

Form 10-K**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 (Fee Required)**

For the fiscal year ended December 31, 1992

or

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

For the transition period from _____ to _____

Commission file Number 1-2346

SOUTHWESTERN BELL TELEPHONE COMPANYIncorporated 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 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. (✓)

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* Omitted pursuant to General Instruction J(2).

the restrictions were still appropriate. The first triennial review proceeding occurred in 1987, and the DOJ has advised the Court it has no present plans to conduct a second review. 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.

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 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 they would not impede competition (i.e., would not be able to raise prices or restrict output) in the market they seek to enter, as compared to the Court's requirement that the RHCs show that there is no way, even theoretically, for the RHCs to use their monopoly positions to impede competition. 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.

Pending Waiver Requests and Appeals

The Corporation has also initiated other requests which seek the removal of some of the remaining restrictions. This includes 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. The Corporation has also requested interexchange relief to provide cellular services in certain of the Corporation's regional markets and in rural service areas.

Communications Services

Principal Services

The Telephone Company's principal services include local services, network access and long-distance (i.e., toll) services, which are provided in the states of Arkansas, Kansas, Missouri, Oklahoma and Texas (five-state area).

Local services involve the transport of telecommunications traffic between telephones and other CPE located within the same local service calling area. Local services include such services as: basic local exchange service, extended area service, dedicated private line services for voice and special services, directory assistance 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 involve the transport of 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 other non-Telephone Company carriers which, in turn, provide long-distance and other communications services. Network access is either switched, which uses a switched communications path between the carrier and the customer, or special, which uses a direct 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 Operating Revenues</u>		
	<u>1992</u>	<u>1991</u>	<u>1990</u>
Charges for local service	48%	48%	45%
Charges to interexchange carriers for network access	26%	25%	28%
Charges for long-distance (i.e., toll) service	13%	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 local, toll, private line and network access (both intraLATA and interLATA access within the state) services. The Telephone Company is also subject to the jurisdiction of the Federal Communications Commission (FCC) with respect to foreign and interstate rates and services,

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 RHCs' ONA plans, is now back in place. The Telephone Company received FCC acknowledgement of its initial ONA implementation on November 2, 1992.

Thus, the Telephone Company may now offer all enhanced services without first having to get FCC approval of service-specific Comparably Efficient Interconnection (CEI) plans, which are designed only to permit all competitors the opportunity to acquire Telephone Company tariffed services necessary to compete with specific Telephone Company enhanced services in specific locations. Both the ONA and CEI plans described competitive safeguards imposed to ensure nondiscriminatory practices by the Telephone Company. The Telephone Company is currently offering enhanced protocol conversion in each of its five states. Protocol is a set of rules for conducting interaction between two or more systems, e.g., binary synchronous communications is a data communications protocol. Enhanced protocol conversion must take place when the two systems interacting use different protocols.

Voice Messaging Services

Southwestern Bell Messaging Services, Inc. (SMSI), a subsidiary of Southwestern Bell Enterprises, Inc. (a wholly-owned subsidiary of the Corporation), currently offers residential VMS in portions of Oklahoma City, St. Louis, Little Rock and in certain portions of Texas and has assumed the Telephone Company's business VMS offering.

Customer Premises Equipment

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 which offer access services. CAPs typically build fiber optic "rings" throughout large metropolitan areas and use these fiber optic "rings" to provide transport services (generally high speed data) for large business customers and interexchange carriers. Also, an increasing number of individual

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 has adopted 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. An appeal of this decision was filed on December 2, 1992. On January 6, 1993, a CAP filed a petition for rulemaking with the TPUC seeking intrastate collocation, rate unbundling and the elimination of resale restrictions in Telephone Company tariffs. On February 24, 1993, the TPUC denied the petition for rulemaking. The TPUC indicated it would address the issue in separate proceedings. The remaining matters are currently pending.

In Missouri, CAPs are permitted to provide certain services, including special access and interexchange and intraexchange private line services, upon a showing of financial ability. CAPs have begun to seek approval under the regulatory format, and the Missouri Public Service Commission (MPSC) has established a docket to clarify the definitions of, among other things, private line and switched services.

The MPSC also, on December 21, 1992, granted the Telephone Company transitionally competitive status for certain toll, operator services, and private line services. This permits the Telephone Company to file minimum and maximum rates for those services within which it can change prices without prior MPSC approval once the enabling tariffs are filed.

On January 6, 1993, the MPSC proposed for comment an emergency rule that would permit LECs to choose the type of interconnection of customers' access to the central office. On February 1, 1993, the Telephone Company filed in support of the emergency rule.

In Arkansas, the Arkansas Public Service Commission (APSC) issued an order on February 12, 1993, deferring for hearing whether expanded interconnection was in the public interest, but granting LECs the choice between physical and virtual collocation. On March 4, 1993, the Telephone Company filed a petition for rehearing to clarify certain aspects of the order. Oklahoma also issued an order, dated February 11, 1993, adopting a policy of LEC discretion to choose between physical and virtual collocation, or to accept the FCC policy.

In Oklahoma, the Oklahoma Corporation Commission has begun an inquiry into allowing intraLATA toll competition. Hearings will begin April 12, 1993. In Kansas, the Kansas Corporation Commission has issued an oral decision approving certain types of intraLATA toll competition, but not intraLATA equal access presubscription. A written order is expected in the first quarter of 1993. IntraLATA toll competition is allowed in both Missouri and Texas.

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

PART II

Item 6.

SOUTHWESTERN BELL TELEPHONE COMPANY
SELECTED FINANCIAL AND OPERATING DATA

	At December 31, or for the year ended:	
	<u>1992</u>	<u>1991</u>
Return on Weighted Average Total Capital	10.71%	10.05%
Debt Ratio (debt, including current maturities, as a percentage of total capital)	41.31%	41.93%
Network access lines in service (000)	12,803	12,398
Access minutes of use (000,000)	41,235	38,885
Long-distance messages (000,000)	1,057	1,055
Number of employees	49,960	52,330

Dollars in Millions

The changes in total operating revenues in 1992 consist of the following increases (decreases) by revenue component:

	1992	
Local service	\$199.4	5.7%
Network access		
Interstate	58.4	3.5
Intrastate	48.6	6.2
Long-distance service	(17.0)	(1.7)
Other	30.5	7.0
	<u>\$319.9</u>	<u>4.3%</u>

Local Service revenues increased in 1992 compared to 1991 due primarily to increases in demand, including the growth in the number of access lines of 3.3 percent.

Network Access Interstate network access revenues increased in 1992 compared to 1991 due primarily to an increase in demand for access services and growth in revenues from end user charges attributable to an increasing access line base, partially offset by a decrease in rates charged for interstate telecommunications services of \$47.

Intrastate network access revenues increased in 1992 compared to 1991 due primarily to an increase in demand. This increase was partially offset by previously ordered rate reductions, primarily in Texas.

Long-Distance Service revenues decreased in 1992 compared to 1991 due mainly to the impacts of extended area service plans and accruals for potential rate reductions in Oklahoma. This decrease was partially offset by an increase in demand for long-distance services and by a positive change in net settlements with independent telephone companies.

Other Revenues increased in 1992 compared to 1991 primarily due to increased revenue associated with the Telephone Company's nonregulated products and services. This increase was partially offset by the decrease in revenues associated with billing and collection services provided to interexchange carriers.

Operating Expenses

Total operating expenses were \$6,040.0 for 1992 and \$5,708.4 for 1991, an increase of 5.8 percent.

Dollars in Millions

Operating Environment and Trends of the Business

Regulatory Environment

The Telephone Company operates in a five-state area comprised of Arkansas, Kansas, Missouri, Oklahoma and Texas. The state telecommunications operations of Arkansas and Oklahoma are currently regulated under traditional rate-of-return methodology. Since 1990, Kansas, Missouri and Texas state telecommunications operations have been governed by alternative forms of regulation. Since 1991, the Telephone Company's interstate telecommunications operations in the five states have been regulated under a price-cap methodology.

The Missouri Public Service Commission (MPSC) and Texas Public Utility Commission (TPUC) each require that certain ratemaking adjustments be made to the Telephone Company's reported earnings in order to compute earnings subject to sharing according to their respective regulatory plans. These adjustments, however, are not used in preparing the published financial statements. As a result, differences may exist between the returns reported to these regulatory bodies and those computed from the financial statements contained herein.

Missouri Missouri has completed its third year under a three-year incentive regulation plan (Missouri Plan). On October 1, 1992, the Telephone Company, MPSC staff and the Office of Public Counsel (OPUC) filed separate recommendations to the MPSC concerning the success of the current incentive plan and proposing changes to the procedures and parameters of the Missouri Plan. The Telephone Company proposed rate cuts of \$22, additional network improvements of approximately \$84 and a continuation of most other aspects of the Missouri Plan. The Missouri Plan was originally scheduled to expire on December 31, 1992. On October 9, 1992, all of the above parties filed a joint recommendation requesting that the MPSC extend the current incentive plan until January 1, 1994. This recommendation was approved by the MPSC in an order dated October 14, 1992. This extension will allow the MPSC and other interested parties sufficient time and flexibility to consider the proposals made concerning future regulation of the Telephone Company within the state.

The initial incentive plan was formed as part of a September 1989 agreement among the MPSC, OPUC and the Telephone Company. The agreement settled an appeal, filed in the Cole County Circuit Court, of a June 20, 1989, order of the MPSC. The Missouri Plan reduced Telephone Company annual revenues, effective October 1, 1989, by approximately \$82. Furthermore, the Telephone Company is required to upgrade its network in Missouri between 1990 and 1997 at an estimated cost of \$180. The Missouri Plan also provides for a sharing of earnings between the Telephone Company and its customers at certain rate-of-return thresholds.

Final revenue-sharing amounts for the second plan year, which were accrued in 1991, were calculated, approved and returned to customers in June 1992. Reductions in revenues due to sharing did not have a material impact on the Telephone Company's financial results in 1992 or 1991.

Dollars in Millions

The Telephone Company is contesting all aspects of the OCC's actions. Although it is unable to predict the outcome of the proceeding at this time, management believes that the refund requirement described above is illegal under Oklahoma law, and will be overturned by the Court. The Court may require the Telephone Company to implement some portion of the annual rate reductions indicated in the OCC order. The Telephone Company is unable to determine the outcome of the remaining portions of the OCC order. Ultimate resolution of the entire OCC order is not expected to have a material impact on the Telephone Company's financial results.

In 1986, the OCC made an inquiry into the effects of the Tax Reform Act of 1986 on the Telephone Company. As a result of the inquiry, in October 1989, the OCC concluded that the Telephone Company had a revenue surplus of \$27.5. The Telephone Company was required to invest this revenue surplus, together with interest, to upgrade its network in Oklahoma rather than refund it to customers. In addition, prospective annual rate reductions totaling \$7.8 were ordered, effective October 1, 1989.

Also in October 1989, the Oklahoma Attorney General, the American Association of Retired Persons and the Telephone Company separately appealed the OCC order to the Oklahoma Supreme Court. On December 24, 1991, the Court issued its opinion affirming the order in part, reversing in part and remanding the cause for further proceedings. The Court upheld the portion of the OCC's decision that, required the Telephone Company to invest the revenue surplus to upgrade its network in the state. The Court also determined, among other issues, that the OCC's finding of a depreciation reserve deficiency was not supported by substantial evidence and that the OCC's treatment of employee severance payments and cash working capital analysis was inappropriate. To date the OCC has not reconsidered the remand issues. A prehearing conference has been scheduled for March 31, 1993. Although the final outcome of the OCC's reconsideration is uncertain at this time, management does not expect the decision to have a material future impact on Telephone Company results of operations.

Texas The Telephone Company in Texas has completed the second year of its four-year incentive regulation agreement (the Agreement), which was approved by the TPUC in November 1990. Under the terms of the Agreement the Telephone Company will, over a four-year period ending December 31, 1994, cap certain local rates; provide annual rate reductions and other benefits to customers in Texas; and upgrade the network at a cost of approximately \$329. Rate reductions and customer benefits for 1991 were approximately \$246. Additional rate reductions of \$34 were implemented in 1992, and additional rate reductions of approximately \$23 and \$102 will be implemented in 1993 and 1994, respectively.

The Agreement also provides an earnings-sharing mechanism designed to encourage efficiency and innovation by the Telephone Company. The sharing amounts for the first and second plan years were accrued in 1991 and 1992, respectively. Reductions in revenues due to sharing did not have a material impact on the Telephone Company's financial results in 1992 or 1991.

Dollars in Millions

stating that the local exchange carriers had not met the burden of proof that these costs were beyond their control. However, the FCC did not preclude the seeking of exogenous treatment of the accumulated postretirement benefit obligation which exists at the date of adoption in a separate filing in 1993.

Competition

Information relating to actual and potential competition impacting the Telephone Company's local exchange, vertical services, access and intraLATA toll revenues is included under the heading "Competition" in Item 1 on page 10 of this report.

Other Business Matters

Changes in Accounting Standards Effective January 1, 1993, the Telephone Company will implement three new accounting standards issued by the Financial Accounting Standards Board. Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", requires a change from the current method of accounting for income taxes to the liability method. Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions", and Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits", both require a change from the cash method of accounting for these expenses to the accrual method as benefits are earned by employees. Implementation of these new accounting standards in the first quarter of 1993 will result in a one-time charge to net income of between \$1,765 and \$1,965. See Notes 2 and 3 to the Financial Statements for additional information.

Pending Litigation The Telephone Company is presently engaged in litigation with four Texas cities arising from the Telephone Company's alleged breach of certain ordinances relating to the Telephone Company's use of, and work activities in, streets and other public ways. The cases are entitled City of Mesquite v. Southwestern Bell Telephone Company, et al., and City of Harlingen and City of Brownsville v. Southwestern Bell Telephone Company, et al., in the U.S. District Court for the Northern District of Texas, and City of Port Arthur, et al., v. Southwestern Bell Telephone Company, et al., in the 136th Judicial District Court of Jefferson County, Texas. The City of Port Arthur action was certified as a class action on November 20, 1992. The certification order has been appealed by the Telephone Company. If the class certification is affirmed, the class could include approximately 130 Texas cities.

The ordinances provide for the payment of a percentage of the gross receipts received by the Telephone Company from the provision of certain services within the cities. While the particular claims of the cities vary, they all allege that the Telephone Company should have included revenues received from other services in calculating the compensation described in the ordinances. The cities have demanded general unspecified

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Southwestern Bell Telephone Company

We have audited the accompanying balance sheets of Southwestern Bell Telephone Company as of December 31, 1992 and 1991, and the related statements of income and retained earnings and cash flows for each of the three years in the period ended December 31, 1992. Our audits also included the financial statement schedules listed in the Index at Item 14(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southwestern Bell Telephone Company at December 31, 1992 and 1991, and the results of its operations and cash flows for each of the three years in the period ended December 31, 1992 in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

ERNST & YOUNG

St. Louis, Missouri
February 12, 1993

SOUTHWESTERN BELL TELEPHONE COMPANY
BALANCE SHEETS
Dollars in Millions

	December 31, <u>1992</u>	December 31, <u>1991</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 44.9	\$ 53.8
Accounts receivable--net of allowances for uncollectibles of \$11.3 and \$12.3	1,259.6	1,182.8
Deferred income taxes	79.5	91.6
Material and supplies	121.5	86.5
Deferred charges	53.4	80.4
Prepaid expenses and other current assets	<u>63.0</u>	<u>33.7</u>
Total current assets	<u>1,621.9</u>	<u>1,528.8</u>
Property, Plant and Equipment--Net	15,666.1	15,563.6
Other Assets	<u>570.6</u>	<u>880.3</u>
Total Assets	<u><u>\$17,858.6</u></u>	<u><u>\$17,972.7</u></u>
Liabilities and Shareowner's Equity		
Current Liabilities:		
Debt maturing within one year	\$ 466.5	\$ 629.3
Accounts payable and accrued liabilities	<u>2,002.8</u>	<u>1,904.4</u>
Total current liabilities	<u>2,469.3</u>	<u>2,533.7</u>
Long-Term Debt	<u>4,524.5</u>	<u>4,491.3</u>
Deferred Credits and Other Noncurrent Liabilities:		
Deferred income taxes	3,162.2	3,274.1
Unamortized investment tax credits	495.3	567.3
Other noncurrent liabilities	<u>116.2</u>	<u>15.2</u>
Total deferred credits and other noncurrent liabilities	<u>3,773.7</u>	<u>3,856.6</u>
Commitments and Contingent Liabilities (Notes 5, 11)		
Shareowner's Equity:		
Common stock--one share, without par value, owned by parent	6,469.9	6,469.9
Retained earnings	<u>621.2</u>	<u>621.2</u>
Total shareowner's equity	<u>7,091.1</u>	<u>7,091.1</u>
Total Liabilities and Shareowner's Equity	<u><u>\$17,858.6</u></u>	<u><u>\$17,972.7</u></u>

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

SOUTHWESTERN BELL TELEPHONE COMPANY

Notes to Financial Statements
Dollars in Millions

1. Summary of Significant Accounting Policies

Southwestern Bell Telephone Company (Telephone Company) is a regulated utility which provides telecommunications services to customers in Arkansas, Kansas, Missouri, Oklahoma and Texas. The Telephone Company is a wholly-owned subsidiary of Southwestern Bell Corporation (Corporation).

Regulatory Accounting The Telephone Company prepares its financial statements in accordance with the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (Statement No. 71). The provisions of Statement No. 71 require, among other things, that regulated enterprises reflect rate actions of regulators in their financial statements, when appropriate. These rate actions can provide reasonable assurance of the existence of an asset, reduce or eliminate the value of an asset, or impose a liability on a regulated enterprise.

Allowance for Funds Used During Construction Where capital invested by the Telephone Company in construction projects is not allowed in the rate base upon which revenue requirements are determined, it is the practice of regulatory authorities to allow, in lieu thereof, a capitalization of interest and equity costs during periods of construction. These capitalized costs are reflected as income during the construction period and as an addition to the cost of plant constructed, and are included in other income (expense)--net on the Telephone Company's Statements of Income.

Income Taxes The Telephone Company is included in the Corporation's consolidated federal income tax return. Federal income taxes are provided for in accordance with the provisions of the Tax Allocation Agreement (Agreement) between the Telephone Company and the Corporation. Under the Agreement, the Telephone Company's income tax provision reflects the financial consequences of all income, deductions and credits which can be utilized on a separate return basis or in consolidation with the Corporation and which are assured of realization.

Deferred income taxes are provided for certain timing differences between earnings reported in the financial statements and earnings reported for income tax purposes.

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

Dollars in Millions

2. Employee Retirement Benefits

Pensions Substantially all employees of the Telephone Company are covered by noncontributory pension and death benefit plans sponsored by the Corporation. 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 nonmanagement employees, and a stated percentage of adjusted career income for management employees.

The Corporation'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.

The following data relate to plan costs:

	1992	1991	1990
Pension cost (credit)	\$ 61.5	\$(57.5)	\$(66.6)
Amount capitalized in property, plant and equipment	\$ 11.5	\$ (5.5)	\$ (5.7)
Assumed discount rate for determining pension cost	7.5%	7.5%	7.5%
Assumed long-term rate of return on plan assets	8.0%	7.75%	7.5%
Assumed composite rate of compensation increase	4.6%	4.6%	6.7%

Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions", requires certain disclosures to be made of components of net periodic pension cost for the period and a reconciliation of the funded status of the plans with amounts reported in the balance sheets. Since the funded status of plan assets and obligations relates to the plans as a whole, which are sponsored by the Corporation, this information is not presented for the Telephone Company. As of December 31, 1992 and 1991, the amount of the Telephone Company's cumulative contributions made to the pension trust in excess of its cumulative amount of pension cost recognized was \$396.6 and \$561.0, respectively. Based on the actuarial valuations of each plan, the fair value of each plan's assets exceeded the estimated actuarial projected benefit obligation at December 31, 1992 and 1991.

Savings Plans Substantially all employees are eligible to participate in voluntary savings plans sponsored by the Corporation. Under the savings plans, the Telephone Company matches a stated percentage of eligible employee contributions, subject to a specified ceiling.

Dollars in Millions

In addition to the transition obligation, management estimates that recurring annual expense will be approximately two and one-half times the amount recognized in 1992. As the timing and extent of expense recognition within the ratemaking process in the Telephone Company's regulatory jurisdictions are uncertain, the future net income impact of Statement No. 106 cannot be determined.

Postemployment Benefits In November 1992, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" (Statement No. 112). Statement No. 112 requires accrual of postemployment benefits at the occurrence of an event that renders an employee inactive or, if the benefits ratably vest, over the vesting period. Under its benefit plans, the Telephone Company provides employees varying levels of disability pay, workers' compensation and medical benefits under specified circumstances. Statement No. 112 must be adopted by January 1, 1994, although earlier adoption is permitted.

The Telephone Company intends to adopt Statement No. 112 on January 1, 1993, and estimates that a liability of approximately \$100, with a related tax benefit of approximately \$35, will be accrued for existing postemployment benefit obligations at that time. Ongoing expense, which will vary according to actual claims experience, cannot be determined currently.

3. Income Taxes

The components of income tax expense are as follows:

	1992	1991	1990
Federal:			
Current	\$ 489.4	\$472.8	\$423.8
Deferred--net	(100.7)	(69.5)	(13.7)
Amortization of			
investment tax credits	(72.0)	(86.7)	(88.1)
	316.7	316.6	322.0
State and local:			
Current	42.2	34.2	30.8
Deferred--net	1.7	(.5)	(2.5)
	43.9	33.7	28.3
Total	\$ 360.6	\$ 350.3	\$ 350.3

The components of deferred federal income tax expense are as follows:

	1992	1991	1990
Depreciation	\$ (23.7)	\$ (62.5)	\$ 17.9
Employee benefits	(70.0)	3.8	(3.5)
Other--net	(7.0)	(10.8)	(28.1)
Total	\$ (100.7)	\$ (69.5)	\$ (13.7)

Dollars in Millions

Absent any change in statutory federal income tax rates or laws, the Telephone Company's future income tax expense, computed according to Statement No. 109 provisions, will not be materially different from income tax expense currently recognized in the Telephone Company's financial statements.

4. Property, Plant and Equipment

Property, plant and equipment, which is stated at cost, is summarized as follows:

	December 31,	
	1992	1991
Telephone plant -		
In service	\$25,005.4	\$24,005.6
Under construction	265.5	414.5
	25,270.9	24,420.1
Accumulated depreciation and amortization	(9,604.8)	(8,856.5)
Property, plant and equipment - net	\$15,666.1	\$15,563.6

As a result of the 1992 triennial represcription, in which depreciation rates for telephone plant and equipment are reviewed, the FCC and certain state regulatory jurisdictions authorized revised depreciation rates for the Telephone Company effective January 1, 1992. The change in rates did not have a material effect on the Telephone Company's net income or financial position. The 1990 financial statements included a one-time reduction of Texas depreciation expense for 1989 of approximately \$100. Because rate reductions offset portions of the decrease in 1990 depreciation expense, the effect on 1990 net income was not material.

5. Leases

Certain facilities and equipment used in operations are under capital or operating leases. Rental expenses under operating leases were \$82.8, \$68.2 and \$88.8 for 1992, 1991 and 1990, respectively. At December 31, 1992, the aggregate minimum rental commitments under noncancelable leases were as follows:

Year	Operating Leases	Capital Leases
1993	\$27.6	\$11.0
1994	24.7	5.0
1995	13.5	2.1
1996	4.8	1.5
1997	3.3	.9
Thereafter	16.6	7.4
Total minimum lease payments	\$90.5	27.9
Amount representing executory costs		(1.6)
Amount representing interest		(8.7)
Present value of minimum lease payments		\$17.6

Dollars in Millions

7. Long-Term Debt

A summary of long-term debt is as follows:

	December 31,	
	1992	1991
Debentures -		
Interest rates and maturities:		
4 1/2% - 4 3/4% 1992 - 1997	\$ 200.0	\$ 300.0
5 3/8% - 6 7/8% 2003 - 2011	650.0	650.0
7 3/8% - 8 3/4% 1993 - 2024	2,950.0	3,200.0
9 1/4% - 9 5/8% 2015 - 2019	600.0	600.0
	4,400.0	4,750.0
Unamortized discount--net of premium	(168.9)	(175.1)
Total debentures	4,231.1	4,574.9
Notes -		
Interest rates and maturities:		
5.2% - 7.35% 1994 - 2007	285.0	-
Unamortized discount	(1.3)	-
Total notes	283.7	-
Capitalized leases	17.6	23.8
	4,532.4	4,598.7
Current maturities	(7.9)	(107.4)
Total long-term debt	\$4,524.5	\$4,491.3

Prior to the adoption of the Uniform System of Accounts on January 1, 1988, the call premium and unamortized discount (or premium) on Telephone Company debt extinguished prior to maturity had been classified as a discount (or premium) on long-term debt which is being amortized (as approved by the FCC) over the remaining life of the new debt issued. Beginning January 1, 1988, expenses associated with the early extinguishment of debt are reflected in net income in the period in which the extinguishment occurs.

In June 1991, the Telephone Company reflected an extraordinary loss on the early extinguishment of debt as a result of refinancing \$732 of long-term bonds. Expenses associated with the refinancing, including a call premium of \$67.5, totaled \$129.3 with a related tax effect of \$48.6, resulting in an extraordinary charge to income of \$80.7.

The aggregate principal amounts of long-term debt scheduled for repayment in each of the five fiscal years subsequent to 1992 are as follows:

	1993	1994	1995	1996	1997
Aggregate principal amounts					
of long-term debt	\$ 7.9	\$287.6	\$117.0	\$200.9	\$120.5

Dollars in Millions

10. Segment and Major Customer Information

The Telephone Company operates predominantly in the communications service industry.

Approximately 16 percent in 1992, 17 percent in 1991 and 19 percent in 1990 of the Telephone Company's revenues were from services provided to AT&T. No other customer accounted for more than 10 percent of total revenues.

11. Contingent Liabilities

The Telephone Company is party to numerous lawsuits, regulatory proceedings and other matters arising in the ordinary course of business. In the opinion of management, although the outcomes of these claims and suits are uncertain, they should not have a material adverse effect on the Telephone Company's financial position or results of operations.

12. Fair Values of Financial Instruments

Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments", requires disclosure of fair value information for certain financial instruments. The carrying amounts and fair values of the Telephone Company's financial instruments at December 31, 1992, are as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and Cash Equivalents	\$ 44.9	\$ 44.9
Debt Maturing Within One Year:		
Commercial paper	458.6	458.6
Long-Term Debt:		
Debentures	4,400.0	4,427.0
Notes	285.0	288.3

The carrying amounts reported in the balance sheet for cash and cash equivalents and commercial paper approximate fair values. The fair value of the debentures was based on quoted market prices and the fair value of the notes was estimated using a discounted cash flow analysis based on the yield to maturity of each issue.

SOUTHWESTERN BELL TELEPHONE COMPANY
SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
Dollars in Millions

COL. A	COL. B	COL. C	COL. D	COL. E	COL. F
Classification	Balance at Beginning of Period	Additions at Cost -Note(a)	Retirements -Note(b)	Other Changes -Note(c)	Balance at End of Period
Year 1992					
Aerial Cable.....	\$ 1,299.7	\$ 47.9	\$ 22.3	\$ -	\$ 1,325.3
Aerial Wire.....	34.8	.6	.6	-	34.8
Buildings.....	2,364.0	88.0	12.3	-	2,439.7
Buried Cable.....	5,918.5	302.5	55.3	(.2)	6,165.5
Central Office Assets.....	8,747.8	910.6	528.4	16.8	9,146.8
Conduit Systems.....	1,267.9	28.7	1.8	-	1,294.8
Furniture and Office Equipment.....	1,199.4	124.4	62.2	8.4	1,270.0
Held for Future Use.....	.4	-	-	.1	.5
Information Equipment.....	568.0	45.0	130.2	25.2	508.0
Intrabuilding Network Cable.....	144.2	1.5	2.4	.2	143.5
Land.....	167.9	.7	.3	.3	168.6
Poles.....	307.1	9.5	4.0	-	312.6
Submarine Cable.....	4.7	-	-	-	4.7
Underground Cable.....	1,981.2	62.4	15.0	.1	2,028.7
Vehicles and Work Equipment.....	<u>414.5</u>	<u>29.7</u>	<u>17.0</u>	<u>.2</u>	<u>427.4</u>
Total Property Plant and Equipment	<u>\$24,420.1</u>	<u>\$ 1,651.5</u>	<u>\$ 851.8</u>	<u>\$ 51.1</u>	<u>\$25,270.9</u>

Depreciation as a percentage of average depreciable plant and equipment

6.6%

The Notes on Sheet 4 are an integral part of this Schedule.

SOUTHWESTERN BELL TELEPHONE COMPANY
SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
Dollars in Millions

COL. A	COL. B	COL. C	COL. D	COL. E	COL. F
Classification	Balance at Beginning of Period	Additions at Cost -Note(a)	Retirements -Note(b)	Other Changes -Note(c)	Balance at End of Period
Year 1990					
Aerial Cable.....	\$ 1,253.9	\$ 57.7	\$ 29.6	\$ (.2)	\$ 1,281.8
Aerial Wire.....	35.8	.5	1.2	-	35.1
Buildings.....	2,139.0	116.4	10.1	(.2)	2,245.1
Buried Cable.....	5,437.8	307.7	58.8	(.7)	5,686.0
Central Office Assets.....	8,217.3	662.7	409.7	35.2	8,505.5
Conduit Systems.....	1,201.3	38.9	2.1	.7	1,238.8
Furniture and Office Equipment.....	1,135.8	136.8	133.1	4.6	1,144.1
Held for Future Use.....	7.9	-	-	.6	8.5
Information Equipment.....	1,447.8	45.8	965.4	3.4	531.6
Intrabuilding Network Cable.....	142.8	1.9	4.1	.5	141.1
Land.....	164.4	2.4	.4	(1.1)	165.3
Poles.....	296.1	11.6	5.5	-	302.2
Submarine Cable.....	4.6	.2	-	-	4.8
Underground Cable.....	1,869.5	76.8	14.9	(.2)	1,931.2
Vehicles and Work Equipment.....	<u>392.0</u>	<u>47.0</u>	<u>25.7</u>	<u>-</u>	<u>413.3</u>
Total Property Plant and Equipment	<u>\$23,746.0</u>	<u>\$ 1,506.4</u>	<u>\$ 1,660.6</u>	<u>\$ 42.6</u>	<u>\$23,634.4</u>
Depreciation as a percentage of average depreciable plant and equipment					<u>6.3%</u>

The Notes on Sheet 4 are an integral part of this Schedule.

SOUTHWESTERN BELL TELEPHONE COMPANY
SCHEDULE VI - ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION
OF PROPERTY, PLANT AND EQUIPMENT
Dollars in Millions

COL. A	COL. B	COL. C	COL. D	COL. E	COL. F
Description	Balance at Beginning of Period	Additions Charged to Expense	Retire- ments	Other Changes -Note(a)	Balance at End of Period
Year 1992.	\$8,856.5	1,615.0	851.9	(14.8)	\$9,604.8
Year 1991.	\$8,063.0	1,555.5	770.1	8.1	\$8,856.5
Year 1990.	\$8,240.7	1,499.6	1,660.6	(16.7)	\$8,063.0

(a) Comprised principally of the following items:

- (1) Amounts received for property, plant and equipment sold.
- (2) Provisions for the cost of removing plant and equipment retired.
- (3) The 1991 amount also includes the Telephone Company's deferral of certain interstate amortization expenses to 1992, as required by the FCC beginning in July 1991.

SOUTHWESTERN BELL TELEPHONE COMPANY
 SCHEDULE X - SUPPLEMENTARY INCOME STATEMENT INFORMATION
 Dollars in Millions

Column A - Item	Column B - Charged to Expense
-----------------	-------------------------------------

Year 1992

1. Maintenance and repairs.....	\$1,655.8
2. Taxes, other than payroll and income taxes	
Property.....	\$ 272.2
Gross receipts.....	\$ 147.9

Year 1991

1. Maintenance and repairs.....	\$1,515.2
2. Taxes, other than payroll and income taxes	
Property.....	\$ 265.1
Gross receipts.....	\$ 130.6

Year 1990

1. Maintenance and repairs.....	\$1,536.3
2. Taxes, other than payroll and income taxes	
Property.....	\$ 254.7
Gross receipts.....	\$ 116.2

SOUTHWESTERN BELL TELEPHONE COMPANY
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
DOLLARS IN MILLIONS

	YEAR ENDED DECEMBER 31,				
	1992	1991	1990	1989	1988
Income Before Income Taxes and Extraordinary Loss.....	\$1,324.7	\$1,286.3	\$1,319.4	\$1,268.9	\$1,345.9
Add: Interest Expense....	408.7	456.3	439.3	476.6	486.4
1/3 Rental Expense..	<u>27.6</u>	<u>22.7</u>	<u>29.6</u>	<u>28.2</u>	<u>32.4</u>
Adjusted Earnings.....	<u>\$1,761.0</u>	<u>\$1,765.3</u>	<u>\$1,788.3</u>	<u>\$1,773.7</u>	<u>\$1,864.7</u>
Total Interest Charges.....	\$ 408.7	\$ 456.3	\$ 439.3	\$ 476.6	\$ 486.4
1/3 Rental Expense.....	<u>27.6</u>	<u>22.7</u>	<u>29.6</u>	<u>28.2</u>	<u>32.4</u>
Adjusted Fixed Charges....	<u>\$ 436.3</u>	<u>\$ 479.0</u>	<u>\$ 468.9</u>	<u>\$ 504.8</u>	<u>\$ 518.8</u>
Ratio of Earnings to Fixed Charges.....	4.04	3.69	3.81	3.51	3.59

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, 1993.

SOUTHWESTERN BELL TELEPHONE COMPANY

By /s/ C. J. Roesslein
(C. J. Roesslein
Vice President-Chief Financial
Officer and Treasurer)

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.*
President and Chief
Executive Officer

Principal Financial and
Accounting Officer:

C. J. Roesslein
Vice President-Chief Financial
Officer and Treasurer

Directors:

Edward E. Whitacre, Jr.*
Royce S. Caldwell*
William E. Dreyer*
J. Cliff Eason*
James D. Ellis*
R. G. Pope*

/s/ C. J. Roesslein
(C. J. Roesslein, as attorney-
in-fact and on his own behalf
as Principal Financial Officer
and Principal Accounting
Officer)

March 11, 1993

* by power of attorney

SOUTHWESTERN BELL TELEPHONE COMPANY
SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS
Allowance for Uncollectibles
Dollars in Millions

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 Revenue	(2) Charged to Other Accounts -Note(a)		
Year 1992.	\$ 12.3	62.6	34.8	98.4	\$ 11.3
Year 1991.	\$ 18.1	67.3	24.5	97.6	\$ 12.3
Year 1990.	\$ 15.0	85.5	29.4	111.8	\$ 18.1

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

(b) Amounts written off as uncollectible.

SWBT 000627

-
- (a) Includes allowance for funds used during construction and additions to capitalized leased assets.
 - (b) Items of telephone plant, when retired or sold are deducted from the property accounts at the amount of cost originally recorded. Amounts are estimated if original historical cost is not known.
 - (c) Primarily includes transfers to and from Material and Supplies from and to Property, Plant and Equipment for reused material.

SWBT 000625

SOUTHWESTERN BELL TELEPHONE COMPANY
SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
Dollars in Millions

COL. A	COL. B	COL. C	COL. D	COL. E	COL. F
Classification	Balance at Beginning of Period	Additions at Cost -Note(a)	Retirements -Note(b)	Other Changes -Note(c)	Balance at End of Period
Year 1991					
Aerial Cable.....	\$ 1,281.8	\$ 46.5	\$ 27.2	\$ (1.4)	\$ 1,299.7
Aerial Wire.....	35.1	.6	.9	-	34.8
Buildings.....	2,245.1	131.3	11.9	(.5)	2,364.0
Buried Cable.....	5,686.0	299.0	65.0	(1.5)	5,918.5
Central Office Assets.....	8,505.5	732.3	515.1	25.1	8,747.8
Conduit Systems.....	1,238.8	31.7	2.4	(.2)	1,267.9
Furniture and Office Equipment.....	1,144.1	117.9	70.1	7.5	1,199.4
Held for Future Use.....	8.5	-	-	(8.1)	.4
Information Equipment.....	531.6	49.6	27.4	14.2	568.0
Intrabuilding Network Cable.....	141.1	2.1	2.5	3.5	144.2
Land.....	165.3	2.7	.2	.1	167.9
Poles.....	302.2	9.9	5.0	-	307.1
Submarine Cable.....	4.8	-	.1	-	4.7
Underground Cable.....	1,931.2	73.0	23.0	-	1,981.2
Vehicles and Work Equipment.....	<u>413.3</u>	<u>20.5</u>	<u>19.3</u>	<u>-</u>	<u>414.5</u>
Total Property Plant and Equipment	<u>\$23,634.4</u>	<u>\$ 1,517.1</u>	<u>\$ 770.1</u>	<u>\$ 38.7</u>	<u>\$24,420.1</u>
Depreciation as a percentage of average depreciable plant and equipment					<u>6.6%</u>

The Notes on Sheet 4 are an integral part of this Schedule.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

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

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) Documents filed as a part of the report:	Page
(1) Report of Independent Auditors.....	23
Financial Statements Covered by Report of Independent Auditors:	
Statements of Income and Retained Earnings.....	24
Balance Sheets.....	25
Statements of Cash Flows.....	26
Notes to Financial Statements.....	27
(2) Financial Statement Schedules Covered by Report of Independent Auditors:	
V-Property, Plant and Equipment.....	39
VI-Accumulated Depreciation, Depletion, and Amortization of Property, Plant and Equipment.....	43
VIII-Valuation and Qualifying Accounts.....	44
X-Supplementary Income Statement Information.....	45

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

(3) Exhibits:

Exhibits identified in parentheses below, on file with the SEC, are incorporated by reference as exhibits hereto. Exhibit numbers may not in all cases correspond to those in Item 601 of Regulation S-K because of special requirements applicable to EDGAR filers.

- 4 Pursuant to Regulation S-K, Item 601(b)(4)(iii)(A), no instrument which defines the rights of holders of long and intermediate term debt of the registrant is filed herewith. Pursuant to this regulation, the registrant hereby agrees to furnish a copy of any such instrument to the SEC upon request.
- 12 Computation of Ratios of Earnings to Fixed Charges.
- 23 Consent of Ernst & Young [Exhibit 24 to Item 601 of Regulation S-K].
- 24 Powers of Attorney [Exhibit 25 to Item 601 of Regulation S-K].

(b) Reports on Form 8-K:

On October 2, 1992, Southwestern Bell Telephone Company filed a Current Report on Form 8-K, dated October 1, 1992, reporting on Item 7, Financial Statements and Exhibits.

Dollars in Millions

8. Additional Financial Information

	December 31,		
Balance Sheets	1992	1991	
Accounts payable and accrued liabilities:			
Accounts payable	\$ 826.0	\$ 698.6	
Accrued taxes	296.9	325.1	
Advance billing and customer deposits	208.7	197.4	
Compensated future absences	179.6	183.3	
Accrued interest	91.3	98.9	
Accrued payroll	90.4	91.7	
Other	309.9	309.4	
Total	\$2,002.8	\$1,904.4	
Statements of Income	1992	1991	1990
Interest expense:			
Long-term debt	\$381.0	\$414.4	\$443.6
Notes payable	25.9	29.3	6.0
Other	1.8	12.6	(10.3)
Total	\$408.7	\$456.3	\$439.3
Allowance for funds used			
during construction	\$ 30.1	\$ 33.8	\$ 25.7
Statements of Cash Flows	1992	1991	1990
Cash paid during the year for:			
Interest	\$416.3	\$471.5	\$441.0
Income taxes	\$563.5	\$383.9	\$481.7

9. Quarterly Financial Information (Unaudited)

Calendar	Total		Operating		Net	
	Revenues		Income		Income	
Quarter	1992	1991	1992	1991	1992	1991
First	\$1,863.9	\$1,799.4	\$ 393.4	\$ 406.4	\$ 225.6	\$ 217.8
Second	1,923.9	1,862.7	451.9	450.7	256.7	160.1*
Third	1,974.7	1,867.9	463.4	473.1	264.3	264.7
Fourth	1,981.5	1,894.1	395.3	385.5	217.5	212.7
Total	\$7,744.0	\$7,424.1	\$1,704.0	\$1,715.7	\$ 964.1	\$ 855.3

*Includes an extraordinary loss of \$80.7 for the early extinguishment of debt. Income before extraordinary loss was \$240.8.

Dollars in Millions

6. Debt Maturing Within One Year

Debt maturing within one year consists of the following:

	Amounts			Weighted Average Interest Rate		
	December 31,			December 31,		
	1992	1991	1990	1992	1991	1990
Notes payable:						
Commercial paper	\$458.6	\$521.9	\$203.1	3.5%	4.8%	8.7%
Current maturities of long-term debt	7.9	107.4	5.9			
Total	\$466.5	\$629.3	\$209.0			
	1992	1991	1990	1992	1991	1990
Average amount of notes payable outstanding during the year*	\$676.3	\$496.6	\$ 72.8	3.8%	5.9%	8.3%
Maximum amount of notes payable at any month end during the year	\$808.1	\$813.7	\$203.1			

*Weighted average interest rate computed by dividing the average daily face amount of notes payable into the aggregate related interest expense.

The Telephone Company has entered into agreements with several banks for lines of credit totaling \$270.0, all of which are available for the support of commercial paper borrowings. All of these lines are on an informal basis, with interest rates determined at time of borrowing. There were no borrowings outstanding under these agreements at December 31, 1992.

Dollars in Millions

A reconciliation of income tax expense and the amount computed by applying the statutory federal income tax rate (34 percent) to income before income taxes and extraordinary loss is as follows:

	1992	1991	1990
Taxes computed at federal statutory rate	\$ 450.4	\$ 437.4	\$ 448.6
Increases (decreases) in taxes resulting from:			
Amortization of investment tax credits over the life of the plant that gave rise to the credits	(72.0)	(86.7)	(88.1)
Excess deferred taxes due to rate change	(74.3)	(55.8)	(55.4)
Depreciation of telephone plant construction costs previously deducted for tax purposes--net	21.7	23.2	28.1
State and local income taxes--net of federal tax benefit	29.0	22.3	18.7
Other--net	5.8	9.9	(1.6)
Total	\$ 360.6	\$ 350.3	\$ 350.3

The Telephone Company does not provide deferred income taxes if its regulated rates to customers are based on taxes currently payable (flow-through treatment). The amounts of income tax timing differences for which deferred tax liabilities have not been provided were approximately \$319, \$383 and \$451 at December 31, 1992, 1991 and 1990, respectively. The timing differences accorded flow-through treatment result principally from portions of allowance for funds used during construction and certain taxes and payroll-related construction costs previously capitalized for financial statement purposes, but deducted immediately for income tax purposes.

In accordance with Accounting Principles Board Opinion No. 11, "Accounting for Income Taxes", the deferred tax accounts included in the Telephone Company's Balance Sheets as of December 31, 1992, were calculated using income tax rates in effect at the time the assets and liabilities were established. The recorded liabilities (net of the deferred tax assets) may be different than the ultimate cash payments to be made at the corporate income tax rate scheduled to be in effect when the deferred tax liabilities are settled.

In February 1992, the FASB issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (Statement No. 109), which is effective beginning in 1993. Statement No. 109 requires a change to the liability method of accounting for income taxes and requires regulated companies, such as the Telephone Company, to record a regulatory asset and regulatory liability when adjusting their deferred income tax liability if certain criteria are met. Management estimates that substantially all of the net reduction in the Telephone Company's deferred tax liability of \$450 would be offset by the establishment of a regulatory liability and a regulatory asset with minimal effect on 1993 net income.

Starting in 1990, the Telephone Company's match of employee contributions is being fulfilled with the Corporation's common stock allocated from two leveraged Employee Stock Ownership Plans and from purchases of the Corporation's stock in the open market. The costs relating to these savings plans were \$48.6, \$53.5 and \$57.4 in 1992, 1991 and 1990, respectively.

Voluntary Retirement Programs In 1991, the Corporation amended the pension plan for management employees and offered incentives for managers of selected subsidiaries, including the Telephone Company, to retire or resign effective December 30, 1991. Approximately 3,500 managers participated in the program in 1991. Plan assets were designated for the settlement of the pension obligations of those managers who elected to receive their benefits in lump sum amounts. The voluntary management retirement program resulted in a charge to 1991 net income of approximately \$28 for the Telephone Company.

As a result of a March 1992 agreement with the Communications Workers of America, the Telephone Company offered a limited early retirement plan to designated nonmanagement employees. Five years were added to employees' age and net credited service to determine service pension eligibility. Eligible employees who elected to participate in the plan had three years added to their actual age and service for computation of pension amounts, received pension band increases ranging from 3 percent to 9 percent, depending on their age, and a pension supplement ranging from 5 percent to 25 percent, based upon years of service. Approximately 1,200 nonmanagement employees participated in this offer. The plan resulted in a first-quarter 1992 charge to net income of approximately \$24.

Postretirement Benefits The Telephone Company provides certain medical, dental and life insurance benefits to substantially all retired employees. Retiree health care benefits are recognized as an expense as claims are incurred. Life insurance benefit costs are actuarially determined and are accrued and funded annually over the employees' active working lives. In 1992, 1991 and 1990, the cost of providing these postretirement benefits was \$102.6, \$95.1 and \$85.0, respectively.

Effective January 1, 1993, the Telephone Company will be required to adopt Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (Statement No. 106). Statement No. 106 requires accrual of actuarially determined postretirement benefit costs as active employees earn these benefits.

It is the intent of the Telephone Company, in implementing Statement No. 106, to recognize immediately a reduction in net income for the accumulated obligation for postretirement benefits, net of the fair value of plan assets (transition obligation). Management currently estimates the transition obligation to be between \$2,600 and \$3,000, with a related deferred income tax benefit between \$900 and \$1,100.

Dollars in Millions

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

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

Deferred Charges Directory advertising costs are deferred until the directory is published and advertising revenues related to these costs are recognized.

As required by the Federal Communications Commission (FCC), the deferred cost of compensated future absences as of December 31, 1987, is being amortized over ten years by the Telephone Company. The current portion of this deferral is classified as a deferred charge and the noncurrent portion is classified as an other asset on the Telephone Company's Balance Sheets.

Property, Plant and Equipment The cost of additions and substantial betterments of property, plant and equipment is capitalized. Cost includes salaries and wages, material, applicable taxes, pensions and other benefits, allowance for funds used during construction and certain other items.

The Telephone Company computes depreciation using certain straight-line methods as prescribed by the FCC and the applicable state regulatory authorities. The Telephone Company's provision for depreciation includes the amortization of interstate and certain intrastate accumulated depreciation deficiencies (reserve deficiency amortization). Reserve deficiency amortization allows additional depreciation to be recognized currently in an attempt to reflect more accurately prior years' actual consumption of telephone plant.

When a portion of the Telephone Company's depreciable property, plant and equipment is retired, the gross book value is charged to accumulated depreciation.

The cost of maintenance and repairs of property, plant and equipment, including the cost of replacing minor items not constituting substantial betterments, is charged to operating expenses.

Reclassifications Certain reclassifications were made to the 1991 and 1990 financial statements to conform with the 1992 presentation.

SOUTHWESTERN BELL TELEPHONE COMPANY
STATEMENTS OF CASH FLOWS
Dollars in Millions

	<u>1992</u>	<u>1991</u>	<u>1990</u>
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities:			
Net income	\$ 964.1	\$ 855.3	\$ 969.1
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,615.0	1,555.5	1,500.3
Provision for uncollectible accounts	62.6	67.3	85.5
Amortization of investment tax credits	(72.0)	(86.7)	(88.1)
Provision for pensions	66.3	(55.2)	(62.7)
Deferred income tax expense	(99.0)	(70.0)	(16.2)
Extraordinary loss, net of tax	-	80.7	-
Changes in operating assets and liabilities:			
Accounts receivable	(145.5)	(72.0)	(25.3)
Other current assets	(37.2)	(7.4)	(74.4)
Accounts payable and accrued liabilities	104.4	126.3	39.5
Other--net	<u>256.1</u>	<u>43.4</u>	<u>(27.4)</u>
Total adjustments	<u>1,750.7</u>	<u>1,581.9</u>	<u>1,331.2</u>
Net cash provided by operating activities	<u>2,714.8</u>	<u>2,437.2</u>	<u>2,300.3</u>
Cash Flows from Investing Activities:			
Construction and capital expenditures	<u>(1,617.4)</u>	<u>(1,475.3)</u>	<u>(1,479.0)</u>
Net cash used in investing activities	<u>(1,617.4)</u>	<u>(1,475.3)</u>	<u>(1,479.0)</u>
Cash Flows from Financing Activities:			
Net change in short-term borrowings with original maturities of three months or less	(189.9)	318.8	144.1
Issuance of other short-term borrowings	521.4	-	-
Repayment of other short-term borrowings	(394.8)	-	-
Issuance of long-term debt	284.3	397.4	-
Repayment of long-term debt	(11.1)	(7.8)	(12.7)
Early extinguishment of debt and related call premiums	(355.6)	(799.5)	-
Dividends paid	<u>(960.6)</u>	<u>(855.4)</u>	<u>(947.2)</u>
Net cash used for financing activities	<u>(1,106.3)</u>	<u>(946.5)</u>	<u>(815.8)</u>
Net increase (decrease) in cash and cash equivalents	(8.9)	15.4	5.5
Cash and cash equivalents beginning of year	<u>53.8</u>	<u>38.4</u>	<u>32.9</u>
Cash and Cash Equivalents End of Year	<u>\$ 44.9</u>	<u>\$ 53.8</u>	<u>\$ 38.4</u>

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

SOUTHWESTERN BELL TELEPHONE COMPANY
STATEMENTS OF INCOME AND RETAINED EARNINGS
Dollars in Millions

	<u>1992</u>	<u>1991</u>	<u>1990</u>
Operating Revenues			
Local service	\$3,727.3	\$3,527.9	\$3,396.5
Network access	2,547.8	2,440.8	2,630.9
Long-distance service	1,003.4	1,020.4	1,064.6
Other	<u>465.5</u>	<u>435.0</u>	<u>373.7</u>
Total operating revenues	<u>7,744.0</u>	<u>7,424.1</u>	<u>7,465.7</u>
Operating Expenses			
Cost of services and products	2,594.3	2,433.5	2,504.6
Selling, general and administrative	1,830.7	1,719.4	1,710.8
Depreciation and amortization	<u>1,615.0</u>	<u>1,555.5</u>	<u>1,500.3</u>
Total operating expenses	<u>6,040.0</u>	<u>5,708.4</u>	<u>5,715.7</u>
Operating Income	<u>1,704.0</u>	<u>1,715.7</u>	<u>1,750.0</u>
Other Income (Expense)			
Interest expense	(408.7)	(456.3)	(439.3)
Other income (expense)--net	<u>29.4</u>	<u>26.9</u>	<u>8.7</u>
Total other income (expense)	<u>(379.3)</u>	<u>(429.4)</u>	<u>(430.6)</u>
Income Before Income Taxes and Extraordinary Loss	<u>1,324.7</u>	<u>1,286.3</u>	<u>1,319.4</u>
Income Taxes			
Federal	316.7	316.6	322.0
State and local	<u>43.9</u>	<u>33.7</u>	<u>28.3</u>
Total income taxes	<u>360.6</u>	<u>350.3</u>	<u>350.3</u>
Income Before Extraordinary Loss	<u>964.1</u>	<u>936.0</u>	<u>969.1</u>
Extraordinary Loss on Early Extinguishment of Debt, net of tax	<u>-</u>	<u>80.7</u>	<u>-</u>
Net Income	<u>\$ 964.1</u>	<u>\$ 855.3</u>	<u>\$ 969.1</u>
Retained Earnings			
At beginning of year	\$ 621.2	\$ 621.2	\$ 621.2
Net income	964.1	855.3	969.1
Dividends to parent	<u>(964.1)</u>	<u>(855.3)</u>	<u>(969.1)</u>
At end of year	<u>\$ 621.2</u>	<u>\$ 621.2</u>	<u>\$ 621.2</u>

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

actual and exemplary damages or have not specifically alleged the amount of damages resulting from the gross receipts claims. The Telephone Company believes it has several meritorious defenses to the claims and intends to vigorously pursue these defenses. Although the outcomes of these cases are uncertain, the Telephone Company believes that it will either be successful on the merits of the cases or that any unfavorable result will not have a material impact on the Telephone Company's financial statements.

In 1991, the Agreement was appealed to the District Court of Travis County, Texas, by various intervenors. On December 10, 1991, the District Court issued an order which affirmed the decision of the TPUC and denied all appeals. The same intervenors filed further appeals with the Texas Court of Appeals (Appeals Court). On February 3, 1993, the Appeals Court upheld the Agreement. However, the Appeals Court found that the TPUC incorrectly applied laws on the treatment of federal income tax savings related to disallowed expenses and directed the matter back to the TPUC for resolution. The Telephone Company will seek a rehearing on this issue.

On October 7, 1992, the Office of Public Utility Counsel (OPUC) filed a petition for inquiry into the rates of the Telephone Company alleging that unforeseen and unusual events have occurred since the TPUC approved the Agreement. OPUC alleges that the Telephone Company has realized reductions in its cost of service and an increase in revenues, resulting in excess annual earnings of approximately \$234, which the sharing mechanism failed to capture. OPUC has requested the TPUC to conduct a hearing to establish just and reasonable rates. The Telephone Company filed a motion to dismiss on November 4, 1992. At a November 9, 1992, prehearing conference, the administrative law judge abated discovery pending issuance of an order on the Telephone Company's motion. A ruling on the motion is expected during the first or second quarter of 1993. The OPUC petition did not have an impact on 1992 financial results. Until the full scope of this proceeding is determined, an estimate of any future impact on financial results cannot be made. However, at this time, management does not believe any material financial impact will result.

Postretirement Benefits Other Than Pensions The adoption of Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (Statement No. 106), for ratemaking purposes is currently being addressed by regulatory authorities in most of the Telephone Company's state jurisdictions. Proceedings on this matter are in various stages. An order was issued by the MPSC on January 12, 1993, which indicates that the Telephone Company should continue to account for postretirement benefits for ratemaking purposes under the current cash basis. The Telephone Company plans to file a motion for rehearing on this matter. Management cannot estimate the potential expense recovery, if any, for accrued postretirement benefits for its five-state area at this time.

In 1990, the FCC adopted rules to begin price-cap regulation effective January 1, 1991, for interstate telecommunications services offered by the local exchange carriers, including the Telephone Company. Price-cap regulation shifts the focus of regulation to prices rather than earnings and costs. Prices for most interstate services are capped, and the cap will be adjusted annually for changes in inflation, productivity and other factors.

In December 1991, the FCC issued an order requiring all local exchange carriers to adopt Statement No. 106 effective January 1, 1993, for interstate regulatory accounting and prescribed the amortization method for recognition of the transition obligation. On June 1, 1992, the Telephone Company filed with the FCC a request to increase its price caps for the incremental interstate costs resulting from the accrual accounting required by Statement No. 106 (exogenous treatment). On January 22, 1993, the FCC issued an order denying exogenous treatment for these incremental costs

Dollars in Millions

On January 15, 1993, MPSC staff filed with the MPSC a complaint with respect to the current rates and charges of the Telephone Company. The MPSC staff has completed an earnings investigation that began in May 1992, and alleges that, under traditional rate-of-return methodology, the Telephone Company's current rates and charges for telecommunications services are unjust and unreasonable and should be reduced prospectively by \$150 to \$200 on an annual basis. The MPSC staff requested that the MPSC institute proceedings to investigate and hear this complaint.

The MPSC will consider the proposed changes to the Missouri Plan and the earnings complaint in hearings scheduled to begin in July 1993. The complaint did not have an impact on 1992 financial results. Management believes that the future impact on financial results will not be material; however, an estimate cannot be made at this time.

Oklahoma In January 1989, the Oklahoma Corporation Commission (OCC) ordered an investigation into the reasonableness of the Telephone Company's intrastate rates. The OCC issued its final order in this case on August 26, 1992.

The order affirms an earlier interim order, making the Telephone Company's revenues in excess of 11.41 percent return on equity subject to refund from April 19, 1991, through the date of the final order. The ordered refund obligation is \$148.4.

The OCC order also reduces annual revenues by \$100.6 effective September 26, 1992 (of which \$24.5 relates to wide-area calling plans which had already been implemented when the order was issued and \$6.7 for expanded wide-area calling plans implemented in January 1993). The rate reduction is partially offset by a positive annual revenue adjustment of \$7.8 to compensate the Telephone Company for its investment of \$84 over the next five years for network modernization. The order also lowers the allowed return on equity from 14.25 percent to 12.20 percent.

In addition, the order denies recovery of depreciation expense associated with certain network assets and changes the regulatory method of accounting for pension expense. These actions could result in a maximum one-time reduction in net income of approximately \$40.

On September 14, 1992, the OCC issued its order, ruling on the Telephone Company's request to stay the effectiveness of the August 26, 1992, order. The OCC suspended the effectiveness of the order as it applies to prospective revenue reductions and refunds pending final disposition on appeal. The OCC denied the requested stay of that portion of the order requiring the Telephone Company to proceed with the network modernization and ordered the Telephone Company to post a third-party surety bond in the amount of \$240. The bond was filed and approved on September 24, 1992.

On September 24, 1992, the Telephone Company appealed to the Oklahoma Supreme Court (Court) the Commission's August 26, 1992, order and its September 14, 1992, order denying portions of the requested stay. The Court suspended the effectiveness of the order pending final disposition on appeal. The Court also suspended the requirements for the third-party surety bond.

Dollars in Millions

The changes in total operating expenses in 1992 as compared to 1991 consist of the following increases by expense component:

	<u>1992</u>	
Cost of services and products	\$160.8	6.6%
Selling, general and administrative	111.3	6.5
Depreciation and amortization	<u>59.5</u>	<u>3.8</u>
	<u>\$331.6</u>	<u>5.8%</u>

Cost of Services and Products increased in 1992 compared to 1991 due primarily to an increase in license fees of \$206 for switching system software associated with advanced calling features, and an accelerated implementation of a single national database of 800 numbers as mandated by the FCC. This increase was partially offset by the savings from the voluntary management retirement program implemented in the fourth quarter of 1991.

Selling, General and Administrative Expenses increased in 1992 compared to 1991 primarily due to an increase in benefit expenses mostly attributable to the voluntary management retirement program implemented in the fourth quarter of 1991 and an increase in other taxes. Expenses were also affected by the one-time charge for an offer of pension enhancements and related benefits made to designated nonmanagement employees in the first quarter of 1992. These increases were partially offset by salary savings due to force reductions.

Depreciation and Amortization increased in 1992 compared to 1991 due mostly to implementation of revised depreciation rates resulting from the triennial represcription process. The depreciation expense increase was also caused by a change in plant composition. These increases were partially offset by the decrease in the amortization of interstate reserve deficiency.

Interest Expense decreased \$47.6, or 10.4 percent, in 1992. The decrease was due to lower interest rates on short-term obligations and on long-term debt refinanced in the second quarter of 1991.

Extraordinary Item the Telephone Company reflected an extraordinary charge of \$80.7 in second-quarter 1991 net income as a result of refinancing \$732 of long-term debt. See Note 7 to the Financial Statements.

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 9.8 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 \$964.1 for 1992, a 12.7 percent increase compared to 1991 net income of \$855.3.

Increases (decreases) in 1992 as compared to 1991 for key financial data were as follows:

	<u>1992</u>	
Operating revenues	\$319.9	4.3%
Operating expenses	\$331.6	5.8%
Income before extra-ordinary loss	\$ 28.1	3.0%
Extraordinary loss on early extinguishment of debt	\$(80.7)	-
Net income	\$108.8	12.7%

The primary factors contributing to the increase in net income in 1992 included increased demand for services and products and expense reductions from the voluntary management retirement program implemented in the fourth quarter of 1991. These factors were partially offset by increases in license fees for switching system software, depreciation and benefit expense. The comparisons were also affected by the extraordinary loss from the refinancing of long-term debt in 1991.

Items affecting the comparison of the operating results between 1992 and 1991 are discussed in the following sections.

Operating Revenues

The Telephone Company reported total operating revenues of \$7,744.0 in 1992 and \$7,424.1 in 1991, an increase of 4.3 percent.

SWBT 000597

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, 1993, the Telephone Company employed 50,058 persons. Approximately 75 percent of the employees are represented by the Communications Workers of America (CWA). Effective in August 1992, a three-year contract was negotiated between the CWA and the Telephone Company. This contract will be subject to renegotiation in mid-1995.

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, 1992, 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 37 of this report.

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. End user charges ordered by the FCC are designed 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 local exchange carriers (LEC) be ordered to disaggregate access charges and to permit CAPs to collocate their equipment within, or near, LEC central offices. On the same date, MFS also filed with the FCC a petition for rulemaking essentially seeking the same result. MFS's request would allow CAPs to compete with the LECs for certain transport services by obtaining lower access charges through physical or virtual collocation in LEC central office space. To date, there has been no action by the DOJ on MFS's petition.

Physical collocation allows the interconnector to actually place its own equipment within LECs' central offices. Virtual collocation involves a set of technical and pricing rules intended to position the interconnector as if its equipment were located in the central office, but without requiring physical collocation of the interconnector's equipment in the Telephone Company's central office.

On October 19, 1992, the FCC released an order requiring Tier 1 LECs (which includes the Telephone Company) to file tariffs permitting all parties to physically collocate their equipment in LEC central offices for purposes of providing certain special access services and generally to file virtual collocation tariffs to cover instances where there is insufficient space for physical collocation, or when mutually agreed. The tariffs were filed February 16, 1993, to be effective by May 17, 1993. The Telephone Company joined with eleven LECs in a petition filed with the FCC on November 10, 1992, to stay the physical collocation requirement. The Telephone Company also filed a separate petition on November 18, 1992, to stay the virtual collocation requirement. The FCC denied those petitions on December 18, 1992. Similar requests were then filed with the District of Columbia Circuit Court of Appeals on December 22, 1992, to stay the FCC's order. In addition, on November 25, 1992, the Telephone Company appealed the virtual collocation portion of the FCC's order and joined with eleven LECs in filing an appeal of the FCC's mandatory collocation order. The District of Columbia Circuit Court of Appeals denied the stay requests on January 19, 1993, finding that petitioners had not demonstrated sufficient probable injury; however, it did not reject the LECs' legal position on the merits, so it is still not possible at this time for management to assess the probable financial impact of the FCC's order. The Corporation is considering whether to appeal the decision, or take other action.

On October 16, 1992, the FCC released a second notice of proposed rulemaking that would require collocation for switched transport services, and ultimately, switched and signaling features as well as transport. The Telephone Company filed comments on the proposal on January 14, 1993.

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 non-Telephone Company carriers.

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 heading "Regulatory Environment" beginning on page 17 of this report.

Principal Markets

The Telephone Company provides its services to approximately 8.4 million residential and 1.4 million business customers in the five-state area. During 1992, more than half of the Telephone Company's access line growth occurred in Texas. In 1992, 1991 and 1990, 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 either on its own or jointly with its affiliates, subject to nonstructural safeguards imposed by the FCC to promote competition. Those services are generally deregulated at the federal level, and none of the Telephone Company's state commissions have, as yet, 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 promote competitive efficiency and reduce the risks of discrimination and cross-subsidization, included accounting safeguards, reporting requirements and Open Network Architecture (ONA) requirements designed to permit competition to acquire needed network services on an efficient, non-discriminatory basis.

ONA represents the Telephone Company's plan essentially to provide equal access to its network to 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 a FCC waiver, existing enhanced services, such as VMS, were permitted to continue while the FCC reexamined its Computer Inquiry III decision.

On December 17, 1990, the FCC released an order reinstating all of the ONA requirements and on December 20, 1991, the FCC released an order again

The Corporation, jointly with the other RHCs, had appealed a July 13, 1990, order of the Court holding 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 telephone network; the STP is a packet switch which routes the signaling messages within the signaling network. 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 filed a brief objecting to this position. 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. On July 24, 1992, the U.S. Appellate Court affirmed the July 13, 1990, order. The RHCs, except for BellSouth Corporation which filed separately, filed a joint petition for certiorari with the United States Supreme Court on November 16, 1992, seeking review of the decision of the intermediate appellate court.

The Corporation has filed waiver requests seeking relief from the manufacturing restriction so as to permit the design and development of CPE and to permit the provision of telecommunications equipment to third parties. These requests are pending.

In an order issued on February 16, 1989, the Court granted a waiver permitting the RHCs to provide multi-LATA one-way paging services regardless of geographic scope, but included a condition requiring the interexchange links for multi-LATA 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 pursuant to a scheduling order issued on January 14, 1992. The Corporation is awaiting the Court's decision.

On January 31, 1992, the District Court denied the waiver signed by Ameritech Corporation (Ameritech) to allow Ameritech, a RHC, to receive royalties from an unaffiliated party from the sale to third parties of telecommunication equipment designed, developed and/or manufactured by an unaffiliated party with the financial assistance of Ameritech. The Court also denied the DOJ's request for a declaratory ruling that a funding/royalty agreement with a firm in which a RHC has neither a significant equity interest nor influence over operations does not constitute manufacturing. The ruling is now on appeal to determine the issue of whether an otherwise independent company over which a RHC has neither operating control nor any ownership interest, may be labelled an "affiliated enterprise" of the RHC under the MFJ.

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 (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 (waiver standard).

As a result of proceedings before the Court since divestiture, the Corporation has obtained relief from some of these restrictions. Generally, the restrictions against entry into the nontelecommunications lines of business and the provision of information services have been removed. The removal of the information services restriction is currently under appeal in the U.S. Court of Appeals for the District of Columbia (Court of Appeals). 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 at least until September 14, 1995, and permission has been obtained 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

Schedule A

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>
Three Year 7.70% Notes, due June 1, 1994	New York Stock Exchange
Five Year 8.30% Notes, due June 1, 1996	New York Stock Exchange
Thirty-Eight Year 7-3/4% Debentures, due September 1, 2009	American Stock Exchange
Forty Year 6-7/8% Debentures, due February 1, 2011	American Stock Exchange
Forty Year 7-3/8% Debentures, due May 1, 2012	American Stock Exchange
Forty Year 7-5/8% Debentures, due October 1, 2013	American Stock Exchange
Forty Year 8-1/4% Debentures, due March 1, 2014	American Stock Exchange
Forty Year 9-1/4% Debentures, due January 15, 2015 (a)	American Stock Exchange
Forty Year 8-1/2% Debentures, due March 15, 2016	American Stock Exchange
Forty Year 8-1/4% Debentures, due April 1, 2017	American Stock Exchange
Forty Year 8-3/4% Debentures, due September 1, 2018	American Stock Exchange
Forty Year 9-5/8% Debentures, due March 15, 2019 (b)	American Stock Exchange
Thirty-Four Year 8-5/8% Debentures, due April 15, 2020	New York Stock Exchange
Thirty-Eight Year 8-3/4% Debentures, due November 1, 2024	New York Stock Exchange

(a) Called for redemption on or after February 26, 1993.

(b) Called for redemption on or after March 19, 1993.