

## FORM 10-K

## SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

(Mark one)

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

For fiscal year ended December 31, 1991

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 1-2346

## SOUTHWESTERN BELL TELEPHONE COMPANY

Incorporated under the laws of the State of Missouri  
I.R.S. Employer Identification Number 43-05297101010 Pine Street, St. Louis, Missouri 63101-2070  
Telephone Number 314 235-9800

Securities registered pursuant to Section 12(b) of the Act: (See attached Schedule A)

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

THE REGISTRANT, A WHOLLY-OWNED SUBSIDIARY OF SOUTHWESTERN BELL CORPORATION, MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION J(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION J(2).

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

Indicate by check mark if disclosure of delinquent filers pursuant to Items 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. (✓)

SWBT 000536

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\* Omitted pursuant to General Instruction J(2).

The Corporation appealed the Court's first triennial review decision on the grounds that the Court (1) failed to correctly interpret and apply the waiver standard in deciding not to remove other lines of business restrictions under review and (2) failed to remove the information services restriction in its entirety even though the original parties to the MFJ did not object. On April 3, 1990, the U.S. Court of Appeals for the District of Columbia (Court of Appeals), in its review of the first triennial review decision, affirmed the Court's decision not to remove the interexchange and manufacturing restrictions, but clarified the waiver standard in a manner beneficial to future waiver requests by the Corporation. The Court of Appeals explained that the waiver standard was satisfied by the regional holding companies' (RHC) showing that it would not impede competition (i.e., would not be able to raise prices or restrict output) in the market it seeks to enter. The Court of Appeals also reversed the decision not to lift the information services restriction in its entirety, and remanded the issue to the Court for reconsideration under a more lenient public interest standard which is to apply when AT&T and the DOJ, the original parties to the MFJ, do not oppose relief.

On July 25, 1991, the Court applied this public interest standard as directed by the Court of Appeals and issued an order which removed the information services restriction in its entirety from the MFJ. The Court, however, stayed the effectiveness of the relief it granted the RHCs, pending any appeals of the merits of the decision. Appeals have been filed by a number of entities and are now pending.

On October 7, 1991, the Court of Appeals granted the motions filed by the RHCs and the DOJ to vacate the stay. On October 15, 1991, the appellants asked the United States Supreme Court to reinstate the stay. The parties briefed this issue and on October 30, 1991, the United States Supreme Court entered its order refusing to reinstate the stay. The Corporation may now offer information services during the pendency of the appeals. Such services must be offered on an intraexchange (within the LATA) basis to comply with the MFJ's interexchange prohibition.

#### Other Waivers Granted in 1991

In addition to removing the information services restriction from the MFJ, the Court in 1991 granted two other waivers that permit the Corporation to engage in activities that otherwise would be impermissible under the MFJ. On April 16, 1991, the Court granted a waiver to permit the Corporation to provide the necessary code conversions to allow compatibility with telecommunications devices for the deaf in its alphanumeric paging systems.

On September 9, 1991, the Corporation and the other RHCs received an additional one-year extension to a waiver to provide intersystem handoff of cellular calls so that when a call is in progress and a cellular customer drives into the service area of another cellular system, the call can continue, even though the cellular customer may cross a LATA boundary.

## Communications Services

### Principal Services

The Telephone Company's principal services include local telephone, network access and toll services, which are provided in the states of Arkansas, Kansas, Missouri, Oklahoma and Texas (five-state area). Local telephone and toll services transport telecommunications traffic between telephones and other CPE located within the same service area. Local telephone service includes traffic within the same local calling area and includes such services as the following: basic local telephone service, extended area service, dedicated private line services for voice and special services, directory assistance, coin telephones and various vertical services. Vertical services represent discretionary services which a customer may choose to supplement his/her basic line, such as: call waiting, call forwarding, call blocking, etc. Toll services include traffic between local calling areas and include such services as Wide Area Toll Service (WATS or 800 services) and other special services between local calling areas. Network access services link a subscriber's telephone or other equipment to the transmission facilities of long-distance carriers, which will, in turn, provide telecommunications services between service areas. Network access is either switched, which uses a switched communications path between the carrier and the customer, or special, which uses a nonswitched path.

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

|                                                         | <u>Percentage of Total<br/>Operating Revenues</u> |             |             |
|---------------------------------------------------------|---------------------------------------------------|-------------|-------------|
|                                                         | <u>1991</u>                                       | <u>1990</u> | <u>1989</u> |
| Recurring charges for local<br>telephone service        | 41%                                               | 40%         | 38%         |
| Charges to interexchange<br>carriers for network access | 25%                                               | 28%         | 29%         |
| Charges for long-distance<br>(i.e., toll) service       | 14%                                               | 14%         | 14%         |

### Major Customer

See Note 10, "Segment and Major Customer Information", on page 37 of this report.

### Government Regulation

In the five-state area, the Telephone Company is subject to regulation by state commissions which have the power to regulate intrastate rates and services, including exchange access (both intraLATA and interLATA access within the state) and other matters. The Telephone Company is also subject to the jurisdiction of the Federal Communications Commission (FCC) with respect to foreign and interstate rates, lines and services, interstate

On December 20, 1991, the FCC released an order again permitting the Telephone Company to offer enhanced services pursuant to a slightly modified version of the original Computer Inquiry III nonstructural competitive safeguards. Therefore, the FCC's regulatory framework for enhanced services, including the BOCs' ONA plans, is now back in place. The Telephone Company expects to achieve initial ONA implementation sometime during early 1992.

Until its ONA plan is implemented, the Telephone Company may also offer enhanced services pursuant to service-specific Comparably Efficient Interconnection (CEI) plans, which are designed to permit all competitors the opportunity to acquire Telephone Company services necessary to compete. Both the ONA and CEI plans described competitive safeguards imposed to ensure nondiscriminatory practices by the Telephone Company. The Telephone Company previously received FCC approval of a VMS CEI plan on September 29, 1988, and approval of a protocol conversion CEI plan on March 9, 1989. Protocol is a set of rules for conducting interaction between two or more systems, e.g., binary synchronous communications is a data communications protocol. Protocol conversion must take place when the two systems interacting use different protocols. The Telephone Company is currently offering protocol conversion in each of its five states, and is jointly marketing VMS in limited locations with its affiliate, Southwestern Bell Messaging Services, Inc. (SMSI), under the terms of the respective CEI plans. In addition, SMSI began offering VMS in 1991 to the residential and small business markets. SMSI is a new subsidiary of Southwestern Bell Enterprises, Inc. (a wholly-owned subsidiary of the Corporation). SMSI currently offers residential VMS in portions of Oklahoma City and St. Louis and has assumed the Telephone Company's business VMS offering.

#### CPE

The Telephone Company is allowed to provide CPE in accordance with its CPE Compliance Plan, which received FCC approval in 1988. The CPE Compliance Plan details how the Telephone Company will satisfy FCC-imposed, nonstructural, competitive safeguards. The Telephone Company began to provide CPE under the CPE Compliance Plan during 1988. The Telephone Company continues to provide CPE, CPE installation and maintenance services and CPE marketing services under the terms of the CPE Compliance Plan.

#### Competition

Regulatory and court decisions, as well as new technology, have expanded the types of available communications services and products and have increased the number of competitors offering such services. Actual and potential competition impacting local exchange, vertical services, access and intraLATA toll revenues includes, but is not limited to, competitive access providers (CAPs), cellular and personal communications networks, cable television, residential multi-tenant services, private networks, satellite network communications, utility companies, interexchange carriers, resellers and providers of telecommunications equipment.

The Telephone Company faces competition from companies such as CAPs who offer similar access services. CAPs typically build fiber optic "rings" throughout large metropolitan areas. CAPs use these fiber optic "rings" to provide high speed digital transport services for large business customers

adopt the tentative conclusions which could significantly reduce Telephone Company access revenues. If the FCC were to adopt its NPRM in a manner consistent with its proposal, that action could, given certain assumptions, reduce total Telephone Company access revenues by as much as \$332 million to \$696 million over the first five years under the new rules.

State regulatory commissions are also examining issues pertaining to CAPs. In Texas, the Texas Public Utility Commission (TPUC) has been asked to determine whether CAPs must first obtain a certificate of convenience and necessity before providing intrastate service. In response, the TPUC staff has proposed a change to the definition of local exchange service that would result in the ability of CAPs to provide intrastate service without specific TPUC approval. A CAP has also requested collocation of its equipment in the Telephone Company's central office. All of these matters are currently pending. In Missouri, CAPs are permitted to provide certain services, including special access and interexchange private line services, upon a showing of financial ability. CAPs have begun to seek approval under the regulatory format.

The Telephone Company will continue to evaluate the increasingly competitive nature of its business and the appropriate regulatory, legislative and internal solutions needed to address such competition.

#### Research and Development

The majority of company-sponsored basic and applied research activities are conducted at Bell Communications Research, Inc. (Bellcore). The Telephone Company owns a one-seventh interest in Bellcore along with the other six RHCs. Bellcore is also the coordinator for the Federal government's telecommunications requirements on national security and emergency preparedness.

Basic and applied research is also conducted at Southwestern Bell Technology Resources, Inc. (TRI), a subsidiary of the Corporation. TRI provides technology planning and assessment services to the Telephone Company.

#### Employees

As of January 31, 1992, the Telephone Company employed 52,231 persons. Approximately 76 percent of the employees are represented by the Communications Workers of America (CWA). Effective in August 1989, a three-year contract with the CWA was agreed to by the Telephone Company. This contract will be subject to renegotiation in mid-1992.

SOUTHWESTERN BELL TELEPHONE COMPANY  
SELECTED OPERATING DATA

|                                                                  | At December 31, or for the year ended: |             |
|------------------------------------------------------------------|----------------------------------------|-------------|
|                                                                  | <u>1991</u>                            | <u>1990</u> |
| Return on Weighted Average<br>Total Capital                      | 10.05%                                 | 11.14%      |
| Debt Ratio (debt as a<br>percentage of total debt<br>and equity) | 41.93%                                 | 41.68%      |
| Network access lines in<br>service (000)                         | 12,398                                 | 12,105      |
| Minutes of Use (000,000)                                         | 38,885                                 | 36,982      |
| Long-distance messages (000)                                     | 1,055,070                              | 1,034,130   |
| Number of Employees                                              | 52,330                                 | 58,190      |

Item 7. Management's Discussion and Analysis of Results of Operations.

Dollars in Millions

Southwestern Bell Telephone Company (Telephone Company) provides telecommunications services to approximately 9.6 million customers in Arkansas, Kansas, Missouri, Oklahoma and Texas (five-state area). The Telephone Company is a public utility subject to some form of regulation by each of the state jurisdictions in which it operates and by the Federal Communications Commission (FCC).

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

**Results of Operations**

The Telephone Company reported net income of \$855.3 for 1991, an 11.7 percent decrease compared with 1990 net income of \$969.1.

Increases (decreases) in 1991 as compared with 1990 for key operating data were as follows:

|                                                    | 1991       |         |
|----------------------------------------------------|------------|---------|
| Operating Revenues                                 | \$ (41.6)  | (0.6)%  |
| Operating Expenses                                 | \$ (7.3)   | (0.1)%  |
| Income Before Extraordinary Loss                   | \$ (33.1)  | (3.4)%  |
| Extraordinary Loss on Early Extinguishment of Debt | \$ 80.7    | -       |
| Net Income                                         | \$ (113.8) | (11.7)% |

Factors contributing to the decrease in net income in 1991 include the refinancing of \$732 of long-term debt which resulted in an extraordinary loss, rate reductions in the interstate and Texas jurisdictions relating to incentive regulation plans and a fourth quarter charge for the voluntary retirement program discussed in Note 2 to the Financial Statements. These factors were partially offset by increased demand for products and services, the cost savings associated with the voluntary management reduction plan implemented in late 1990 and other cost containment measures implemented in 1991.

Items affecting the comparison of the operating results between 1991 and 1990 are discussed in the following sections.

**Operating Revenues**

The Telephone Company reported total operating revenues of \$7,424.1 in 1991 and \$7,465.7 in 1990, a decrease of 0.6 percent.

Item 2. Properties.

The properties of the Telephone Company do not lend themselves to description by character and location of principal units. At December 31, 1991, network access lines represented 45 percent of the Telephone Company's investment in telephone plant; central office equipment represented 36 percent; land and buildings represented 10 percent; other miscellaneous property comprised principally of furniture and office equipment and vehicles and other work equipment represented 7 percent; and information origination/termination equipment represented 2 percent.

Item 3. Legal Proceedings.

See Note 11, "Contingent Liabilities", on page 38 of this report.

and interexchange carriers. Also an increasing number of individual firms, particularly large business customers, have established their own telecommunications or private network systems to transmit voice and data on a local basis, circumventing the use of Telephone Company facilities. The extent of the economic incentive to circumvent the local exchange network depends upon local exchange prices, access charges and other factors. The FCC has ordered implementation of an end user charge to help mitigate the effect of system circumvention.

On November 14, 1989, a CAP, Metropolitan Fiber Systems, Inc. (MFS), filed with the DOJ a Petition for Enforcement of the MFJ asking that the Telephone Company and the other Bell operating companies (BOCs) be ordered to disaggregate access charges and to permit CAPs to collocate their equipment within BOC central offices. On the same date, MFS also filed with the FCC a Petition for Rulemaking essentially seeking the same result. MFS' request would allow CAPs to compete with the BOCs for certain transport services by obtaining lower access charges through actual or virtual collocation in BOC central office space.

On June 6, 1991, the FCC released a Notice of Proposed Rulemaking (NPRM) which proposes to allow independent parties, including, but not limited to, CAPs, interexchange carriers, such as AT&T, MCI and US Sprint, and end users to collocate their equipment and cable with or very near those of the major local exchange carriers. The interconnecting parties would pay for the interconnection; however, the FCC said it has tentatively concluded that the new price that the parties would pay for connecting with the Telephone Company's network will be lower than the Telephone Company's current tariffed prices for similar services. With this action, the FCC indicated it hopes to facilitate greater competition in the provision of interstate special access services.

The FCC stated that it acknowledges that such expanded competition will impact current local exchange carrier industry prices and structures. The FCC noted that it anticipates that the special access revenue lost due to expanded competition should be offset, at least in part, by overall growth in customer demand for special access services and by improvements in the exchange carriers' overall levels of efficiency.

The FCC also released a Notice of Inquiry, on June 6, 1991, to gather additional information before determining whether to allow third parties similar price treatment for switched access services. The FCC said it believes that the issues associated with the switched transport services are more complex.

The Telephone Company filed its comments on the NPRM with the FCC on August 6, 1991, and reply comments on September 20, 1991. In its filings, the Telephone Company noted that demand for switched and special access is interdependent. The Telephone Company urged the FCC to consider and resolve all related public interest impacts before adopting any changes in either switched or special access.

The Telephone Company believes that the rules proposed in the NPRM will have a negative impact on future revenues. However, the amount and timing of the impact cannot be assessed until a final order which resolves numerous questions is issued. The Telephone Company urged the FCC not to

access charges and other matters. Access charges compensate the Telephone Company for the use of its facilities for the origination or termination of long-distance communications and are contained in access tariffs filed with and regulated by the FCC and the state commissions.

Additional information relating to federal and state regulation of the Telephone Company is contained in Item 7, Management's Discussion and Analysis of Results of Operations of this report under the headings "Interstate Regulatory Environment" and "State Regulatory Environment" beginning on page 17 of this report.

#### Principal Markets

The Telephone Company provides its services to approximately 8.3 million residential and 1.3 million business customers in the five-state area. In 1991, 1990 and 1989, approximately 73 percent of the Telephone Company's total operating revenues were attributable to intrastate operations.

#### Status of New Services

##### Enhanced Services

The FCC has promulgated certain rules that impact the ability of the Telephone Company to offer enhanced services, which generally include services which are more than basic transmission services. Under previous FCC requirements, known as Computer Inquiry II, enhanced services were to be offered only through entities that were structurally separate from the Telephone Company. Under the more recent FCC orders in various Computer Inquiry III proceedings, the Telephone Company is permitted to offer enhanced services, subject to nonstructural safeguards imposed by the FCC to enhance competition. Those services are generally deregulated at the federal level, and the FCC has scaled back its proposed preemption of state regulation of such services. At this juncture, none of the Telephone Company's state commissions have asserted jurisdiction over enhanced services.

As noted, the FCC previously adopted nonstructural safeguards under which the Telephone Company would be permitted to provide enhanced services. The safeguards, which were designed to enhance competitive efficiency while reducing the risks of discrimination and cross-subsidization, included accounting safeguards, reporting requirements and Open Network Architecture (ONA) requirements designed to permit competition to acquire network services.

ONA represents the Telephone Company's plan essentially to permit equal access to its network for all enhanced service providers. However, on June 6, 1990, the U.S. Court of Appeals for the Ninth Circuit reversed the FCC's orders in Computer Inquiry III that had originally permitted the Telephone Company to offer enhanced services pursuant to the nonstructural safeguards. Pursuant to an FCC waiver, existing enhanced services, such as VMS, were permitted to continue while the FCC reexamined its Computer Inquiry III decision.

## Pending Waiver Requests and Appeals

The Corporation has also initiated other requests which seek the removal of some of the remaining restrictions. These requests include a generic request filed jointly by all the RHCs seeking relief from the interexchange prohibition to provide wireless services, including cellular and paging, without regard to geographic boundaries. In addition to the generic wireless waiver, the Corporation has requested interexchange relief to provide cellular services in certain of the Corporation's regional markets and in rural service areas. The Corporation also has a request pending to provide cellular automatic call delivery which would allow the Corporation to deliver cellular calls to its customer when the customer is located in a cellular system other than the customer's home system.

Seeking relief from the manufacturing restriction, the Corporation has a waiver request pending to engage in the design and development of CPE.

The RHCs have also jointly filed a generic waiver requesting advance relief from the MFJ to pursue international opportunities in order to avoid the need to seek transactional relief on a country by country basis.

In an order issued on February 16, 1989, the Court granted a waiver permitting the RHCs to provide multilATA one-way paging services regardless of geographic scope, but included a condition requiring the interexchange links for multilATA paging services to be obtained from unaffiliated interexchange carriers. The Corporation appealed that portion of the order which prohibited it from owning the interexchange links outside the service territory of the Telephone Company. On October 17, 1990, the Court of Appeals reversed the Court's decision and remanded the matter to the Court for reconsideration under the waiver standard it announced in its First Triennial Review decision. Briefs have been submitted to the Court and the Corporation is awaiting the Court's decision.

The Corporation, jointly with the other RHCs, has appealed the Court's order of July 13, 1990, which held that the RHCs were not permitted to transport common channel signaling 7 (CCS7) information across LATA boundaries for handoff to interexchange carriers at centralized signal transport points (STPs). CCS7 is the AT&T version of the internationally standardized signaling system which transmits signaling and service definition information between components of the intelligent network; the STP is a packet switch which routes the signaling messages within the signaling network. The Court held that the MFJ requires that signaling information be given to the interexchange carriers in the LATA where the call originated. The Court also denied the RHCs' requests for waivers to establish the centralized STP service arrangement. The DOJ filed a brief supporting the RHCs' position which contends that waiver requests supported by the DOJ and the affected RHC should be evaluated under the more lenient public interest standard as described above even if AT&T opposes the request. AT&T has filed a brief objecting to this position. This issue is important not only to this appeal, but also could impact other instances in which the RHCs and the DOJ agree that a restriction should be removed even though AT&T opposes relief

## PART I

### Item 1. Business.

#### The Company

Southwestern Bell Telephone Company (Telephone Company) was incorporated in 1882 under the laws of the State of Missouri. The Telephone Company is a wholly-owned subsidiary of Southwestern Bell Corporation (Corporation) which was incorporated in 1983 under the laws of the State of Delaware. The Telephone Company was a wholly-owned subsidiary of AT&T until January 1, 1984, when it was divested by AT&T pursuant to a court-ordered reorganization of the Bell System (divestiture). AT&T accomplished the divestiture by contributing its 100 percent interest in the Telephone Company to the Corporation and then distributing its ownership in the Corporation to its shareholders effective January 1, 1984.

#### Operations Under the Modification of Final Judgment (MFJ)

The MFJ, as originally approved by the United States District Court for the District of Columbia (Court) in 1982, restricted the Corporation from providing interexchange (represents service between exchanges; an exchange in this context refers to a Local Access and Transport Area (LATA), which is generally centered on a standard metropolitan service area or other identifiable community of interest) telecommunications services and information services and from manufacturing or providing telecommunications products, other than the provision of customer premises equipment (CPE) manufactured by others. CPE, as defined in the MFJ, represents equipment used on customers' premises to originate, route or terminate telecommunications. The MFJ also restricted the Corporation from engaging in nontelecommunications-related lines of business. These services and products are collectively known as "restricted lines of business". The MFJ permits the Corporation to obtain relief from these restrictions upon a showing that there is no substantial possibility that it could use its monopoly power to impede competition in the specific market it seeks to enter.

As a result of proceedings before the Court since divestiture, the Corporation has obtained relief from some of the restrictions. Generally, the Corporation has been authorized to engage in the restricted lines of business outside the United States, subject to certain conditions designed to prevent an impact on United States markets. The Corporation has also obtained relief from the Court to provide interexchange cellular services in various markets throughout the United States and to provide nationwide one-way paging services, so long as interexchange facilities are leased from unaffiliated interexchange providers.

#### Triennial Review Proceeding/Information Services Review

At divestiture, the Department of Justice (DOJ) committed to review the MFJ's line of business restrictions every three years to determine whether the restrictions were still appropriate. As a result of the first such triennial review proceeding, the restriction against entry into nontelecommunications lines of business was removed, as was that portion of the information services restriction which prohibited certain gateway functions (i.e., a telecommunications arrangement, either by video or audio, in which customers can communicate with many different information service providers), voice messaging services (VMS), electronic mail and electronic White Pages services.

Schedule A

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

| <u>Title of each Class</u>                                    | <u>Name of each exchange<br/>on which registered</u> |
|---------------------------------------------------------------|------------------------------------------------------|
| Thirty-Seven Year 8-3/4% Debentures,<br>due August 1, 2007    | American Stock Exchange                              |
| Thirty-Eight Year 7-3/4% Debentures,<br>due September 1, 2009 | American Stock Exchange                              |
| Forty Year 6-7/8% Debentures,<br>due February 1, 2011         | American Stock Exchange                              |
| Forty Year 7-3/8% Debentures,<br>due May 1, 2012              | American Stock Exchange                              |
| Forty Year 7-5/8% Debentures,<br>due October 1, 2013          | American Stock Exchange                              |
| Forty Year 8-1/4% Debentures,<br>due March 1, 2014            | American Stock Exchange                              |
| Forty Year 9-1/4% Debentures,<br>due January 15, 2015         | American Stock Exchange                              |
| Forty Year 8-1/2% Debentures,<br>due March 15, 2016           | American Stock Exchange                              |
| Forty Year 8-1/4% Debentures,<br>due April 1, 2017            | American Stock Exchange                              |
| Forty Year 8-3/4% Debentures,<br>due September 1, 2018        | American Stock Exchange                              |
| Forty Year 9-5/8% Debentures,<br>due March 15, 2019           | American Stock Exchange                              |