annual report are the responsibility of management. The independent auditors' report on these financial statements is not a guarantee of the accuracy of the financial statements. Management is responsible for the accuracy of the financial statements and for the accuracy of the information included in this annual report.

The Board of Directors (BOD) have authorized the Chief Executive Officer (CEO) to execute the consolidated financial statements on behalf of the BOD. The CEO is responsible for the accuracy of the financial statements and for the accuracy of the information included in this annual report.

Management is responsible for the accuracy of the financial statements and for the accuracy of the information included in this annual report. Management is responsible for the accuracy of the financial statements and for the accuracy of the information included in this annual report.

Management is responsible for the accuracy of the financial statements and for the accuracy of the information included in this annual report. Management is responsible for the accuracy of the financial statements and for the accuracy of the information included in this annual report.

The Audit Committee is responsible for the accuracy of the financial statements and for the accuracy of the information included in this annual report. The Audit Committee is responsible for the accuracy of the financial statements and for the accuracy of the information included in this annual report.

Edward E. ...
Chairman of the Board
...
Chairman of the Board

Report of Independent Auditors

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

We conducted our audits in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

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

Ernst & Young LLP

Two Towers, Texas
February 14, 1997

Paul Kline
Kline & Kline

Shirley T. Kline
Kline & Kline

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EXHIBIT E

SBC SEC FORM 10-K

PREPARED FOR

SOUTH DAKOTA

PUBLIC UTILITIES COMMISSION

0144-115-1111

FORM 10-K
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)



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

For fiscal year ended December 31, 1996

OR



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

For the transition period from _____ to _____

Commission File Number: 1-8610

SBC COMMUNICATIONS INC.

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

175 E. Houston, San Antonio, Texas 78205-2233
Telephone Number 210-821-4105

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Shares (Par Value \$1.00 Per Share)	New York, Chicago and Pacific Stock Exchanges
\$7 1/2 Million 8.48% Medium-Term Notes Series D, Due December 8, 1999, of SBC Communications Capital Corporation	New York Stock Exchange

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No _____

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

- (1) Portions of SBC Communications Inc.'s Annual Report to Shareowners for the fiscal year ended December 31, 1996 (Parts I and II).
- (2) Portions of SBC Communications Inc.'s Notice of 1997 Annual Meeting and Proxy Statement dated March 11, 1997 (Parts III and IV).

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GENERAL

On April 1, 1996, SBC and Pacific Telesis Group (PAC) jointly announced a definitive agreement to merge an SBC subsidiary with PAC, in a transaction in which each share of PAC common stock will be exchanged for 0.773 of a share of SBC common stock (equivalent to approximately 314 million shares), subject to adjustment as described in the merger agreement based upon an allocation of the costs, fees and expenses and other financial effects incurred or sustained in connection with obtaining state regulatory approvals. After the merger, PAC will be a wholly-owned subsidiary of SBC. The transaction is intended to be accounted for as a pooling of interests and to be a tax-free reorganization. Certain pro-forma financial information concerning the merger is set forth in Note 3 to the financial statements of the 1996 SBC Annual Report to Shareowners. On July 31, 1996, the shareowners of SBC and PAC each approved the transaction, which had previously been approved by the board of directors of each company. On November 5, 1996, the United States Department of Justice announced it would not initiate action on the merger under the Hart-Scott-Rodino antitrust law. The Public Service Commission of Nevada approved the merger on December 31, 1996. The FCC approved the transfer of licenses from PAC to SBC on January 31, 1997. The merger agreement is subject to certain other regulatory approvals, including approval by the California Public Utilities Commission (CPUC). On February 21, 1997, an Administrative Law Judge recommendation was issued which proposed approval of the merger subject to certain conditions. Among these conditions is a recommendation that \$590 million be refunded to California ratepayers over the next five years, with the annual payments being increased by 10% each year. SBC believes the recommendations are excessive and inappropriate, and intends to ask the CPUC to eliminate or substantially modify the refunds and other conditions. The CPUC is expected to issue an order on the transaction by the end of the first quarter. Subject to allocation of the regulatory approval costs, as discussed above, and receipt of remaining regulatory approvals, the transaction is expected to close in the first half of 1997.

FEDERAL LEGISLATION AND THE MEDIA

By its specific terms, the Telecom Act supersedes the jurisdiction of the District Court with regard to activities occurring after the date of enactment. The Federal Communications Commission (FCC) is given authority for all post-enactment conduct, with the District Court retaining jurisdiction of pre-enactment

...the first time that SBC will be ... the five-year span. Additional ... to the November 1996 ... by reference pursuant to

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the company is to be a single source for the five-state area (in-region) report. Communications outside the five-state area will be provided through several providers. Mobile Systems, Inc. (Mobile Systems), Yellow Pages, Inc. (Yellow Pages), and Vantage, Inc. (Mobile Vantage). These providers will provide landline and wireless services for yellow pages and white pages directories and wireless equipment, enhanced services and other services. Mobile Systems and Yellow Pages, Inc. will provide services in the five-state area by the Telephone and Bell Telecommunications, Inc. (Telephone and Bell Telecommunications, Inc.) enhanced services being moved into state.

[illegible]

The following table shows the average annual earnings by city and by class of service for the years 1960-1961, 1961-1962, and 1962-1963.

	Percentage of Total Operating Revenues		
	1993	1995	1994
Total revenues			
Licenses	34%	34%	34%
Merchandise	18%	18%	15%
Performance fees	24%	24%	24%

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The FCC has certain rules that impact the manner in which the Telephone Company may offer network services for enhanced service providers. Enhanced services are certain services other than basic transmission services. Under these rules, the Telephone Company is permitted to offer enhanced services either on its own or jointly with its affiliates, subject to nonstructural safeguards designed to permit the Telephone Company's competitors to acquire needed network services on a comparably efficient, non-discriminatory basis and to reduce the risk of cross-subsidization. These safeguards include accounting and reporting procedures and Open Network Architecture (ONA) requirements, which represent the Telephone Company's plan to provide equal access to its network to all enhanced service providers. Enhanced services are deregulated at the federal level, and none of the state commissions to which the Telephone Company is subject has asserted jurisdiction over intrastate enhanced services. The nonstructural

In December 1990, SBC acquired the assets of Associated Communications Corporation, including its radio stations WABC and WABC-FM in New York City and Albany, New York, which are adjacent to other SBC stations in the New York City market.

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

In 1993, the FCC adopted an order allocating radio spectrum and outlining the development of licenses for new personal communications services (PCS). PCS utilizes wireless telecommunications digital technology at a higher frequency radio spectrum than cellular. Like cellular, it is designed to permit access to a variety of communications services regardless of subscriber location. In an FCC auction, which concluded in March 1995, PCS licenses were awarded in 51 major markets. SBC acquired PCS licenses in the major trading areas of Memphis, Tennessee, Little Rock, Arkansas, and Tulsa, Oklahoma. SBC is currently in the build-out phase of PCS in Tulsa, Oklahoma. During 1996, SBC received several AT&T cellular networks in Arkansas in exchange for SBC's PCS licenses in Memphis, Tennessee and Little Rock, Arkansas and other considerations.

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

International

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

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

In February 1996, SBC International acquired a 49% interest in VTR S.A. (VTR), a privately owned telecommunications company in Chile. Since 1994, SBC International increased its stake to 49%. SBC International's ownership in VTR is 51% indirectly owned by Grupo Laticia, a large Chilean telecommunications company. VTR provides local, long-distance, wireless and cable television services in Chile. Since 1994, SBC International has provided over approximately 97,000 direct lines, long distance and cable services to over 172,000 subscribers and cable television services were provided to approximately 100,000 subscribers.

In October 1996, SBC International acquired a 49% interest in United Kingdom cable television operations, which included Midlands Cable Television, Yorkshire Cable Television, and Yorkshire Communications, with those of TeleWest Communications, a subsidiary of British Telecommunications, Inc. and U.S. WEST, Inc. The combination of these operations will make SBC International a significant television operator in the United Kingdom and also provide SBC International with an ownership interest of approximately 17% of the new entity.

SBC International also has a 49% interest in Golden Channels, a cable television provider in the United Kingdom. Golden Channels' systems passed 433,000 households and provided approximately 1.5 million channels, a penetration rate of approximately 64%.

In Israel and Russia, SBC International is a company involved in the publication of yellow pages directories and other telecommunications services.

In November, a consortium consisting of SBC International and other investors received one of two licenses for international telecommunications services in Italy. Other consortium members are STET, Italy's national telephone company, Telecom Italia, a subsidiary of STET, and the Italian Telecom and Kaban group. At the present time, the consortium is in the process of obtaining initial service.

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

Directory Publications

Yellow Pages provides a comprehensive directory of approximately 350 directories principally within the five-state area. Yellow Pages also publishes a number of other yellow pages directories are currently published in the second half of each year. Yellow Pages also publishes a number of other yellow pages and services associated with yellow pages directories. Yellow Pages also publishes a number of other yellow pages and services associated with yellow pages directories. Yellow Pages also publishes a number of other yellow pages and services associated with yellow pages directories.

Customer Information and Marketing Programs

In December 1994, SBC International entered into a strategic alliance with the operations of the Telephone Company, a nationwide telecommunications company. Through this alliance, SBC International acquired an indirect 10% ownership of the Telephone Company, a nationwide telecommunications company. Their offerings range from single-line and multi-line services to long-distance and international services. TRK is a private telephone network that provides long-distance services to its subscribers, which provides intra-private telephone services as well as services to the public. SBC International has entered into an exclusive, long-term distribution agreement with the Telephone Company to provide long-distance services through an exclusive, long-term distribution agreement with the Telephone Company. SBC International has entered into an exclusive, long-term distribution agreement with the Telephone Company to provide long-distance services through an exclusive, long-term distribution agreement with the Telephone Company.

Business Development

Media Ventures (Media Ventures) is a company serving the suburban Washington, D.C. area. Cable TV Montgomery serves Montgomery County, Maryland. Cable TV Arlington serves Arlington County,

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

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

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

GOVERNMENT REGULATION

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

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

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

IMPORTANCE, DURATION AND EFFECT OF LICENSES

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

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

Cellular licenses are subject to "sunset" provisions or "sunset" clauses granted by the FCC. These provisions require that the licensee demonstrate compliance with FCC use and conduct standards by a certain date. In May 1996, Arlington County, Virginia, notified SBC that it intended to exercise its option to purchase the Arlington County, Virginia, cellular license, which expires in May 1997. SBC is currently in the process of negotiating the purchase of the license with Arlington County, Virginia. SBC is currently in the process of negotiating the purchase of the license with Arlington County, Virginia.

ADVERTISING

SBC's advertising is primarily for its telecommunications services. In 1996 or 1995, approximately 10% of SBC's advertising was placed in AT&T. No other customer accounted for more than 5% of SBC's advertising.

COMPLIANCE

Environmental

SBC's environmental policy is contained in SBC's Annual Report to Shareowners for 1996 under the heading "Environmental Policy" beginning on page 14, and is incorporated herein by reference pursuant to General Instruction G(2).

Employee

Information relating to SBC's employee relations is contained in SBC's Annual Report to Shareowners for 1996 under the heading "Employee Relations" beginning on page 15, and is incorporated herein by reference pursuant to General Instruction G(2).

Product

SBC's product lines are described in SBC's Annual Report to Shareowners for 1996 under the heading "Product Lines" beginning on page 16, and is incorporated herein by reference pursuant to General Instruction G(2).

Customer

The Telephone Company's customer base is growing from numerous companies in the Dallas-Fort Worth area.

RESEARCH AND DEVELOPMENT

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

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

EMPLOYEES

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

ITEM 2. PROPERTIES

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

ITEM 3. LEGAL PROCEEDINGS

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

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

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

EXECUTIVE OFFICERS OF THE REGISTRANT

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

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

ITEM 1. INFORMATION CONCERNING THE COMPANY'S DEBT AND RELATED

The debt of the Company as of December 31, 1995 was \$80,465 and \$40,378. Other information regarding the Company's debt is contained in the "Financial Information" on page 33, "Management's Discussion and Analysis of Financial Condition" on page 37, which is incorporated by reference herein.

ITEM 2. INFORMATION CONCERNING THE COMPANY'S CAPITAL STOCK AND RELATED MATTERS

Information regarding the Company's capital stock is contained in the "Financial Information" on page 33, "Management's Discussion and Analysis of Financial Condition" on page 37, which is incorporated by reference herein.

ITEM 3. INFORMATION CONCERNING THE COMPANY'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information regarding the Company's financial condition and results of operations is contained in the "Financial Information" on page 33, "Management's Discussion and Analysis of Financial Condition" on page 37, which is incorporated by reference herein.

ITEM 4. INFORMATION CONCERNING THE COMPANY'S LEGAL MATTERS

Information regarding the Company's legal matters is contained in the "Financial Information" on page 33, "Management's Discussion and Analysis of Financial Condition" on page 37, which is incorporated by reference herein.

ITEM 5. INFORMATION CONCERNING THE COMPANY'S RELATIONS WITH ACCOUNTANTS ON ACCOUNTING

No change in the Company's relationship with accountants on accounting or financial disclosure matters occurred during the year ended December 31, 1995.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF REGISTRANTS

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

ITEM 11. EXECUTIVE COMPENSATION

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

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

EXHIBITS, AND REPORTS ON

Page

Exhibit 1 - Certificate of Incorporation	*
Exhibit 2 - Articles of Incorporation	*
Exhibit 3 - Bylaws	*
Exhibit 4 - Certificate of Ownership	*
Exhibit 5 - Certificate of Ownership	*

Exhibit 6 - Certificate of Ownership of the registrant's annual report to shareholders (Exhibit 6)

Page

Exhibit 7 - Certificate of Ownership of the registrant's annual report to shareholders (Exhibit 7)	18
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Exhibit 8 - Certificate of Ownership of the registrant's annual report to shareholders (Exhibit 8)

Exhibit 9 - Certificate of Ownership of the registrant's annual report to shareholders (Exhibit 9)

Exhibit 10 - Certificate of Ownership of the registrant's annual report to shareholders (Exhibit 10)

Exhibit 11 - Certificate of Ownership of the registrant's annual report to shareholders (Exhibit 11)

Exhibit 12 - Certificate of Ownership of the registrant's annual report to shareholders (Exhibit 12)

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

Schedule II - Sheet 1

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

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

(b) Amounts written off as uncollectible.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 11th day of March, 1997.

SBC COMMUNICATIONS INC.

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

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

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

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

Directors:

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

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

March 11, 1997

* by power of attorney

EXHIBIT 12

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

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

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

EXHIBIT F

SBC SEC FORM 10-Q

PREPARED FOR

SOUTH DAKOTA

PUBLIC UTILITIES COMMISSION

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 period ended March 31, 1997

or



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

For the transition period from to

Commission File Number 1-8610

SBC COMMUNICATIONS INC.

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

175 E. Houston, San Antonio, Texas 78205

Telephone Number: (210) 821-4105

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

At April 30, 1997, 912,223,683 common shares were outstanding.

PART I - FINANCIAL INFORMATION

On April 1, 1997, SBC Communications Inc. (SBC) and Pacific Telesis Group (PAC) completed the merger of an SBC subsidiary with PAC. With the merger, PAC became a wholly-owned subsidiary of SBC. The transaction was accounted for as a pooling of interests and a tax-free reorganization.

Because the merger was completed after March 31, 1997, the financial information for SBC for the period ended March 31, 1997 is required to be presented on a pre-merger basis. This information follows as Item 1a. Financial Statements and Item 2a. Management's Discussion and Analysis of Financial Condition and Results of Operations. Supplemental pro forma financial information giving effect to the merger and discussing the pro forma results of operations for the combined company is included subsequent to these items as Item 1b. Supplemental Pro Forma Financial Statements and Item 2b. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 1a. Financial Statements

SBC COMMUNICATIONS INC.

CONSOLIDATED STATEMENTS OF INCOME

Dollars in millions except per share amounts
(Unaudited)

	Three months ended March 31,	
	1997	1996
Operating Revenues		
Local service	\$ 1,952	\$ 1,733
Network access	832	804
Long-distance service	232	224
Directory advertising	107	104
Other	333	332
Total operating revenues	3,456	3,197
Operating Expenses		
Cost of services and products	1,179	1,076
Selling, general and administrative	809	775
Depreciation and amortization	578	546
Total operating expenses	2,566	2,397
Operating Income	890	800
Other Income (Expense)		
Interest expense	(116)	(120)
Equity in net income of affiliates	32	53
Other income (expense) - net	(12)	(4)
Total other income (expense)	(96)	(71)
Income Before Income Taxes	794	729
Income Taxes	277	265
Net Income	\$ 517	\$ 464
Earnings Per Common Share	\$ 0.86	\$ 0.76
Weighted Average Number of Common Shares Outstanding (in millions)	599	609
Dividends Declared Per Common Share	\$ 0.4475	\$ 0.43

See Notes to Consolidated Financial Statements.

	March 31, 1997	December 31, 1996
Assets		
Current assets		
Cash and cash equivalents	\$ 733	\$ 242
Accounts receivable	307	432
Accounts payable		
Prepaid expenses	2,379	2,575
Deferred taxes	404	261
Other	220	205
Total current assets	3,643	3,912
Property, plant and equipment	33,196	32,754
Goodwill	19,609	18,747
Other intangible assets	14,126	14,007
Total assets	\$ 23,737	\$ 23,449
Liabilities and Equity		
Current liabilities		
Accounts payable	\$ 2,084	\$ 1,722
Accounts receivable	3,345	3,859
Accounts payable	285	259
Total current liabilities	5,714	5,840
Long-term debt	8,240	5,505
Deferred taxes	847	784
Other	2,617	2,720
Total liabilities	1,877	1,530
Equity		
Common stock	600	600
Retained earnings	6,324	6,322
Accumulated other comprehensive income	1,800	1,739
Other	(216)	(229)
Total equity	(1,841)	(984)
Total liabilities and equity	\$ 23,737	\$ 23,449

See Notes to Consolidated Financial Statements.

SBC COMMUNICATIONS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

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

(Unaudited)

	Three months ended	
	March 31,	
	1997	1996
Operating Activities		
Net income	\$ 517	\$ 464
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	578	546
Undistributed earnings from investments in equity affiliates	(23)	(46)
Provision for uncollectible accounts	53	40
Amortization of investment tax credits	(8)	(8)
Deferred income tax expense	9	66
Other - net	(673)	(146)
Total adjustments	(64)	452
Net Cash Provided by Operating Activities	453	916
Investing Activities		
Construction and capital expenditures	(662)	(635)
Investments in affiliates	(2)	(4)
Purchase of short-term investments	(198)	(253)
Proceeds from short-term investments	323	168
Dispositions	329	45
Acquisitions	(25)	-
Net Cash Used in Investing Activities	(235)	(679)
Financing Activities		
Net change in short-term borrowings with original maturities of three months or less	213	112
Issuance of other short-term borrowings	120	89
Repayment of other short-term borrowings	(75)	-
Issuance of long-term debt	397	-
Repayment of long-term debt	(99)	(71)
Purchase of treasury shares	(88)	(75)
Issuance of treasury shares	15	14
Dividends paid	(258)	(225)
Net Cash Provided by (Used in) Financing Activities	273	(156)
Net increase in cash and cash equivalents	491	81
Cash and cash equivalents beginning of year	242	490
Cash and Cash Equivalents End of Period	\$ 733	\$ 571
Cash paid during the three months ended March 31 for:		
Interest	\$ 146	\$ 134
Income taxes	\$ 317	\$ 178

See Notes to Consolidated Financial Statements.

	Three months ended	
	March 31,	
	1997	1996
Operating Activities		
Net income	\$ 517	\$ 464
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	578	546
Undistributed earnings from investments in equity affiliates	(23)	(46)
Provision for uncollectible accounts	53	40
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Cash and cash equivalents beginning of year	242	490
Cash and Cash Equivalents End of Period	\$ 733	\$ 571

See Notes to Consolidated Financial Statements.

FINANCIAL RATIOS

	1997	1996
Return on assets	20.07%	28.80%
Debt ratio	53.89%	53.66%
Current ratio	15.18%	14.66%
Assets per share	14,238	13,246
Capital expenditures per share	4,689	3,829
Number of shares outstanding	63,170	59,540

SBC COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Dollars in millions except per share amounts

1. **BASIS OF PRESENTATION** - The consolidated financial statements have been prepared by SBC Communications Inc. (SBC) pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, in the opinion of management, include all adjustments (consisting only of normal recurring accruals) necessary to present fairly the results for the interim periods shown. Certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been condensed or omitted pursuant to such SEC rules and regulations. Certain reclassifications have been made to the 1996 consolidated financial statements to conform with the 1997 presentation. The results for the interim periods are not necessarily indicative of results for the full year. The consolidated financial statements contained herein should be read in conjunction with the consolidated financial statements and notes thereto included in SBC's 1996 Annual Report to Shareowners.

2. **CONSOLIDATION** - The consolidated financial statements include the accounts of SBC and its majority-owned subsidiaries. Southwestern Bell Telephone Company (SWBell) was SBC's largest subsidiary during the first quarter of 1997. All significant intercompany transactions are eliminated in the consolidation process. Investments in partnerships, joint ventures and less than majority-owned subsidiaries are principally accounted for under the equity method. Earnings from foreign investments accounted for under the equity method are included for periods ended within three months of the date of SBC's Consolidated Statements of Income.

3. **MERGER** - On April 1, 1997, SBC and Pacific Telesis Group (PAC) completed the merger of an SBC subsidiary with PAC, in a transaction in which each share of PAC common stock was exchanged for 0.73145 of a share of SBC common stock (equivalent to approximately 313 million shares). With the merger, PAC became a wholly-owned subsidiary of SBC. The transaction was accounted for as a pooling of interests and a tax-free reorganization. The financial statements giving effect to the merger are presented in Item 1b. Supplemental Pro Forma Financial Statements.

4. **NEW ACCOUNTING STANDARD** - Statement of Financial Accounting Standards No. 128, "Earnings per Share" (FAS 128), requires dual presentation of basic and diluted earnings per share (EPS). Diluted EPS will be similar to the fully diluted EPS under current accounting rules. SBC will adopt FAS 128 in its annual 1997 consolidated financial statements, but does not expect FAS 128 to have any significant impact.

SBC Communications Inc.

Item 2. Financial Statements and Supplementary Data

Financial Statements

SBC Communications Inc. reports its financial statements in U.S. dollars. The financial statements for the first quarter of 1997, 1996, and 1995 are presented as follows:

	First Quarter		
	1997	1996	Percent Change
Operating revenue	\$3,496	\$3,197	8.1%
Operating expenses	\$2,886	\$2,397	7.1%
Pre-tax income	\$ 610	\$ 799	11.4%

The primary reason for the increase in operating revenue during the first quarter of 1997 was growth in demand for long distance services, particularly from Southwestern Bell Telephone Company (SWBell) and Southwestern Bell Mobile Communications.

SBC's operating expenses for the first quarter of 1997 increased \$239, or 8.1%, over the first quarter 1996. Components of the increase for the first quarters of 1997 and 1996 are as follows:

	First Quarter		
	1997	1996	Percent Change
Local service			
Landline	\$ 1,344	\$ 1,121	11.0%
Wireless	798	612	15.7
Network service			
Interstate	864	534	5.6
Intrastate	288	270	(0.7)
Long distance	252	224	3.6
Directory advertising	187	104	2.9
Other	282	332	0.3
Total operating expenses	\$ 2,886	\$ 2,397	8.1%

Local service revenue for the first quarter of 1997 was primarily due to growth in demand for long distance services, particularly from Southwestern Bell Telephone Company (SWBell) and Southwestern Bell Mobile Communications. Landline revenue for the first quarter of 1997 was primarily due to growth in demand for long distance services, particularly from Southwestern Bell Telephone Company (SWBell) and Southwestern Bell Mobile Communications. Wireless revenue for the first quarter of 1997 was primarily due to growth in demand for long distance services, particularly from Southwestern Bell Telephone Company (SWBell) and Southwestern Bell Mobile Communications.

Network service revenue for the first quarter of 1997 was primarily due to growth in demand for long distance services, particularly from Southwestern Bell Telephone Company (SWBell) and Southwestern Bell Mobile Communications. Interstate revenue for the first quarter of 1997 was primarily due to growth in demand for long distance services, particularly from Southwestern Bell Telephone Company (SWBell) and Southwestern Bell Mobile Communications. Intrastate revenue for the first quarter of 1997 was primarily due to growth in demand for long distance services, particularly from Southwestern Bell Telephone Company (SWBell) and Southwestern Bell Mobile Communications.

SBC COMMUNICATIONS INC.

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

Dollars in millions except per share amounts

RESULTS OF OPERATIONS - Continued

Network Access Interstate network access revenues increased in the first quarter of 1997 due largely to increases in demand for access services by interexchange carriers. Growth in revenues from end user charges, attributable to an increasing access line base, also contributed to the increase.

Intrastate network access revenues were relatively unchanged in the first quarter of 1997 as modest increases in demand, including usage by alternative intraLATA toll carriers, were offset by net price decreases.

Long-Distance Service revenues increased in the first quarter of 1997 due to growth in wireless revenues, including revenues from interLATA service beginning in February 1996, somewhat offset by decreases at SWBell due to the impact of price competition from alternative intraLATA toll carriers and the introduction and deployment of extended area local service plans.

Other operating revenues in the first quarter of 1997 were essentially unchanged as increases related to SWBell's non-regulated services and products were offset by decreases in equipment sales.

SBC's operating expenses in the first quarter 1997 increased \$169, or 7.1%, over the first quarter of 1996. Components of operating expenses for the first quarters of 1997 and 1996 are as follows:

	First Quarter		Percent Change
	1997	1996	
Cost of services and products	\$ 1,179	\$ 1,076	9.6%
Selling, general and administrative	889	775	4.4
Depreciation and amortization	578	546	5.9
Total Operating Expenses	\$ 2,566	\$ 2,397	7.1%

Total Operating Expenses Cost of services and products and selling, general and administrative expenses increased on a combined basis \$137, or 7.4% in the first quarter of 1997 due to increases at SWBell for employee compensation, network expansion and maintenance, sales agents commissions and operating taxes. Other increases related to growth at Mobile Systems and new business initiatives for long-distance and Internet services. These increases were somewhat offset by decreases in expenses for Caller ID equipment at SWBell. Depreciation and amortization increased in the first quarter of 1997 due primarily to growth in plant levels at SWBell and Mobile Systems.

Equity in net income of affiliates decreased \$21 in the first quarter of 1997 due to decreased income from Teléfonos de México, S.A. de C.V. (Telmex), resulting from SBC's reduced ownership percentage after the sale of Telmex L shares (as discussed in SBC's 1996 Annual Report) and the change in the functional currency used by SBC to record its interest from the peso to the U.S. dollar beginning in 1997.

SBC's investment in Telmex is recorded in accordance with U.S. generally accepted accounting principles, which exclude inflation adjustments and include adjustments for the purchase method of accounting.

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

Network Access Interstate network access revenues increased in the first quarter of 1997 due largely to increases in demand for access services by interexchange carriers. Growth in revenues from end user charges, attributable to an increasing access line base, also contributed to the increase.

Intrastate network access revenues were relatively unchanged in the first quarter of 1997 as modest increases in demand, including usage by alternative intraLATA toll carriers, were offset by net price decreases.

Long-Distance Service revenues increased in the first quarter of 1997 due to growth in wireless revenues, including revenues from interLATA service beginning in February 1996, somewhat offset by decreases at SWBell due to the impact of price competition from alternative intraLATA toll carriers and the introduction and deployment of extended area local service plans.

Other operating revenues in the first quarter of 1997 were essentially unchanged as increases related to SWBell's non-regulated services and products were offset by decreases in equipment sales.

SBC's operating expenses in the first quarter 1997 increased \$169, or 7.1%, over the first quarter of 1996. Components of operating expenses for the first quarters of 1997 and 1996 are as follows:

	First Quarter		Percent Change
	1997	1996	
Cost of services and products	\$ 1,179	\$ 1,076	9.6%
Selling, general and administrative	889	775	4.4
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Total Operating Expenses	\$ 2,566	\$ 2,397	7.1%

Total Operating Expenses Cost of services and products and selling, general and administrative expenses increased on a combined basis \$137, or 7.4% in the first quarter of 1997 due to increases at SWBell for employee compensation, network expansion and maintenance, sales agents commissions and operating taxes. Other increases related to growth at Mobile Systems and new business initiatives for long-distance and Internet services. These increases were somewhat offset by decreases in expenses for Caller ID equipment at SWBell. Depreciation and amortization increased in the first quarter of 1997 due primarily to growth in plant levels at SWBell and Mobile Systems.

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SBC's investment in Telmex is recorded in accordance with U.S. generally accepted accounting principles, which exclude inflation adjustments and include adjustments for the purchase method of accounting.

SBC COMMUNICATIONS INC.

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

Dollars in millions except per share amounts

OPERATING ENVIRONMENT AND TRENDS OF THE BUSINESS - Continued

OTHER BUSINESS MATTERS

In March 1997, the consortium of SBC and Telekom Malaysia Berhad, 60% owned by SBC, finalized an agreement to purchase 30% of Telkom South Africa (Telkom), the state-owned government telecommunications company of South Africa. Under the agreement, SBC is committed to invest approximately \$750, approximately \$600 of which will remain in Telkom. The transaction is expected to close in the second quarter of 1997.

LIQUIDITY AND CAPITAL RESOURCES

During the first quarter of 1997, as in 1996, SBC's primary source of funds continued to be cash provided by operating activities. Additionally, in March 1997 SBC issued approximately \$385 in debt due March 2001 which, at SBC's option, may be redeemed upon maturity either in cash or Telmex L shares (equivalent to up to 2.4% of Telmex's equity capitalization at March 31, 1997). SBC had \$733 in cash and cash equivalents available at March 31, 1997. SBC has entered into agreements with several banks for lines of credit totaling \$750, all of which may be used to support commercial paper borrowings. SBC had no borrowings outstanding under these lines of credit as of March 31, 1997. Commercial paper borrowings as of March 31, 1997 totaled \$1,576.

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

SBC COMMUNICATIONS INC.		
CONDENSED CONSOLIDATED STATEMENTS OF INCOME		
	Three months ended March 31,	
	1997	1996
Operating revenues		
Local service	\$ 2,989	\$ 2,712
Interexchange	1,484	1,441
Long distance	541	542
Directory	470	411
Other	497	468
Total operating revenues	5,991	5,574
Operating expenses		
Cost of service	2,885	1,932
Selling	1,383	1,173
Administrative	1,008	1,011
Total operating expenses	4,495	4,116
Operating income	1,506	1,458
Other income		
Interest expense	(288)	(212)
Equity in earnings	27	45
Other income	(28)	2
Total other income	(289)	(165)
Income before income taxes	1,217	1,293
Income taxes	328	495
Income from operations	887	798
Continuing operations	-	90
Net income	\$ 887	\$ 888
Earnings Per Share		
Income before income taxes	\$ 0.94	\$ 0.86
Continuing operations	-	.10
Net income	\$ 0.94	\$ 0.96
Weighted Average Shares		
Income before income taxes	912	923

See Notes to the Financial Statements

SBC COMMUNICATIONS INC.
SUPPLEMENTAL PRO FORMA CONSOLIDATED BALANCE SHEETS

Dollars in millions except per share amounts

	March 31, 1997 (Unaudited)	December 31, 1996
Assets		
Current Assets		
Cash and cash equivalents	\$ 846	\$ 314
Short-term cash investments	307	432
Accounts receivable - net of allowances for uncollectibles of \$316 and \$311	4,534	4,684
Prepaid expenses	438	287
Deferred charges	129	102
Other current assets	367	452
Total current assets	6,621	6,271
Property, Plant and Equipment - at cost	62,707	61,786
Less: Accumulated depreciation and amortization	36,317	35,706
Property, Plant and Equipment - Net	26,390	26,080
Intangible Assets - Net of Accumulated Amortization of \$639 and \$612	3,586	3,589
Investments in Equity Affiliates	1,818	1,964
Other Assets	1,685	1,581
Total Assets	\$ 40,820	\$ 39,485

Liabilities and Shareowners' Equity

Current Liabilities		
Debt maturing within one year	\$ 3,169	\$ 2,335
Accounts payable and accrued liabilities	5,664	6,584
Dividends payable	408	393
Total current liabilities	9,241	9,312
Long-Term Debt	11,179	10,930
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,076	853
Postemployment benefit obligation	5,175	5,070
Unamortized investment tax credits	479	498
Other noncurrent liabilities	1,725	2,181
Total deferred credits and other noncurrent liabilities	8,455	8,602
Corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts*	1,000	1,000
Shareowners' Equity		
Common shares issued (\$1 par value)	934	934
Capital in excess of par value	9,414	9,422
Retained earnings	1,746	1,297
Guaranteed obligations of employee stock ownership plans	(216)	(229)
Deferred Compensation - LESOP	(146)	(161)
Foreign currency translation adjustment	(530)	(637)
Treasury shares (at cost)	(1,040)	(985)
Total shareowners' equity	10,154	9,641
Total Liabilities and Shareowners' Equity	\$ 40,820	\$ 39,485

*The trust contains assets of \$1,030 in principal amount of the Subordinated Debentures of Pacific Telelink Group. See Notes to Supplemental Pro Forma Consolidated Financial Statements.

STATEMENTS OF

Three months ended

March 31,

1997 1996

\$ 739 \$ 1,423

(1,263) (1,121)

79 (53)

(824) (1,176)

713 (507)

(78) 338

(87) (177)

888 70

244 566

\$ 845 \$ 636

25,096 25,626

25,096 29,026

25,096 30,432

29,883 29,872

4,698 3,828

113,680 108,520

SBC COMMUNICATIONS INC.

**NOTES TO SUPPLEMENTAL PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

(Dollars in millions except per share amounts)

The combined results include the effect of changes applied retroactively to conform accounting methodologies between PAC and SBC for, among other items, pensions, postretirement benefits, sales commissions and merger transaction costs and certain deferred tax adjustments resulting from the merger.

Transaction costs and one-time charges resulting from the merger of \$359 (\$215 net of tax) include, among other things, the present value of amounts to be returned to California ratepayers as a condition of the merger and expenses for investment banker and professional fees. Of this amount, \$13 is included in expenses in the first quarter of 1997.

Prior to January 1, 1996, Pacific Bell Directory (a subsidiary of PAC's subsidiary Pacific Bell) recognized revenues and expenses related to publishing directories in California using the "amortization" method, under which revenues and expenses were recognized over the lives of the directories, generally one year. Under the new "issue basis" method, revenues and expenses are recognized when the directories are issued. The change to the issue basis method was made because it is the method generally followed in the publishing industry, including Southwestern Bell Yellow Pages, Inc., and better reflects the operating activity of the business. The change was adopted during the fourth quarter of 1996. The cumulative after-tax effect of applying the change in method to prior years was recognized as of January 1, 1996 as a one-time, non-cash gain applicable to continuing operations of \$90, or \$0.10 per share. The gain is net of deferred taxes of \$53.

In 1996, management amended PAC's salaried pension plan, to change it from a final pay plan to a cash balance plan. Under the transition to the new plan, some retirees elected to receive lump-sum payments in settlement of the pension liability. These lump-sum payments in the first quarter of 1997 exceeded the projected service and interest cost. PAC recognized a gain on these settlements in the first quarter of 1997 that increased net income by \$90, or \$0.10 per share.

SBC COMMUNICATIONS

Item 20. Supplemental Financial Information: Condensed Financial Condition and Results of Operations

CONDENSED FINANCIAL STATEMENTS

Following are condensed financial statements for the first three months of operations of SBC giving effect to the adjustments described in Note 1. These condensed financial statements are prepared on the same basis as the consolidated financial statements with SBC's current report on Form 10-K. Management's Discussion and Analysis addressing the items of financial condition and results of operations of the Business, Other Business Matters and Litigation are incorporated by reference to the Management's Discussion and Analysis section of the report on Form 10-K.

SBC's operating performance for the first three months of 1997, or \$0.94 per share, for the first quarter of 1997, compared to the first three months of 1996 and 1996 are summarized as follows:

	First Quarter		
	1997	1996	Percent Change
Operating revenues	\$ 5,891	\$ 5,574	7.5%
Operating expenses	\$ 4,486	\$ 4,116	7.0%
Income before taxes	\$ 897	\$ 798	7.4%
Operating income	\$ 897	\$ 798	7.4%
Net income	\$ 897	\$ 808	-

The primary difference between the first three months of 1997 and 1996 is the cumulative effect of accounting change during the first quarter of 1997. The change in accounting method for the revenues and products at SWBell and Pacific Bell (including the effect of the change in accounting method for the revenues and products at SWBell and Pacific Bell) resulted in an increase of \$90 from PAC's settlement gain associated with lump-sum payments in the first quarter of 1997. The gain is net of deferred taxes of \$53. The gain is collectively referred to as the Telephone Company's gain.

SBC's operating revenues for the first three months of 1997, or 7.5%, over the first quarter 1996. Comprehensive income for the first three months of 1997 and 1996 are as follows:

	First Quarter		
	1997	1996	Percent Change
Local service			
Landline	\$ 2,579	\$ 2,100	8.5%
Wireless	710	612	16.0
Network service			
Interstate	1,080	991	4.7
Intrastate	486	430	1.3
Long distance service	941	542	(0.2)
Directory advertising	470	411	14.4
Other	497	468	6.2
Total Operating Revenues	\$ 5,891	\$ 5,574	7.5%

SBC COMMUNICATIONS INC.

Item 20. Management's Discussion and Analysis of Financial Condition and Results of Operations
 Dollars in millions except per share amounts

SUPPLEMENTAL PRO FORMA RESULTS OF OPERATIONS - Continued

Local Service Landline local service revenues increased in the first quarter of 1997 due primarily to increases in demand, including increases in access lines and vertical services revenues. The number of access lines increased by 4.4% since March 31, 1996, of which 44% was due to growth in California and 56% was due to growth in Texas. Approximately 34% of access line growth was due to sales of additional access lines to existing residential customers. Vertical services revenues, which include custom calling options, Caller ID and other enhanced services, increased by approximately 24%. Local service revenues also reflect the implementation of the California Universal Service Fund that went into effect February 1, 1997. This fund is intended to subsidize the provision of service to high cost areas. Amounts received from the fund resulted in a minor shift of equivalent revenues from long-distance and interstate network access revenues to local service revenues in the first quarter of 1997. These increases were slightly offset by rate reductions due to California Public Utilities Commission (CPUC) price cap orders.

Wireless local service revenues increased in the first quarter of 1997 due primarily to growth in the number of mobile systems and subscribers of 21.7% (19.8% excluding acquisitions) since March 31, 1996, partially offset by a slight decline in average revenue per customer. Revenues in the first quarter of 1997, wireless local revenues also include revenues from Personal Communications Services (PCS) operations in California and Nevada. PCS revenues accounted for only a slight portion of the increase. At March 31, 1997, Mobile Systems had 4,623,000 customers in areas in which they were one of the two incumbent providers and 37,000 resale customers; Pacific Bell Mobile Systems had 26,000 PCS customers.

Network Access Interstate network access revenues increased in the first quarter of 1997 due largely to increases in demand for access services by interexchange carriers. Growth in revenues from end user charges, attributable to an increasing access line base, also contributed to the increase. Partially offsetting these increases were sharing account adjustments from prior periods at Pacific Bell.

Interstate network access revenues increased slightly in the first quarter of 1997 due to modest increases in demand, including usage by alternative local AT&T toll centers, somewhat offset by the effects of the California Universal Service Fund discussed above.

Long-Distance Service revenues were unchanged in the first quarter of 1997. Increases due to growth in wireless revenues, including revenues from InterLATA service beginning in February 1996, and demand resulting from California's growing economy were offset by decreases due to the effect of the California Universal Service Fund discussed above, the impact of price competition from alternative InterLATA toll carriers and the introduction and deployment of extended area local service plans at SBC Bell.

Directory Advertising revenues increased in the first quarter of 1997 due mainly to the publication of directories not published in 1996 and, to a lesser extent, increased demand and earlier directory publication.

Other operating revenues increased in the first quarter of 1997 due primarily to increased demand for voice messaging services, computer programming services and revenues from new business initiatives, such as wireless cable and internet services. These increases were somewhat offset by decreases in equipment sales, including Caller ID equipment.

SBC COMMUNICATIONS INC.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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

(b) Reports on Form 8-K

On March 14, 1997, SBC Communications Inc. (SBC) filed a Current Report on Form 8-K, reporting on Item 7, Financial Statements and Exhibits. In the Report, SBC provided pro forma combined condensed financial statements of SBC and Pacific Telesis Group assuming the merger was accounted for as a "pooling of interests."

On March 31, 1997, SBC filed a Current Report on Form 8-K reporting on Item 7, Financial Statements and Exhibits. In the Report, SBC filed exhibits relating to the issuance of 7 3/4% exchangeable notes due March 15, 2001.

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

	THREE MONTHS ENDED MARCH 31,		YEAR ENDED DECEMBER 31,				
	1997	1996	1996	1995	1994	1993	1992
Income Before Income Taxes, Extraordinary Loss and Cumulative Effect of Accounting Changes*	\$ 771	\$ 683	\$ 3,093	\$ 2,698	\$ 2,300	\$ 1,883	\$ 1,701
Add: Interest Expense	116	120	472	515	480	496	530
1/3 Rental Expense	16	14	57	46	42	41	45
Adjusted Earnings	<u>\$ 903</u>	<u>\$ 817</u>	<u>\$ 3,622</u>	<u>\$ 3,259</u>	<u>\$ 2,822</u>	<u>\$ 2,420</u>	<u>\$ 2,276</u>
Total Interest Charges	\$ 122	\$ 125	\$ 493	\$ 515	\$ 480	\$ 496	\$ 530
1/3 Rental Expense	16	14	57	46	42	41	45
Adjusted Fixed Charges	<u>\$ 138</u>	<u>\$ 139</u>	<u>\$ 550</u>	<u>\$ 561</u>	<u>\$ 522</u>	<u>\$ 537</u>	<u>\$ 575</u>
Ratio of Earnings to Fixed Charges	6.54	5.88	6.59	5.81	5.41	4.51	3.96

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

EXHIBIT 12b

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

	THREE MONTHS ENDED MARCH 31,		YEAR ENDED DECEMBER 31,				
	1997	1996	1996	1995	1994	1993	1992
Income Before Income Taxes, Extraordinary Loss and Cumulative Effect of Accounting Changes*	\$ 1,362	\$ 1,247	\$ 4,975	\$ 4,383	\$ 4,091	\$ 2,070	\$ 3,447
Add: Interest Expense	208	212	812	957	935	1,005	1,036
Dividends on Preferred Securities	20	9	60	-	-	-	-
1/3 Rental Expense	34	27	108	77	85	81	89
Adjusted Earnings	<u>\$ 1,624</u>	<u>\$ 1,495</u>	<u>\$ 5,955</u>	<u>\$ 5,417</u>	<u>\$ 5,111</u>	<u>\$ 3,156</u>	<u>\$ 4,572</u>
Total Interest Charges	\$ 248	\$ 238	\$ 947	\$ 957	\$ 935	\$ 1,005	\$ 1,036
Dividends on Preferred Securities	20	9	60	-	-	-	-
1/3 Rental Expense	34	27	108	77	85	81	89
Adjusted Fixed Charges	<u>\$ 302</u>	<u>\$ 274</u>	<u>\$ 1,115</u>	<u>\$ 1,034</u>	<u>\$ 1,020</u>	<u>\$ 1,086</u>	<u>\$ 1,125</u>
Ratio of Earnings to Fixed Charges	5.38	5.46	5.34	5.24	5.01	2.91 #	4.06

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

#Results for 1993 reflect restructuring charges which reduced income from continuing operations before income taxes by \$1,431.

EXHIBIT G
OFFICERS AND DIRECTORS

Southwestern Bell Communications Services, Inc. Officers and Directors	
Name / Title	Business Address
Lowery Harper Vice President-Operations	1651 N. Collins Blvd., Suite 220 Richardson, Texas 75080 (972) 497-0152
Michael Kaufman President, CEO, and Director	5850 W. Las Positas Blvd. Pleasanton, CA 94588 (510) 468-5130
Karol M. Sweitzer Vice President - Regulatory Vice President - Business Planning and Chief Financial Officer	
Timothy P. Leahy Secretary, Attorney, and Director	
Michael D. Olson Assistant Treasurer	175 E. Houston San Antonio, Texas 78205 (210) 821-4105
Charles P. Allen Treasurer	
John J. Stephens Vice President-Taxes	
Stan Sigman Director	
Van Taylor Director	9505 Arboretum Blvd. Austin, Texas 78759 (512) 372-5900

PREPARED FOR
SOUTH DAKOTA
PUBLIC UTILITIES COMMISSION

EXHIBIT H

MANAGEMENT EXPERTISE

PREPARED FOR

SOUTH DAKOTA

PUBLIC UTILITIES COMMISSION

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

Karol M. Sweitzer is Vice President - Regulatory and Vice President - Business Planning and Chief Financial Officer for Southwestern Bell Communications Services Inc. Her responsibilities include all finance, accounting, and regulatory functions, both start-up and operational. She began her carrier with Southwestern Bell Telephone in 1985 as an Assistant Staff Manager - Comptroller and has progressed through various finance positions with increased responsibility. In 1990, Ms. Sweitzer moved to Washington DC and was named to the position of Director-Federal Regulations where she acted as liaison between SBC Communications, Inc. and the Federal Communications Commission on all accounting and audit issues. In 1994, Ms. Sweitzer spent a concentrated year on the financial aspects of the sale of Bellcore, the research company jointly owned by all seven Regional Bell Operating Companies. In September 1995, Ms. Sweitzer accepted the position of Chief Financial Officer for Southwestern Bell communications Services Inc. In May, 1996, Ms. Sweitzer was named to her current position. Prior to Southwestern Bell, Ms. Sweitzer worked for Caterpillar Tractor Company and Rockwell International in various accounting positions. Ms. Sweitzer graduated from MacMurray College with a degree in Business Administration and Accounting. Ms. Sweitzer is a Certified Public Accountant.

Lowery S. Harper is Vice President - Operations of Southwestern Bell Communications Services Inc. where he is responsible for leading the company's operation functions for entry into the long distance market. Mr. Harper also serves as Vice President - Network of Southwestern Bell Communications Services-Massachusetts, Inc. Prior to his current positions, Mr. Harper was Associate Director - International Business Planning. In this position, he led the valuation and negotiation efforts for international acquisition projects. Mr. Harper joined Southwestern Bell in 1971 as an engineer. He held several positions including Staff Manager - Transmission Equipment Engineer, Staff Manager - Long Range Transport Planning, Director - Technology Strategies (Bellcore) and Associate Director - Capital Planning (Telmex). He received a Bachelors of Science, Electrical Engineering, from Southern Methodist University.

17330 Preston Road, Suite 100A
Dallas, Texas 75202

The Bestman's National Bank of St. Louis, N.A.
800 Market Street - St. Louis, Missouri 63101-3802

DO-3000
015

CHECK NO.
1392609

PAY Two Hundred Fifty And No/100 Dollars

TO THE ORDER OF

DATE
07-JUL-97

CHECK AMOUNT
\$*****250.00

SOUTH DAKOTA PUBLIC UTILITIES COMMISSIO 810996
STATE CAPITOL
500 EAST CAPITAL AVENUE
PIERRE, SD 57501

on behalf of SBCS Inc (Jenny Lee)

CHECK YOUR AFTER 16 MONTHS

THE BACK OF THIS CHECK CONTAINS A SOUTHWESTERN BELL FACSIMILE WATERMARK. CAN BE SEEN AT AN ANGLE.

NR 1392609 NR 1081502899: 0100993022

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:

07/11/97 through 07/17/97

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 CERTIFICATE OF AUTHORITY			
TC97-132	Application by Southwestern Bell Communications Services, Inc. d/b/a Southwestern for a Certificate of Authority to operate as a telecommunications company within the state of South Dakota. (Staff: TS/TZ) "Applicant seeks statewide authority to offer a full line of inbound, outbound, conference, directory assistance, calling card, prepaid calling card, and private line services to business customers and residential customers...Initially, the Applicant will not offer alternative operator services."	07/14/97	08/01/97
REQUEST FOR CLARIFICATION REGARDING DESIGNATION AS ELIGIBLE TELECOMMUNICATIONS CARRIER			
TC97-133	The Cheyenne River Sioux Tribe Telephone Authority moves that the Commission clarify whether local exchange carriers must request that the Commission designate them as eligible telecommunications carriers so that the local exchange carriers may receive federal universal service support under 47 U.S.C. § 214(e). "[U]nder § 214(e)(2), the Commission may determine whether common carriers meet the requirements of § 214(e)(1) in order to designate them as ETCs, or it may consider a request that the Commission designate a common carrier as an ETC, based upon the common carrier's own assertions. In any event, unless a local exchange carrier receives a designation by the state as an ETC, the local exchange carrier may not receive federal universal service support...In other words, Congress has placed the burden upon the Commission to designate which local exchange carriers are ETCs and thereby eligible for federal universal service support...In light of the two options in the Telecommunications Act -- the Commission's designation of ETCs on its own motion, or requests by individual local exchange carriers for such designation -- and in light of the requirement that local exchange carriers obtain designation as ETCs in order to receive federal universal support, the Telephone Authority respectfully requests that the Commission issue an order clarifying the procedures local exchange carriers in South Dakota should follow in order to obtain ETC designation." Interested parties may file comments with the Commission and the Telephone Authority by July 25, 1997.	07/17/97	comments due 07/25/97

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@pucc.state.sd.us Faxing the address to the Commission at: 605-773-3809



Southwestern Bell
Communications Services, Inc.

August 5, 1997

RECEIVED
AUG 06 1997
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

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

Re: SD PUC Docket TC 97-132 - Amendment To Application Of Southwestern Bell Communications Services, Inc. d/b/a Southwestern Bell Long Distance For A Certificate of Authority To Provide Telecommunications Services in South Dakota.

Dear Mr. Bullard:

Pursuant to a July 18, 1997 letter from Tammi Stango, Utility Analyst with the South Dakota Public Utilities Commission, South Dakota P.U.C. Tariff No. 1 of Southwestern Bell Communications Services, Inc. d/b/a Southwestern Bell Long Distance ("Applicant") has been revised. The revised tariff pages are enclosed. Section 2.8.1, Deposits / Advance Payments, of the tariff has been revised to indicate that the Applicant will not collect deposits or advance payments for the provision of intrastate service. An 800 number has been added to Section 2.11, Customer Service. Also enclosed is a verification statement that was requested by staff.

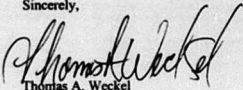
An original and ten (10) copies are included for filing. So that our records will be complete, please date stamp the extra copy of this transmittal letter and return in the envelope provided.

Any questions regarding the ongoing operations of the Applicant should be directed to Thomas A. Weckel, Senior Manager - Regulatory, c/o Southwestern Bell Mobile Systems, Inc., 17330 Preston Road, Suite 100A, Dallas, Texas 75252 who may be reached via

telephone at (972) 733-5544. Any questions regarding the attached tariff revisions should be directed to Barbara Lowe, Vice President, Visiology, Inc. 16061 Carmel Bay Drive, Northport, Alabama 35475 who may be reached via telephone at (205) 330-1702.

Thank you for your assistance in this matter.

Sincerely,

A handwritten signature in dark ink, appearing to read "Thomas A. Weckel". The signature is fluid and cursive, with the first name "Thomas" being more prominent and the last name "Weckel" following in a similar style.

Thomas A. Weckel

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

Enclosures

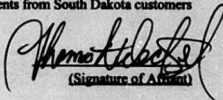
VERIFICATION

STATE OF TEXAS

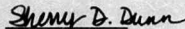
COUNTY OF DALLAS

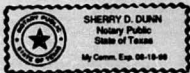
Personally appeared before the undersigned, an officer duly authorized to administer oaths, Thomas A. Weckel, who first being duly sworn, deposes and says that he is Senior Manager - Regulatory, Southwestern Bell Mobile Systems, Inc. and has been contracted to provide regulatory consulting service to Southwestern Bell Communications Services, Inc. d/b/a Southwestern Bell Long Distance, applicant in this application, that he has read the revised tariff pages and knows the contents thereof, and that the statements made herein are true to the best of his knowledge and belief.

Furthermore, the applicant will not offer prepaid calling card service to South Dakota customers, nor will the applicant collect a deposit or an advance payment from South Dakota customers for the provision of intrastate service without first posting a \$25,000 bond or complying with whatever South Dakota Public Utilities Commission rules are in effect at the time the applicant begins to offer prepaid calling card service or collect deposits or advance payments from South Dakota customers as a condition for the provision of intrastate service.


(Signature of Applicant)

Subscribed and sworn before me, this
4th day of August,
1997.


(Notary Public)



(Seal)

My Commission Expires 8-18-98

Southwestern Bell Communications Services, Inc.
d/b/a Southwestern Bell Long Distance
Karol Sweitzer, Vice President - Regulatory
5850 W. Las Positas Blvd.
Pleasanton, California 94588

South Dakota P.U.C. Tariff No. 1
Original Page 43

Issued: July 11, 1997
Effective:

SECTION 2 - RULES AND REGULATIONS

2.8 Customer Deposits / Advance Payments

2.8.1 Customer Deposits

The Company does not collect deposits for intrastate Service.

2.8.2 Advance Payments

The Company does not collect advance payments for intrastate Service.

Southwestern Bell Communications Services, Inc.
d/b/a Southwestern Bell Long Distance
Karol Sweitzer, Vice President - Regulatory
5850 W. Las Positas Blvd.
Pleasanton, California 94588

South Dakota P.U.C. Tariff No. 1
Original Page 44

Issued: July 11, 1997
Effective:

SECTION 2 - RULES AND REGULATIONS

Reserved for future use.

Southwestern Bell Communications Services, Inc.
d/b/a Southwestern Bell Long Distance
Karol Sweitzer, Vice President - Regulatory
5850 W. Las Positas Blvd.
Pleasanton, California 94588

South Dakota P.U.C. Tariff No. 1
Original Page 45

Issued: July 11, 1997
Effective:

SECTION 2 - RULES AND REGULATIONS

Reserved for future use.

Southwestern Bell Communications Services, Inc.
d/b/a Southwestern Bell Long Distance
Karol Sweitzer, Vice President - Regulatory
5850 W. Las Positas Blvd.
Pleasanton, California 94588

South Dakota P.U.C. Tariff No. 1
Original Page 49

Issued: July 11, 1997
Effective:

SECTION 2 - RULES AND REGULATIONS

2.10 Contested Charges

The Company will not be required to consider any Customer claim for damages or statutory penalties, or adjustments, refunds, credits or cancellation of charges, unless the Customer has notified the Company, in writing, of any dispute concerning charges, or the basis of any claim for damages, within sixty (60) calendar days after an invoice is rendered or a debit is effected by the Company for the call giving rise to such dispute or claim. Any such notice must set forth sufficient facts to provide the Company with a reasonable basis upon which to evaluate the Customer's claim or demand. Such notice must be sent to the Company's Customer Service Department as per Section 2.11 of this Tariff. If the Customer is not satisfied with the Company's resolution of a billing inquiry, the Customer may make application to the Commission for review and disposition of the matter. If the Customer is not satisfied with the Company's resolution of any dispute, the Customer may make application to the Commission for review and disposition of the matter. The Commission's address and telephone number are South Dakota Public Utilities Commission, 500 East Capitol Avenue, Pierre, South Dakota 57501-5070, 605-773-3201 or 1-800-332-1782.

2.11 Customer Service

Customer correspondence must be addressed to the attention of the Customer Service Department and sent to the appropriate office. The Customer may also contact the Company's Customer Service Department by calling toll free 1 + (800) 235-5663. The Company's Customer Service address and toll free number are printed on the Customer's bill. For Customers using Credit Card billing or automatic withdrawal from the checking or savings account, the Company's Customer Service address and toll free number are provided with the Customer's call detail.

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA**

IN THE MATTER OF THE APPLICATION OF) SOUTHWESTERN BELL COMMUNICATIONS) SERVICES, INC. D/B/A SOUTHWESTERN) BELL LONG DISTANCE FOR A CERTIFICATE) OF AUTHORITY TO PROVIDE) TELECOMMUNICATIONS SERVICES IN) SOUTH DAKOTA)	ORDER GRANTING CERTIFICATE OF AUTHORITY TC97-132
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On July 14, 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 Southwestern Bell Communications Services, Inc. d/b/a Southwestern Bell Long Distance (Southwestern).

Southwestern seeks statewide authority to offer a full line of inbound, outbound, conference, directory assistance, calling card, prepaid calling card, and private line services to business customers and residential customers. Initially Southwestern will not offer alternative operator services. A proposed tariff was filed by Southwestern. The Commission has classified long distance service as fully competitive.

On July 17, 1997, the Commission electronically transmitted notice of the filing and the intervention deadline of August 1, 1997, to interested individuals and entities. No petitions to intervene or comments were filed and at its regularly scheduled August 18, 1997, meeting, the Commission considered Southwestern's request for a certificate of authority. Commission Staff recommended granting a certificate of authority, subject to the condition that Southwestern not offer a prepaid calling card or require deposits or advance payments without prior approval of the Commission.

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 Southwestern has met the legal requirements established for the granting of a certificate of authority. Southwestern 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 Southwestern's application for a certificate of authority, subject to the condition that Southwestern not offer a prepaid calling card or require deposits or advance payments without prior approval of the Commission. As the Commission's final decision in this matter, it is therefore

ORDERED, that Southwestern's application for a certificate of authority is hereby granted effective September 14, 1997, subject to the condition that Southwestern not offer a prepaid calling card or require deposits or advance payments without prior approval of the Commission. It is

9144-116-151

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

Dated at Pierre, South Dakota, this 22nd day of August, 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 William Kachko

Date 9/2/97

(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION:

James A. Burg
JAMES A. BURG, Chairman

Pam Nelson
PAM NELSON, Commissioner

Laska Schoenfelder
LASKA SCHOENFELDER, Commissioner

envelopes, with charges prepaid thereon.

By

William Kaabo

Date

9/2/97

(OFFICIAL SEAL)

JAMES A. BURG, Chairman

Pam Nelson
PAM NELSON, Commissioner

Laska Schoenfelder
LASKA SCHOENFELDER, Commissioner

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

CERTIFICATE OF AUTHORITY

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

Authority was Granted August 18, 1997, effective September 14, 1997
Docket No. TC97-132

This is to certify that

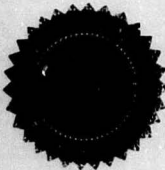
**SOUTHWESTERN BELL COMMUNICATIONS SERVICES, INC.
D/B/A SOUTHWESTERN BELL LONG DISTANCE**

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 27th day of August, 1997.

**SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION:**



James A. Burg
JAMES A. BURG, Chairman

Pam Nelson
PAM NELSON, Commissioner

Laska Schoenfelder
LASKA SCHOENFELDER, Commissioner