

Southwestern Bell Telephone  
One Bell Center  
Room 3510  
St. Louis, MO 63101  
Phone: 314.235.4094  
Fax: 314.247.0014  
E-Mail: mimi.macdonald@sbc.com

Mimi B. MacDonald  
Senior Counsel

Southwestern Bell



October 12, 2001

FILED<sup>2</sup>

OCT 12 2001

The Honorable Dale Hardy Roberts  
Secretary/Chief Regulatory Law Judge  
Missouri Public Service Commission  
200 Madison Street, Suite 100  
Jefferson City, Missouri 65101

Missouri Public  
Service Commission

In re: Southwestern Bell Telephone Company's, Southwestern Bell Texas, Inc.,'s, and Southwestern Bell Telephone, L.P.'s, d/b/a Southwestern Bell Telephone Company's, Joint Application for Order Permitting Corporate Restructuring Pursuant to Section 392.300, R.S.Mo., 4 CSR 240-2.060(1), and 4 CSR 240-2.060(8)

Case No.:

TO-2002-185

Dear Judge Roberts:

Enclosed for filing with the Missouri Public Service Commission is Southwestern Bell Telephone Company's, Southwestern Bell Texas, Inc.,'s, and Southwestern Bell Telephone, L.P.'s, d/b/a Southwestern Bell Telephone Company's, Joint Application for Order Permitting Corporate Restructuring Pursuant to Section 392.300, R.S.Mo., 4 CSR 240-2.060(1), and 4 CSR 240-2.060(8).

Thank you for bringing this matter to the attention of the Commission.

Very truly yours,

Mimi B. MacDonald /tm

Mimi B. MacDonald

Enclosure

cc: Attorneys of Record

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

FILED<sup>2</sup>

OCT 12 2001

Missouri Public  
Service Commission

In the Matter of the Application of )  
Southwestern Bell Telephone Company )  
To Transfer Property and Ownership of )  
Stock Pursuant to Section 392.300, R.S.Mo. )

Case No. 70-2002-185

**SOUTHWESTERN BELL TELEPHONE COMPANY'S,**  
**SOUTHWESTERN BELL TEXAS, INC.'S, AND**  
**SOUTHWESTERN BELL TELEPHONE, L.P.'S, d/b/a**  
**SOUTHWESTERN BELL TELEPHONE COMPANY'S,**  
**JOINT APPLICATION FOR ORDER PERMITTING CORPORATE**  
**RESTRUCTURING PURSUANT TO SECTION 392.300, R.S.MO.,**  
**4 CSR 240-2.060(1), AND 4 CSR 240-2.060(8)**

Comes now Southwestern Bell Telephone Company, Southwestern Bell Texas Inc., and Southwestern Bell Telephone, L.P., d/b/a Southwestern Bell Telephone Company<sup>1</sup> (collectively referred to as "Joint Applicants"), and, for their Joint Application For Order Permitting Corporate Restructuring Pursuant to Section 392.300, R.S.Mo., 4 CSR 240-2.060(1) and 4 CSR 240-2.060(8) ("Application"), states as follows:

**Introduction**

Southwestern Bell Telephone Company ("SWBT"), Southwestern Bell Texas, Inc., ("SWBT Texas") and Southwestern Bell Telephone, L.P. ("SWBT, L.P.") herein seek approval from the Missouri Public Service Commission ("the Commission") to convert SWBT, through a series of transactions described in detail below, from a Missouri corporation to a Texas limited partnership. The purpose of this conversion is to achieve an overall tax savings. As discussed in detail below, this conversion will have no effect on the tax revenues of the State of Missouri or its political subdivisions in which SWBT's structures, facilities, or equipment are located nor

<sup>1</sup> As indicated throughout this application, upon obtaining the appropriate approvals for this corporate restructuring, Southwestern Bell Telephone Company, a Missouri corporation, will be converted to a Texas limited partnership. Southwestern Bell Telephone Company, the Missouri corporation, will then cease doing business. At that time,

will the restructuring affect the ultimate owner of SWBT, which will continue to be owned by SBC Communications Inc. ("SBC"). Moreover, this conversion is not detrimental to the public interest and will be transparent to SWBT's Missouri customers.

In order to realize the full benefits of this conversion, SWBT must be converted from a Missouri corporation to a Texas limited partnership no later than December 31, 2001. SWBT, SWBT Texas, and SWBT, L.P., therefore, have filed, concurrent with this Application, a Motion for Expedited Treatment. SWBT, SWBT Texas, and SWBT, L.P. respectfully request the Commission approve their Application no later than December 20, 2001, which is the planned effective date for this conversion.

**Steps To Convert SWBT From A Missouri Corporation To A  
Texas Limited Liability Partnership**

1. SWBT is a wholly-owned subsidiary of SBC. SBC is planning a corporate reorganization in which SWBT will be converted from a Missouri corporation to a Texas limited partnership. The reorganization is complex and will require the following five transaction steps.

A. First, SBC will form and own another wholly-owned subsidiary, Southwestern Bell Texas Holdings, Inc. ("Texas Holdings"), under Delaware law by making a nominal contribution in exchange for 100% of the stock in Texas Holdings.

B. Second, Texas Holdings will also form and own a new, wholly-owned single member limited liability company, SWBT Texas, L.L.C. ("Texas, L.L.C.") in Delaware. Texas Holdings will form a new Texas domestic corporation, Southwestern Bell Texas, Inc. ("SWBT Texas") which will be owned ninety nine percent (99%) by Texas Holdings and one percent (1%) by Texas, L.L.C.

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Southwestern Bell Telephone, L.P. will apply for a fictitious name registration, i.e. d/b/a Southwestern Bell Telephone Company.

C. Third, SWBT, a Missouri corporation, will merge with SWBT Texas, with SWBT Texas being the surviving entity.

D. Fourth, pursuant to a plan of reorganization, and in accordance with Articles 5.17 and 5.18 of the Texas Business Corporation Act, SWBT Texas will adopt a plan of conversion and will file articles of conversion with the Texas Secretary of State to convert SWBT Texas to a Texas limited partnership, Southwestern Bell Telephone, L.P., d/b/a Southwestern Bell Telephone Company ("SWBT, L.P."). A limited partnership agreement will be executed for SWBT, L.P. (i.e. the converted SWBT Texas) with the general partner interest being issued to Texas, L.L.C. and the limited partnership interest being issued to Texas Holdings in ownership percentages relative to the SWBT Texas stock ownership by Texas, L.L.C. and Texas Holdings.

E. Fifth, SWBT, L.P. will elect to be treated as an association taxable as a corporation for federal income tax purposes by filing Form 8832, Entity Classification Election, within seventy-five (75) days of the conversion, to be effective as of the date of the conversion. SWBT, L.P. will be the surviving entity of this series of transactions and will be the entity which will provide telecommunications in Missouri.

**Missouri Law Governing the Conversion Of SWBT From  
A Missouri Corporation To A Texas Limited Partnership**

2. SWBT, SWBT Texas, and SWBT, L.P. are filing this application on the assumption that the merger of SWBT with SWBT Texas and the subsequent conversion of SWBT Texas to a limited partnership require the Commission's approval. Section 392.300, R.S.Mo., quoted below with the most relevant provisions italicized, provides:

1. *No telecommunications company shall hereafter sell, assign, lease, transfer, mortgage or otherwise dispose of or encumber the whole or any part of its franchise, facilities or system, necessary or useful in the performance of its duties to the public, nor by any means, direct or indirect, merge or consolidate such line or system, or franchises, or any part thereof, with any other*

corporation, person or public utility, without having first secured from the commission an order authorizing it to do so. Every such sale, assignment, lease, transfer, mortgage, disposition, encumbrance, merger or consolidation made other than in accordance with the order of the commission authorizing the same shall be void. The permission and approval of the commission to the exercise of a franchise or permit under this chapter, or the sale, assignment, lease, transfer, mortgage or other disposition or encumbrance of a franchise or permit under this section shall not be construed to revive or validate any lapsed or invalid franchise or permit, or to enlarge or add to the powers or privileges contained in the grant of any franchise or permit, or to waive any forfeiture. Any person seeking any order under this subsection authorizing the sale, assignment, lease, transfer, merger, consolidation, or other disposition, direct or indirect, of any telecommunications company, shall, at the time of application for any such order, file with the commission a statement, in such form, manner and detail as the commission shall require, as to what, if any, impact such sale, assignment, lease, transfer, merger, consolidation, or other disposition will have on the tax revenues of the political subdivisions in which any structures, facilities, or equipment of the companies involved in such disposition are located. The commission shall send a copy of all information obtained by it as to what, if any, impact such sale, assignment, lease, transfer, merger, consolidation, or other disposition will have on the tax revenues of various political subdivisions to the county clerk of each county in which any portion of a political subdivision which will be affected by such disposition is located. Nothing in this subsection contained shall be construed to prevent the sale, lease, or other disposition by any telecommunications company of a class designated in this subsection of property which is not necessary or useful in the performance of its duties to the public, and any sale of its property by such company shall be conclusively presumed to have been of property which is not useful or necessary in the performance of its duties to the public, as to any purchase of such property in good faith for value.

2. Except where stock shall be transferred or held for the purpose of collateral security, no stock corporation, domestic or foreign, other than a telecommunications company, shall, without the consent of the commission, purchase or acquire, take or hold more than ten percent of the total capital stock issued by any telecommunications company organized or existing under or by virtue of the laws of this state, except that a corporation now lawfully holding a majority of the capital stock of any telecommunications company may, without the consent of the commission, acquire and hold the remainder of the capital stock of such telecommunications company, or any portion thereof. Nothing herein contained shall be construed to prevent the holding of stock heretofore lawfully acquired, or to prevent, upon the surrender or exchange of such stock pursuant to a reorganization plan, the purchase, acquisition, taking or holding of a proportionate amount of stock of any new corporation organized to take over, at foreclosure or other sale, the property of any corporation whose stock has been thus surrendered or exchanged. Every contract, assignment, transfer or agreement for transfer of any stock by or through any person or corporation to any

corporation in violation of any provision of this chapter shall be void and of no effect, and no such transfer or assignment shall be made upon the books of any telecommunications company, or shall be recognized as effective for any purpose.

3. Pursuant to §392.300, SWBT, SWBT Texas, and SWBT, L.P., therefore, respectfully request the Commission to approve the series of transactions, described above, which will convert SWBT from a Missouri corporation to a Texas limited partnership.

4. The Commission has routinely approved such transactions in the past. (See Order Approving Merger, In the Matter of the Application of MCI Telecommunications Corporation, MCImetro, Inc., MCImetro Access Transmission Services, Inc. and MCImetro Access Transmission, L.L.C., for Approval of Merger, Case No. TM-98-576, released October 28, 1998, attached hereto as Exhibit A; see also Order Approving Corporate Reorganization, In the Matter of the Application for Approval of Corporate Reorganization of Excel Telecommunications, Inc., Case No. TO-96-293, released June 14, 1996, attached hereto as Exhibit B; see also Order Approving Merger, In the Matter of the Joint Application for Permission for Eastern Missouri Telephone Company and Missouri Telephone Company to Merge with and into ALLTEL Missouri, Inc., Case No. TM-95-87, Order Approving Merger, released December 12, 1995, attached hereto as Exhibit C).

5. By and through this Application, SWBT, SWBT Texas, and SWBT, L.P. similarly seek the Commission's approval. In support of this Application, SWBT, SWBT Texas, and SWBT, L.P. state that the conversion of SWBT from a Missouri corporation to a Texas limited partnership will have no impact on the tax revenues of the political subdivisions in which SWBT's structures, facilities, or equipment are located since SWBT, L.P. will continue to own and operate the various structures, facilities, and equipment of SWBT and will pay the amount of

taxes as required by law. (See Affidavit of Paul W. Stephens, attached hereto and marked as Exhibit D).

6. SWBT further states that there will be no change in the operations for the entity, SWBT, L.P., which will continue to provide telecommunications service in Missouri. Thus, the proposed conversion will be transparent to Missouri customers. In short, the proposed restructuring will not adversely affect SWBT's obligation or ability to provide telecommunication services in Missouri and SWBT's Missouri customers will continue to receive telecommunications service in the same manner and with the same level of quality as before the restructuring. Accordingly, the restructuring will not be detrimental to the public interest.

**Information Required Pursuant To 4 CSR 240-2.060(1) and 4 CSR 240-2.060(8)**

7. *Joint Applicants submit this Application pursuant to Commission rules 4 CSR 240-2.060(1) and 4 CSR 240-2.060(8).*

8. Pursuant to the requirements of 4 CSR 240-2.060(1)(A), Applicants state as follows. SWBT's legal name is Southwestern Bell Telephone Company. SWBT is a Missouri corporation, duly authorized to conduct business in the State of Missouri, with its principal place of business in Missouri located at One Bell Center, Saint Louis, Missouri, 63101. SWBT Texas' legal name is Southwestern Bell Texas, Inc. SWBT Texas is a Texas corporation. Effective on the date of conversion, SWBT, L.P.'s legal name will be Southwestern Bell Telephone, L.P. SWBT, L.P. will be a limited partnership which will become duly authorized to conduct business in the State of Missouri, with its principal place of business in Missouri located at One Bell Center, Saint Louis, Missouri 63101. The electronic mail address, fax number, and telephone

number of SWBT's, SWBT Texas', and SWBT, L.P.'s attorneys are contained in the signature block on page 11 of this Application.

9. Pursuant to the requirements of 4 CSR 240-2.060(1)(B), SWBT attaches its Certificate of Corporate Good Standing from the Missouri Secretary of State as Exhibit E.

10. Pursuant to the requirements of 4 CSR 240-2.060(1)(C), SWBT, L.P. will file, after the conversion, a certificate from the Missouri Secretary of State indicating that it is authorized to do business in Missouri.

11. Pursuant to the requirements of 4 CSR 240-2.060(1)(D), SWBT, L.P. attaches a copy of its proposed Partnership Agreement as Exhibit F.

12. Pursuant to the requirements of 4 CSR 240-2.060(1)(E), SWBT, L.P. will, if this Application is approved, conduct business under a fictitious name, Southwestern Bell Telephone Company. SWBT, L.P. will not be able to apply for a fictitious name until the reorganization is effective and SWBT, the Missouri corporation, ceases to do business. SWBT, L.P. will provide a copy of the registration of the fictitious name with the Missouri Secretary of State once such information is available.

13. Pursuant to the requirements of 4 CSR 240-2.060(1)(H), SWBT is a "local exchange telecommunications company" and a "public utility" and is authorized to and does provide "telecommunications services" within the state of Missouri, as each of these terms are defined in §386.020, R.S.Mo. SWBT Texas is a Texas corporation which was formed to merge with SWBT and then, on the effective date, convert to a limited partnership. If the Commission approves the proposed reorganization, SWBT, L.P. will be a "local exchange telecommunication company" and a "public utility" that will be authorized to provide "telecommunications services" within the state of Missouri, as each of these terms are defined in §386.020, R.S.Mo.



14. Pursuant to the requirements of 4 CSR 240-2.060(1)(I), all correspondence, communications, and orders and decisions of the commission are to be sent to:

Paul G. Lane  
Leo J. Bub  
Anthony K. Conroy  
Mary B. MacDonald  
Attorneys for Southwestern Bell Telephone Company,  
Southwestern Bell Texas, Inc. and Southwestern Bell Telephone,  
L.P.  
One Bell Center  
Room 3510  
Saint Louis, Missouri 63101

15. Pursuant to the requirements of 4 CSR 240-2.060(1)(K), SWBT has no final unsatisfied judgments or decisions against it from any state or federal agency or court which involve retail customer service or rates, which action, judgment or decision has occurred within three (3) years of the date of this application. Moreover, SWBT has no pending actions which satisfy the listed criteria in Arkansas, Kansas or Oklahoma. SWBT has one (1) pending lawsuit in Missouri and four (4) pending formal complaints from end user customers in Texas which involve retail customer service or rates.<sup>2</sup> Additionally, SWBT is involved in various actions involving terms and conditions of interconnection agreements with competitive local exchange telephone companies that are in various stages of litigation or appeal. Pursuant to the requirements of 4 CSR 240-2.060(1)(K), SWBT Texas and SWBT, L.P. state that they have no pending actions or final unsatisfied judgments or decisions against them from any state or federal agency or court which involve customer service or rates, which action, judgment or decision has occurred within three (3) years of the date of this application.

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<sup>2</sup> The pending lawsuit against SWBT in Missouri involving customer service or rates is: American Equity Mortgage, Inc., v. Southwestern Bell Telephone Company, Case No. OKV200670. It is pending in Jackson County. The pending actions against SWBT in Texas which involve customer service or rates are as follows: (1) Complaint of Information Broker Systems Against SWBT, Docket No. 22158; (2) Complaint of Channel 13 Against SWBT Regarding Mileage Calculation for Private Line Services Tariff, Docket No. 22229; (3) Complaint of Sterling Bank

16. Pursuant to the requirements of 4 CSR 240-2.060(1)(L), SWBT states that no annual report or assessment fees are overdue. SWBT Texas and SWBT, L.P. have not conducted business in the State of Missouri and, therefore, no annual report or assessment fees are due.

17. Pursuant to the requirements of 4 CSR 240-2.060(1)(M), SWBT and SWBT Texas state that an authorized officer of each corporation has verified by affidavit under oath this Joint Application For Order Permitting Corporate Restructuring Pursuant to Section 392.300, R.S.Mo., 4 CSR 240-2.060(1), and 4 CSR 240-2.060(8) as indicated by the Verifications of Joint Application attached hereto as Exhibits G and H. SWBT, L.P. states that an authorized member of the partnership has verified by affidavit under oath this Joint Application For Order Permitting Corporate Restructuring Pursuant to Section 392.300, R.S.Mo., 4 CSR 240-2.060(1), and 4 CSR 240-2.060(8) as indicated by the Verification of Joint Application attached hereto as Exhibit I.

18. Pursuant to the requirements of 4 CSR 240-2.060(8)(A), SWBT, SWBT Texas, and SWBT, L.P. attach hereto a copy of the proposed Agreement and Plan of Merger and proposed Plan of Conversion, including organizational charts depicting the relationship of the merging entities before and after the transactions as Exhibits J and K.

19. Pursuant to the requirements of 4 CSR 240-2.060(8)(B), SWBT and SWBT Texas, attach hereto a certified copy of the resolution of the board of directors of SWBT and SWBT Texas authorizing the proposed merger and consolidation as Exhibits L and M.

20. Pursuant to the requirements of 4 CSR 240-2.060(8)(C), SWBT attaches hereto its balance sheets and income statements as Exhibit N. As newly formed entities, SWBT Texas and SWBT, L.P. do not have separate balance sheets and income statements. Effective with the

merger and conversion, the balance sheets and income statements of SWBT will become the balance sheets and income statements of SWBT, L.P.

21. Pursuant to the requirements of 4 CSR 240-2.060(8)(D), the proposed merger of SWBT and SWBT Texas is not detrimental to the public interest because the conversion of SWBT from a Missouri corporation to a Texas limited partnership will have no impact on the tax revenues of the political subdivisions in which SWBT's structures, facilities, or equipment are located since SWBT, L.P. will continue to own and operate the various structures, facilities and equipment of SWBT and will pay the amount of taxes as required by law. (See Affidavit of Paul W. Stephens, attached hereto and marked as Exhibit D). Further, SWBT, L.P. will continue to provide telecommunications service in Missouri in the same manner as SWBT provides today, and the conversion of SWBT from a Missouri corporation to a Texas limited partnership will be transparent to Missouri customers.

22. Pursuant to 240-2.060(8)(E), there will be no impact on SWBT's, SWBT Texas', or SWBT, L.P.'s Missouri jurisdictional operations relative to the merger and acquisition in question. The conversion of SWBT from a Missouri corporation to SWBT, L.P., a Texas limited partnership, will result in SWBT, L.P. being a telecommunications company pursuant to §382.020(51), subject to the jurisdiction of the Commission under Chapter 392.

#### Conclusion

For these reasons, SWBT, SWBT Texas, and SWBT, L.P. seek Commission approval to convert SWBT from a Missouri corporation to a Texas limited partnership no later than December 20, 2001.

WHEREFORE, Southwestern Bell Telephone Company, Southwestern Bell Texas, Inc. and Southwestern Bell Telephone, L.P., respectfully request that the Commission on or before

December 20, 2001, approve their Application for Order Permitting Corporate Restructuring Pursuant to Section 392.300, R.S.Mo., 4 CSR 240-2.060(1) and 4 CSR 240-2.060(8), together with any further and additional relief the Commission deems just and proper.

Respectfully submitted,

BY Mimi B Mac Donald /tm

PAUL G. LANE, #27011

LEO J. BUB, #34326

ANTHONY K. CONROY, #35199

MIMI B. MACDONALD, #37606

Attorneys for Southwestern Bell Telephone Company, Southwestern Bell Texas, Inc. and Southwestern Bell Telephone, L.P.

One Bell Center, Room 3510

St. Louis, Missouri 63101

(314)235-4094 (Telephone)

(314)247-0014 (Facsimile)

e-mail address: [mimi.macdonald@sbc.com](mailto:mimi.macdonald@sbc.com)

**CERTIFICATE OF SERVICE**

Copies of this document were served on the following parties by hand-delivery on October 12, 2001.

Mimi B. Mac Donald /tm  
Mimi B. MacDonald

DAN JOYCE  
MISSOURI PUBLIC SERVICE COMMISSION  
P.O. BOX 360  
JEFFERSON CITY, MO 65102

MICHAEL F. DANDINO  
OFFICE OF THE PUBLIC COUNSEL  
P.O. BOX 7800  
JEFFERSON CITY, MO 65102

## LIST OF EXHIBITS

- A. Order Approving Merger, In the Matter of the Application of MCI Telecommunications Corporation, MCImetro, Inc., MCImetro Access Transmission Services, Inc. and MCImetro Access Transmission, L.L.C. for Approval of Merger, Case No. TM-98-576, released October 28, 1988.
- B. Order Approving Corporate Reorganization, In the Matter of the Application for Approval of Corporate Reorganization of Excel Telecommunications, Inc., Case No. TO-96-293, released June 14, 1996.
- C. Order Approving Merger, In the Matter of the Joint Application for Permission for Eastern Missouri Telephone Company and Missouri Telephone Company To Merge with and into ALLTEL Missouri, Inc., Case No. TM-95-87, released December 12, 1995.
- D. Affidavit of Paul W. Stephens.
- E. Certificate of Corporate Good Standing from the Missouri Secretary of State Regarding Southwestern Bell Telephone Company.
- F. Southwestern Bell Telephone, L.P.'s Proposed Partnership Agreement.
- G. Southwestern Bell Telephone Company's Verification of Joint Application.
- H. Southwestern Bell Texas, Inc.'s Verification of Joint Application.
- I. Southwestern Bell Telephone, L.P.'s Verification of Joint Application.
- J. Agreement and Plan of Merger.
- K. Plan of Conversion.
- L. Southwestern Bell Telephone Company's Resolution of the Board of Directors.
- M. Southwestern Bell Texas, Inc.'s Resolution of the Board of Directors.
- N. Southwestern Bell Telephone Company's Financial Statement.

STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION

At a Session of the Public Service  
Commission held at its office  
in Jefferson City on the 28th  
day of October, 1998.

In the Matter of the Application of MCI )  
Telecommunications Corporation, MCImetro, Inc., )  
MCImetro Access Transmission Services, Inc. and ) Case No. TM-98-576  
MCImetro Access Transmission Services LLC, for )  
Approval of Merger. )

ORDER APPROVING MERGER

MCI Telecommunications Corporation (MCI); MCImetro, Inc.; MCImetro Access Transmission Services, Inc. (MATS); and MCImetro Access Transmission Services, LLC (the LLC), filed an Application on June 22, 1998, for approval of the merger of MCImetro, Inc. into MCI and the merger of MATS into the LLC. Following the mergers, neither MCImetro, Inc. nor MATS would continue to exist. The corporate structure following the mergers would involve MCI being the sole member of a limited liability corporation, the LLC. Although MCImetro, Inc. holds no Missouri certificates, MCI, MATS and the LLC are certificated to provide telecommunications services in Missouri and therefore this transaction comes under Commission jurisdiction.

MCI is a Delaware corporation with its principal Missouri office at 100 South Fourth Street, St. Louis, Missouri 63102. MCI was certified to provide interexchange telecommunications services in Missouri on January 30, 1987, in Case No. TA-87-41, and to provide private pay telephone service in Missouri on November 25, 1997, in Case No. TA-98-138. MCI is classified as a competitive telecommunications

company in Missouri and also provides interstate interexchange telecommunications services subject to the jurisdiction of the FCC.

MCImetro, Inc. is a Delaware corporation with its principal office located at 1801 Pennsylvania Avenue, N.W., Washington, D.C. 20006. MCImetro, Inc. is a wholly-owned subsidiary of MCI and in turn wholly owns MATS. MCImetro holds no Missouri certificates and engages in no regulated activity in Missouri.

MATS is a Delaware corporation with its principal office located at 2400 North Glenville Drive, Richardson, Texas 75082. MATS is a wholly-owned subsidiary of MCImetro, Inc. MATS received service authority to provide interexchange telecommunications services in Missouri on May 15, 1996 in Case No. TO-96-344. MATS also received conditional approval of its Certificate of Service Authority to Provide Basic Local Telecommunications Services on February 21, 1997 in Case No. TA-96-355. MATS' certificate approval was conditioned upon its receipt of a Commission approved tariff and a Commission approved interconnection agreement. This has not yet occurred.

The LLC is a newly formed Delaware limited liability corporation with its principal office located at 1801 Pennsylvania Avenue, N.W., Washington, D.C. 20006. The LLC's sole member is MCI. The LLC was granted a Certificate of Service Authority to Provide Basic Local Telecommunications Services, Local Exchange Telecommunications Services, Exchange Access Services and Interexchange Telecommunication Services in Case No. TA-98-575.

The proposed mergers will be accomplished in two separate transactions. First, MCImetro, Inc. will be merged into MCI and MCImetro, Inc. will cease to exist. MCI will continue to operate under

its present certificates and tariffs. Second, MATS will be merged into the LLC and MATS will cease to exist. Following the merger, the LLC will operate under its own certificates of service authority but will adopt MATS' current tariff. At present, MATS has an interexchange tariff on file with the Commission but a basic local tariff has not yet been filed. After the merger, MCI will be the sole member of the LLC.

The applicants state that the proposed mergers are in the public interest since as a result of the merger the remaining companies will be better able to offer competitive services to Missouri customers. The applicants further state that the proposed mergers will have no impact on the tax revenues of any political subdivision in the State of Missouri in which any structures, facilities or equipment of MCI, MATS or the LLC are located since either MCI or the LLC will continue to own and operate the various structures, facilities and equipment of the pre-merger companies and pay the amount of taxes as required by law. Finally, applicants state that the LLC has no pending or final judgments or decisions against it from any state or federal agency which involve customer service or rates.

The Staff of the Commission (Staff) filed a Memorandum on August 20, 1998, recommending that the transactions be approved. Staff indicated it believes that the mergers will serve the public interest by allowing the companies to gain operating efficiencies through combined economic, marketing and administrative strategies.

The Commission has reviewed the application, the accompanying documentation, and Staff's recommendation, and determines that the proposed mergers will have no adverse impact on the Missouri customers of MCI, MCImetro, MATS or the LLC. Therefore, the Commission determines



that the transaction is not detrimental to the public interest and should be approved.

**IT IS THEREFORE ORDERED:**

1. That the application filed by MCI Telecommunications Corporation; MCImetro, Inc.; MCImetro Access Transmission Services, Inc.; and MCImetro Access Transmission Services, LLC, on June 22, 1998, is approved.

2. That the applicants are authorized to transfer control of MCImetro, Inc. to MCI Telecommunications Corporation.

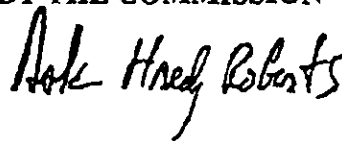
3. That the applicants are authorized to transfer control of MCImetro Access Transmission Services, Inc. to MCImetro Access Transmission Services, LLC.

4. That the parties are authorized to take any and all actions necessary to effect the transfer authorized by this order.

5. That MCI Telecommunications Corporation and MCImetro Access Transmission Services, LLC shall file notification with the Commission no later than ten days after the closing date of the transactions authorized by this order.

6. That this order shall become effective on November 10, 1998.

**BY THE COMMISSION**



**Dale Hardy Roberts  
Secretary/Chief Regulatory Law Judge**

( S E A L )

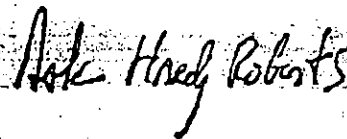
Lumpe, Ch., Crumpton, Murray,  
Schemenauer and Drainer, CC., concur.

Woodruff, Regulatory Law Judge

**STATE OF MISSOURI  
OFFICE OF THE PUBLIC SERVICE COMMISSION**

I have compared the preceding copy with the original on file in this office and  
I do hereby certify the same to be a true copy therefrom and the whole thereof.

WITNESS my hand and seal of the Public Service Commission, at Jefferson City,  
Missouri, this 28th day of October, 1998.



**Dale Hardy Roberts**  
**Secretary/Chief Regulatory Law Judge**



In the matter of the application for approval of Corporate  
Reorganization of Excel Telecommunications, Inc. \*

\* This order contains changes approved by the Commission in  
an order issued on June 24, 1996.

Case No. TO-96-293

PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

1996 Mo. PSC LEXIS 123; 5 Mo. P.S.C. 3d 49

June 14, 1996, Decided

CORE TERMS: reorganization, corporate reorganization, telecommunications, regulated, public interest, interexchange, wholly-owned, subsidiary, customers, approve, stock

HEADNOTES: [\*1] Telecommunications § 4. The Commission approved a corporation restructuring of a regulated interexchange company.

PANEL: Zobrist, Chm., McClure, Kincheloe, Crumpton, Drainer, CC.

OPINION:

ORDER APPROVING CORPORATE REORGANIZATION

On March 7, 1996, Excel Telecommunications, Inc. (Excel), a competitive telecommunications company, filed an Application for approval of a proposed corporate reorganization. Excel currently holds a Certificate of Service Authority for intrastate interexchange toll telecommunications which it received in Case No. TA-90-117. In its Application, Excel is proposing an internal reorganization which would result in the creation of a holding company known as Excel Communications, Inc. (ECI) and seven wholly-owned subsidiaries of that corporation, one of which would be Excel Telephone, Inc. (ETI). ETI would own all of the stock which is now the stock of Excel.

This reorganization would make ETI a second tier wholly-owned subsidiary of ECI. However, this reorganization would not result in any transfer of control and there would be no change in the operations for the entity which provides service in Missouri. Excel has stated that since the services and the rates would remain the same, [\*2] the proposed reorganization will be transparent to its Missouri customers.

On May 3, 1996, the Telecommunications Department Staff (Staff) filed its Memorandum in this case. Staff has no objections to the Application or to the approval thereof. In fact, Excel officials have asserted that they were previously advised by the Commission Staff that they did not need Commission approval for this type of reorganization. Excel, as a precaution, has filed this Application nevertheless and in doing so has requested that the Commission either decline jurisdiction or approve the Application.

Staff states that it does not believe this reorganization would require Commission approval unless there were to be a transfer of assets. Staff does not believe this case constitutes a transfer of assets and Staff has no objection to the approval of Excel's request. Excel requested the Commission approve its Application at its earliest convenience. However, this request has been somewhat mitigated by the need for review of the legal issues involved in this particular Application.

The Commission has reviewed the Application for approval of corporate reorganization as filed on March 7, 1996, along with the [\*3] Staff Memorandum, and the entirety of the file and makes the following findings of fact. The Commission finds that the request herein is not unlike a corporate change of name which also requires Commission

action. The Commission finds that it is in the public interest to maintain an accurate record of the name under which utilities are providing business. Therefore, the Commission finds it appropriate to exercise its jurisdiction in the matter of corporate reorganizations of regulated utility companies. The Commission finds that the ratepayers are better served by being able to ascertain the true identity of the regulated utility from whom they receive service. The Commission finds that the reorganization proposed by Excel will not result in a change of services or rates to its customers and that approval of this request is in the public interest.

IT IS THEREFORE ORDERED:

1. That the corporate reorganization, as proposed by Excel Telecommunications, Inc. in its March 7, 1996 Application, shall be approved for implementation on and after June 25, 1996.

2. That by virtue of this order, Excel Telecommunications, Inc. is hereby authorized to provide service in Missouri under [\*4] the name of Excel Telecommunications, Inc.

3. That this order shall become effective on June 25, 1996.

Zobrist, Chm., McClure, Kincheloe, Crumpton, and Drainer, CC., Concur.

ALJ: Roberts

In the matter of the Joint Application for permission for  
Eastern Missouri Telephone Company and Missouri Telephone  
Company to merge with and into ALLTEL Missouri, Inc.

Case No. TM-95-87

PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

1995 Mo. PSC LEXIS 54; 4 Mo. P.S.C. 3d 272

December 12, 1995

CORE TERMS: tariff, notice, merger, telecommunications, surviving, depreciation, effective date, merged, proposed merger, consolidated, composite, entity, providing service, capital structure, local telephone, recommended, subscribers, subsidiary, effective, weighted

PANEL: [\*1] Mueller, Chm., McClure, Kincheloe, Drainer, CC.

OPINION: ORDER APPROVING MERGER

On September 23, 1994 Eastern Missouri Telephone Company (EMTC), Missouri Telephone Company (MTC), and ALLTEL Missouri, Inc. (ALLTEL) (jointly the Companies) filed a Joint Application with the Missouri Public Service Commission (Commission) for permission to merge MTC and EMTC with and into ALLTEL. The Companies subsequently filed a Supplemental Joint Application on October 17, 1994. On November 21, 1994 the Commission issued an Order and Notice which established an intervention deadline of December 21, 1994.

As a result of various motions and as a result of a Stipulation and Agreement which was filed in this case on August 30, 1995 the posture of the case changed significantly from the Application which was originally filed. Therefore, on November 9, 1995 the Commission issued an Order and Notice in which it created a separate case for the disposition of the issues regarding alleged overearning and modernization of the merged entity. That case is Case No. TO-96-147. This case, TM-95-87, has been maintained solely for the purpose of addressing the merger of the Companies.

On November 29, 1995 the Telecommunications [\*2] Department Staff of the Missouri Public Service Commission (Staff) filed its Memorandum in which it recommended approval of the proposed merger. The Staff has stated that the proposed merger results in no change in the actual ownership and control of the Companies except that the assets of EMTC which are currently held on a second-tier subsidiary level will, as a result of the merger, now be held on a first-tier subsidiary level of ALLTEL. As the surviving corporation, ALLTEL Missouri, Inc. will continue to provide telecommunications services to the former subscribers of all three companies. This merger transaction will have no direct impact on ALLTEL Corporation's consolidated capital structure or other financial ratios. Staff has stated that from a financial position the pro forma merged capital structure of ALLTEL will not be heavily debt leveraged and will fall within the "AA" bond rating classification. The merger should have no material impact on the overall weighted cost of capital for the surviving company.

On October 17, 1994 the Companies submitted a Supplemental Joint Application which clarified the position taken with regard to depreciation rates. The Staff has concluded [\*3] that the Companies have correctly calculated the weighted average depreciation rates for the merged entity. Those rates are attached hereto as Attachment A.

The Companies have requested, and the Staff has recommended, that the merger be allowed to become effective on January 1, 1996. ALLTEL will be directed to file a consolidated tariff with an effective date of January 1, 1996. It is anticipated that the consolidated tariff will not only reflect the corporate changes which have occurred as a result of this case but will also reflect any changes which are ordered in Case No. TO-96-147. If Case No. TO-96-147 has not been resolved in time to allow this to happen, then in the alternative ALLTEL shall file adoption notices in any existing tariffs of EMTC and MTC. Those adoption notices should reflect ALLTEL as the local telephone company providing

service out of those tariffs. Each adoption notice should also reflect the specific exchanges served by the respective tariff. In the case of adoption notices, these too shall bear an effective date of January 1, 1996.

The Commission has reviewed the Application, the Staff Memorandum, and the entirety of the case file and makes the following [\*4] findings. The Commission finds that EMTC, MTC, and ALLTEL are all corporations duly organized and existing under the laws of the state of Missouri. The principal office and place of business for EMTC, MTC, and ALLTEL is located at 1705 South Lillian Street, Bolivar, Missouri 65613. The Companies are local exchange telecommunications companies and public utilities as defined in § 386.020, RSMo 1994. Therefore, the Companies are subject to the jurisdiction, supervision, and regulatory control of the Commission.

The Commission finds that MTC currently provides basic local telecommunications service and exchange access service in the exchanges of Grant City, Allendale, Albany, Union Star, Pattonsburg, Coffey, Jameson, Gallatin, Winston, Stockton, Fair Play, Polk, Aldrich, Bolivar, Halfway, Morrisville, and Pleasant Hope.

The Commission finds that EMTC provides basic local telecommunications service and exchange access service to the exchanges of Bellflower, Eolia, Martinsburg, Middletown, New Hartford, Olney, and Silex.

The Commission finds that ALLTEL provides basic local telecommunications service and exchange access service to the exchanges of Clubb, Crocker, Dixon, Doniphan, Fairdealing, [\*5] Fairview, Florence, Grandin, Greenville, Holliday, Iberia, Laclede, Liberal, Madison, Mendon, Milan, Mindenmines, Myrtle, Naylor, Nellyville, Oxly, Patterson, Piedmont, Ponder, Purdy, Rothville, St. Elizabeth, Stark City, Stotts City, Stover, Sumner, Vandalia, Verona, Wappapello Park, Wheaton, and Williamsville.

The Commission finds that the proposed merger is not detrimental to the public interest because it will not adversely affect MTC's, EMTC's, or ALLTEL's operations or ratepayers. The Commission finds that the surviving entity will continue to provide telecommunications services to the former subscribers of the Companies according to the terms and conditions of tariffs authorized by the Commission. The Commission will approve the merger according to the terms set out in the Staff Memorandum.

**IT IS THEREFORE ORDERED:**

1. That Eastern Missouri Telephone Company and Missouri Telephone Company shall be merged into and with ALLTEL Missouri, Inc.

2. That the composite depreciation rates for the surviving corporation, which were filed with the Supplemental Joint Application and agreed to by all parties herein, shall be approved for use as of the effective date of the merger. [\*6]

3. That the surviving corporation, ALLTEL Missouri, Inc., shall file adoption notices in the existing respective tariffs of Missouri Telephone Company, Eastern Missouri Telephone Company, and ALLTEL Missouri, Inc. to reflect ALLTEL Missouri, Inc. as the local telephone company providing service out of those tariffs and setting out the specific exchanges served by the respective tariff with an effective date of January 1, 1996 unless otherwise directed by a subsequent order of the Commission in Case No. TO-96-147.

4. That this order shall become effective on January 1, 1996.

Mueller, Chm., McClure, Kincheloe, and Drainer, CC., Concur. Crumpton, C., Not Participating.

**NOTICE OF CORRECTION**

Be advised that the Order Approving Merger issued by the Commission in this case on December 12, 1995, should be amended as follows:

A) The composite depreciation rates attached to this Notice should be incorporated into the Order Approving Merger and attached thereto as Attachment A; and

B) Ordered Paragraph 2 should read, "That the composite depreciation rates for the surviving corporation (Attachment A to this Order and incorporated herein by reference) ...".

ATTACHMENT A

ALLTEL MISSOURI INC. (COMBINED MISSOURI COMPANIES)  
 COMPOSITE DEPRECIATION RATE SCHEDULE  
 10/12/94  
 RATES THAT WILL BE BOOKED

Account Number	Account	12/31/93 Plant Balance ( \$ )	Restating Adj. ( \$ )	Restated 12/31/93 Plant Balance ( \$ )
		A	B	C = A + B
2112	Motor Vehicle	2,088,512	0	2,088,512
2116	Other Work Equipment	2,090,716	0	2,090,716
2121	Buildings	4,230,858	0	4,230,858
2122	Furniture	607,298	0	607,298
2123	Office Equipment	583,922	0	583,922
2124	General Purpose Computers	778,236	0	778,236
2211	Analog Electronic Switching	384,046	(384,046) B	0
2212	Digital Electronic Switching	12,728,112	76,982 B	12,805,094
2215	Step-by-Step Switching Eqpt	6,177,235	11,526 B	6,188,761
2232.	Circuit Equipment-Analog	3,174,442	20,350 B	3,194,792
1,2,3,4				
2232.	Circuit Equipment-Digital	7,808,074	247,946 B	8,056,020
5,6,8,9				
2232.7	Circuit Equipment-Fiber	980,573	27,242 B	1,007,815
2351	Public Telephone Terminal Eq	298,440	0	298,440
2411	Poles	2,887,444	0	2,887,444
2421	Aerial Cable-Metallic	10,749,575	0	10,749,575
2421	Aerial Cable-Fiber Optic	145,845	0	145,845
2422	Underground Cable-Metallic	188,587	0	188,587
2422	Underground Cable-Fiber Optic	147,067	0	147,067
2423	Buried Cable-Metallic	57,963,991	0	57,963,991
2423	Buried Cable-Fiber Optic	3,842,576	0	3,842,576
2431	Aerial Wire	402,041	0	402,041
2441	Conduit Systems	447,954	0	447,954
	Totals	118,705,544	0	118,705,544

[\*7]

ALLTEL MISSOURI INC. (COMBINED MISSOURI COMPANIES)  
 COMPOSITE DEPRECIATION RATE SCHEDULE  
 10/12/94  
 RATES THAT WILL BE BOOKED

Account	12/31/93 Reserve Balance ( \$ )	Restating Adj. ( \$ )	Restated 12/31/93 Reserve Balance ( \$ )
	D	E	F = D + E
Motor Vehicle	1,342,394	(630,803) A	711,591

Other Work Equipment	498,350	630,803 A	1,129,153
Buildings	1,636,657	0	1,636,657
Furniture	367,743	0	367,743
Office Equipment	277,472	0	277,472
General Purpose Computers	486,699	0	486,699
Analog Electronic Switching	248,696	(248,696) B	0
Digital Electronic Switching	1,971,510	51,038 B	2,022,548
Step-by-Step Switching Eqpt	3,202,953	6,420 B	3,209,373
Circuit Equipment-Analog	1,712,895	20,350 B	1,733,245
Circuit Equipment-Digital	2,128,202	156,415 B	2,284,618
Circuit Equipment-Fiber	180,968	14,473 B	195,441
Public Telephone Terminal Eq	222,871	0	222,871
Poles	2,018,160	0	2,018,160
Aerial Cable-Metallic	4,970,408	0	4,970,408
Aerial Cable-Fiber Optic	7,065	0	7,065
Underground Cable-Metallic	92,661	0	92,661
Underground Cable-Fiber Optic	11,480	0	11,479
Buried Cable-Metallic	18,761,035	0	18,761,035
Buried Cable-Fiber Optic	261,865	0	261,865
Aerial Wire	380,831	0	380,830
Conduit Systems	124,503	0	124,503
Totals	40,905,418	0	40,905,417

[\*8]

ALLTEL MISSOURI INC. (COMBINED MISSOURI COMPANIES)  
 COMPOSITE DEPRECIATION RATE SCHEDULE  
 10/12/94  
 RATES THAT WILL BE BOOKED

Account	12/31/93	Composite		Depreciation Expense ( \$ )
	Reserve Ratio (%)	Depreciation Rate (%)	Depreciation Rate (%)	
	G = F/C	H = I/C	I	
Motor Vehicle	34.1%			155,410
Other Work Equipment	54.0%			125,664
Buildings	38.7%			117,207
Furniture	60.6%			32,066
Office Equipment	47.5%			53,892
General Purpose Computers	62.5%			109,591
Analog Electronic Switching	0.0%			0
Digital Electronic Switching	15.8%			833,071
Step-by-Step Switching Eqpt	51.9%			424,426
Circuit Equipment-Analog	54.3%			285,551
Circuit Equipment-Digital	28.4%			716,168
Circuit Equipment-Fiber	19.4%			87,255
Public Telephone Terminal Eq	74.7%			25,995
Poles	69.9%			265,931
Aerial Cable-Metallic	46.2%			499,840
Aerial Cable-Fiber Optic	4.8%			6,614
Underground Cable-Metallic	49.1%			5,735
Underground Cable-Fiber Optic	7.8%			7,165
Buried Cable-Metallic	32.4%			2,329,676
Buried Cable-Fiber Optic	6.8%			152,732
Aerial Wire	94.7%			139,400



Conduit Systems	27.8%	2.00%	8,959
Totals	34.5%	5.38%	6,382,351

Note A: Restating adjustment to correct a journal entry closed incorrectly to Motor Vehicles.

Note B: Reclassification of Account 2211, Analog Electronic Switching.

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[\*9]

ALLTEL MISSOURI  
DEPRECIATION RATE SCHEDULE  
10/12/94

Account Number	Account	12/31/93 Plant Balance ( \$ ) A	Restating Adj. ( \$ ) B	Restated 12/31/93 Plant Balance ( \$ ) C = A + B
2112	Motor Vehicle	1,419,665		1,419,665
2116	Other Work Equipment	1,665,090		1,665,090
2121	Buildings	2,410,763		2,410,763
2122	Furniture	328,995		328,995
2123	Office Equipment	383,625		383,625
2124	General Purpose Computers	92,839		92,839
2211	Analog Electronic Switching	288,756	(288,756) C	0
2212	Digital Electronic Switching	6,478,377	55,348 C	6,533,725
2215	Step-by-Step Switching Eqpt	5,252,704	10,894 C	5,263,598
2232.	Circuit Equipment-Analog	1,465,063		1,465,063
1,2,3,4				
2232.	Circuit Equipment-Digital	6,593,014	195,272 C	6,788,286
5,6,8,9				
2232.7	Circuit Equipment-Fiber	487,919	27,242 C	515,161
2351	Public Telephone Terminal Eq	222,826		222,826
2411	Poles	2,225,367		2,225,367
2421	Aerial Cable-Metallic	8,108,054		8,108,054
2421	Aerial Cable-Fiber Optic	85,783		85,783
2422	Underground Cable-Metallic	32,683		32,683
2422	Underground Cable-Fiber Optic	98,266		98,266
2423	Buried Cable-Metallic	36,503,931		36,503,931
2423	Buried Cable-Fiber Optic	1,534,267		1,534,267
2431	Aerial Wire	351,787		351,787
2441	Conduit Systems	287,998		287,998
	Totals	76,317,772	0	76,317,772

[\*10]

ALLTEL MISSOURI  
DEPRECIATION RATE SCHEDULE  
10/12/94

	12/31/93 Reserve	Restating	Restated 12/31/93 Reserve
--	---------------------	-----------	---------------------------------

Account	Balance	Adj.	Balance
	( \$ )	( \$ )	( \$ )
	D	E	F = D + E
Motor Vehicle	868,009	(575,252) B	292,757
Other Work Equipment	256,994	575,252 B	832,246
Buildings	1,020,220		1,020,220
Furniture	208,372		208,372
Office Equipment	211,881		211,881
General Purpose Computers	8,459		8,459
Analog Electronic Switching	153,406	(153,406) C	0
Digital Electronic Switching	972,006	29,404 C	1,001,410
Step-by-Step Switching Eqpt	2,346,148	5,788 C	2,351,936
Circuit Equipment-Analog	696,579		696,579
Circuit Equipment-Digital	1,721,893	103,741 C	1,825,634
Circuit Equipment-Fiber	108,110	14,473 C	122,583
Public Telephone Terminal Eq	170,483		170,483
Poles	1,420,238		1,420,238
Aerial Cable-Metallic	3,645,592		3,645,592
Aerial Cable-Fiber Optic	1,896		1,896
Underground Cable-Metallic	32,683		32,683
Underground Cable-Fiber Optic	10,618		10,618
Buried Cable-Metallic	9,760,212		9,760,212
Buried Cable-Fiber Optic	156,529		156,529
Aerial Wire	346,819		346,819
Conduit Systems	89,406		89,406
Totals	24,206,553	0	24,206,553

[\*11]

ALLTEL MISSOURI  
DEPRECIATION RATE SCHEDULE  
10/12/94

Account	12/31/93	Depreciation	Depreciation
	Reserve		
	Ratio	Rate	( \$ )
	( % )	( % )	
	G = F/C	H	I = C * H
Motor Vehicle	20.6%	5.80%	82,341
Other Work Equipment	50.0%	5.30%	88,250
Buildings	42.3%	3.00%	72,323
Furniture	63.3%	3.40%	11,186
Office Equipment	55.2%	6.40% A	24,552
General Purpose Computers	9.1%	6.40% A	5,942
Analog Electronic Switching	0.0%	0.00%	0
Digital Electronic Switching	15.3%	5.10%	333,220
Step-by-Step Switching Eqpt	44.7%	6.00%	315,816
Circuit Equipment-Analog	47.5%	9.00%	131,856
Circuit Equipment-Digital	26.9%	9.00%	610,946
Circuit Equipment-Fiber	23.8%	9.00%	46,364
Public Telephone Terminal Eq	76.5%	8.20%	18,272
Poles	63.8%	9.00%	200,283
Aerial Cable-Metallic	45.0%	4.70%	381,079
Aerial Cable-Fiber Optic	2.2%	4.70%	4,032
Underground Cable-Metallic	100.0%	6.10%	1,994
Underground Cable-Fiber Optic	10.8%	6.10%	5,994

Buried Cable-Metallic	26.7%	4.00%	1,460,157
Buried Cable-Fiber Optic	10.2%	4.00%	61,371
Aerial Wire	98.6%	37.50%	131,920
Conduit Systems	31.0%	2.00%	5,760
Totals	31.7%	5.23%	3,993,656

Note A: Other Communications rate used for Office Eq and General Purpose Computer.

Note B: Restating adjustment to correct a journal entry closed incorrectly to Motor Vehicles.

Note C: Reclassification of Account 2211, Analog Electronic Switching.

Depreciation rates approved by Missouri Public Service Commission Case No. TR-86-14. Rates are effective April 1, 1986.

[\*12]

MISSOURI TELEPHONE INC.  
DEPRECIATION RATE SCHEDULE  
10/12/94

Account Number	Account	12/31/93 Plant Balance ( \$ )	Restating Adj. ( \$ )	Restated 12/31/93 Plant Balance ( \$ )
		A	B	C = A + B
2112	Motor Vehicle	545,146		545,146
2116	Other Work Equipment	303,789		303,789
2121	Buildings	1,579,742		1,579,742
2122	Furniture	243,701		243,701
2123	Office Equipment	176,824		176,824
2124	General Purpose Computers	676,066		676,066
2211	Analog Electronic Switching	90,403	(90,403) C	0
2212	Digital Electronic Switching	5,785,190	21,634 C	5,806,824
2215	Step-by-Step Switching Eqpt	208,397		208,397
2232.	Circuit Equipment-Analog	1,360,149	20,350 C	1,380,499
1,2,3,4	2232. Circuit Equipment-Digital	1,003,907	48,419 C	1,052,326
5,6,8,9	2232.7 Circuit Equipment-Fiber	451,022		451,022
	2351 Public Telephone Terminal Eq	60,868		60,868
	2411 Poles	597,576		597,576
	2421 Aerial Cable-Metallic	2,489,290		2,489,290
	2421 Aerial Cable-Fiber Optic	60,062		60,062
	2422 Underground Cable-Metallic	155,904		155,904
	2422 Underground Cable-Fiber Optic	48,801		48,801
	2423 Buried Cable-Metallic	17,685,209		17,685,209
	2423 Buried Cable-Fiber Optic	2,010,598		2,010,598
	2431 Aerial Wire	45,973		45,973
	2441 Conduit Systems	159,956		159,956
	Totals	35,738,573	0	35,738,573

[\*13]

MISSOURI TELEPHONE INC.  
DEPRECIATION RATE SCHEDULE  
10/12/94

Account	12/31/93	Restating Adj. ( \$ )	Restated
	Reserve Balance ( \$ )		12/31/93 Reserve Balance ( \$ )
	D	E	F = D + E
Motor Vehicle	415,073	(55,551) B	359,522
Other Work Equipment	119,519	55,551 B	175,070
Buildings	517,654		517,654
Furniture	125,807		125,807
Office Equipment	44,410		44,410
General Purpose Computers	468,909		468,909
Analog Electronic Switching	90,403	(90,403) C	0
Digital Electronic Switching	789,421	21,634 C	811,055
Step-by-Step Switching Eqpt	210,875		210,875
Circuit Equipment-Analog	757,386	20,350 C	777,736
Circuit Equipment-Digital	312,238	48,419 C	360,657
Circuit Equipment-Fiber	47,806		47,806
Public Telephone Terminal Eq Poles	39,687		39,687
	557,523		557,523
Aerial Cable-Metallic	1,223,305		1,223,305
Aerial Cable-Fiber Optic	5,169		5,169
Underground Cable-Metallic	59,978		59,978
Underground Cable-Fiber Optic	861		861
Buried Cable-Metallic	6,957,705		6,957,705
Buried Cable-Fiber Optic	90,061		90,061
Aerial Wire	29,811		29,811
Conduit Systems	35,097		35,097
Totals	12,898,698	0	12,898,698

MISSOURI TELEPHONE INC.  
DEPRECIATION RATE SCHEDULE  
10/12/94

Account	12/31/93	Depreciation Rate (%)	Depreciation
	Reserve Ratio (%)		Expense ( \$ )
	G = F/C	H	I = C * H
Motor Vehicle	65.9%	10.00%	54,515
Other Work Equipment	57.6%	6.30%	19,139
Buildings	32.8%	2.40%	37,914
Furniture	51.6%	8.00%	19,496
Office Equipment	25.1%	15.00% A	26,524
General Purpose Computers	69.4%	15.00% A	101,410
Analog Electronic Switching	0.0%	0.00%	0
Digital Electronic Switching	14.0%	8.00%	464,546
Step-by-Step Switching Eqpt	101.2%	10.50%	21,882
Circuit Equipment-Analog	56.3%	8.30%	114,581
Circuit Equipment-Digital	34.3%	8.30%	87,343

Circuit Equipment-Fiber	10.6%	8.30%	37,435
Public Telephone Terminal Eq	65.2%	10.00%	6,087
Poles	93.3%	10.50%	62,745
Aerial Cable-Metallic	49.1%	4.30%	107,039
Aerial Cable-Fiber Optic	8.6%	4.30%	2,583
Underground Cable-Metallic	38.5%	2.40%	3,742
Underground Cable-Fiber Optic	1.8%	2.40%	1,171
Buried Cable-Metallic	39.3%	3.70%	654,353
Buried Cable-Fiber Optic	4.5%	3.70%	74,392
Aerial Wire	64.8%	13.57%	6,239
Conduit Systems	21.9%	2.00%	3,199
Totals	36.1%	5.33%	1,906,333

Note A: Other Communications rate used for Office Eq and General Purpose Computer.

Note B: Restating adjustment to correct a journal entry closed incorrectly to Motor Vehicles.

Note C: Reclassification of Account 2211, Analog Electronic Switching.

Depreciation rates approved by Missouri Public Service Commission Order No. 932. Rates are effective January 1, 1989.

[\*14]

EAST MISSOURI TELEPHONE INC.  
DEPRECIATION RATE SCHEDULE  
10/12/94

Account Number	Account	12/31/93 Plant Balance ( \$ )	Restating Adj. ( \$ )	Restated 12/31/93 Plant Balance ( \$ )
		A	B	C = A + B
2112	Motor Vehicle	123,701		123,701
2116	Other Work Equipment	121,837		121,837
2121	Buildings	240,353		240,353
2122	Furniture	34,602		34,602
2123	Office Equipment	23,473		23,473
2124	General Purpose Computers	9,331		9,331
2211	Analog Electronic Switching	4,887	(4,887) B	0
2212	Digital Electronic Switching	464,545		464,545
2215	Step-by-Step Switching Eqpt	716,134	632 B	716,766
2232.	Circuit Equipment-Analog	349,230		349,230
1,2,3,4				
2232.	Circuit Equipment-Digital	211,153	4,255 B	215,408
5,6,8,9				
2232.7	Circuit Equipment-Fiber	41,632		41,632
2351	Public Telephone Terminal Eq	14,746		14,746
2411	Poles	64,501		64,501
2421	Aerial Cable-Metallic	152,231		152,231
2421	Aerial Cable-Fiber Optic	0		0
2422	Underground Cable-Metallic	0		0
2422	Underground Cable-Fiber Optic	0		0
2423	Buried Cable-Metallic	3,774,851		3,774,851
2423	Buried Cable-Fiber Optic	297,711		297,711

2431	Aerial Wire	4,281		4,281
2441	Conduit Systems	0		0
	Totals	6,649,199	0	6,649,199

[\*15]

EAST MISSOURI TELEPHONE INC.  
DEPRECIATION RATE SCHEDULE  
10/12/94

Account	D	12/31/93 Reserve Balance ( \$ )	E	Restating Adj. ( \$ )	F = D + E	Restated 12/31/93 Reserve Balance ( \$ )
Motor Vehicle		59,312				59,312
Other Work Equipment		121,837				121,837
Buildings		98,783				98,783
Furniture		33,564				33,564
Office Equipment		21,181				21,181
General Purpose Computers		9,331				9,331
Analog Electronic Switching		4,887		(4,887) B		0
Digital Electronic Switching		210,083				210,083
Step-by-Step Switching Eqpt		645,930		632 B		646,562
Circuit Equipment-Analog		258,930				258,930
Circuit Equipment-Digital		94,072		4,255 B		98,327
Circuit Equipment-Fiber		25,052				25,052
Public Telephone Terminal Eq		12,701				12,701
Poles		40,399				40,399
Aerial Cable-Metallic		101,511				101,511
Aerial Cable-Fiber Optic		0				0
Underground Cable-Metallic		0				0
Underground Cable-Fiber Optic		0				0
Buried Cable-Metallic		2,043,118				2,043,118
Buried Cable-Fiber Optic		15,275				15,275
Aerial Wire		4,200				4,200
Conduit Systems		0				0
Totals		3,800,166		0		3,800,166

EAST MISSOURI TELEPHONE INC.  
DEPRECIATION RATE SCHEDULE  
10/12/94

Account	G = F/C	12/31/93 Reserve Ratio ( % )	H	Depreciation Rate ( % )	I = C * H	Depreciation Expense ( \$ )
Motor Vehicle		47.9%		15.00%		18,555
Other Work Equipment		100.0%		15.00%		18,276
Buildings		41.1%		2.90%		6,970
Furniture		97.0%		4.00%		1,384

Office Equipment	90.2%	12.00%	2,817
General Purpose Computers	100.0%	24.00%	2,239
Analog Electronic Switching	0.0%	0.00%	0
Digital Electronic Switching	45.2%	7.60%	35,305
Step-by-Step Switching Eqpt	90.2%	12.10%	86,729
Circuit Equipment-Analog	74.1%	11.20%	39,114
Circuit Equipment-Digital	45.6%	8.30%	17,879
Circuit Equipment-Fiber	60.2%	8.30% A	3,455
Public Telephone Terminal Eq	86.1%	11.10%	1,637
Poles	62.6%	4.50%	2,903
Aerial Cable-Metallic	66.7%	7.70%	11,722
Aerial Cable-Fiber Optic	0.0%	0.00%	0
Underground Cable-Metallic	0.0%	0.00%	0
Underground Cable-Fiber Optic	0.0%	0.00%	0
Buried Cable-Metallic	54.1%	5.70%	215,167
Buried Cable-Fiber Optic	5.1%	5.70%	16,970
Aerial Wire	98.1%	29.00%	1,241
Conduit Systems	0.0%	0.00%	0
Totals	57.2%	7.25%	482,362

Note A: Circuit Equip-Digital rate used for Circuit Equip-Fiber rate.

Note B: Reclassification of Account 2211, Analog Electronic Switching.

Depreciation rates approved by Missouri Public Service Commission Case No. TR-89-207. Rates are effective January 1, 1989.

[\*16]

ALLTEL MISSOURI INC. (COMBINED MISSOURI COMPANIES)  
 COMPOSITE DEPRECIATION RATE SCHEDULE  
 10/12/94  
 AUTHORIZED MINIMUM RATES

Account Number	Account	12/31/93 Plant Balance ( \$ )	Restating Adj. ( \$ )	Restated 12/31/93 Plant Balance ( \$ )	
		A	B	C = A + B	
2112	Motor Vehicle	2,088,512	0	2,088,512	
2116	Other Work Equipment	2,090,716	0	2,090,716	
2121	Buildings	4,230,858	0	4,230,858	
2122	Furniture	607,298	0	607,298	
2123	Office Equipment	583,922	0	583,922	
2124	General Purpose Computers	778,236	0	778,236	
2211	Analog Electronic Switching	384,046	(384,046) B	0	
2212	Digital Electronic Switching	12,728,112	76,982 B	12,805,094	
2215	Step-by-Step Switching Eqpt	6,177,235	11,526 B	6,188,761	
2232.	Circuit Equipment-Analog	3,174,442	20,350 B	3,194,792	
1,2,3,4	2232.	Circuit Equipment-Digital	7,808,074	247,946 B	8,056,020
5,6,8,9	2232.7	Circuit Equipment-Fiber	980,573	27,242 B	1,007,815
	2351	Public Telephone Terminal Eq	298,440	0	298,440
	2411	Poles	2,887,444	0	2,887,444

2421	Aerial Cable-Metallic	10,749,575	0	10,749,575
2421	Aerial Cable-Fiber Optic	145,845	0	145,845
2422	Underground Cable-Metallic	188,587	0	188,587
2422	Underground Cable-Fiber Optic	147,067	0	147,067
2423	Buried Cable-Metallic	57,963,991	0	57,963,991
2423	Buried Cable-Fiber Optic	3,842,576	0	3,842,576
2431	Aerial Wire	402,041	0	402,041
2441	Conduit Systems	447,954	0	447,954
	Totals	118,705,544	0	118,705,544

[\*17]

ALLTEL MISSOURI INC. (COMBINED MISSOURI COMPANIES)  
 COMPOSITE DEPRECIATION RATE SCHEDULE  
 10/12/94  
 AUTHORIZED MINIMUM RATES

Account	12/31/93 Reserve Balance ( \$ )	Restating Adj. ( \$ )	Restated 12/31/93 Reserve Balance ( \$ )
	D	E	F = D + E
Motor Vehicle	1,342,394	(630,803) A	711,591
Other Work Equipment	498,350	630,803 A	1,129,153
Buildings	1,636,657	0	1,636,657
Furniture	367,743	0	367,743
Office Equipment	277,472	0	277,472
General Purpose Computers	486,699	0	486,699
Analog Electronic Switching	248,696	(248,696) B	0
Digital Electronic Switching	1,971,510	51,038 B	2,022,548
Step-by-Step Switching Eqpt	3,202,953	6,420 B	3,209,373
Circuit Equipment-Analog	1,712,895	20,350 B	1,733,245
Circuit Equipment-Digital	2,128,202	156,415 B	2,284,618
Circuit Equipment-Fiber	180,968	14,473 B	195,441
Public Telephone Terminal Eq	222,871	0	222,871
Poles	2,018,160	0	2,018,160
Aerial Cable-Metallic	4,970,408	0	4,970,408
Aerial Cable-Fiber Optic	7,065	0	7,065
Underground Cable-Metallic	92,661	0	92,661
Underground Cable-Fiber Optic	11,480	0	11,479
Buried Cable-Metallic	18,761,035	0	18,761,035
Buried Cable-Fiber Optic	261,865	0	261,865
Aerial Wire	380,831	0	380,830
Conduit Systems	124,503	0	124,503
Totals	40,905,418	0	40,905,417

[\*18]

ALLTEL MISSOURI INC. (COMBINED MISSOURI COMPANIES)  
 COMPOSITE DEPRECIATION RATE SCHEDULE  
 10/12/94  
 AUTHORIZED MINIMUM RATES

12/31/93



Account	Reserve Ratio (%) G = F/C	Depreciation Rate (%) H = I/C	Depreciation Expense (\$) I
Motor Vehicle	34.1%	7.42%	154,974
Other Work Equipment	54.0%	6.01%	125,664
Buildings	38.7%	2.74%	115,765
Furniture	60.6%	3.92%	23,780
Office Equipment	47.5%	9.23%	53,892
General Purpose Computers	62.5%	13.94%	108,471
Analog Electronic Switching	0.0%	0.00%	0
Digital Electronic Switching	15.8%	5.01%	642,143
Step-by-Step Switching Eqpt	51.9%	5.79%	358,595
Circuit Equipment-Analog	54.3%	8.59%	274,375
Circuit Equipment-Digital	28.4%	8.88%	715,521
Circuit Equipment-Fiber	19.4%	8.65%	87,130
Public Telephone Terminal Eq	74.7%	7.46%	22,266
Poles	69.9%	9.21%	265,931
Aerial Cable-Metallic	46.2%	4.59%	493,903
Aerial Cable-Fiber Optic	4.8%	4.54%	6,614
Underground Cable-Metallic	49.1%	3.04%	5,735
Underground Cable-Fiber Optic	7.8%	4.87%	7,165
Buried Cable-Metallic	32.4%	3.88%	2,250,405
Buried Cable-Fiber Optic	6.8%	3.81%	146,480
Aerial Wire	94.7%	34.45%	138,501
Conduit Systems	27.8%	2.00%	8,959
Totals	34.5%	5.06%	6,006,272

Note A: Restating adjustment to correct a journal entry closed incorrectly to Motor Vehicles.

Note B: Reclassification of Account 2211, Analog Electronic Switching.

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[\*19]

MISSOURI TELEPHONE INC.  
DEPRECIATION RATE SCHEDULE  
10/12/94

Account Number	Account	12/31/93 Plant Balance (\$) A	Restating Adj. (\$) B	Restated 12/31/93 Plant Balance (\$) C = A + B
2112	Motor Vehicle	545,146		545,146
2116	Other Work Equipment	303,789		303,789
2121	Buildings	1,579,742		1,579,742
2122	Furniture	243,701		243,701
2123	Office Equipment	176,824		176,824
2124	General Purpose Computers	676,066		676,066
2211	Analog Electronic Switching	90,403	(90,403) C	0
2212	Digital Electronic Switching	5,785,190	21,634 C	5,806,824
2215	Step-by-Step Switching Eqpt	208,397		208,397
2232.				
1,2,3,4	Circuit Equipment-Analog	1,360,149	20,350 C	1,380,499

2232.				
5,6,8,9	Circuit Equipment-Digital	1,003,907	48,419 C	1,052,326
2232.7	Circuit Equipment-Fiber	451,022		451,022
2351	Public Telephone Terminal Eq	60,868		60,868
2411	Poles	597,576		597,576
2421	Aerial Cable-Metallic	2,489,290		2,489,290
2421	Aerial Cable-Fiber Optic	60,062		60,062
2422	Underground Cable-Metallic	155,904		155,904
2422	Underground Cable-Fiber Optic	48,801		48,801
2423	Buried Cable-Metallic	17,685,209		17,685,209
2423	Buried Cable-Fiber Optic	2,010,598		2,010,598
2431	Aerial Wire	45,973		45,973
2441	Conduit Systems	159,956		159,956
	Totals	35,738,573	0	35,738,573

[\*20]

MISSOURI TELEPHONE INC.  
DEPRECIATION RATE SCHEDULE  
10/12/94

Account	D	12/31/93 Reserve Balance ( \$ )	E	Restating Adj. ( \$ )	F = D + E	Restated 12/31/93 Reserve Balance ( \$ )
Motor Vehicle		415,073		(55,551) B		359,522
Other Work Equipment		119,519		55,551 B		175,070
Buildings		517,654				517,654
Furniture		125,807				125,807
Office Equipment		44,410				44,410
General Purpose Computers		468,909				468,909
Analog Electronic Switching		90,403		(90,403) C		0
Digital Electronic Switching		789,421		21,634 C		811,055
Step-by-Step Switching Eqpt		210,875				210,875
Circuit Equipment-Analog		757,386		20,350 C		777,736
Circuit Equipment-Digital		312,238		48,419 C		360,657
Circuit Equipment-Fiber		47,806				47,806
Public Telephone Terminal Eq		39,687				39,687
Poles		557,523				557,523
Aerial Cable-Metallic		1,223,305				1,223,305
Aerial Cable-Fiber Optic		5,169				5,169
Underground Cable-Metallic		59,978				59,978
Underground Cable-Fiber Optic		861				861
Buried Cable-Metallic		6,957,705				6,957,705
Buried Cable-Fiber Optic		90,061				90,061
Aerial Wire		29,811				29,811
Conduit Systems		35,097				35,097
Totals		12,898,698		0		12,898,698

MISSOURI TELEPHONE INC.

DEPRECIATION RATE SCHEDULE  
10/12/94

Account	12/31/93		Depreciation Rate (%)	Depreciation Expense ( \$ )
	Reserve Ratio (%)	H		
	G = F/C			I = C * H
Motor Vehicle	65.9%		9.92%	54,078
Other Work Equipment	57.6%		6.30%	19,139
Buildings	32.8%		2.40%	37,914
Furniture	51.6%		4.60%	11,210
Office Equipment	25.1%		15.00% A	26,524
General Purpose Computers	69.4%		15.00% A	101,410
Analog Electronic Switching	0.0%		0.00%	0
Digital Electronic Switching	14.0%		5.00%	290,341
Step-by-Step Switching Eqpt	101.2%		6.77%	14,108
Circuit Equipment-Analog	56.3%		8.30%	114,581
Circuit Equipment-Digital	34.3%		8.30%	87,343
Circuit Equipment-Fiber	10.6%		8.30%	37,435
Public Telephone Terminal Eq Poles	65.2%		5.40%	3,287
Aerial Cable-Metallic	93.3%		10.50%	62,745
Aerial Cable-Fiber Optic	49.1%		4.30%	107,039
Underground Cable-Metallic	8.6%		4.30%	2,583
Underground Cable-Fiber Optic	38.5%		2.40%	3,742
Buried Cable-Metallic	1.8%		2.40%	1,171
Buried Cable-Fiber Optic	39.3%		3.70%	654,353
Aerial Wire	4.5%		3.70%	74,392
Conduit Systems	64.8%		13.57%	6,239
Totals	21.9%		2.00%	3,199
	36.1%		4.79%	1,712,834

Note A: Other Communications rate used for Office Eq and General Purpose Computer.

Note B: Restating adjustment to correct a journal entry closed incorrectly to Motor Vehicles.

Note C: Reclassification of Account 2211, Analog Electronic Switching.

Depreciation rates approved by Missouri Public Service Commission Order No. 932. Rates are effective January 1, 1989.

[\*21]

ALLTEL MISSOURI  
DEPRECIATION RATE SCHEDULE  
10/12/94

Account Number	Account	12/31/93		Restated 12/31/93 Plant Balance ( \$ )
		Plant Balance ( \$ )	Restating Adj. ( \$ )	
		A	B	C = A + B
2112	Motor Vehicle	1,419,665		1,419,665
2116	Other Work Equipment	1,665,090		1,665,090
2121	Buildings	2,410,763		2,410,763
2122	Furniture	328,995		328,995

2123	Office Equipment	383,625		383,625
2124	General Purpose Computers	92,839		92,839
2211	Analog Electronic Switching	288,756	(288,756) C	0
2212	Digital Electronic Switching	6,478,377	55,348 C	6,533,725
2215	Step-by-Step Switching Eqpt	5,252,704	10,894 C	5,263,598
2232.				
1,2,3,4	Circuit Equipment-Analog	1,465,063		1,465,063
2232.				
5,6,8,9	Circuit Equipment-Digital	6,593,014	195,272 C	6,788,286
2232.7	Circuit Equipment-Fiber	487,919	27,242 C	515,161
2351	Public Telephone Terminal Eq	222,826		222,826
2411	Poles	2,225,367		2,225,367
2421	Aerial Cable-Metallic	8,108,054		8,108,054
2421	Aerial Cable-Fiber Optic	85,783		85,783
2422	Underground Cable-Metallic	32,683		32,683
2422	Underground Cable-Fiber Optic	98,266		98,266
2423	Buried Cable-Metallic	36,503,931		36,503,931
2423	Buried Cable-Fiber Optic	1,534,267		1,534,267
2431	Aerial Wire	351,787		351,787
2441	Conduit Systems	287,998		287,998
	Totals	76,317,772	0	76,317,772

[\*22]

ALLTEL MISSOURI  
DEPRECIATION RATE SCHEDULE  
10/12/94

Account	D	12/31/93 Reserve Balance ( \$ )	E	Restating Adj. ( \$ )	F = D + E	Restated 12/31/93 Reserve Balance ( \$ )
Motor Vehicle		868,009		(575,252) B		292,757
Other Work Equipment		256,994		575,252 B		832,246
Buildings		1,020,220				1,020,220
Furniture		208,372				208,372
Office Equipment		211,881				211,881
General Purpose Computers		8,459				8,459
Analog Electronic Switching		153,406		(153,406) C		0
Digital Electronic Switching		972,006		29,404 C		1,001,410
Step-by-Step Switching Eqpt		2,346,148		5,788 C		2,351,936
Circuit Equipment-Analog		696,579				696,579
Circuit Equipment-Digital		1,721,893		103,741 C		1,825,634
Circuit Equipment-Fiber		108,110		14,473 C		122,583
Public Telephone Terminal Eq		170,483				170,483
Poles		1,420,238				1,420,238
Aerial Cable-Metallic		3,645,592				3,645,592
Aerial Cable-Fiber Optic		1,896				1,896
Underground Cable-Metallic		32,683				32,683
Underground Cable-Fiber Optic		10,618				10,618
Buried Cable-Metallic		9,760,212				9,760,212
Buried Cable-Fiber Optic		156,529				156,529
Aerial Wire		346,819				346,819
Conduit Systems		89,406				89,406

Totals

24,206,553

0

24,206,553

[\*23]

ALLTEL MISSOURI  
DEPRECIATION RATE SCHEDULE  
10/12/94

Account	12/31/93 Reserve Ratio (%)	H	Depreciation Rate (%)	Depreciation Expense ( \$ )
	G = F/C			I = C * H
Motor Vehicle	20.6%		5.80%	82,341
Other Work Equipment	50.0%		5.30%	88,250
Buildings	42.3%		3.00%	72,323
Furniture	63.3%		3.40%	11,186
Office Equipment	55.2%		6.40% A	24,552
General Purpose Computers	9.1%		6.40% A	5,942
Analog Electronic Switching	0.0%		0.00%	0
Digital Electronic Switching	15.3%		5.10%	333,220
Step-by-Step Switching Eqpt	44.7%		6.00%	315,816
Circuit Equipment-Analog	47.5%		9.00%	131,856
Circuit Equipment-Digital	26.9%		9.00%	610,946
Circuit Equipment-Fiber	23.8%		9.00%	46,364
Public Telephone Terminal Eq	76.5%		8.20%	18,272
Poles	63.8%		9.00%	200,283
Aerial Cable-Metallic	45.0%		4.70%	381,079
Aerial Cable-Fiber Optic	2.2%		4.70%	4,032
Underground Cable-Metallic	100.0%		6.10%	1,994
Underground Cable-Fiber Optic	10.8%		6.10%	5,994
Buried Cable-Metallic	26.7%		4.00%	1,460,157
Buried Cable-Fiber Optic	10.2%		4.00%	61,371
Aerial Wire	98.6%		37.50%	131,920
Conduit Systems	31.0%		2.00%	5,760
Totals	31.7%		5.23%	3,993,656

Note A: Other Communications rate used for Office Eq  
and General Purpose Computer.

Note B: Restating adjustment to correct a journal entry  
closed incorrectly to Motor Vehicles.

Note C: Reclassification of Account 2211,  
Analog Electronic Switching.

Depreciation rates approved by Missouri Public Service  
Commission Case No. TR-86-14. Rates are  
effective April 1, 1986.

[\*24]

EAST MISSOURI TELEPHONE INC.  
DEPRECIATION RATE SCHEDULE  
10/12/94

12/31/93 Plant	Restating	Restated 12/31/93 Plant
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Account Number	Account	Balance ( \$ )	Adj. ( \$ )	Balance ( \$ )
		A	B	C = A + B
2112	Motor Vehicle	123,701		123,701
2116	Other Work Equipment	121,837		121,837
2121	Buildings	240,353		240,353
2122	Furniture	34,602		34,602
2123	Office Equipment	23,473		23,473
2124	General Purpose Computers	9,331		9,331
2211	Analog Electronic Switching	4,887	(4,887) B	0
2212	Digital Electronic Switching	464,545		464,545
2215	Step-by-Step Switching Eqpt	716,134	632 B	716,766
2232.				
1,2,3,4	Circuit Equipment-Analog	349,230		349,230
2232.				
5,6,8,9	Circuit Equipment-Digital	211,153	4,255 B	215,408
2232.7	Circuit Equipment-Fiber	41,632		41,632
2351	Public Telephone Terminal Eq	14,746		14,746
2411	Poles	64,501		64,501
2421	Aerial Cable-Metallic	152,231		152,231
2421	Aerial Cable-Fiber Optic	0		0
2422	Underground Cable-Metallic	0		0
2422	Underground Cable-Fiber Optic	0		0
2423	Buried Cable-Metallic	3,774,851		3,774,851
2423	Buried Cable-Fiber Optic	297,711		297,711
2431	Aerial Wire	4,281		4,281
2441	Conduit Systems	0		0
	Totals	6,649,199	0	6,649,199

[\*25]

EAST MISSOURI TELEPHONE INC.  
DEPRECIATION RATE SCHEDULE  
10/12/94

Account	12/31/93 Reserve Balance ( \$ )	Restating Adj. ( \$ )	Restated 12/31/93 Reserve Balance ( \$ )
	D	E	F = D + E
Motor Vehicle	59,312		59,312
Other Work Equipment	121,837		121,837
Buildings	98,783		98,783
Furniture	33,564		33,564
Office Equipment	21,181		21,181
General Purpose Computers	9,331		9,331
Analog Electronic Switching	4,887	(4,887) B	0
Digital Electronic Switching	210,083		210,083
Step-by-Step Switching Eqpt	645,930	632 B	646,562
Circuit Equipment-Analog	258,930		258,930
Circuit Equipment-Digital	94,072	4,255 B	98,327
Circuit Equipment-Fiber	25,052		25,052
Public Telephone Terminal Eq	12,701		12,701
Poles	40,399		40,399
Aerial Cable-Metallic	101,511		101,511

Aerial Cable-Fiber Optic	0	0
Underground Cable-Metallic	0	0
Underground Cable-Fiber Optic	0	0
Buried Cable-Metallic	2,043,118	2,043,118
Buried Cable-Fiber Optic	15,275	15,275
Aerial Wire	4,200	4,200
Conduit Systems	0	0
Totals	3,800,166	3,800,166

EAST MISSOURI TELEPHONE INC.  
DEPRECIATION RATE SCHEDULE  
10/12/94

Account	12/31/93		Depreciation Rate (%)	Depreciation Expense ( \$ )
	Reserve Ratio (%)	H		
	G = F/C	H		I = C * H
Motor Vehicle	47.9%		15.00%	18,555
Other Work Equipment	100.0%		15.00%	18,276
Buildings	41.1%		2.30%	5,528
Furniture	97.0%		4.00%	1,384
Office Equipment	90.2%		12.00%	2,817
General Purpose Computers	100.0%		12.00%	1,120
Analog Electronic Switching	0.0%		0.00%	0
Digital Electronic Switching	45.2%		4.00%	18,582
Step-by-Step Switching Eqpt	90.2%		4.00%	28,671
Circuit Equipment-Analog	74.1%		8.00%	27,938
Circuit Equipment-Digital	45.6%		8.00%	17,233
Circuit Equipment-Fiber	60.2%		8.00% A	3,331
Public Telephone Terminal Eq	86.1%		4.80%	708
Poles	62.6%		4.50%	2,903
Aerial Cable-Metallic	66.7%		3.80%	5,785
Aerial Cable-Fiber Optic	0.0%		0.00%	0
Underground Cable-Metallic	0.0%		0.00%	0
Underground Cable-Fiber Optic	0.0%		0.00%	0
Buried Cable-Metallic	54.1%		3.60%	135,895
Buried Cable-Fiber Optic	5.1%		3.60%	10,718
Aerial Wire	98.1%		8.00%	342
Conduit Systems	0.0%		0.00%	0
Totals	57.2%		4.51%	299,783

Note A: Circuit Equip-Digital rate used for Circuit Equip-Fiber rate.

Note B: Reclassification of Account 2211,  
Analog Electronic Switching.

Depreciation rates approved by Missouri Public Service  
Commission Case No. TR-89-207. Rates are  
effective January 1, 1989.

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of the Application of                    )  
Southwestern Bell Telephone Company            )  
To Transfer Property and Ownership of            )  
Stock Pursuant to Section 392.300, R.S.Mo.    )

Case No.

**AFFIDAVIT OF PAUL W. STEPHENS**

I, Paul W. Stephens, being duly sworn upon my oath and of lawful age, do state and  
depose as follows:

1. My name is Paul W. Stephens. I am the Managing Director of State, Local, and  
Property Taxes for SBC Management Services, L.P., which is a subsidiary of SBC  
Communications Inc.

2. As Managing Director of State, Local and Property Taxes for SBC Management  
Services, Inc., I am responsible for providing income tax advice and guidance to SBC  
Communications Inc. and its subsidiaries.

3. I am familiar with SBC Communications Inc.'s proposed corporate reorganization  
in which Southwestern Bell Telephone Company will be converted from a Missouri corporation  
to a Texas limited partnership.

4. Having reviewed The Plan of Merger and The Plan of Conversion, on behalf of  
Southwestern Bell Telephone Company, Southwestern Bell Texas, Inc., and Southwestern Bell  
Telephone, L.P., I have determined that the conversion of Southwestern Bell Telephone  
Company from a Missouri Corporation to a Texas limited partnership will have no impact on the  
tax revenues of the State of Missouri or any of its political subdivisions in which Southwestern  
Bell Telephone Company's structures, facilities or equipment are located since Southwestern  
Bell Telephone, L.P. will continue to own and operate the various structures, facilities and



equipment of Southwestern Bell Telephone Company in Missouri and will pay the amount of taxes required by law.

5. I have reviewed the foregoing affidavit and swear that the same is true to the best of my knowledge, information and belief.

FURTHER AFFIANT SAYETH NOT.

Paul W. Stephens  
Paul W. Stephens

STATE OF MISSOURI            )  
                                          )     SS  
COUNTY OF COLE            )

I, Tammy Morris, a Notary Public do hereby certify that on this 10<sup>th</sup> day of October, 2001, personally appeared before me Paul W. Stephens who declared that all of the information contained herein above is true, to the best of his knowledge and belief.

Tammy Morris  
Notary Public

My Commission Expires:

April 4, 2004

TAMMY R MORRIS  
NOTARY PUBLIC STATE OF MISSOURI  
COLE COUNTY  
MY COMMISSION EXP. APR. 4, 2004



No. T00000020

# STATE OF MISSOURI



Matt Blunt  
Secretary of State

CORPORATION DIVISION


## CERTIFICATE OF CORPORATE GOOD STANDING

I, MATT BLUNT, Secretary of State of the State of Missouri, do hereby certify that the records in my office and in my care and custody reveal that

SOUTHWESTERN BELL TELEPHONE COMPANY

was incorporated under the laws of this State on the 24th day of AUGUST, 1882, and is in good standing, having fully complied with all requirements of this office.

IN TESTIMONY WHEREOF, I have set my hand and imprinted the GREAT SEAL of the State of Missouri, on this, the 10th day of OCTOBER, 2001.

  
Secretary of State



**Exhibit F**

**PARTNERSHIP AGREEMENT**

**DRAFT**  
**October 10, 2001 (4:13PM)**

---

THE LIMITED PARTNERSHIP INTERESTS CREATED BY THIS AGREEMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE TEXAS SECURITIES ACT AND ARE BEING OFFERED AND SOLD IN RELIANCE ON EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF SUCH ACTS. THE INTERESTS MAY NOT BE SOLD, TRANSFERRED, PLEDGED OR HYPOTHECATED WITHOUT REGISTRATION UNDER SUCH ACTS OR AN OPINION OF COUNSEL THAT SUCH TRANSFER MAY BE LEGALLY EFFECTED WITHOUT SUCH REGISTRATION. ADDITIONAL RESTRICTIONS ON TRANSFER AND SALE ARE SET FORTH IN THIS AGREEMENT.

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**LIMITED PARTNERSHIP AGREEMENT**

**OF**

**SOUTHWESTERN BELL TELEPHONE, L.P.**

**(a Texas Limited Partnership)**

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Schedule A: Capital Contributions and Percentage Interests

LIMITED PARTNERSHIP AGREEMENT

OF

SOUTHWESTERN BELL TELEPHONE, L.P.

(a Texas Limited Partnership)

This Limited Partnership Agreement, dated and effective as of the \_\_\_ day of \_\_\_\_\_, 2001 is entered into by and between SWBT TEXAS, LLC, a Delaware limited liability company, as general partner, and those Persons named under the heading "Limited Partners" in Schedule A hereto, as the limited partners.

WITNESSETH:

WHEREAS, the parties hereto desire to form a limited partnership in order to more conveniently transact any and all lawful business for which a partnership may be formed; and

WHEREAS, the parties hereto desire to form a limited partnership for the purpose of owning, controlling and managing certain assets; and

WHEREAS, the parties hereto desire to establish certain rules regarding the operation of the Partnership and the rights and limitations of the Partners;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. **Defined Terms.**

The capitalized terms used in this Agreement shall, unless the context otherwise requires, have the meanings specified in this Article One.

"Act" means the Texas Revised Limited Partnership Act, Vernon's Texas Civil Statutes Art. 6132a1, as amended and any successor thereto.

"Adjusted Capital Account Deficit" means, with respect to any Partner, the deficit balance, if any, in such Partner's Capital Account as of the end of the relevant Fiscal Year, after giving effect to the following adjustments:

- (a) Credit to such Capital Account any amounts which such Partner is obligated to restore or is deemed to be obligated to restore pursuant to the penultimate sentences of Regulations Sections 1.704-2(g)(1) and 1.704-2(i)(5); and



- (b) Debit to such Capital Account the items described in Sections 1.704-1(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5), and 1.704-1(b)(2)(ii)(d)(6) of the Regulations.

The foregoing definition of Adjusted Capital Account Deficit is intended to comply with the provisions of Section 1.704-1(b)(2)(ii)(d) of the Regulations and shall be interpreted consistently therewith.

**"Affiliate"** means, with respect to any Person (i) any Person directly or indirectly controlling, controlled by or under common control with such Person, (ii) any officer, director, general partner, General Partner or trustee of such Person, (iii) any Person who is an officer, director, general partner, General Partner, trustee or Partner of the immediate family of any Person described in clauses (i) or (ii) of this sentence and (iv) with respect to an individual, a Partner of the immediate family of such individual. For purposes of this definition, the term *"control,"* (including, with correlative meanings, the terms *"controlling," "controlled by" or "under common control with"*) means, with respect to any Person, the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

**"Agreement"** means this Limited Partnership Agreement.

**"Available Cash"** means, at any particular time, the excess, if any, of cash, revenues and funds received by the Partnership, from whatever source derived, over the sum of the following to the extent paid or set aside by the Partnership: (i) all principal and interest payments on indebtedness of the Partnership and all other sums paid to lenders; (ii) all cash expenditures incurred in the normal operation of the Partnership's business; and (iii) funds set aside or amounts allocated to reserves which shall be maintained in amounts deemed sufficient by the General Partner for working capital and to pay taxes, insurance, debt service or other costs or expenses incident to the ownership or operation of the Partnership's business.

**"Bankruptcy"** means, with respect to any Partner, (i) the commencement by such Partner of any proceeding seeking relief under any provision or chapter of the federal Bankruptcy Code or any other federal or state law relating to insolvency, bankruptcy, arrangement, readjustment of debt, receivership, trusteeship, liquidation or reorganization; (ii) an adjudication that such Partner is insolvent or bankrupt; (iii) the entry of an order for relief under the federal Bankruptcy Code with respect to such Partner; (iv) the filing of any such petition or the commencement of any such case or proceeding against such Partner, unless such petition and the case or proceeding initiated thereby are dismissed within sixty (60) days from the date of such filing; (v) the filing of an answer by such Partner admitting the material allegations of any such petition; (vi) the appointment of a trustee, receiver or custodian for all or substantially all of the assets of such Partner unless such appointment is vacated or dismissed within sixty (60) days from the date of such appointment but not less than five (5) days before the proposed sale of any assets of such Partner; (vii) the insolvency of such Partner or the execution by such Partner of a general assignment for the benefit of creditors; (viii)

the convening by such Partner of a meeting of its creditor, or any class thereof, for purposes of effecting a moratorium upon or extension or composition of its debts; (ix) the failure of such Partner to pay its debts as they mature; (x) the levy, attachment, execution or other seizure of substantially all of the assets of such Partner where such seizure is not discharged within thirty (30) days thereafter; (xi) the admission by such Partner in writing of its inability to pay its debts as they mature or that it is generally not paying its debts as they become due; or (xii) such Partner's Partnership Interest becoming subject to garnishment, sequestration, attachment, levy, or any similar remedy by any prejudgment or post-judgment creditor.

**"Capital Account"** means the account described in Article 4 hereof.

**"Capital Contribution"** means, with respect to any Partner, the amount of money and initial Gross Asset Value of any property other than money contributed to the Partnership with respect to the Partnership Interest held by such Partner (net of liabilities to which such property is subject).

**"Certificate"** is defined in Section 2.1.

**"Code"** means the Internal Revenue Code of 1986, as amended.

**"Depreciation"** means, for each Fiscal Year, an amount equal to the depreciation, amortization, or other cost recovery deduction allowable with respect to an asset for such Fiscal Year, except that if the Gross Asset Value of an asset differs from its adjusted basis for federal income tax purposes at the beginning of such Fiscal Year, Depreciation shall be an amount which bears the same ratio to such beginning Gross Asset Value as the federal income tax depreciation, amortization or other cost recovery deduction for such Fiscal Year bears to such beginning adjusted tax basis; provided, however, that if the adjusted basis for federal income tax purposes of an asset at the beginning of such Fiscal Year is zero, Depreciation shall be determined with reference to such beginning Gross Asset Value using any reasonable method selected by the General Partner.

**"Entity"** means any general partnership, limited partnership, corporation, limited liability company, joint venture, trust, cooperative or association.

**"Fiscal Year"** means the calendar year.

**"General Partner"** means SWBT Texas, LLC, a Delaware limited liability company, or its permitted successors and assigns who, at the time of reference thereto, are duly admitted as general partners of the Partnership, and any other Person who, at the time of reference thereto, is duly admitted as a general partner of the Partnership in accordance with this Agreement, each of the foregoing in its capacity as a general partner of the Partnership.

**"Gross Asset Value"** means, with respect to any asset, the asset's adjusted basis for federal income tax purposes, except as follows:

- (a) the initial Gross Asset Value of any asset contributed by a Partner to a Partnership shall be the gross fair market value of such asset on the date of contribution to the Partnership, as determined by the General Partner;
- (b) the Gross Asset Values of all Partnership Assets shall be adjusted upward or downward to reflect any unrealized gain or loss (i) immediately prior to the acquisition of an additional interest in the Partnership by any new or existing Partner in exchange for more than a de minimis Capital Contribution, (ii) immediately prior to the distribution by the Partnership to a Partner of more than a de minimis amount of property as consideration for an interest in the Partnership, and (iii) immediately prior to the liquidation of the Partnership within the meaning of Regulations Section 1.704-1(b)(2)(j)(g); and
- (c) the Gross Asset Value of an asset shall be adjusted each Fiscal Year by the Depreciation with respect to such asset taken into account for purposes of computing Net Income and Net Loss for such year.

**"Indemnitee"** means (i) any Person made a party to a proceeding by reason of its status as (A) a Partner, (B) a director, officer or trustee of a Partner, or (C) an employee of the Partnership, and (ii) such other Persons (including Affiliates of the General Partner, the Limited Partners or the Partnership) as the General Partner may designate from time to time.

**"Initial Partners"** means those persons listed on Schedule A hereto as either General or Limited Partners.

**"Limited Partners"** means those Persons listed under the heading **"Limited Partners"** in Schedule A hereto, their permitted successors and assigns who, at the time of reference thereto, are duly admitted as limited partners of the Partnership, and any other Person who, at the time of reference thereto, is duly admitted as a limited partner of the Partnership in accordance with this Agreement, each of the foregoing in its capacity as a limited partner of the Partnership.

**"Liquidator"** is defined in Section 11.3.

**"Majority-In-Interest"** of the Limited Partners, means one or more Limited Partners holding in the aggregate more than fifty percent (50%) of the Percentage Interests then held by the Limited Partners as a class. A **"Majority-In-Interest"** of some lesser or greater portion of the Partners shall mean one or more such Partners holding in the aggregate more than fifty percent (50%) of the Percentage Interests then held by such Partners as a group.

**"Meeting Notice"** is defined in Section 9.1.

**"Minimum Gain Attributable to Partner Nonrecourse Debt"** shall mean "partner nonrecourse debt minimum gain" as determined in accordance with Regulations Section 1.704-2(i)(3).

**"Net Income or Net Loss"** shall mean, for each Fiscal Year or other applicable period, an amount equal to the partnership's taxable income or loss for such year or period, determined in accordance with Section 703(a) of the Code (for this purpose, all items of income, gain, loss or deduction required to be stated separately pursuant to Section 703(a) of the Code shall be included in taxable income or loss), with the following adjustments:

- (a) The computation of all items of income, gain, loss and deduction shall be made without regard to the fact that items described in Sections 705(a)(1)(B) or 705(a)(2)(B) of the Code are not includable in gross income or are neither currently deductible nor capitalized for federal income tax purposes;
- (b) Any income, gain or loss attributable to the taxable disposition of any Partnership property shall be determined as if the adjusted basis of such property as of such date of disposition were equal in amount to the Partnership's Gross Asset Value with respect to such property as of such date;
- (c) In lieu of the depreciation, amortization and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation for such Fiscal Year;
- (d) In the event the Gross Asset Value of any Partnership property is adjusted to reflect any unrealized gain or unrealized loss with respect to such property, the amount of any such unrealized gain or unrealized loss shall be taken into account as gain or loss from the disposition of such property; and
- (e) Any items specially allocated under Section 6.7, 6.8 and 6.9 shall not be taken into account.

**"Nonrecourse Deductions"** shall have the meaning set forth in Section 1.704-2(b)(1) and (c) of the Regulations.

**"Partner Loan"** is defined in Section 4.4.

**"Partner Nonrecourse Debt"** shall have the meaning set forth in Section 1.704-2(b)(4) of the Regulations.

**"Partner Nonrecourse Deductions"** shall have the meaning set forth in Section 1.704-2(i)(1) of the Regulations.

"Partners" means, collectively, the General Partner and the Limited Partners. "Partner" means any one of the Partners.

"Partnership" means the limited partnership hereby constituted, as such limited partnership may from time to time be constituted.

"Partnership Interest" means an ownership interest of a Partner in the Partnership from time to time, including such Partner's Percentage Interest and Capital Account, and any and all benefits to which the holder of such Partnership Interest may be entitled as provided in this Agreement, together with all obligations of such Person to comply with the terms of this Agreement.

"Partnership Minimum Gain" shall have the meaning set forth in Section 1.704-2(b)(2) and (d)(1) of the Regulations.

"Percentage Interest" means the percentage ownership interest of a Partner in the Partnership from time to time. The initial Percentage Interest of each Partner is as set forth opposite its respective name on the attached Schedule A.

"Person" means any individual or Entity.

"Regulations" shall mean the final, temporary or proposed regulations promulgated under the Code, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

"Schedule A" means the schedule attached hereto and labeled "Schedule A."

"Transfer" means any change in the ownership of a Partnership Interest, whether made voluntarily or involuntarily by operation of law, including, but not limited to, the following:

1. a transfer, sale or other assignment to any Person;
2. a general assignment for the benefit of creditors, or any assignment to a creditor resulting from the creditor's foreclosure upon or execution against such Interest;
3. the filing by the transferor Partner of a voluntary Bankruptcy petition; or
4. the entry of a judicial order granting the relief requested by the petitioner in an involuntary Bankruptcy proceeding filed against the transferor Partner.

## 2. Formation of Partnership.

**2.1 Formation.** The Partnership has been formed as a limited partnership upon the statutory conversion of Southwestern Bell Texas, Inc., a Texas corporation, into a limited partnership

pursuant to the provisions of Articles 5.17 and 5.18 of the Texas Business Corporations Act and of Section 2.15 of the Act (the "**Conversion**"). The effective date of the formation of the Partnership shall be as set forth in the Articles of Conversion and the Certificate of Limited Partnership for the Partnership (the "**Certificate**") as executed and filed in the office of the Secretary of State of the State of Texas.

**2.2 Name.** The name of the Partnership shall be "Southwestern Bell Telephone, L.P." In connection with the Partnership conducting business under an assumed name, the General Partner shall file all necessary certificates required under and comply with the Texas Assumed Business or Professional Name Act, Tex. Bus. & Com. Code §36.01 et seq., as amended. The General Partner may (i) change the name of the Partnership or (ii) change the trade or fictitious names for the Partnership as they may determine from time to time with written notice to the Limited Partners of such change and compliance with the Act or Texas Assumed Business or Professional Name Act, as applicable.

**2.3 Principal Office.** The principal office of the Partnership shall be 175 E. Houston Street, Second Floor, San Antonio, Texas 78205. or such other location as the General Partner may from time to time select with notice to the Limited Partners of such change.

**2.4 Term.** The Partnership shall begin upon the effective date of the Conversion set forth in the Articles of Conversion and the Certificate of Limited Partnership filed with the Secretary of State of Texas and shall continue until the Partnership is dissolved pursuant to Article 11 hereof, and thereafter exist only for the purpose of winding up.

**2.5 Registered Agent and Registered Office.** The initial registered agent of the Partnership shall be DAVID C. WELSCH, and the initial registered office of the Partnership shall be One Bell Plaza, Room 2900, Dallas, Texas 75202. The registered office or the registered agent, or both, may be changed by the General Partner from time to time upon filing any statements or certificates required by the Act.

**2.6 Recordation and Filing.** The General Partner shall execute, file and record, in a timely manner, any and all certificates, notices, statements and other documents required under the Act or any other applicable law of any jurisdiction where the Partnership maintains an office or does business.

**2.7 Tax Status.**

- (a) Each of the Partners hereby recognizes and agrees that this Partnership shall make a "check the box" election under Section 7701 of the Code to cause the Partnership to be subject to the provisions of Sub-Chapter C of Chapter 1 of Subtitle A of the Code.

- (b) Notwithstanding the election under Section 7701 of the Code described above, the Partners hereby acknowledge and agree that this Agreement shall set forth provisions for the allocation of Net Income and Net Loss, and for the maintenance of Capital Accounts, in a manner otherwise prescribed by Sub-Chapter K of Chapter 1 of Subtitle A of the Code and that such provisions hereof shall be inoperable for federal income tax purposes for all periods during which such election is in effect.

**2.8 WAIVER OF PARTITION.** EACH OF THE PARTIES HERETO IRREVOCABLY WAIVES, DURING THE TERM OF THE PARTNERSHIP, ANY RIGHT TO MAINTAIN ANY ACTION FOR PARTITION WITH RESPECT TO THE PROPERTY OF THE PARTNERSHIP. NO PARTNER SHALL HAVE ANY INTEREST IN SPECIFIC PROPERTY OF THE PARTNERSHIP.

**3. Purpose and Nature of Business.**

**3.1 Purposes.** The purposes of the Partnership are:

- (a) to engage in the business of providing commercial and residential telephone and telecommunications services to the public, together with all such related and incidental businesses and services that may be necessary or convenient thereto;
- (b) to acquire and maintain in effect all required federal, state and local licenses and permits required to carry out the purposes of the Partnership; and
- (c) to enter into, make and perform all contracts and other undertakings, and engage in any activities and transactions, as may be necessary or advisable to carry out any of the foregoing purposes.

**4. Contribution to Capital and Issuances of Additional Interests.**

**4.1 General Partner Capital Contribution.** The General Partner has made the Capital Contributions set forth in Schedule A hereto, which is incorporated herein by this reference, and the Percentage Interest of the General Partner is set forth in Schedule A.

**4.2 Limited Partner Capital Contributions.** Each Limited Partner has made the Capital Contribution to the Partnership set forth in Schedule A hereto, and the Percentage Interest of each Limited Partner is set forth in Schedule A hereto.

**4.3 Additional Capital Contributions.** No Partner shall be obligated to make additional Capital Contributions to the Partnership. Upon approval or consent by the General Partner and a

Majority-In-Interest of Limited Partners, a Partner may make additional capital contributions to the Partnership.

**4.4 Partner Loans.** If the General Partner determines, from time to time, that additional funds are needed by the Partnership, a Limited Partner, with the consent of the General Partner, or the General Partner may lend (each a "**Partner Loan**") money to the Partnership in an amount not to exceed the Partnership's needs for additional funds as determined by the General Partner and under such terms as the General Partner may deem appropriate.

**4.5 No Interest.** No Partner shall be entitled to (i) receive interest on its Capital Contribution; (ii) withdraw any part of its Capital Contribution; or (iii) receive any distribution from the Partnership, except as specifically provided herein.

**4.6 Capital Accounts.** The Partnership shall establish and maintain for each Partner a separate account ("**Capital Account**") in accordance with the rules of Regulations Section 1.704-1(b)(2)(iv). The Capital Account of each Partner shall be increased by (i) the amount of all Capital Contributions and any other contributions made by such Partner to the Partnership pursuant to the Agreement, (ii) the amount of Net Income allocated to such Partner pursuant to Section 6.1, and (iii) the amount of any other items of income or gain specially allocated to such Partner pursuant to Sections 6.7, 6.8 and 6.9. The Capital Account of each Partner shall be decreased by (x) the amount of cash or Gross Asset Value (net of any liabilities to which such property is subject) of any distributions of cash or property made to such Partner pursuant to Article 5 of the Agreement, (y) the amount of Net Loss allocated to such Partner pursuant to Section 6.1, and (z) the amount of any other items of deduction or loss specially allocated to such Partner pursuant to Sections 6.7, 6.8 and 6.9. The Capital Account of each Partner shall be increased or decreased to reflect the revaluation of Partnership assets occurring at the times specified in the definition of "Gross Asset Value." Each Partner shall have a single Capital Account that reflects all its Partnership Interest, regardless of the class of Partnership Interests owned by that Partner and regardless of the time and manner in which such Partnership Interests were acquired. Generally, a transferee (including any assignee) of a Partnership Interest shall succeed to a pro rata portion of the Capital Account of the transferor. These provisions are intended to comply with Regulations Section 1.704-1(b) and shall be interpreted and applied in a manner consistent with such Regulations. In the event the General Partner shall determine that it is prudent to modify the manner in which the Capital Accounts, or any debits or credits thereto (including, without limitation, debits or credits relating to liabilities which are secured by contributed or distributed property or which are assumed by the Partnership or the Partners), are computed in order to comply with such Regulations, the General Partner may make such modification, provided that it is not likely to have a material effect on the amounts distributable to any Person pursuant to Article 11 of the Agreement upon the dissolution of the Partnership.

## **5. Distributions.**

**5.1 Distributions of Available Cash.** The General Partner may cause the Partnership to distribute all or any portion of [**Available Cash**] as determined by the General Partner from time



to time in such aggregate amount as the General Partner may reasonably determine in its sole and absolute discretion [to and among the Partners pro rata in accordance with their Percentage Interests].

**5.2 Distributions on Dissolution.** Notwithstanding the provisions of Section 5.1 to the contrary, all distributions to be made from and after the dissolution of the Partnership shall be made in accordance with the provisions of Article 11.

**5.3 Other Payments.** Payments made to any Partner, or its Affiliates, hereunder, other than pursuant to a distribution of Available Cash pursuant to the foregoing provisions of this Article 5 and upon dissolution of the Partnership under Article 11, shall not constitute payments made to a Partner in its capacity as a Partner of the Partnership.

**6. Allocations and Other Tax and Accounting Matters.**

**6.1 Allocations.** The Net Income, Net Loss and any other items of income, gain, loss, deduction or credit of the Partnership shall be allocated to the Partners pro rata in accordance with their Percentage Interests.

**6.2 Bank Accounts; Investments.** Capital Contributions, revenues and any other Partnership funds shall be deposited by the General Partner in one or more bank accounts or brokerage accounts established in the name of the Partnership, or shall be invested by the General Partner in furtherance of the purposes of the Partnership. No other funds shall be deposited into Partnership accounts or commingled with Partnership investments. Funds deposited in the Partnership's accounts may be withdrawn only to be invested in furtherance of a Partnership purpose, to pay Partnership debts or obligations or to be distributed to the Partners pursuant to this Agreement.

**6.3 Books of Account; Records.** At all times during the continuance of the Partnership, the General Partner shall maintain or cause to be maintained full, true, complete and correct books of account in accordance with such method of accounting as the General Partner determines to be appropriate and available under the Code and on a basis consistent with appropriate provisions of the Code wherein shall be entered particulars of all monies, goods or effects belonging to or owing to or by the Partnership, or paid, received, sold or purchased in the course of the Partnership's business, and all of such other transactions, matters and things relating to the business of the Partnership as are usually entered in books of account kept by persons engaged in a business of a like kind and character. In addition, the Partnership shall keep all records as required to be kept pursuant to the Act, including, without limitation, (i) a current list of the names, addresses and the Percentage Interests held by each of the Partners, (ii) copies of federal, state and local information or income tax returns for each of the Partnership's six (6) most recent years, and (iii) copies of this Agreement, including all amendments or restatements. The books and records shall be kept at the principal office of the Partnership, and each Partner or assignee of a Partner's Interest or such Person's duly authorized representative, on written request stating the purpose, may examine and copy, at any

reasonable time, for any proper purpose, and at the Partner's expense, such records and other information kept by the General Partner on behalf of the Partnership.

**6.4 Financial Statements.** Within ninety (90) days following the end of each Fiscal Year, the General Partner shall prepare or cause to be prepared at Partnership expense, financial statements (including, statements of assets and liabilities, statements of revenue and expenses, statements of partners' equity and statements of cash flow) of the Partnership for the such Fiscal Year, which financial statements shall be prepared in accordance with such method of accounting as the General Partner determines to be appropriate and available under the Code and on a basis consistent with appropriate provisions of the Code. The General Partner shall furnish a copy of such financial statements to each Limited Partner.

**6.5 Tax Returns and Information.** The General Partner shall prepare or cause to be prepared at Partnership expense all federal, state and local income and other tax returns of the Partnership on a timely basis.

**6.6 Tax Elections.** All elections required or permitted to be made by the Partnership under any applicable tax law shall be made by the General Partner in its sole discretion.

**6.7 Minimum Gain Chargeback.** If there is a net decrease in Partnership Minimum Gain during any Fiscal Year, each Partner shall be specially allocated items of Partnership income and gain for such year (and, if necessary, subsequent years) in an amount equal to such Partner's share of the net decrease in Partnership Minimum Gain, as determined under Regulations Section 1.704-2(g). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Partner pursuant thereto. The items to be so allocated shall be determined in accordance with Regulations Section 1.704-2(f)(6). This Section 6.7 is intended to comply with the minimum gain chargeback requirements of Regulations Section 1.704-2(f) and shall be interpreted consistently therewith.

**6.8 Partner Minimum Gain Chargeback.** If there is a net decrease in Minimum Gain Attributable to a Partner Nonrecourse Debt during any Fiscal Year, each Partner who has a share of the Minimum Gain Attributable to such Partner Nonrecourse Debt, determined in accordance with Regulations Section 1.704-2(i)(5), shall be specially allocated items of Partnership income and gain for such year (and, if necessary, subsequent years) in an amount equal to such Partner's share of the net decrease in Minimum Gain Attributable to such Partner Nonrecourse Debt, determined in accordance with Regulations Section 1.704-2(i)(5). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Partner pursuant thereto. The items to be so allocated shall be determined in accordance with Regulations Section 1.704-2(i)(4). This Section 6.8 is intended to comply with the minimum gain chargeback requirement in such Section of the Regulations and shall be interpreted consistently therewith.

**6.9 Qualified Income Offset.** In the event any Partner unexpectedly receives any adjustments, allocations or distributions described in Regulations Sections 1.704-1(b)(2)(ii)(d)(4),

1.704-1(b)(2)(ii)(d)(5), or 1.704-1(b)(2)(ii)(d)(6), and after giving effect to the allocations required under Sections 6.7 and 6.8, such Partner has an Adjusted Capital Account Deficit, items of Partnership income and gain shall be specially allocated to such Partner in an amount and manner sufficient to eliminate, to the extent required by the Regulations, its Adjusted Capital Account Deficit created by such adjustments, allocations or distributions as quickly as possible.

**6.10 Allocation of Book Items.** In cases where Partnership Property is under Treas. Reg. §1.704-1(b)(2)(iv), properly reflected in the Capital Accounts of the Partners at a fair market value that differs from the contributing Partner's adjusted tax basis in such property (such difference hereinafter referred to as the "Book Disparity"), then depreciation, amortization and gain or loss as computed for book purposes with respect to such property ("book depreciation, book amortization, book gain and book loss," respectively) will be greater or lesser than, the depreciation, amortization or gain or loss as computed for tax purposes. The Partners shall follow, pursuant to Treas. Regs. §1.704-1(b)(2)(iv)(g) and 1.704-3, the traditional method of making §704(c) allocations such that when the Partnership has income, gain, loss or deductions attributable to the Book Disparity, the Partnership must make appropriate allocations to the Partners to avoid shifting the tax consequences of the built-in gain or loss to other Partners. Thus, if the Partnership sells property that was contributed with a built-in gain or loss, and recognizes any portion of that gain or loss on the sale of the property, the built-in gain or loss will be allocated to the contributing Partner first until all built-in gains or losses have been dissipated. If the Partnership sells a portion of, or an interest in, the property, a proportionate part of the built-in gain or loss shall be allocated to the contributing Partner. Provided, however, when the aggregate Book Disparity for all properties contributed by one Partner during the Partnership taxable year does not differ from the adjusted tax basis by more than fifteen percent (15%) and the total gross disparity does not exceed \$20,000, then no allocation of Book Disparity need be made. Any allocation of net income, net loss, or depreciation for tax purposes which is required to be allocated among the Partners to take into account the disparity between the fair market value of a Partnership asset and its adjusted basis (e.g., allocations under Code §704(c) for the contributed property) shall be allocated among the Partners in accordance with the requirements of the Code and the regulations promulgated thereunder.

**6.11 Varying Interests.** In the event that Partners are admitted to the Partnership on different dates during any Partnership Fiscal Year or if the Percentage Interests of the Partners vary on different dates during any Fiscal Year, or if a transferee not admitted as a Partner receives rights as a transferee during a Fiscal Year, Partnership Net Income or Net Loss for such Fiscal Year or other period shall be allocated among the Partners (and, where applicable, transferees) in proportion to each Partner's Percentage Interest from time to time during such Fiscal Year in accordance with Code Section 706, using any convention permitted under such Code Section and selected by the General Partner. For purposes of determining Partnership Net Income or Net Loss allocable to any period all Partnership items of income, gain, loss, deduction and credit shall be determined on a daily, monthly or other basis, as determined by the General Partner using any permissible method under Code Section 706 and the Regulations promulgated thereunder.

7. **Rights, Duties and Restrictions of the General Partner.**

**7.1 Authority, Powers and Duties of General Partner.** The General Partner shall be responsible for the management of the Partnership's business and affairs, and the Partnership shall be managed solely by the General Partner, provided, however, that the General Partner may delegate some or all of such responsibilities to officers, agents and employees of the Partnership or of the General Partner as provided in Section 7.12 hereof. Except as otherwise expressly provided in this Agreement or as delegated by the General Partner, the General Partner shall have the exclusive duty, power and authority to take such action for and on behalf of the Partnership as the General Partner shall from time to time deem necessary or appropriate to carry on the Partnership business and to carry out the purposes for which the Partnership was organized. Without limiting the generality of the foregoing, but subject to any express provisions to the contrary in this Agreement, the General Partner shall have the right, power and authority, in the name of, and on behalf of, the Partnership:

- (a) To acquire, directly or indirectly, by purchase, lease, exchange or otherwise any real or personal property, or any stocks, bonds or other securities, or any interest therein which may be necessary, convenient or incidental to the accomplishment of the purposes of the Partnership.
- (b) To execute any and all agreements, contracts, documents, certifications and instruments necessary or convenient in connection with the management, maintenance and operation of the Partnership;
- (c) To execute, in furtherance of any or all of the purposes of the Partnership, any deed, lease, deed of trust, mortgage, note, bill of sale, contract or other instrument purporting to convey, exchange or encumber the property of the Partnership;
- (d) To borrow money and issue related evidences of indebtedness necessary, convenient or incidental to the accomplishment of the purposes of the Partnership;
- (e) To prepay in whole or in part, refinance, recast, increase, modify or extend any indebtedness relating to the Partnership;
- (f) To deal with, or otherwise engage in business with, or provide services to and receive compensation therefor from, any Person (including the General Partner, the Limited Partners, or any of them or their Affiliates) who has provided or may in the future provide any services to, lend money to, sell property to or purchase property from, the Partnership;
- (g) To invest Partnership funds as deemed advisable by the General Partner to the extent such funds are not then required for Partnership operations and are

not required to be distributed pursuant to this Agreement;

- (h) To retain or employ and coordinate the services of independent contractors, officers, employees, supervisors, accountants, attorneys and other Persons (on such terms as the General Partner determines are reasonable based upon the scope of the duties and responsibilities to be performed) necessary or appropriate to carry out the business and purposes of the Partnership (including the Limited Partners individually and employees of the General Partner, the Limited Partners or any of their Affiliates);
- (i) To acquire and enter into any contract of insurance which the General Partner deems necessary and proper for the protection of the Partnership, for the conservation of the Partnership's assets, or for any purpose convenient or beneficial to the Partnership;
- (j) To adjust, arbitrate, compromise, sue or defend, abandon, or otherwise deal with and settle any and all claims in favor of or against the Partnership, as the General Partner shall deem proper;
- (k) To acquire Partnership Interests pursuant to Article 11 hereof; and
- (l) To engage in any kind of activity and to perform and carry out such contracts of any kind necessary to, in connection with, or incidental to the accomplishment of, the business and purposes of the Partnership as may be lawfully carried on or performed by a partnership under the laws of each state in which the Partnership is then formed or doing business.

Except as otherwise provided herein, to the extent the duties of the General Partner require expenditures of funds to be paid to third parties, the General Partner shall not have any obligations hereunder except to the extent that Partnership funds are reasonably available to the General Partner for the performance of such duties, and nothing herein contained shall be deemed to authorize or require the General Partner, in its capacity as such, to expend its individual funds for payment to third parties or to undertake any individual liability or obligation on behalf of the Partnership.

**7.2 Specific Limitations on General Partner.** Notwithstanding anything to the contrary in this Agreement or the Act, without the prior written approval of a Majority-In-Interest of the Limited Partners to the specific act in question, the General Partner shall have no right, power or authority to do any of the following acts:

- (a) To do any act in contravention of this Agreement or the Certificate;
- (b) To change or reorganize the Partnership into any other legal form;

- (c) To knowingly perform any act that would subject any Limited Partner to liability as a general partner in any jurisdiction;
- (d) Amend this Agreement, except as otherwise provided in Section 12.1(b); or
- (e) Do any act that would make it impossible to carry on the normal and ordinary business of the Partnership.

**7.3 Manner of Acting.** If there is more than one General Partner, no one General Partner shall have the authority to take or effect any action on behalf of the Partnership or otherwise bind the Partnership in the absence of a delegation of authority to such General Partner by the other General Partners pursuant to the procedures described below. The General Partners shall meet as a group at least once each calendar year. If no other designation is made, the place of meeting shall be the principal place of business of the Partnership. Attendance of all the General Partners shall constitute a quorum at such meeting. The affirmative vote of a majority of the Percentage Interests held by the General Partners shall constitute the act of the General Partners. Action may be taken without a meeting if the action is evidenced by one or more written consents signed by each General Partner. When the consent of the General Partners is called for under this Agreement, then the consent of a majority of the Percentage Interests held by the General Partners shall constitute the consent of the General Partners.

**7.4 Management Obligations of the General Partner.** The General Partner shall devote such amount of their time to the Partnership (which may be less than full-time) as is reasonable and necessary to manage and supervise the Partnership business and affairs. Nothing in this Agreement shall preclude the General Partner, at the expense of the Partnership, from employing any Partner, any Affiliate of any Partner, or a third party to provide management or other services to the Partnership, always subject, however, to the control of the General Partner.

**7.5 No Duty of Inquiry.** Nothing herein contained shall impose any obligation on any Person doing business with the Partnership to inquire as to whether or not the General Partner properly exercised their authority in executing any contract, lease, mortgage, deed or other instrument on behalf of the Partnership, and any such third Person shall be fully protected in relying upon such authority.

**7.6 Compensation of the General Partner.** The General Partner shall be entitled to compensation for services rendered to the Partnership solely in its capacity as General Partner as is approved from time to time by a Majority-in-Interest of the Limited Partners.

**7.7 Waiver and Indemnification.**

- (a) The Partnership shall, to the fullest extent permitted by law, indemnify any and all Indemnitees from and against any and all losses, claims, damages, liabilities, costs and expenses (including reasonable attorneys' fees and

costs), judgments, fines, settlements, and other amounts arising from any and all claims, demands, actions, suits or proceedings, civil, criminal, administrative or investigative, that relate to the operations of the Partnership as set forth in this Agreement in which any Indemnitee may be involved, or is threatened to be involved, as a party or otherwise, **SPECIFICALLY INCLUDING SUCH INDEMNITEE'S SOLE, PARTIAL OR CONCURRENT NEGLIGENCE**, unless it is established that: (i) the act or omission of the Indemnitee was material to the matter giving rise to the proceeding and either was committed in bad faith or was the result of active and deliberate dishonesty; (ii) the Indemnitee actually received an improper personal benefit in money, property or services; or (iii) in the case of any criminal proceeding, the Indemnitee had reasonable cause to believe that the act or omission was unlawful. Any indemnification pursuant to this Section 7.7 shall be made only out of the assets of the Partnership.

- (b) Reasonable expenses incurred by an Indemnitee who is a party to a proceeding shall be paid or reimbursed by the Partnership in advance of the final disposition of the proceeding upon receipt by the Partnership of (i) a written affirmation by the Indemnitee of the Indemnitee's good faith belief that it is entitled to indemnification by the Partnership pursuant to this Section 7.7 with respect to such expenses and proceeding, and (ii) a written undertaking by or on behalf of the Indemnitee, to and in favor of the Partnership, wherein the Indemnitee agrees to repay the amount if it shall ultimately be determined that the standard of conduct has not been met.
- (c) The indemnification provided by this Section 7.7 shall be in addition to any other rights to which an Indemnitee or any other Person may be entitled under any agreement, as a matter of law or otherwise.
- (d) The Partnership may purchase and maintain insurance, on behalf of the Indemnitees and such other Persons as the General Partner shall determine, against any liability that may be asserted against or expenses that may be incurred by such Person in connection with the Partnership's activities, regardless of whether the Partnership would have the obligation to indemnify such Person against such liability under the provisions of this Agreement.
- (e) The provisions of this Section 7.7 are for the benefit of the Indemnitees, their heirs, successors, assigns and administrators and shall not be deemed to create any rights for the benefit of any other Persons.

**7.8 Reimbursement.** The General Partner shall be entitled to be reimbursed for any and all reasonable costs and expenses incurred by it in connection with managing and operating the

Partnership and its properties and business. Such reimbursement shall be paid by the Partnership, upon the written application of the General Partner, as soon as funds are available therefor.

**7.9 Removal.** Upon the written approval of all of the Limited Partners, a General Partner may be removed from the Partnership as long as, if the General Partner is the last remaining General Partner, a Majority-In-Interest of the Limited Partners select a new General Partner prior to such removal becoming effective. Removal of a General Partner shall be effective ten (10) days following receipt by the General Partner of a written notice executed by the requisite Limited Partners, as provided in the preceding sentence, referencing its removal and stating the grounds therefor. If a General Partner is removed from the Partnership, the Partnership Interest of the General Partner shall be converted into a Partnership Interest of a Limited Partner.

**7.10 Compliance With Law.** The General Partner shall at all times use its good faith best efforts to cause the Partnership to comply with all statutes, laws, ordinances and government rules and regulations to which it is subject.

**7.11 Power of Attorney.**

- (a) Each Limited Partner hereby appoints the General Partner its agent and attorney-in-fact, to execute on such Limited Partner's behalf, any and all amendments to this Agreement and related certificates, instruments or other documents that are permitted pursuant to Article 12.
- (b) No Limited Partner personally shall be liable with respect to any action taken pursuant to the foregoing power of attorney. The foregoing power of attorney shall not be used in any manner inconsistent with the terms of this Agreement, the characterization and treatment of the Partnership as a limited partnership, or the characterization and treatment of the Limited Partners as limited partners.
- (c) It is expressly intended by the Limited Partners that the foregoing power of attorney is coupled with an interest, is irrevocable, and shall survive the death, incapacity, dissolution, Bankruptcy or insolvency of any Limited Partner.

**7.12 Officers.** In accordance with the provisions of Section 7.1(h), the General Partner may designate such officers and agents of the Partnership as it may deem necessary or proper in the conduct of the affairs of the Partnership, delegating to such officers and agents the titles, duties, responsibilities, and authority reflected in such authorizations. At all times the actions of the officers and agents shall be subject to the review, delegation, redetermination, direction and control of the General Partner. The General Partner may remove, terminate, reassign, redefine the duties of, or change any officer of the Partnership at any time and from time to time.



**7.13 Duties and Conflicts.** The Partners recognize that the General Partner and its Affiliates have or may have other business interests, activities and investments, some of which may be in conflict or competition with the business of the Partnership, and that such Persons are entitled to carry on such other business interests, activities and investments. The General Partner and its Affiliates may engage in or possess an interest in any other business or venture of any kind, independently or with others, on its own behalf or on behalf of other Entities with which it is affiliated or associated, and such Persons may engage in any activities, whether or not competitive with the Partnership, without any obligation to offer any interest in such activities to the Partnership or to any Partner. Neither the Partnership nor any Partner shall have any right by virtue of this Agreement in or to such activities, or the income or profits derived therefrom, and the pursuit of such activities, even if competitive with the business of the Partnership shall not be deemed wrongful or improper.

**7.14 Automatic Removal.** Any person who is an officer, manager, director or an employee of the General Partner, or who is appointed as an officer of the Partnership pursuant to Section 7.12 above, shall be automatically removed from any and all such offices upon election or appointment as an officer, manager, director or employee of a Separate Affiliate. A "Separate Affiliate" is a company or other entity, other than the General Partner or the Partnership, where over ten percent (10%) of the equity of such company or other entity is, directly or indirectly, owned by SBC Communications Inc., and such company or entity (i) provides services that, under Section 272 of the 1996 Telecommunications Act (the "Act"), may not be provided by a "Bell operating company (including any affiliate) which is a local exchange carrier that is subject to the requirements of Section 251(c)," as that phrase is used in the Act, or (ii) provides advanced services as a "structurally separate affiliate" as that term is defined described in Section 1 of the merger conditions described in Appendix C to the Memorandum Opinion and Order issued October 8, 1999, pursuant to In re Applications of Ameritech Corp., Transferor, and SBC Communications Inc., Transferee, for Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Sections 214 and 310 (d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90,95 and 101 of the Commission's Rules, CC Docket No. 98-141. Any election or appointment of a person as an officer, manager, director or employee of the General Partner, or as an officer of the Partnership pursuant to Section 7.12 above, while such person is also an officer, manager, director or employee of a Separate Affiliate shall not be effective until such person no longer serves as an officer, manager, director or employee of a Separate Affiliate.

## **8. Rights and Obligations of the Limited Partners.**

**8.1 No Participation in Control.** The Limited Partners have the rights and the status of limited partners under the Act. The Limited Partners, in their capacity as such, shall not participate in the control of the Partnership's business, transact any business in the Partnership's name, or have the power to sign documents for or otherwise bind the Partnership; provided, however, the Limited Partners shall have the consent, voting and other rights expressly provided herein.

**8.2 Duties and Conflicts.** The Partners recognize that the Limited Partners and their Affiliates have or may have other business interests, activities and investments, some of which may be in conflict or competition with the business of the Partnership, and that such Persons are entitled to carry on such other business interests, activities and investments. The Limited Partners and their Affiliates may engage in or possess an interest in any other business or venture of any kind, independently or with others, on their own behalf or on behalf of other Entities with which they are affiliated or associated, and such Persons may engage in any activities, whether or not competitive with the Partnership, without any obligation to offer any interest in such activities to the Partnership or to any Partner. Neither the Partnership nor any Partner shall have any right by virtue of this Agreement in or to such activities, or the income or profits derived therefrom, and the pursuit of such activities, even if competitive with the business of the Partnership shall not be deemed wrongful or improper.

**8.3 Deficit Capital Accounts.** The Partners shall not be obligated to restore the amount of any deficit balance in their respective Capital Accounts upon the liquidation of their interests in the Partnership or upon the dissolution and liquidation of the Partnership itself.

**9. Meetings and Means of Voting.**

**9.1 Meetings of the Partners.** Meetings of the Partners may be called by delivery of a written notice ("**Meeting Notice**") by the General Partner to each Limited Partner and such meetings (i) may be called by the General Partner and (ii) shall be promptly called by the General Partner upon the written request of any one or more Limited Partners who own, in the aggregate, ten percent (10%) or more of the aggregate Percentage Interests in the Partnership. The Meeting Notice shall state the nature of the business to be transacted at such meeting and no actions or business shall be transacted or taken at such meeting unless specified in the Meeting Notice. The Meeting Notice shall be given to all Partners not less than ten (10) and not more than sixty (60) days prior to the date of the meeting. Partners may vote in person or by proxy at such meeting.

Except as otherwise expressly provided in this Agreement or required by the express provisions of the Act, the requisite vote of the Partners shall be a Majority-In-Interest of the Partners which shall control all decisions for which the vote of the Partners is required hereunder. The presence of any Partner at a meeting shall constitute a waiver of notice of the meeting with respect to such Partner. The Partners may, at their own discretion, participate in any regular or special meeting by means of conference telephone or similar communications equipment by means of which all Persons participating in the meeting can hear each other. A Partner's participation in a meeting pursuant to the preceding sentence shall constitute presence in person at such meeting for all purposes of this Agreement.

**9.2 Vote By Proxy.** Each Limited Partner may authorize any person or entity to act on the Partner's behalf by proxy on all matters in which a Limited Partner is entitled to participate, whether by waiving notice of any meeting, or voting or participating at a meeting. Every proxy must be signed by the Limited Partner authorizing such proxy or such Limited Partner's attorney-in-fact.

No proxy shall be valid after the expiration of eleven (11) months after the date thereof unless otherwise provided in the proxy. Every proxy shall be revocable at the pleasure of the Limited Partner executing it.

**9.3 Conduct of Meeting.** Each meeting of Partners shall be conducted by the General Partner or by a Person appointed by the General Partner. The meeting shall be conducted pursuant to such rules as may be adopted by the General Partner or the Person appointed by the General Partner for the conduct of the meeting.

**9.4 Action Without a Meeting.** Notwithstanding anything to the contrary in this Agreement, any action that may be taken at a meeting of the Partners may be taken without a meeting upon receipt of written approval of a Majority-In-Interest (or greater percentage as necessary to take such action under this Agreement) of the Partners of such action. In the event any action is taken pursuant to this Section 9.4, it shall not be necessary to comply with any notice or timing requirements set forth in Sections 9.1 or 9.2; provided, however, promptly after the receipt of written approval of a Majority-In-Interest (or greater percentage, if necessary) of the Partners of any action pursuant to this Section 9.4, the General Partner shall provide written notice (describing therein the action taken) of such action to all Partners.

**9.5 Closing of Transfer Record.** For the purpose of determining the Partners entitled to notice of or to vote Percentage Interest at any meeting of Partners, any reconvening thereof, or by consent, the Percentage Interest owned by a Partner, as determined by the General Partner, that shall be considered in determining the voting rights at such meeting shall be the Percentage Interest actually owned by such Partner ten (10) days immediately preceding such meeting, or the date of the Meeting Notice, whichever is earlier.

## **10. Transfer of Partnership Interests.**

**10.1 General Partner Transfer.** A General Partner may Transfer all or any portion of its Partnership Interest to an Affiliate of said General Partner without limitation, restriction or the consent of any other General Partner or Limited Partner. Otherwise, a General Partner shall not Transfer all or any portion of its Partnership Interest without the consent of a Majority-In-Interest of the Limited Partners. With respect to any Transfer that is permitted and/or otherwise made in accordance with the provisions of this Section 10.1, the transferee shall become vested with the powers and rights of the transferor General Partner, shall be liable for all obligations and responsible for all duties of the General Partner, and shall be admitted as a substitute General Partner of the Partnership, upon its due execution and delivery of such instruments, including an amendment to this Agreement, as may be necessary or appropriate to effectuate such admission and to confirm the agreement of such transferee to be bound by all the terms and provisions of this Agreement with respect to the Partnership Interest so acquired. It is a condition to any Transfer otherwise permitted hereunder that the transferee assumes by operation of law or express agreement all of the obligations of the transferor General Partner under this Agreement with respect to such transferred Partnership Interest and no such Transfer (other than pursuant to a statutory merger or consolidation wherein all

obligations and liabilities of the transferor General Partner are assumed by a successor Entity by operation of law) shall relieve the transferor General Partner of its obligations under this Agreement without the consent of a Majority-In-Interest of the Limited Partners.

## 10.2 Transfers by Limited Partners.

- (a) A Limited Partner may Transfer all or any portion of its Partnership Interest to either an existing Limited Partner or to an Affiliate of said Limited Partner without limitation, restriction or the consent of any General Partner or other Limited Partner. Otherwise, except for Transfers otherwise set forth in this Article 10, or in Article 11, no Limited Partner shall Transfer all or any portion of its Partnership Interest to any transferee unless all of the following conditions are satisfied:
  - (i) Unless waived in writing by the General Partner, the transferor has delivered, at the transferor's cost, to the General Partner an opinion of counsel reasonably acceptable to the General Partner that such Transfer would not violate the Securities Act of 1933, as amended, or any applicable State blue sky laws (including any investor suitability standards);
  - (ii) Unless waived in writing by the General Partner, such Transfer when added to the total of all other Transfers of Partnership Interests within the preceding twelve (12) months, would not result in the Partnership being considered terminated within the meaning of Section 708 of the Code;
  - (iii) The General Partner receives a notice of Transfer signed by both the transferor and transferee, in a form reasonably approved by the General Partner; and
  - (iv) The General Partner has consented in writing to the Transfer, which consent may be given or withheld in such General Partner's sole and absolute discretion.
- (b) Provided that the conditions of Section 10.2(a) are satisfied, a transferee of a Limited Partner may become a substituted Limited Partner if:
  - (i) The General Partner has consented in writing to the substitution, which consent may be given or withheld in such General Partner's sole and absolute discretion;

- (ii) The transferor and transferee execute, acknowledge and deliver such instruments as the General Partner deems necessary, appropriate or desirable to effect such substitution, including the written acceptance and adoption by the transferee of the provisions of this Agreement and the execution, acknowledgment and delivery to the General Partner of a power of attorney, the form and substance of which shall be determined by the General Partner; and
  - (iii) The substituted Limited Partner agrees to bear all expenses and costs, and tenders payment therefor, of such substitution, including the legal and filing fees of the Partnership.
  - (iv) Notwithstanding the foregoing, if Limited Partner transfers all or any portion of its Partnership Interest to an existing Limited Partner or to an Affiliate of such Limited Partner, such transferee shall be admitted as a Limited Partner as to all such interest so acquired; provided, however, if any such transferee is not already then a party to this Agreement, then such transferee shall be required to deliver to the General Partner its written acceptance and adoption of the provisions of this Agreement as a condition to being admitted as a substituted Limited Partner.
- (c) Any transferee, whether or not admitted as a substitute Limited Partner, shall take subject to the obligations of the transferor hereunder. Unless admitted as a substitute Limited Partner, no transferee, whether by a voluntary transfer, by operation of law or otherwise, shall have any rights hereunder, other than to receive such portion of the distributions made by the Partnership as are allocable to the Partnership Interest transferred.

**10.3 No Additional Limited Partners.** Other than pursuant to permitted Transfers under Sections 10.1 and 10.2, the General Partner may not admit additional Persons as partners in the Partnership without the written consent of a Majority-In-Interest of the Limited Partners.

## **11. Dissolution, Liquidation, Winding-Up and Termination.**

**11.1 Causes of Dissolution.** The Partnership shall be dissolved upon the first to occur of the following:

- (a) The written election of the General Partner delivered to the Limited Partners, but only if the General Partner obtains the written consent to such election from a Majority-In-Interest of the Limited Partners;

- (b) The dissolution, termination, retirement, withdrawal or bankruptcy of a General Partner, unless the Partnership is continued in accordance with Section 11.2 below or there is at least one other General Partner that has not dissolved, terminated, retired, withdrawn, or become bankrupt; or
- (c) The decree of the dissolution of the Partnership by a court of competent jurisdiction.

No act, thing, occurrence, event or circumstance shall cause or result in the dissolution or termination of the Partnership except as provided above in this Section 11.1.

**11.2 Reconstitution.** If the Partnership is dissolved as a result of an event described in Section 11.1(b), the Partnership may be reconstituted and its business continued if, within ninety (90) days after the date of dissolution, a Majority-in-Interest of the remaining Partners affirmatively elect to reconstitute the Partnership, agree on the identity of the new general partner or partners, and execute an instrument confirming such facts. If the Partnership is reconstituted, an amendment to this Agreement shall be executed and an amended Certificate filed.

**11.3 Winding Up and Liquidation.** Upon the dissolution of the Partnership, the Partnership shall commence to wind up its affairs, and the General Partner or the Liquidator, as the case may be, shall proceed with reasonable promptness to liquidate the Partnership property. Except as provided below, during the period of the winding up of the affairs of the Partnership, the rights and obligations of the Partners set forth herein shall continue. Notwithstanding anything contained in this Agreement to the contrary, if any event described in Section 11.1(b) shall be continuing with respect to the General Partner at the time the Partnership is dissolved, or if the General Partner shall have otherwise caused a wrongful dissolution of the Partnership, then the Limited Partners, by the vote of a Majority-In-Interest of the Limited Partners, shall be entitled to appoint a liquidating trustee (the "**Liquidator**") and (i) such Liquidator shall be fully empowered to act on behalf of the Partnership and to wind up the Partnership's affairs and liquidate the Partnership property, and (ii) the Liquidator shall be empowered to make, perform and implement all decisions required hereunder without obtaining the consent, approval or waiver of any Partner or Person. The Liquidator shall be entitled to receive such reasonable compensation for its services as may be approved by such Majority-In-Interest of the Limited Partners, and shall be fully indemnified, defended and held harmless by the Partnership from and against all claims, costs and expenses (including reasonable attorneys' fees and costs) arising in the course of it performing its duties hereunder, except for any such claims, costs or expenses resulting from the gross negligence or wilful misconduct of the Liquidator. From and after the dissolution of the Partnership, the assets of the Partnership shall be liquidated and reduced to cash or cash equivalents for application and distribution, together with any other distributable cash on hand, in the following rank and order:

- (a) To the payment of creditors of the Partnership, including the payment of Partner Loans, in the order of priority as provided by law;

- (b) To the establishment and maintenance of a reserve of cash or other assets of the Partnership to pay contingent liabilities of the Partnership in such amounts as may be reasonably and in good faith determined by the General Partner or the Liquidator, as the case may be; and
- (c) To the Partners in accordance with the positive balances in their Capital Accounts after giving effect to all contributions, distributions and allocations for all periods, including the period in which such distribution occurs.

**11.4 Timing Requirements, Deemed Distribution and Recontribution.** In the event that the Partnership is "liquidated" within the meaning of Section 1.704-1(b)(2)(ii)(g) of the Regulations, any and all distributions to the Partners pursuant to Section 11.3 hereof shall be made no later than the later to occur of (i) the last day of the taxable year of the Partnership in which such liquidation occurs or (ii) ninety (90) days after the date of such liquidation. Subject to the foregoing, a reasonable time shall be allowed for the orderly winding up of the business and affairs of the Partnership and the liquidation of its assets in order to minimize any losses otherwise attendant upon such winding up.

**11.5 Sales Receivables.** The winding up of the Partnership shall not be deemed finally completed until the Partnership shall have received cash payments in full with respect to obligations such as notes, installment sale contracts and other similar receivables received by the Partnership in connection with the sale of the Partnership assets. The General Partner or the Liquidator, as the case may be, shall continue to act to enforce all of the rights of the Partnership pursuant to any such obligations until paid in full.

**11.6 Documentation of Dissolution and Termination.** Upon the dissolution of the Partnership and the appointment of a Liquidator in accordance with Section 11.3, the Liquidator shall execute and file all appropriate certificates of amendment to the Certificate as required under the Act, and shall execute, file and record such other certificates, instruments and documents as it shall deem necessary or appropriate in each state in which the Partnership or its affiliates do business. Upon the completion of the winding-up of the Partnership (including the application or distribution of all cash or other assets placed in reserve in accordance with Section 11.3(b)), the Partnership shall be terminated and the General Partner or the Liquidator, as the case may be, shall execute and file a certificate of cancellation, and any other documents, as required under the Act, and shall execute, file and record such other certificates, instruments and documents as it shall deem necessary or appropriate in each state in which the Partnership or its affiliates do business in order to reflect or effect the termination of the Partnership.

**11.7 Distribution Upon Liquidation.** PURSUANT TO SECTION 8.4 HEREOF, IF ANY PARTNER HAS A DEFICIT BALANCE IN ITS CAPITAL ACCOUNT FOLLOWING LIQUIDATION OF ITS INTEREST AS DETERMINED AFTER TAKING INTO ACCOUNT ALL CAPITAL ACCOUNT ADJUSTMENTS FOR THE PARTNERSHIP'S TAXABLE YEAR IN WHICH SUCH LIQUIDATION OCCURS, SUCH PARTNER SHALL **NOT** BE OBLIGATED TO

RESTORE THE AMOUNT OF SUCH DEFICIT BALANCE TO THE PARTNERSHIP. It is the express intention of the Partners to override the holding of *Park Cities Corporation v. Byrd*, 534 S.W.2d 668 (Tex. 1976).

**12. Amendments to Partnership Agreement.**

**12.1 Amendments.**

- (a) Amendments to this Agreement may be proposed by the General Partner from time to time. Following such proposal, the General Partner shall submit in writing any proposed amendment to the Limited Partners. Except as provided below in this Section 12.1, a proposed amendment shall be adopted and be effective as an amendment hereto only if it is approved by the General Partner and it receives the written approval of all of the Limited Partners.
- (b) Notwithstanding Section 12.1(a) to the contrary, the General Partner shall have the power, without the consent of the Limited Partners, to amend this Agreement and any related certificates, instruments or other documents as may be required to facilitate or implement any of the following purposes:
  - (i) to add to the obligations of the General Partner or surrender any right or power granted to the General Partner or any Affiliate of the General Partner for the benefit of the Partnership or the Limited Partners;
  - (ii) to reflect the admission, substitution, termination, or withdrawal of Partners in accordance with this Agreement;
  - (iii) to reflect a change that is of an inconsequential nature and does not adversely affect the Limited Partners in any material respect, or to cure any ambiguity, correct or supplement any provision in this Agreement not inconsistent with law or with other provisions, or make other changes with respect to matters arising under this Agreement that will not be inconsistent with law or with the provisions of this Agreement; and
  - (iv) to satisfy any requirements, conditions, or guidelines contained in any order, directive, opinion, ruling or regulation of a federal or state agency or contained in federal or state law.
- (c) Each Partner agrees to be bound by each and every amendment adopted in accordance with this Agreement even if such Partner did not execute such amendment.



### 13. General Provisions.

**13.1 Notices.** All notices, offers or other communications required or permitted to be given pursuant to this Agreement shall be in writing and may be personally served, telecopied or sent by United States mail and shall be deemed to have been given and received when delivered in person, upon receipt of telecopy or three business days after deposit in United States mail, registered or certified, postage prepaid, and properly addressed, by or to the appropriate party. For purposes of this Section 13.1, the addresses of the parties hereto shall be as set forth below their name on Schedule A hereof. The address of any party hereto may be changed by a notice in writing given in accordance with the provisions of this Section 13.1.

**13.2 Successors.** This Agreement and all of the terms and provisions hereof shall be binding upon and shall inure to the benefit of all Partners, and their legal representatives, heirs, successors and permitted assigns, except as otherwise expressly provided herein.

**13.3 EFFECT AND INTERPRETATION. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN CONFORMITY WITH THE LAWS OF THE STATE OF TEXAS WITHOUT REGARD TO ANY CONFLICT OF LAWS THEREOF.**

**13.4 Counterparts.** This Agreement may be executed in counterparts, each of which shall be an original, but all of which shall constitute one and the same instrument.

**13.5 Partners Not Agents.** Nothing contained herein shall be construed to constitute any Partner the agent of another Partner, except as otherwise expressly provided herein, or in any manner to limit the Partners in the carrying on of their own respective businesses or activities.

**13.6 Entire Understanding; Etc.** This Agreement constitutes the entire agreement and understanding among the Partners and supersedes any prior or contemporaneous understandings and/or written or oral agreements among them respecting the subject matter within.

**13.7 Severability.** If any provision of this Agreement, or the application of such provision to any person or circumstance, shall be held invalid by a court of competent jurisdiction, the remainder of this Agreement, or the application of such provision to persons or circumstances other than those to which it is held invalid by such court, shall not be affected thereby.

**13.8 Construction of Agreement.** As used herein, the singular shall be deemed to include the plural, and the plural shall be deemed to include the singular, and all pronouns shall include the masculine, feminine and neuter, whenever the context and facts require such construction. The headings, captions, titles and subtitles herein are inserted for convenience of reference only and are to be ignored in any construction of the provisions hereof. Except as otherwise indicated herein, all section and exhibit references in this Agreement shall be deemed to refer to the sections and exhibits of and to this Agreement, and the terms "herein," "hereof," "hereto," "hereunder" and similar terms refer to this Agreement generally rather than to the particular provision in which such term is used.

Whenever the words "including," "include" or "includes" are used in this Agreement, they shall be interpreted in a nonexclusive manner as though the words "but [is] not limited to" immediately followed the same. Time is of the essence of this Agreement. The language in all parts of this Agreement shall in all cases be construed simply according to the fair meaning thereof and not strictly against the party which drafted such language. Except as otherwise provided herein, references in this Agreement to any agreement, articles, bylaws, instrument or other document are to such agreement, articles, by-laws, instrument or other document as amended, modified or supplemented from time to time.

**13.9 Action Without Dissolution.** Each Partner shall be entitled to maintain, on its own behalf or on behalf of the Partnership, any action or proceeding against any other Partner or the Partnership (including an action for damages, specific performance, or injunctive or declaratory relief) for or by reason of the tortious conduct of such party or the breach by such party of this Agreement or any other agreement entered into with such party in connection with the transactions contemplated hereunder, and the bringing of such action or proceeding shall not cause or require the dissolution of the Partnership or an accounting of the Partnership's assets or affairs.

**13.10 Incorporation of Exhibits.** All Exhibits and Schedules attached hereto are incorporated herein and made a part hereof.

**13.11 Assurances.** Each of the Partners shall hereafter execute and deliver such further instruments and do such further acts and things as may be required or useful to carry out the intent and purpose of this Agreement and as are not inconsistent with the terms hereof.

**13.12 Time.** Time is of the essence of this Agreement.

**13.13 Partnership Property.** The legal title to the real and personal property or interest therein now or hereafter acquired by the Partnership shall be owned, held or operated in the name of the Partnership, and no Partner, individually, shall have any ownership of such property.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement effective as of the date and year first above written.

**GENERAL PARTNER:**

SWBT TEXAS, LLC

By: \_\_\_\_\_

NAME: \_\_\_\_\_

TITLE: \_\_\_\_\_

**LIMITED PARTNER:**

SOUTHWESTERN BELL TEXAS HOLDINGS, INC.

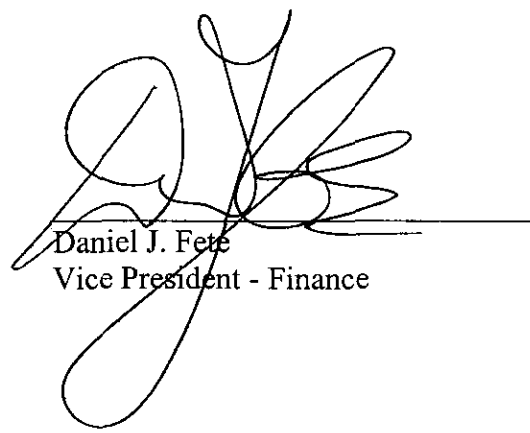
By: \_\_\_\_\_  
NAME: \_\_\_\_\_  
TITLE: \_\_\_\_\_

SCHEDULE A

<u>Partner Name and Address</u>	<u>Initial Capital Contribution</u>	<u>Percentage Interest</u>
<b>GENERAL PARTNER:</b>		
SWBT TEXAS, LLC 175 E. Houston Street Second Floor San Antonio, Texas 78205	\$ _____	1%
<b>LIMITED PARTNERS:</b>		
SOUTHWESTERN BELL TEXAS HOLDINGS, INC. No. 2 Read's Way, Suite 117 Corporate Commons New Castle, Delaware 19720	\$ _____	99%

VERIFICATION OF JOINT APPLICATION

I, Daniel J. Fete, an Officer of Southwestern Bell Telephone Company, pursuant to 4 CSR 240-2.060(1)(M), hereby swear and affirm that I am authorized to speak on behalf of the Applicant Southwestern Bell Telephone Company and to attest to the veracity of the statements contained in this Joint Application.

  
Daniel J. Fete  
Vice President - Finance

State of TEXAS            )  
                                  )        SS  
County of BEXAR        )

I, Herlinda H. Almaguer, a Notary Public do hereby certify that on this 10<sup>th</sup> day of October, 2001, personally appeared before me Daniel J. Fete who declared that all of the information contained herein above is true, to the best of his knowledge and belief.

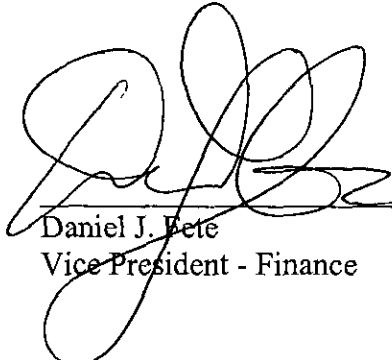
Herlinda H. Almaguer  
Notary Public

My Commission Expires:



VERIFICATION OF JOINT APPLICATION

I, Daniel J. Fete; an Officer of Southwestern Bell Texas, Inc., pursuant to 4 CSR 240-2.060(1)(M), hereby swear and affirm that I am authorized to speak on behalf of the Applicant Southwestern Bell Texas, Inc. and to attest to the veracity of the statements contained in this Joint Application.

  
Daniel J. Fete  
Vice President - Finance

State of TEXAS                    )  
                                          )        SS  
County of BEXAR                )

I, Herlinda H. Almaguer a Notary Public do hereby certify that on this 10<sup>th</sup> day of October, 2001, personally appeared before me Daniel J. Fete who declared that all of the information contained herein above is true, to the best of his knowledge and belief.

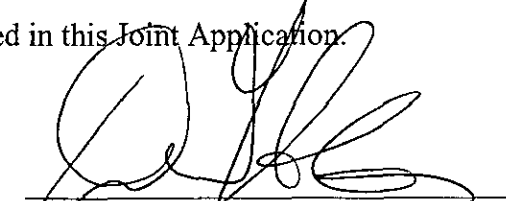
Herlinda H. Almaguer  
Notary Public

My Commission Expires:



VERIFICATION OF JOINT APPLICATION

I, Daniel J. Fete, on behalf of Southwestern Bell Texas, Inc., which will become Southwestern Bell Telephone, L.P., pursuant to 4 CSR 240-2.060(1)(M), hereby swear and affirm that I am authorized to speak on behalf of the Applicant Southwestern Bell Telephone, L.P. and to attest to the veracity of the statements contained in this Joint Application.

  
\_\_\_\_\_  
Daniel J. Fete  
Vice President - Finance  
SWBT Texas, LLC  
The General Partner of  
Southwestern Bell Telephone, L.P.

State of TEXAS            )  
                                  )        SS  
County of BEXAR        )

I, Herlinda H. Almaguer, a Notary Public do hereby certify that on this 10<sup>th</sup> day of October, 2001, personally appeared before me Daniel J. Fete who declared that all of the information contained herein above is true, to the best of his knowledge and belief.

Herlinda H. Almaguer  
Notary Public

My Commission Expires:



## AGREEMENT AND PLAN OF MERGER

This Agreement and Plan of Merger ("Merger Agreement") is entered into this 10 day of October, 2001, by and between Southwestern Bell Telephone Company, a Missouri corporation ("SWBT") and Southwestern Bell Texas, Inc., a Texas corporation ("Bell Texas").

WHEREAS, SWBT and Bell Texas both believe it is in their best interests to merge their companies;

NOW THEREFORE, the parties agree as follows:

(1) SWBT shall be merged with and into Bell Texas following the execution of this Merger Agreement pursuant to Tex. Bus. Corp. Act art. 5.01 and 5.04 and The General and Business Corporation Law of Missouri, with Bell Texas the surviving corporation. The Merger is to be effective on December 20, 2001.

(2) Bell Texas shall receive all of the rights and property of SWBT and will assume all contracts, liabilities and obligations, including all outstanding debt issues, of SWBT existing at the time of the merger.

(3) SWBT's officers and directors shall continue after the merger in their same capacities for the surviving corporation until their successors are chosen or appointed according to the Bylaws of the surviving corporation.

(4) None of Bell Texas' shares of stock shall be exchanged as a result of the merger and all of the stock certificates representing interests in SWBT shall be surrendered to Bell Texas for cancellation.

(5) The Bylaws of Bell Texas shall be the Bylaws governing the surviving corporation following the merger and the Articles of Incorporation of Bell Texas shall be the Articles of Incorporation for the surviving corporation following the merger.

IN WITNESS WHEREOF, the parties have executed this Merger Agreement the day and year first written above.

**SOUTHWESTERN BELL  
TELEPHONE COMPANY**

By: *Forrest E. Miller*  
Forrest E. Miller  
President and Chief Executive Officer

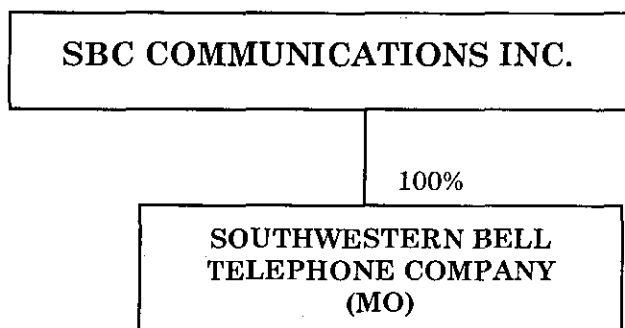
**SOUTHWESTERN BELL  
TEXAS, INC.**

By: *Daniel J. Fete*  
Daniel J. Fete  
Vice President - Finance



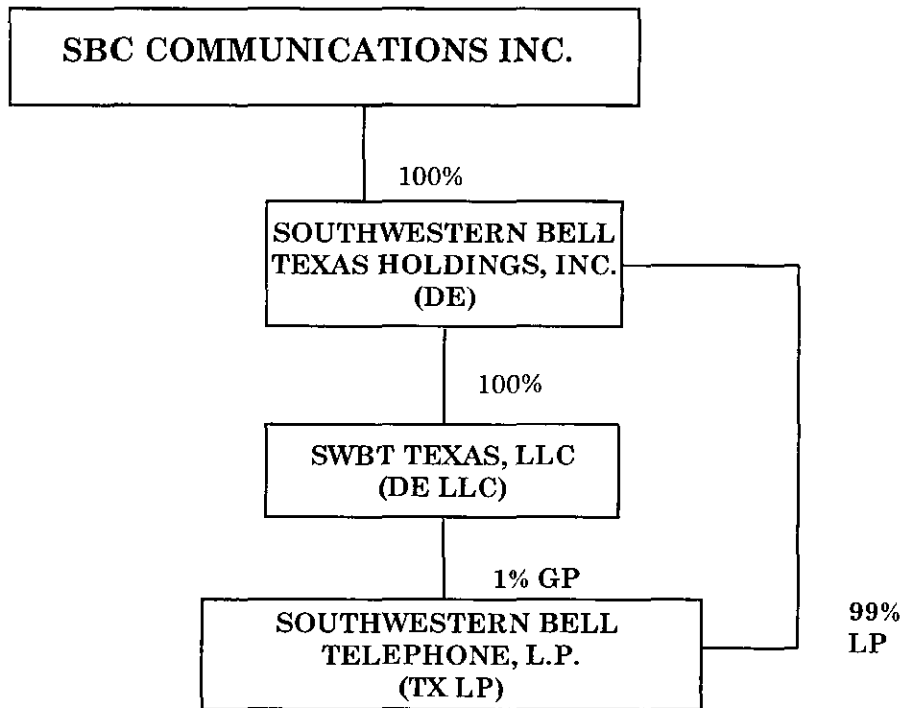
## PROJECT LONE STAR

**SOUTHWESTERN BELL TELEPHONE COMPANY, a Missouri corporation, is a wholly-owned subsidiary of SBC Communications Inc.**



# PROJECT LONE STAR

**SOUTHWESTERN BELL TELEPHONE COMPANY, a Missouri corporation conversion  
to SOUTHWESTERN BELL TELEPHONE, L.P., a Texas limited partnership**



**PLAN OF CONVERSION**

This Plan of Conversion is executed this 10 day of October, 2001, by Southwestern Bell Texas, Inc., a Texas domestic corporation ("Bell Texas").

Pursuant to the provisions of Articles 5.17 and 5.18 of the Texas Business Corporation Act and Section 2.15 of the Texas Revised Limited Partnership Act, the undersigned, Southwestern Bell Texas, Inc., a Texas corporation (the "Converting Entity"), adopts the following Plan of Conversion which converts the Converting Entity into Southwestern Bell Telephone, L.P., a Texas Limited Partnership (the "Converted Entity"), and hereby states the following:

(1) The name of the Converting Entity is Southwestern Bell Texas, Inc., a Texas domestic corporation. The name of the Converted Entity is Southwestern Bell Telephone, L.P.

(2) The Converting Entity is continuing its existence in the business organizational form of the Converted Entity, Southwestern Bell Telephone, L.P. The Converted Entity shall receive all of the rights and property of the Converting Entity and will assume all contracts, liabilities and obligations, including all outstanding debt issues, of the Converting Entity.

(3) The Converted Entity is to be a Texas Limited Partnership and the Converted Entity is to be organized and formed under the Texas Revised Limited Partnership Act.

(4) The manner and basis of converting the ownership interests of the Converting Entity into partnership interests are as follows:

Southwestern Bell Texas Holdings, Inc., a Delaware domestic corporation and the 99% shareholder of the Converting Entity, will hold a 99% Limited Partnership interest in the Converted Entity and SWBT Texas, LLC, a Delaware Limited Liability Company, a holder of 1% of the Converting Entity, will hold a 1% General Partnership interest.

(5) The Certificate of Limited Partnership of the Converted Entity is attached hereto as Attachment A.

IN WITNESS WHEREOF, the Converting Entity has executed this Plan of Conversion the day and year first written above.

**SOUTHWESTERN BELL TEXAS, INC.**

By: Forrest E. Miller  
Forrest E. Miller  
President and Chief Executive Officer

**CERTIFICATE OF LIMITED PARTNERSHIP**

**OF**

**SOUTHWESTERN BELL TELEPHONE, L.P.  
A Texas Limited Partnership**

The undersigned, desiring to form a limited partnership pursuant to the Texas Revised Partnership Act, does hereby certify as follows:

- I. The name of the limited partnership is Southwestern Bell Telephone, L.P., a Texas Limited Partnership.
- II. The address of the Partnership's registered office in the State of Texas is One Bell Plaza, Room 2900, Dallas, Texas 75202. The name of the Partnership's registered agent for service of process in the State of Texas at such address is David C. Welsch.
- III. The address of the principal office in the United States where records of the partnership are to be kept or made available is 530 McCullough, San Antonio, Texas 78205.
- IV. The name and mailing address of the general partner is as follows:

NAME

SWBT TEXAS, LLC

MAILING ADDRESS

175 East Houston Street  
San Antonio, Texas 78205

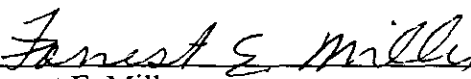
- V. The Limited Partnership is formed pursuant to a conversion under the provisions of Articles 5.17 and 5.18 of the Texas Business Corporation Act and Section 2.15 of the Texas Revised Limited Partnership Act, and Southwestern Bell Texas, Inc., a Texas domestic corporation, is the Converting Entity.

VI. The name, address, date of formation, prior form of business organization and the jurisdiction of incorporation of the Converting Entity are as follows:

Name: Southwestern Bell Texas, Inc.  
Address: 175 East Houston Street  
San Antonio, Texas 78205  
Prior Business Organization: Corporation  
Incorporation date:  
Jurisdiction of Incorporation: Texas domestic corporation

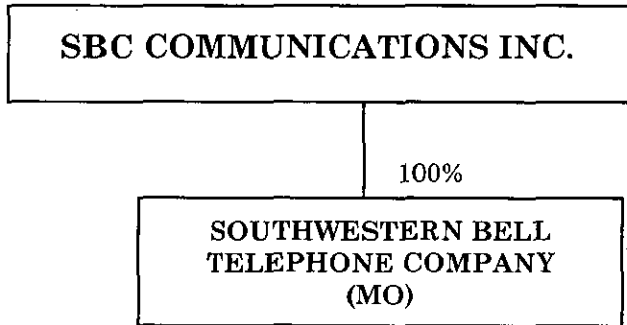
IN WITNESS WHEREOF, the undersigned has executed this Certificate of Limited Partnership of Southwestern Bell Telephone, L.P., a Texas Limited Partnership.

By: SWBT TEXAS, LLC, a Delaware Limited Liability Company  
General Partner of  
Southwestern Bell Telephone, L.P.

  
Forrest E. Miller  
President and Chief Executive Officer

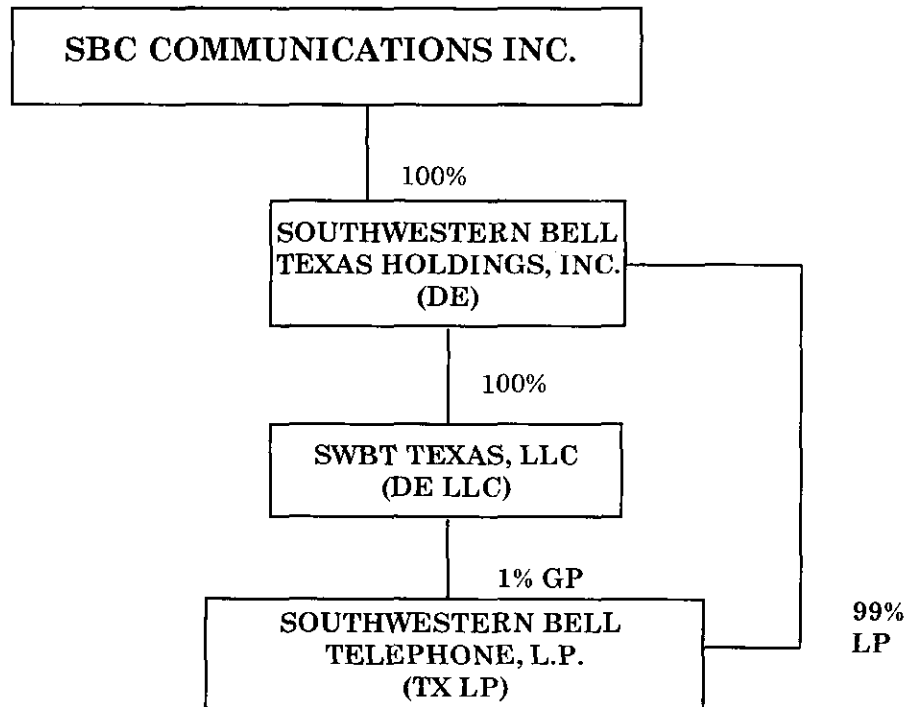
**PROJECT LONE STAR**

**SOUTHWESTERN BELL TELEPHONE COMPANY, a Missouri corporation, is a wholly-owned subsidiary of SBC Communications Inc.**



# PROJECT LONE STAR

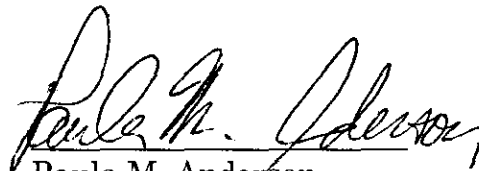
**SOUTHWESTERN BELL TELEPHONE COMPANY, a Missouri corporation conversion  
to SOUTHWESTERN BELL TELEPHONE, L.P., a Texas limited partnership**



**SOUTHWESTERN BELL TELEPHONE COMPANY  
SECRETARY'S CERTIFICATE**

I, Paula M. Anderson, do hereby certify that I am the duly appointed, qualified and acting Assistant Secretary of Southwestern Bell Telephone Company, a Missouri corporation, and have custody of the records and seal of said corporation; and I further certify that attached hereto as Attachment A is a true, complete and correct copy of the corporate resolutions duly adopted by the Board of Directors on October 10, 2001, and said resolutions have not been modified, amended or rescinded and remain in full force and effect on the date hereof.

IN WITNESS WHEREOF, I have hereunto affixed my signature and the seal of said corporation as of this 10<sup>th</sup> day of October 2001.



Paula M. Anderson  
Assistant Secretary





**Attachment A**

**CONSENT OF THE BOARD OF DIRECTORS OF  
SOUTHWESTERN BELL TELEPHONE COMPANY  
TO ACTION TAKEN IN LIEU OF A SPECIAL MEETING  
PURSUANT § 351.340 OF THE GENERAL AND  
BUSINESS CORPORATION LAW OF MISSOURI**

THE UNDERSIGNED, being all the members of the Board of Directors of Southwestern Bell Telephone Company, a Missouri corporation (the "Company" or "SWBT"), hereby each consent to and deem it advisable to adopt and hereby do adopt the following resolutions, without a meeting, which consents shall have the same force and effect as a unanimous vote at a meeting duly held:

WHEREAS, in the judgment of this Board of Directors it is desirable for the Company to merge with Southwestern Bell Texas, Inc. ("Bell Texas"), with Southwestern Bell Texas, Inc. surviving the merger; and

NOW THEREFORE, BE IT

RESOLVED, that the Board of Directors deems it advisable to adopt and hereby does adopt an Agreement and Plan of Merger whereby it will merge with Bell Texas, with Bell Texas surviving the merger; and

RESOLVED FURTHER, that the proposed Agreement and Plan of Merger ("Merger Agreement") between SWBT and Bell Texas, in substantially the same form as attached hereto as Exhibit A, is approved, adopted and recommended for approval by the shareholder of SWBT; and

RESOLVED FURTHER, that the officers of the Company be and hereby are authorized and directed to enter into the Merger Agreement; and

RESOLVED FURTHER, that the proper officers of the Company be and hereby are authorized and directed to perform such acts on behalf of the Company and execute and file such documents with the appropriate governmental authorities as shall be necessary or expedient to carry out the foregoing resolutions.

**AGREEMENT AND PLAN OF MERGER**

This Agreement and Plan of Merger ("Merger Agreement") is entered into this \_\_\_\_ day of October, 2001, by and between Southwestern Bell Telephone Company, a Missouri corporation ("SWBT") and Southwestern Bell Texas, Inc., a Texas corporation ("Bell Texas").

WHEREAS, SWBT and Bell Texas both believe it is in their best interests to merge their companies;

NOW THEREFORE, the parties agree as follows:

(1) SWBT shall be merged with and into Bell Texas following the execution of this Merger Agreement pursuant to Tex. Bus. Corp. Act art. 5.01 and 5.04 and The General and Business Corporation Law of Missouri, with Bell Texas the surviving corporation. The Merger is to be effective on December 20, 2001.

(2) Bell Texas shall receive all of the rights and property of SWBT and will assume all contracts, liabilities and obligations, including all outstanding debt issues, of SWBT existing at the time of the merger.

(3) SWBT's officers and directors shall continue after the merger in their same capacities for the surviving corporation until their successors are chosen or appointed according to the Bylaws of the surviving corporation.

(4) None of Bell Texas' shares of stock shall be exchanged as a result of the merger and all of the stock certificates representing interests in SWBT shall be surrendered to Bell Texas for cancellation.

(5) The Bylaws of Bell Texas shall be the Bylaws governing the surviving corporation following the merger and the Articles of Incorporation of Bell Texas shall be the Articles of Incorporation for the surviving corporation following the merger.

IN WITNESS WHEREOF, the parties have executed this Merger Agreement the day and year first written above.

**SOUTHWESTERN BELL  
TELEPHONE COMPANY**

**SOUTHWESTERN BELL  
TEXAS, INC.**

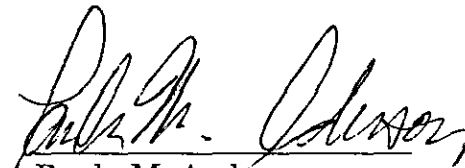
By: \_\_\_\_\_  
Forrest E. Miller  
President and Chief Executive Officer

By: \_\_\_\_\_  
Daniel J. Fete  
Vice President - Finance

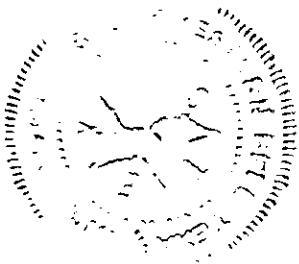
**SOUTHWESTERN BELL TEXAS, INC.  
SECRETARY'S CERTIFICATE**

I, Paula M. Anderson, do hereby certify that I am the duly appointed, qualified and acting Assistant Secretary of Southwestern Bell Texas, Inc., a Texas corporation, and have custody of the records and seal of said corporation; and I further certify that attached hereto as Attachment A is a true, complete and correct copy of the corporate resolutions duly adopted by the Board of Directors on October 10, 2001, and said resolutions have not been modified, amended or rescinded and remain in full force and effect on the date hereof.

IN WITNESS WHEREOF, I have hereunto affixed my signature and the seal of said corporation as of this 10<sup>th</sup> day of October 2001.



Paula M. Anderson  
Assistant Secretary



**Attachment A**

**CONSENT OF THE BOARD OF DIRECTORS OF  
SOUTHWESTERN BELL TEXAS, INC.  
TO ACTION TAKEN IN LIEU OF A SPECIAL MEETING  
PURSUANT TO TEXAS BUSINESS CORPORATION ACT art. 9.10(B)**

THE UNDERSIGNED, being all the members of the Board of Directors of Southwestern Bell Texas, Inc. a Texas corporation (the "Company" or "Bell Texas"), hereby each consent to and deem it advisable to adopt and hereby do adopt the following resolutions, without a meeting, which consents shall have the same force and effect as a unanimous vote at a meeting duly held:

WHEREAS, in the judgment of this Board of Directors it is desirable for the Company to merge with Southwestern Bell Telephone Company ("SWBT"), with Southwestern Bell Texas, Inc. surviving the merger; and

NOW THEREFORE, BE IT

RESOLVED, that the Board of Directors deems it advisable to adopt and hereby does adopt an Agreement and Plan of Merger whereby it will merge with SWBT, with Bell Texas surviving the merger; and

RESOLVED FURTHER, that the proposed Agreement and Plan of Merger ("Merger Agreement") between Bell Texas and SWBT, in substantially the same form as attached hereto as Exhibit A is approved, adopted and recommended for approval by the shareholder of Bell Texas; and

RESOLVED FURTHER, that the officers of the Company be and hereby are authorized and directed to enter into the Merger Agreement; and

RESOLVED FURTHER, that the proper officers of the Company be and hereby are authorized and directed to perform such acts on behalf of the Company and execute and file such documents with the appropriate governmental authorities as shall be necessary or expedient to carry out the foregoing resolutions.

**AGREEMENT AND PLAN OF MERGER**

This Agreement and Plan of Merger ("Merger Agreement") is entered into this \_\_\_\_ day of October, 2001, by and between Southwestern Bell Telephone Company, a Missouri corporation ("SWBT") and Southwestern Bell Texas, Inc., a Texas corporation ("Bell Texas").

WHEREAS, SWBT and Bell Texas both believe it is in their best interests to merge their companies;

NOW THEREFORE, the parties agree as follows:

(1) SWBT shall be merged with and into Bell Texas following the execution of this Merger Agreement pursuant to Tex. Bus. Corp. Act art. 5.01 and 5.04 and The General and Business Corporation Law of Missouri, with Bell Texas the surviving corporation. The Merger is to be effective on December 20, 2001.

(2) Bell Texas shall receive all of the rights and property of SWBT and will assume all contracts, liabilities and obligations, including all outstanding debt issues, of SWBT existing at the time of the merger.

(3) SWBT's officers and directors shall continue after the merger in their same capacities for the surviving corporation until their successors are chosen or appointed according to the Bylaws of the surviving corporation.

(4) None of Bell Texas' shares of stock shall be exchanged as a result of the merger and all of the stock certificates representing interests in SWBT shall be surrendered to Bell Texas for cancellation.

(5) The Bylaws of Bell Texas shall be the Bylaws governing the surviving corporation following the merger and the Articles of Incorporation of Bell Texas shall be the Articles of Incorporation for the surviving corporation following the merger.

IN WITNESS WHEREOF, the parties have executed this Merger Agreement the day and year first written above.

**SOUTHWESTERN BELL  
TELEPHONE COMPANY**

**SOUTHWESTERN BELL  
TEXAS, INC.**

By: \_\_\_\_\_  
Forrest E. Miller  
President and Chief Executive Officer

By: \_\_\_\_\_  
Daniel J. Fete  
Vice President - Finance

Southwestern Bell  
Telephone Company

Financial Statements

*Years Ended December 31, 2000 and 1999  
with Report of Independent Auditors*

Southwestern Bell Telephone Company

Financial Statements

Years ended December 31, 2000 and 1999

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## Report of Independent Auditors

The Board of Directors  
Southwestern Bell Telephone Company

We have audited the accompanying balance sheets of Southwestern Bell Telephone Company (the Company), a direct wholly owned subsidiary of SBC Communications Inc., as of December 31, 2000 and 1999, and the related statements of income, shareowner's equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 the Company at December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 to the financial statements, in 1999 the Company changed its method of accounting for postretirement benefits.

*Ernst + Young LLP*

San Antonio, Texas  
February 9, 2001



## SOUTHWESTERN BELL TELEPHONE COMPANY

### STATEMENTS OF INCOME

Dollars in millions

	2000	1999
<b>Operating Revenues</b>		
Landline local service	\$ 6,132	\$ 5,691
Network access	3,537	3,495
Long distance service	433	668
Other	1,478	1,319
<b>Total operating revenues</b>	<b>11,580</b>	<b>11,173</b>
<b>Operating Expenses</b>		
Operations and support	6,296	6,184
Depreciation and amortization	2,340	2,174
<b>Total operating expenses</b>	<b>8,636</b>	<b>8,358</b>
<b>Operating Income</b>	<b>2,944</b>	<b>2,815</b>
<b>Other Income (Expense)</b>		
Interest expense	(383)	(384)
Royalty expense to SBC Communications Inc.	(460)	-
Other income (expense) - net	10	6
<b>Total other income (expense)</b>	<b>(833)</b>	<b>(378)</b>
<b>Income Before Income Taxes</b>	<b>2,111</b>	<b>2,437</b>
Income taxes	778	897
<b>Income Before Cumulative Effect of Accounting Change</b>	<b>1,333</b>	<b>1,540</b>
Cumulative effect of accounting change, net of tax	-	(273)
<b>Net Income</b>	<b>\$ 1,333</b>	<b>\$ 1,267</b>

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

## SOUTHWESTERN BELL TELEPHONE COMPANY

### BALANCE SHEETS

Dollars in millions

	December 31,	
	2000	1999
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 52	\$ 49
Accounts receivable - net of allowances for uncollectibles of \$129 and \$99	1,935	1,804
Accounts receivable from affiliates	176	109
Prepaid expenses	164	127
Deferred income taxes	236	172
Other current assets	297	192
<b>Total current assets</b>	<b>2,860</b>	<b>2,453</b>
<b>Property, Plant and Equipment - Net</b>	<b>14,984</b>	<b>13,958</b>
<b>Other Assets</b>	<b>272</b>	<b>20</b>
<b>Total Assets</b>	<b>\$ 18,116</b>	<b>\$ 16,431</b>
<b>Liabilities and Shareowner's Equity</b>		
<b>Current Liabilities</b>		
Intercompany loans	\$ 2,415	\$ 1,936
Current portion of long-term obligations	233	150
Total debt maturing within one year	2,648	2,086
Accounts payable and accrued liabilities	2,503	2,372
Accounts payable to affiliates	1,266	235
Accrued taxes	343	434
<b>Total current liabilities</b>	<b>6,760</b>	<b>5,127</b>
<b>Long-Term Debt</b>	<b>3,976</b>	<b>4,211</b>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes	708	531
Postemployment benefit obligation	2,993	3,049
Unamortized investment tax credits	137	163
Other noncurrent liabilities	469	449
<b>Total deferred credits and other noncurrent liabilities</b>	<b>4,307</b>	<b>4,192</b>
<b>Shareowner's Equity</b>		
Common stock - one share, no par value	1	1
Paid-in surplus	2,227	2,545
Retained earnings	845	355
<b>Total shareowner's equity</b>	<b>3,073</b>	<b>2,901</b>
<b>Total Liabilities and Shareowner's Equity</b>	<b>\$ 18,116</b>	<b>\$ 16,431</b>

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

## SOUTHWESTERN BELL TELEPHONE COMPANY

### STATEMENTS OF CASH FLOWS

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

	2000	1999
<b>Operating Activities</b>		
Net income	\$ 1,333	\$ 1,267
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,340	2,174
Provision for uncollectible accounts	157	172
Amortization of investment tax credits	(26)	(30)
Deferred income tax expense	88	210
Cumulative effect of accounting change, net of tax	-	273
Changes in operating assets and liabilities:		
Accounts receivable	(354)	(132)
Other current assets	(142)	54
Accounts payable and accrued liabilities	1,071	193
Other - net	(315)	212
<b>Total adjustments</b>	<b>2,819</b>	<b>3,126</b>
<b>Net Cash Provided by Operating Activities</b>	<b>4,152</b>	<b>4,393</b>
<b>Investing Activities</b>		
Construction and capital expenditures	(3,630)	(2,882)
<b>Net Cash Used in Investing Activities</b>	<b>(3,630)</b>	<b>(2,882)</b>
<b>Financing Activities</b>		
Net change in short-term borrowings with original maturities of three months or less	479	170
Repayment of long-term debt	(155)	(64)
Dividends paid	(843)	(1,628)
<b>Net Cash Used in Financing Activities</b>	<b>(519)</b>	<b>(1,522)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>3</b>	<b>(11)</b>
Cash and cash equivalents beginning of year	49	60
<b>Cash and Cash Equivalents End of Year</b>	<b>\$ 52</b>	<b>\$ 49</b>

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

**SOUTHWESTERN BELL TELEPHONE COMPANY**

**STATEMENTS OF SHAREOWNER'S EQUITY**

Dollars in millions

	Common Stock	Paid-in Surplus	Retained Earnings
Balance, December 31, 1998	\$ 1	\$ 2,545	\$ 716
Net income	-	-	1,267
Dividend to shareowner	-	-	(1,628)
Balance, December 31, 1999	1	2,545	355
Net income	-	-	1,333
Dividend to shareowner	-	-	(843)
Non-cash transfer of assets to affiliates	-	(318)	-
<b>Balance, December 31, 2000</b>	<b>\$ 1</b>	<b>\$ 2,227</b>	<b>\$ 845</b>

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

1. **Summary of Significant Accounting Policies**

**Basis of Presentation** - Throughout this document, Southwestern Bell Telephone Company is referred to as "we" or "SWBell". We provide telecommunications services in Texas, Missouri, Oklahoma, Kansas and Arkansas, and are a wholly owned subsidiary of SBC Communications Inc. (SBC).

The preparation of financial statements in conformity with generally accepted accounting principles in the United States (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Certain amounts in prior period financial statements have been reclassified to conform to the current year's presentation.

**Comprehensive Income** - Comprehensive income is the same as net income for all periods presented.

**Operating Segments** - We operate in only one of SBC's segments, wireline telecommunications services, therefore, separate segment reporting is not applicable.

**Income Taxes** - We are included in SBC's consolidated federal income tax return. Federal income taxes are provided for in accordance with the provisions of our Tax Allocation Agreement (Agreement) with SBC. In general, our income tax provision under the Agreement reflects the financial consequences of income, deductions and credits which can be utilized on a separate return basis or in consolidation with SBC and which are assured of realization. Deferred income taxes are provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Investment tax credits earned prior to their repeal by the Tax Reform Act of 1986 are amortized as reductions in income tax expense over the lives of the assets which gave rise to the credits.

**Cash Equivalents** - Cash and cash equivalents include all highly liquid investments with original maturities of three months or less and the carrying amounts approximate fair value.

**Revenue Recognition** - In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101), which we adopted effective January 1, 2000. SAB 101 addresses, among other items, when revenue relating to nonrefundable, up-front fees should be recognized. Upon adoption, we performed a detailed analysis of our activation fees. Expenses, though exceeding revenue, were only deferred to the extent of revenue. Therefore, we recorded deferred revenues of approximately \$260 and associated expenses of approximately \$260. Accordingly, these adjustments had no significant effect on operating or net income. These deferred amounts will be recognized over the average customer life of five years.

Certain revenues derived from local telephone services are billed monthly in advance and are recognized the following month when services are provided. Revenues derived from other telecommunications services, principally network access and long distance airtime usage, are recognized monthly as services are provided.

**Property, Plant and Equipment** - Property, plant and equipment is stated at cost. The cost of additions and substantial improvements to property, plant and equipment is capitalized. The cost of maintenance and repairs of property, plant and equipment is charged to operating expenses. Property, plant and equipment is depreciated using straight-line methods over their estimated economic lives. We follow composite group depreciation methodology; accordingly, when a portion of our depreciable property, plant and equipment is retired in the ordinary course of business, the gross book value is charged to accumulated depreciation; no gain or loss is recognized on the disposition of this plant.

**Software Costs** - It is our policy to capitalize certain costs incurred in connection with developing or obtaining internal use software. Capitalized software costs are included in Property, Plant and Equipment and are being amortized over three years.

**Advertising Costs** - Costs for advertising products and services or corporate image are expensed as incurred.

## 2. Completion of Mergers

In October 1999, an SBC subsidiary merged with Ameritech, and Ameritech became a wholly owned subsidiary of SBC. The transaction was accounted for as a pooling of interests and a tax-free reorganization.

In October 1998, an SBC subsidiary merged with Southern New England Telecommunications Corp. (SNET), and SNET became a wholly owned subsidiary of SBC. The transaction was accounted for as a pooling of interests and a tax-free reorganization.

In April 1997, an SBC subsidiary merged with Pacific Telesis Group (PAC), and PAC became a wholly owned subsidiary of SBC. The transaction was accounted for as a pooling of interests and a tax-free reorganization.

### Conforming Accounting Changes

Our results in 1999 include the effect of conforming the adoption date for postretirement accounting between SBC and Ameritech. We recorded this change in the third quarter of 1999, retroactive to January 1, 1999, as a cumulative effect of accounting change of \$273 net of deferred taxes of \$165. This change decreased income before income taxes and net income for 1999 by \$141 and \$88.

### Post-Merger Initiatives

Upon completion of each merger, SBC performed an evaluation and review of operations throughout the merged company. These reviews included the formation of review teams that performed comprehensive evaluations of companywide operations. Based on these merger integration reviews, certain strategic decisions were made and significant integration of operations and consolidation of some administrative and support functions occurred resulting in one-time charges. In addition, existing accruals from the merger with PAC were reviewed during the integration process for the SNET and Ameritech mergers and accruals were reversed related

to plans now superseded by the current reorganization plan. At December 31, 2000 and 1999, remaining accruals for anticipated cash expenditures related to the merger decisions were approximately \$9 and \$63.

**Reorganization** - SBC is centralizing several key functions that will support the wireline operations including network planning, strategic marketing and procurement. It also is consolidating a number of corporatwide support activities, including research and development, information technology and financial transaction processing. These initiatives continue to result in the creation of some jobs and the elimination and realignment of others, with many of the affected employees changing job responsibilities and in some cases assuming positions in other locations.

We recognized a charge of approximately \$46 (\$30 net of tax) during the fourth quarter of 1999 in connection with these initiatives. This charge was comprised mainly of postemployment benefits, primarily related to severance, and costs associated with closing down duplicate operations, including contract cancellations. The charge also included the reversal of prior merger accruals that were superseded by the current reorganization plan. Other charges arising out of the merger related to relocation, retraining and other effects of consolidating certain operations are being recognized in the periods those charges are incurred.

### 3. Property, Plant and Equipment

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

	Lives (years)	2000	1999
Land	-	\$ 201	\$ 189
Buildings	44	2,884	2,815
Central office equipment	3-10	15,098	13,776
Cable, wiring and conduit	10-50	15,624	14,851
Other equipment	5-15	1,786	2,103
Software	3	270	209
Under construction	-	901	506
		36,764	34,449
Accumulated depreciation and amortization		21,780	20,491
<b>Property, plant and equipment - net</b>		<b>\$ 14,984</b>	<b>\$ 13,958</b>

Certain facilities and equipment used in operations are under operating or capital leases. Rental expenses under operating leases for 2000 and 1999 were \$107 and \$149. At December 31, 2000, the future minimum rental payments under noncancelable operating leases for the years 2001 through 2005 were \$48, \$41, \$19 and \$59 with \$29 due thereafter. Capital leases were not significant. In 2000, we transferred other equipment totaling \$318 to SBC.

Southwestern Bell Telephone Company  
Notes to Financial Statements, continued  
Dollars in millions

4. Debt

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

	2000	1999
Notes and debentures		
5.37% - 5.98% 2000 - 2007	\$ 616	\$ 616
6.03% - 6.97% 2000 - 2048	2,062	2,217
7.00% - 7.67% 2002 - 2027	1,567	1,567
	4,245	4,400
Unamortized discount - net of premium	(38)	(41)
Total notes and debentures	4,207	4,359
Capitalized leases	2	2
Total long-term debt, including current maturities	4,209	4,361
Current maturities	(233)	(150)
Total long-term debt	\$ 3,976	\$ 4,211

At December 31, 2000, the aggregate principal amounts of long-term debt and weighted average interest rate scheduled for repayment for the years 2001 through 2005 were \$233 (6.3%), \$326 (6.4%), \$298 (6.1%), \$304 (6.2%) and \$283 (6.7%) with \$2,803 (6.9%) due thereafter. As of December 31, 2000, we were in compliance with all covenants and conditions of instruments governing our debt. Substantially all of our outstanding long-term debt is unsecured.

In January 2000, SBC guaranteed our existing publicly issued debt securities. Each guarantee will apply as long as we remain a wholly owned subsidiary of SBC.

The weighted average interest rate on intercompany loans at December 31, 2000 and 1999 was 6.2% and 5.7%. Our intercompany loans are financed through a revolving credit agreement with SBC for credit lines up to \$3,000, and are payable on demand. Interest accrues and is payable at the monthly weighted average commercial paper rate for SBC. Interest expense on the intercompany loans totaled \$120 and \$99 in 2000 and 1999.

5. Financial Instruments

The carrying amounts and estimated fair values of our notes and debentures, including current maturities, are summarized as follows at December 31:

	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Notes and debentures	\$4,207	\$4,122	\$4,359	\$4,152

The fair values of our notes and debentures were estimated based on quoted market prices. The carrying amounts of cash and cash equivalents and customer deposits approximate fair values.



6. **Related Party Transactions**

We provide telecommunications services including local and access services to SBC and its subsidiaries, as well as non-telecommunications services such as customer service. These services are recorded either as revenues or as a reduction of the cost incurred to provide such services, as appropriate. In addition, SBC and its subsidiaries provide us with financial, marketing, network and administrative services, which we record as expenses. Indirect costs of SBC are allocated to us based on several factors, including relative equity, number of employees, marketing costs, and a composite based on our proportionate share of certain direct and allocated charges.

Revenues from affiliates totaled \$454 in 2000 and \$155 in 1999. Direct and indirect costs charged to us during 2000 and 1999 totaled \$2,267 and \$1,319. These costs include \$460 of royalty expense charged to us in 2000 from SBC for use of the corporate name.

7. **Income Taxes**

Significant components of our deferred tax liabilities and assets are as follows at December 31:

	2000	1999
Depreciation	\$ 2,082	\$ 2,021
Other	48	-
Gross deferred tax liabilities	2,130	2,021
Employee benefits	1,420	1,476
Unamortized investment tax credits	52	61
Other	186	125
Gross deferred tax assets	1,658	1,662
Net deferred tax liabilities	\$ 472	\$ 359

The components of income tax expense are as follows:

	2000	1999
Federal		
Current	\$ 635	\$ 651
Deferred - net	80	176
Amortization of investment tax credits	(26)	(30)
	689	797
State and local		
Current	80	66
Deferred - net	9	34
	89	100
Total	\$ 778	\$ 897

A reconciliation of income tax expense and the amount computed by applying the statutory federal income tax rate (35%) to income before income taxes and cumulative effect of changes in accounting principles is as follows:

	2000	1999
Taxes computed at federal statutory rate	\$ 739	\$ 853
Increases (decreases) in taxes resulting from:		
Amortization of investment tax credits over the life of the plant that gave rise to the credits	(17)	(20)
State and local income taxes - net of federal tax benefit	57	65
Other - net	(1)	(1)
<b>Total</b>	<b>\$ 778</b>	<b>\$ 897</b>

#### 8. Employee Benefits

**Pensions** - Substantially all of our employees are covered by one of various noncontributory pension and death benefit plans. Management employees participate in either cash balance or defined lump sum pension plans. The pension benefit formula for most nonmanagement employees is based on a flat dollar amount per year according to job classification. Most employees can elect to receive their pension benefits in either a lump sum payment or annuity.

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

Effective with the Ameritech merger, SBC performed a midyear valuation for all pension plans in 1999. The amounts that follow reflect the impacts and assumptions of the midyear valuation.

Significant weighted average assumptions used by SBC in developing pension information include:

	2000	1999
Discount rate for determining projected benefit obligation	7.75%	7.75%
Long-term rate of return on plan assets	8.50%	8.50%
Composite rate of compensation increase	4.25%	4.25%

GAAP 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 SBC, this information is not presented for us. We recognized pension benefits for 2000 and 1999 of \$167 and \$74. As of December 31, 2000 and 1999, the cumulative amount of our pension cost recognized in excess of our cumulative contributions made to the trust was \$188 and \$382.

In October 2000, SBC implemented a voluntary enhanced pension and retirement program (EPR) to reduce the number of management employees. The program offered eligible management employees who decided to terminate employment an enhanced pension benefit and increased eligibility for post-retirement medical and dental benefits. Enhanced pension benefits related to

this program were recognized as an expense of \$420 in 2000. Approximately 1,600 of the employees who accepted this offer terminated employment before December 31, 2000; however, under the program, approximately 900 employees were retained for up to one year. Lump sum payments for settlement of pension balances, which are paid by the pension trusts, are expected to occur throughout 2001. We recognized \$367 in net settlement and curtailment gains in the fourth quarter of 2000 associated with the EPR program. In addition to the net pension benefit and EPR related amounts reported above, we recognized \$252 and \$0 in net settlement gains in 2000 and 1999.

**Postretirement Benefits** - Under SBC's benefit plans, we provide certain medical, dental and life insurance benefits to substantially all retired employees and accrue actuarially determined postretirement benefit costs as active employees earn these benefits.

GAAP requires certain disclosures to be made of components of net periodic postretirement benefit cost and a reconciliation of the funded status of the plans to amounts reported in the balance sheets. Since the funded status of assets and obligations relates to the plans as a whole, this information is not presented for us. We recognized postretirement benefit cost for 2000 and 1999 of \$326 and \$334. At December 31, 2000 and 1999, the amount included in the balance sheets for accrued postretirement benefit obligation was \$3,051 and \$3,089. Significant assumptions for the discount rate, long-term rate of return on plan assets and composite rate of compensation increase used by SBC in developing the accumulated postretirement benefit were the same as those used in developing the pension information. Due to the Ameritech merger, a midyear valuation also was performed for all postretirement benefit plans in 1999.

SBC maintains Collectively Bargained Voluntary Employee Beneficiary Association (CBVEBA) trusts to fund postretirement benefits. During 2000 and 1999, we contributed \$48 and \$81, into the CBVEBA trusts to be ultimately used for the payment of postretirement benefits. We also fund postretirement life insurance benefits at an actuarially determined rate. Assets consist principally of stocks and U.S. government and corporate bonds.

In addition to the postretirement benefit cost reported table above, we recognized \$16 in net curtailment losses in 2000 associated with EPR. Enhanced benefits related to this program were recognized as an expense of \$10 in 2000.

The assumed medical cost trend rate in 2001 is 8.0% for retirees 64 and under and 9.0% for retirees 65 and over, decreasing to 5.0% in 2006, prior to adjustment for cost-sharing provisions of the medical and dental plans for active and certain recently retired employees. The assumed dental cost trend rate in 2001 is 5.25%, reducing to 5.0% in 2002. Raising the annual medical and dental cost trend rates by one percentage-point increases the net periodic postretirement benefit cost for the year ended December 31, 2000 by approximately 19.7%. Decreasing the annual medical and dental cost trend rates by one percentage-point decreases the net periodic postretirement benefit cost for 2000 by approximately 15.8%.

**Postemployment Benefits** - Under SBC's benefit plans, we provide employees varying levels of severance pay, disability pay, workers' compensation and medical benefits under specified circumstances and accrue these postemployment benefits at the occurrence of an event that renders an employee inactive or, if the benefits ratably vest, over the vesting period.

**Savings Plans** - Substantially all employees are eligible to participate in contributory savings plans sponsored by SBC. Under the savings plans, we match a stated percentage of eligible employee contributions, subject to a specified ceiling.

Our match of employee contributions to the savings plans is fulfilled with SBC's shares of stock allocated from the Employee Stock Ownership Plans and with purchases of SBC's stock in the open market. Our costs relating to these savings plans were \$30 and \$19 in 2000 and 1999.

**9. Stock Option Plans**

Our management employees participate in various stock option plans sponsored by SBC. Options issued through December 31, 2000 carry exercise prices equal to the market price of the stock at the date of grant and have maximum terms ranging from five to ten years. Depending upon the plan, vesting of options occurs up to four years from the date of grant. Up to 431 million shares may be issued to SBC employees under these plans.

We measure compensation cost for these plans using the intrinsic value based method of accounting as allowed in Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation" (FAS 123). Accordingly, no compensation cost has been recognized for the stock option plans. Had compensation cost for stock option plans been recognized using the fair value based method of accounting at the date of grant for awards in 2000 and 1999 as defined by FAS 123, our net income would have been \$1,309 and \$1,242.

For purposes of these pro forma disclosures, the estimated fair value of the options granted is amortized to expense over the options' vesting period. The fair value of these stock options was estimated at the date of grant, using a Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2000 and 1999: risk-free interest rate of 6.67% and 5.31%; dividend yield of 2.19% and 1.65%; expected volatility factor of 16% and 15%; and expected option life of 4.6 and 4.5 years. As options are exercisable in SBC common stock, separate assumptions are not developed for subsidiaries of SBC.

FAS 123 requires certain disclosures to be made about the outstanding and exercisable options, option activity, weighted average exercise price per option and option exercise price range for each income statement period. Since the stock option activity relates only to SBC's shareowners' equity, this information is not presented for us.

Southwestern Bell Telephone Company  
Notes to Financial Statements, continued  
Dollars in millions

10. Additional Financial Information

	December 31,	
	2000	1999
<b>Balance Sheets</b>		
Accounts payable and accrued liabilities:		
Accounts payable	\$ 783	\$ 681
Advance billing and customer deposits	401	370
Compensated future absences	193	224
Accrued interest	78	77
Accrued payroll	239	189
Other	809	831
<b>Total</b>	<b>\$ 2,503</b>	<b>\$ 2,372</b>
<b>Statements of Income</b>		
Advertising expense	\$ 90	\$ 57
Interest expense incurred	\$ 418	\$ 405
Capitalized interest	(35)	(21)
<b>Total interest expense</b>	<b>\$ 383</b>	<b>\$ 384</b>
<b>Statements of Cash Flows</b>		
Cash paid during the year for:		
Interest	\$ 417	\$ 407
Income taxes	\$ 811	\$ 797

No customer accounted for more than 10% of revenues in 2000 or 1999.

Approximately two-thirds of our employees are represented by collective bargaining agreements with varying dates of expiration in the years 2001 through 2003. On February 5, 2001, SBC's telephone subsidiaries reached four tentative agreements with the Communications Workers of America (CWA) covering employees in thirteen states. The tentative agreements are labor contracts for three years and will replace the existing contracts which expire on March 31 and April 1, 2001. The agreements include a wage increase of approximately 12.25% over the life of the contracts, in addition to other economic provisions. The agreements must be ratified by CWA members covered by the tentative agreements and this ratification vote is expected by mid-March 2001.