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September 20, 2001

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

FILED[2]
SEP 2 0 2001
Missouri Public Service Commission

RE: Case No. TA-99-47

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of the **STAFF REPLY TO SOUTHWESTERN BELL LONG DISTANCE, AT&T COMMUNICATIONS OF THE SOUTHWEST, INC. AND THE MISSOURI INDEPENDENT TELEPHONE GROUP.**

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

Marc D. Poston
Senior Counsel
(573) 751-8701
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MP/lb
Enclosure
cc: Counsel of Record

FILED[2]

SEP 2 0 2001

Missouri Public
Service Commission

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Southwestern Bell Communications Services, Inc., d/b/a Southwestern Bell Long Distance for a Certificate of Service Authority to Provide Interexchange Telecommunications Services Within the State of Missouri.	)	Case No. TA-99-47

STAFF REPLY TO SOUTHWESTERN BELL LONG DISTANCE, AT&T COMMUNICATIONS OF THE SOUTHWEST, INC. AND THE MISSOURI INDEPENDENT TELEPHONE GROUP

COMES NOW the Staff of the Missouri Public Service Commission and states as follows:

1. On September 7, 2001, the Staff filed its recommendation in this proceeding and recommended that the Commission grant Southwestern Bell Communications Services, Inc. d/b/a Southwestern Bell Long Distance (SBLD) a certificate to provide interexchange telecommunications services. The Staff also recommended that the Commission deny SBLD's request for competitive classification, deny SBLD's waiver request, and that the Commission order SBLD to file a new proposed tariff consistent with the Staff's recommendations.

2. SBLD responded to the Staff's Recommendation on September 10, 2001. In its response SBLD argues that the Commission should not follow the Staff's recommendation to deny competitive classification to SBLD. In this Staff response to SBLD's filing, the Staff will first address the legal authority under which the Commission is entitled to follow the Staff's recommendation in its entirety. Second, the Staff will further address the rationale behind the Staff's recommendation.

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3. The Commission's authority to grant a certificate of service to provide interexchange telecommunications services in the State of Missouri is found in Sections 392.430 and 392.440 RSMo 2000. These sections state that the Commission shall approve an application for interexchange service authority "upon a showing by the applicant, and a finding by the commission, after notice and hearing, that the grant of authority is in the public interest."

4. Completely separate from the Commission's authority to approve an application for an interexchange certificate, is the Commission's authority to classify an interexchange telecommunications company and its services as competitive. Applicants for a certificate of service authority do not automatically receive competitive classification, rather, applicants have the burden to prove to the Commission that competitive classification for that applicant is in the public interest. As explained below, under Section 392.361.4 RSMo 2000, the Commission must determine whether a lesser degree of regulation for the applicant "is consistent with the protection of ratepayers and promotes the public interest."

5. The Commission's authority to grant waivers to interexchange carriers from certain Commission statutes and rules can be found under Section 392.420 RSMo 2000. Just as competitive classification is not automatic, granting a new company requested waivers is not automatic and shall be granted only if it is in the public interest. Furthermore, waivers granted under Section 392.420 RSMo 2000 are for companies that are granted competitive classification.

6. SBLD argues in its response that the Commission already determined that the intrastate interexchange market is competitive, and that more than 500 interexchange carriers in Missouri are subject to sufficient competition to justify a lesser degree of regulation. This argument misses the point of the Staff's Recommendation. The Staff agrees that the intrastate interexchange market in Missouri is competitive. The mere fact that competition exists in the

interexchange market is not reason alone to grant competitive status to every new entrant in that market. Each new entrant has the burden to prove that the grant of competitive status is in the public interest, and the Staff believes that SBLD did not meet their burden. In fact, when the Staff sought additional information from SBLD in the form of cost studies, SBLD was unwilling to provide cost studies for the rates in its proposed tariffs. The Staff was already questioning whether SBLD should be granted competitive status due to predatory pricing concerns, and SBLD's unwillingness to support their filing furthered the Staff's concern that the Commission should maintain greater control over SBLD's rates.

SBLD's arguments that compare it with other interexchange carriers in Missouri fail to recognize that SBLD should not be considered just one more carrier in a competitive market. SBLD is not similarly situated as other interexchange carriers. SBLD is unique due to its affiliation with a Regional Bell Operating Company (RBOC), as explained in the Staff's Recommendation. Southwestern Bell Telephone Company has a substantial advantage in the local exchange market in Missouri, and the Staff recognizes the further advantage that SWBT will gain when it enters the interexchange market and is allowed to bundle local and interexchange services. This will impact both the interexchange market and the local markets.

Staff's chief concern is that SBLD is ultimately responsible to the same shareholders as SWBT, Missouri's RBOC that controls approximately 70% of the state's access lines. As SBLD discusses in its response to Staff's recommendation, SBLD and SWBT are permitted to offer bundled services. On page 7 of SBC Communications, Inc.'s (SBLD and SWBT's parent company) July 25, 2001 investor briefing, which is attached as Attachment 1, the benefits of bundled service are discussed as follows:

> Long distance, as part of a bundle that includes combinations of vertical services, accounts for nearly one-fourth of total consumer sales. More than 35% of small businesses purchase Southwestern Bell long distance as part of a bundle.

The ability to bundle services brings great value to SWBT's local service, as many of the bundles contain vertical services from SWBT, which often generate large margins for the company. This increase in shareholder wealth is perceived as value added to the entire company (SBC, SWBT, SBLD); thus, theoretically, SBLD can survive as an entity with slimmer margins due to the value it brings to SWBT's local service. Other interexchange carriers do not have the same opportunities to potentially subsidize their interexchange service. This situation is discussed in the Texas Public Utilities Commission Report to the 77th Texas Legislature on the Scope of Competition in Telecommunications Markets of Texas, which is attached as Attachment 2. On page "X" of the Executive Summary the Texas Commission states:

> Because Southwestern Bell can now compete for long distance customers in Texas, the company has made a strong push in 2000 to bundle its offerings to provide residential customers with various options for "one-stop shopping." Using the pricing and packaging flexibility that SB 560 provided, Southwestern Bell raised prices on the majority of its vertical (non-basic) telephone services for both residential and business customers while lowering prices for nearly a third of those services listed in this report. Southwestern Bell also gained a sizeable portion of the long distance market just months after offering long distance service for the first time. Southwestern Bell's largest and strongest competitors have not been offering substantial competition in vertical services or in bundling local residential services with long distance or other services and have lost market share in long distance service.

The Texas Commission also states on page 83 of the report:

> The market for business customers in the Large Metro areas of Texas appears to be competitive. Facilities-based competition has provided increased capacity for CLECs to compete with ILECs over the long term. Monopoly power exists, however, in residential and rural markets in Texas. Key CLECs that were expected to challenge SWBT are now limiting their push into residential voice markets in Texas.

The Texas Commission has recognized that approval of SWBT's section 271 application has not resulted in increased competition for residential customers. The Missouri Commission has followed the Texas 271 proceeding closely during its review of SWBT's Missouri 271 Application, so Staff believes that this acknowledgement is noteworthy in considering SBLD's Application and proposed tariffs. The Missouri Commission is still in a position to maintain oversight of SBLD's rates, heeding the warnings from Texas while still allowing SWBT to compete in the interexchange market. Staff believes that SBLD is not similarly situated as other interexchange carriers and that the Commission should maintain oversight of SBLD's rates and practices.

7. SBLD quotes the Commission from its Written Consultation in FCC Docket No. 01-194 to argue that this Commission previously found that SBLD's entry into the interexchange market is in the public interest. Again, this argument misses the point of the Staff's Recommendation. The Staff agrees that SBLD's entry is good for competition, which is the principal reason for the Staff's recommendation to grant SBLD a certificate. The Staff does not agree, however, that granting SBLD competitive status is in the public interest.

8. SBLD argues that to withhold competitive status would be the same as reversing the legislative policy determination to make the interexchange markets competitive. This argument is misleading because the Staff is not recommending a reversal of the interexchange market from competitive to non-competitive. The Staff is recommending that the Commission utilize the safety net granted to the Commission by the General Assembly when it gave the Commission the authority to separately determine whether a certificated interexchange carrier should be subject to a lesser degree of regulation.

9. SBLD argues that the Commission can utilize Section 392.361(7) RSMo 2000 that allows the Commission to reverse competitive classification for carriers previously granted competitive status. That section allows the Commission to reverse the competitive classification if it "is no longer in the public interest or no longer consistent with the provisions and purposes of this chapter." The Staff proposes that competitive classification for SBLD is not in the public interest at this time, nor is it consistent with the provisions and purposes of this chapter. There is no need to wait until competitive status for SBLD is "no longer in the public interest" and then attempt to invoke Section 392.361(7). That condition exists *now*. Furthermore, the primary purposes and policies of Chapter 392 RSMo 2000 are set forth in Section 392.185 RSMo 2000 as follows:

> 392.185. Purpose of chapter. – The provisions of this chapter shall be construed to:
> (1) Promote universally available and widely affordable telecommunications services;
> (2) Maintain and advance the efficiency and availability of telecommunications services;
> (3) Promote diversity in the supply of telecommunications service and products throughout the state of Missouri;
> (4) Ensure that customers pay only reasonable charges for telecommunications service;
> (5) Permit flexible regulation of competitive telecommunications companies and competitive telecommunications services;
> (6) Allow full and fair competition to function as a substitute for regulation when consistent with the protection of ratepayers and otherwise consistent with the public interest;
> (7) Promote parity of urban and rural telecommunications services;
> (8) Promote economic, educational, health care and cultural enhancements; and
> (9) Protect consumer privacy.

Several of the above purposes and policies could be harmed if SBLD receives competitive classification. In its Recommendation, the Staff concludes "retaining Commission authority over [SBLD's] existing rates is clearly in the public interest due simply to the fact that it could help maintain the competitive integrity of existing markets." This statement gets to the heart of the purposes and policies of Chapter 392. The competitiveness of both Missouri's local and interexchange markets could be compromised if the Commission were to relinquish its review of SBLD's future rate changes.

10. By denying SBLD competitive classification, SBLD is clearly required to price its services above cost. Section 392.400.5 RSMo 2000 states:

> It shall be unjust, unreasonable and unlawful for a noncompetitive or transitionally competitive telecommunications company to offer or provide a competitive or transitionally competitive telecommunications service below the cost of such service as determined by the commission if the commission finds that such offering or provision of service constitutes conduct which is not consistent with the promotion of full and fair competition.

For the reasons addressed above, the Staff believes it is important that SBLD be required not to price its services below cost. Permitting SBLD to price its services below cost could harm competition in both the local and the interexchange markets due to its affiliation with SWBT since SWBT is both a regional Bell operating company and has a substantial majority of the total number of Missouri access lines.

11. AT&T Communications of the Southwest, Inc. filed a response to the Commission's Order Shortening Response Time on September 12, 2001 and argued that the Commission should address the predatory pricing concerns raised by AT&T. The Staff believes a review of predatory pricing in Missouri could require months of study, a process that would delay SBLD's entry into the interexchange market. The Staff's Recommendation to deny SBLD competitive status, but to grant SBLD a certificate to provide interexchange service, would allow the issue to be fully investigated while preserving the Commission's ability to prevent predatory pricing by maintaining control over SBLD's rates. Staff suggests that the Commission may want to address predatory pricing concerns in a separate docket. The results of a separate predatory pricing docket would be easier to implement into SBLD's rates and services if the

Commission had greater control over SBLD as the Commission would have if it denied SBLD's request for competitive classification.

12. On September 11, 2001, the Missouri Independent Telephone Group (MITG) filed its response to the Commission's Order Shortening Response Time. In its motion, the MITG "realleges and incorporates by reference both its original Application to Suspend and/or Reject Tariffs, and its Additional Motion to Suspend and/or Reject Tariffs." The Staff accordingly incorporates by reference its May 10, 2001 Staff Filing in Response to Commission Order filed in response to MITG's motions.

WHEREFORE, the Staff respectfully submits this response and further recommends that the Commission grant SBLD a certificate of service authority to provide intrastate interexchange telecommunications services; deny SBLD's request for competitive status; deny SBLD's request for waivers; and order SBLD to file a new tariff consistent with the recommendations herein and in the Staff's Recommendation.

Respectfully submitted,

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 20th day of September 2001.

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SBC InvestorBriefing

July 25, 2001 | No. 226

SBC's Second-Quarter Diluted Earnings Per Share Increases 8.9% With Focus on Disciplined Financial Management, Growth Drivers

Diluted EPS, before one-time items, of $0.61 vs. $0.56 in the year-ago quarter

SAN ANTONIO, July 25, 2001 — SBC Communications Inc. (NYSE: SBC) today reported solid second-quarter results despite the weak U.S. economy. The company's performance included continued strong execution of its major growth drivers — data, wireless and long distance — and effective expense management.

Diluted earnings per share, before one-time items, increased 8.9 percent to $0.61, or $2.1 billion, up from $0.56, or $1.9 billion, in the second quarter a year ago. Revenues, together with proportionate revenues from Cingular Wireless, SBC's national wireless joint venture with BellSouth Corporation, grew 3.0 percent to $13.6 billion. The modest revenue growth reflects the ongoing impact of a weak U.S. economy, increased competition and the sale of non-strategic assets including a security-monitoring business.

"The weak U.S. economy created many challenges in the quarter, but we took appropriate steps to produce solid results while continuing to invest in our growth drivers," said Edward E. Whitacre Jr., chairman and CEO. "Going forward, we will remain focused on expanding our high-potential growth platforms, continually improving customer relationships and maintaining a disciplined approach to expense management."

SECOND-QUARTER RESULTS

(Dollars in millions, except per-share amounts. Results exclude one-time items. Second-quarter 2001 results include proportionate Cingular results. Second-quarter 2000 not restated.)

(Volumes in thousands)	2Q01	2Q00	Change
Total operating revenues	$13,586	$13,192	3.0%
EBITDA	$ 5,675	$ 5,432	4.5%
Earnings	$ 2,073	$ 1,924	7.7%
Diluted earnings per share	$ 0.61	$ 0.56	8.9%
Data revenues	$ 2,219	$ 1,735	27.9%
Cingular subscriber revenues[1]	$ 3,338	$ 2,917	14.4%
Cingular wireless subscribers[2]	21,218	18,143	16.9%
Proportionate international revenues[3]	$ 1,848	$ 1,665	11.0%

1Represents total pro forma Cingular revenues in both periods.
2Represents total Cingular pro forma subscribers in both periods.
3Results have been adjusted to reflect the sale of direct and indirect interests in international equity affiliates.

Attachment 1

Revenue *and* Expense *trends*

SBC expands EBITDA margins, continues aggressive execution in major growth drivers.

In the second quarter, SBC delivered *disciplined, focused execution and a solid* set of results. The following major factors shaped SBC's financial performance:

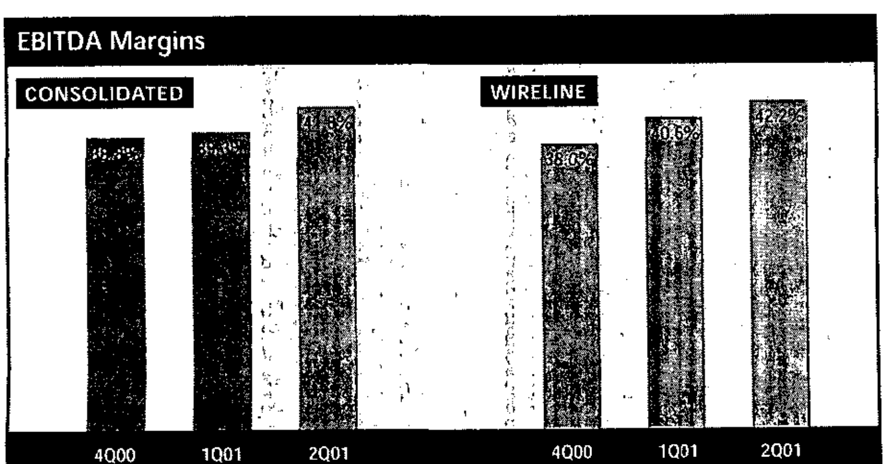
- Revenue growth was dampened by a weak economy and increased competition. Second-quarter operating volumes, including access lines and inward calls to service centers, extended trends from the first quarter of this year.
- Quarterly operating expenses continued to follow the trajectory the company outlined earlier in the year, running below fourth-quarter 2000 levels.
- At the same time, the company continues to invest and execute aggressively in its major growth platforms for the future — data, wireless and long distance.

SBC continues to have a cautious outlook for the remainder of 2001, particularly as it relates to the economy. The company expects third- and fourth-quarter results to be marked by continued modest revenue growth balanced with consistent expense management. SBC continues to expect earnings per share for the full year in the $2.35-to-$2.40 range, before one-time items.

EBITDA MARGINS UP 250 BASIS POINTS TO 41.8 PERCENT

In the second quarter, SBC achieved significant progress in expense management, margins and cash flow:

- Cash operating expenses declined 0.9 percent from the first quarter this year, were down 7.9 percent from fourth-quarter 2000 levels and were up a modest 1.9 percent from the second quarter a year ago.
- Total operating expenses declined 0.2 percent from the first quarter this year, were down 6.3 from fourth-quarter 2000 levels and increased a modest 2.9 percent from year-ago levels.
- SBC's EBITDA margin, including results from Cingular, increased to 41.8 percent — up 250 basis points from first-quarter levels and up 60 basis points compared with the second quarter a year ago.
- SBC generated significant free cash flow after dividends and interest.



SBC Major Revenue Growth Drivers
• Data
• Wireless
• Long Distance

CONTINUED STRONG RESULTS FROM MAJOR GROWTH DRIVERS

SBC continues to expand margins and lower expenses while aggressively focusing resources on its major growth platforms for the future — data, wireless and long distance. Total revenues from these drivers now represent nearly 40 percent of SBC's total revenues.

Growth-driver highlights from the second quarter included:

- *27.9 percent growth in data revenues to* $2.2 billion, including 42.3 percent growth in advanced Internet-based and network integration services, as businesses continue to show a strong demand for high-speed, high-reliability solutions.
- A 701,000 net gain in wireless customers at Cingular, bringing its total to 21.2 million, up 16.9 percent from pro forma totals a year ago.
- 2.8 million long-distance lines in the company's recently entered markets — Texas, which launched a year ago, and Kansas and Oklahoma, where marketing began in March of this year.
- More than 1 million Digital Subscriber Lines (DSL) in service at the end of the quarter. Gross DSL sales and installations during the second quarter were in line with SBC's levels the past two quarters.

SBC's second-quarter revenue growth of 3 percent includes a number of special items that impact comparisons including: sales of nonstrategic businesses during the past year, most notably its security-monitoring operations; shifts in directory publications dates; the pro forma effect of the Cingular venture, which began operations at the beginning of the fourth quarter of 2000; and near-term outcomes from new telecommunications legislation in Illinois. Excluding these impacts, SBC's second-quarter revenues increased 4 percent.

In addition to a cautious outlook on core revenues for the second half of this year, SBC expects that additional dispositions of non-core businesses, such as the sale of Ameritech's cable television systems announced in May, will continue to adversely impact reported revenue comparisons.

WIRELINE EBITDA MARGIN UP 160 BASIS POINTS TO 42.2 PERCENT

In the second quarter, SBC's core wireline operations delivered 3.6 percent revenue growth. This growth rate reflects the impacts of a weak economy, growing competition and, to some extent, wireless substitution — balanced by effective expense management.

- SBC's cash operating expenses were 0.6 percent lower than the first quarter of this year, the company's second quarter in a row of sequential declines. Compared with the second quarter a year ago, cash operating expenses were up 5.1 percent. These expense comparisons reflect diligent management across operations, stable reciprocal compensation levels, a more measured approach to national expansion and process improvements in DSL — offset largely by increased spending at Ameritech compared with year-ago levels to support high levels of customer service.
- SBC's wireline operations also achieved a 42.2 percent EBITDA margin, up 160 basis from the first quarter and up 420 basis points compared with the fourth quarter of 2000.

In terms of both revenue and expense growth, Ameritech operations continue to have a disproportionate impact on overall wireline results. Competition for basic services continues to be the most intense in the Ameritech states, and the company has increased spending in the region to support high levels of customer service.

Over the past several months, Ameritech has made substantial improvements in service quality measurements, and looking ahead, the company plans a number of aggressive marketing plans to drive customer wins in local service. For example, starting this month, Ameritech is now offering in Michigan a new bundle of local services that combines an access line, unlimited local calling, 300 local toll or zoned minutes each month and several of the most popular consumer vertical features, including Caller ID.

WIRELINE VOLUMES

Wireline volume indicators followed trends established in the first quarter this year. They included:

- 15.1 percent growth in VGEs (voice grade equivalents) to 109.6 million, reflecting continued strong growth in data connections. Business VGEs grew 21.9 percent compared with the second quarter a year ago.
- A more than 5 percent increase in revenues per retail access line, driven by long-distance revenues in Texas, Kansas and Oklahoma, DSL growth and continued strength in vertical services.
- 9 percent growth in vertical service revenues per consumer retail line. Sales of bundles that include attractive combinations of vertical services continued to be strong.
- A 3.4 percent decrease in network access revenues compared with the second quarter of 2000. Continuing trends from the first quarter of this year, network access revenues reflect the impacts of regulatory price reductions including the CALLS plan implemented in July 2000.
- A 1.1 percent decrease in traditional access lines compared with second-quarter 2000 levels, with most of the decline occurring among residential customers. Business access lines increased 3.6 percent from year-ago levels.

SBC VGE Line Growth

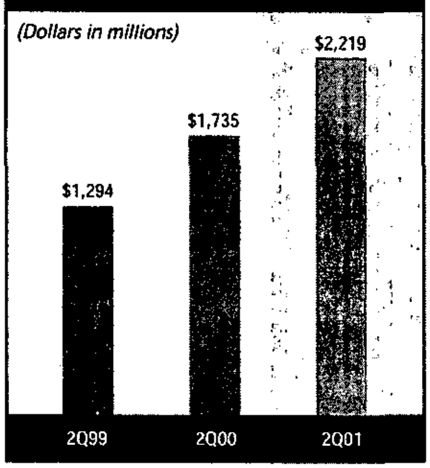
(in thousands)	2Q01	2Q00	Change
Business VGEs	66,916	54,900	21.9%
Residence VGEs	42,123	39,683	6.1%
Other VGEs	590	703	-16.1%
Total VGEs	109,629	95,286	15.1%

Data *growth*

Total data revenues grew 27.9 percent in second quarter to $2.2 billion; advanced services revenues, including network integration and e-services — up 42.3 percent.

In the second quarter, SBC's wireline data revenues grew 27.9 percent to $2.2 billion, as the company continues to expand its capabilities in high-speed, high-reliability solutions. Data revenues represented 21.5 percent of SBC's total second-quarter wireline revenues, up from 17.4 percent a year ago and 13.7 percent just two years ago.

Data Revenues



In comparison with recent quarters, second-quarter data revenue growth rate was tempered by weaker overall economic conditions and balanced year-over-year comparisons. Starting this quarter, revenues from Sterling Commerce — SBC's worldwide provider of e-business solutions acquired in the first quarter of 2000 — are included in both the current and year-ago quarter.

SBC continues to see strong demand for data services particularly as enterprise customers migrate to higher speeds and more advanced solution sets.

- Core data products, including DS3s, SONET and ATM sustained high growth rates during the quarter. DS3 revenues increased more than 40 percent compared with the second quarter of 2000.
- Revenues from SBC's network integration business, which works with enterprise customers to develop network analysis, planning and security solutions, grew more than 90 percent.
- E-services revenues, which include Internet-related operations and Sterling Commerce, grew more than 35 percent.

DATA GROWTH INITIATIVES

SBC's data growth continues to be driven by customer demand for high-bandwidth solutions both in metro and long-distance networks as applications become richer, B2B traffic increases and enterprises work to bring more bandwidth to desktops.

To capture this demand, SBC continues to expand its data-services product line and to build broader capability sets. For example:

- Earlier this year, SBC launched GigaMAN, an Ethernet-based service that provides high-bandwidth LAN links within metropolitan areas in Pacific Bell and Southwestern Bell after earlier introduction at Ameritech. Sales have been strong — with major customers in the banking, health care and education markets.
- In the second quarter, SBC installed its first Multi-service Optical Network (MON) and expects to launch MON point-to-point services across all regions this year.
- To further expand its network integration services, in May SBC announced the availability of a range of premise-based Internet Protocol (IP) systems. The offerings bundle SBC's professional services capabilities and networking expertise with best-of-breed IP equipment, providing customers the infrastructure they need to benefit from new, enhanced applications and services, such as unified messaging and videoconferencing.
- SBC also continues to expand its web-hosting portfolio, building on the capabilities of its two Internet data centers — one in Southern California and the other in Dallas; both opened during the past year. SBC's shared-hosting customers have increased 30 percent since the beginning of this year.

SBC Data Revenues

(Dollars in millions)

	2Q01	2Q00	Change
Data transport	$1,523	$1,246	22.2%
Advanced services	$ 696	$ 489	42.3%
Total data revenues	$2,219	$1,735	27.9%

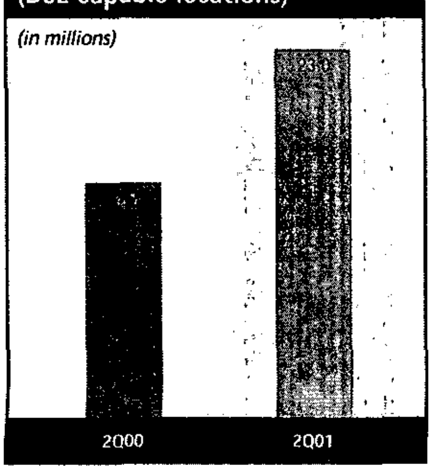
DSL *growth*

Pronto buildout puts SBC's DSL service within reach of more than 55 percent of company's wireline customer locations; installed base exceeds 1 million.

SBC, the nation's leading provider of DSL services, continues to strengthen its broadband growth platform. In the second quarter, SBC:

- Increased its DSL in-service base to more than 1 million.
- Sustained high levels of performance in provisioning and further improved productivity. Due date intervals now average less than 10 business days, and more than 90 percent of orders are completed on or before their original due dates.
- Further broadened its reach through its Project Pronto network buildout. At the end of the second quarter, SBC's DSL service was available to 23 million customer locations, or more than 55 percent of the company's wireline customer locations, up from 14.7 million locations a year ago. More than 90 percent of targeted wire centers are DSL-capable. At the end of the quarter, SBC had installed nearly 4,000 neighborhood broadband gateways, nearly double its total of the beginning of the year. Neighborhood broadband gateways, or remote terminals, bring central office capabilities closer to customers, reduce distance limitations for DSL and expand the number of customer locations reached by SBC's DSL service.

Project Pronto Build Out (DSL-capable locations)



CONTINUED STRONG DEMAND

SBC views DSL as a strategic growth driver for the future — capable of delivering to residential and business end-users a host of entertainment, information and time-management services, as well as high-speed Internet access. In the second quarter:

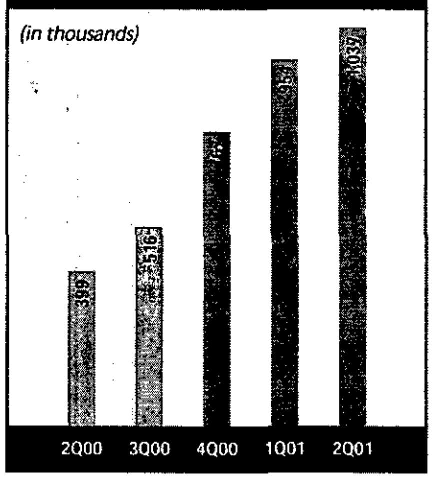
- Total DSL sales and installations in the quarter were in line with that of the previous two quarters.
- Net adds of 83,000 during the quarter were reduced by independent ISPs that resold SBC's DSL service ceasing operations and by database reconciliations. Excluding the impact of ISP failures and the database reconciliations, net DSL additions for the quarter would have totaled approximately 170,000.

IMPROVED OPERATING METRICS

Over the past three quarters, SBC has strengthened its DSL-provisioning capabilities and improved its financial metrics — critical foundations for sustained high levels of growth:

- More than 80 percent of SBC's new customers now use self-installation. SBC has enhanced customers' self-install experience this year with the introduction of new interactive software, which simplifies the process. Future enhancements to the software are expected to improve support-desk diagnostic and problem-solving capabilities.

DSL Subscribers



- Improved order flow and other operational improvements have shortened provisioning cycle times to an average of eight days, a reduction of more than 60 percent since September.
- SBC continues to improve the economics of DSL. Acquisition costs have declined more than 25 percent since the fourth quarter of 2000 due to modem cost reductions and operational improvements.
- To add to its high-value service offerings, SBC has introduced home- and small-office networking gateways for DSL Internet customers in the Pacific Bell, Southwestern Bell and Southern New England regions. The gateways allow customers to share a single DSL Internet connection among multiple computers within the home or small office.

Wireless *growth*

Cingular's pro forma second-quarter service revenues grew 14.4 percent; EBITDA margin expanded to 37.5 percent.

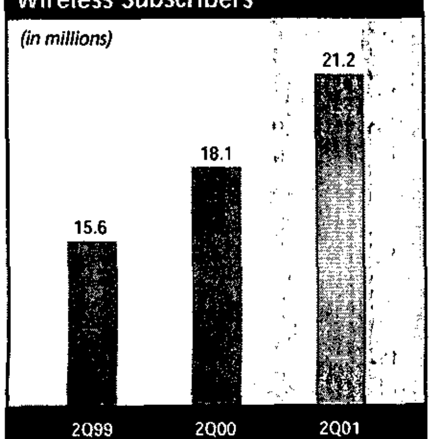
Cingular Wireless sustained solid growth in the second quarter as it expanded its customer base, drove strong revenue growth and achieved significant margin expansion.

As a joint venture of SBC and BellSouth, Cingular is the United States' second-largest wireless provider; SBC owns 60 percent of the joint venture.

In the second quarter, Cingular achieved:

- 16.9 percent growth in subscribers, compared with year-ago pro forma totals, to 21.2 million. Cingular had a net gain of 701,000 subscribers in the quarter and more than 3 million over the past year.
- 14.4 percent growth in service revenues, reflecting both higher subscriber levels and increased minutes of use. Total revenues, which include sales of equipment, grew 13.6 percent to $3.6 billion.
- 37.5 percent EBITDA margin — up 140 basis points from pro forma results for the second quarter of 2000 and up 580 basis points from the first quarter this year. The quarter's margin improvement was driven by reduced branding expenses compared with the first quarter this year and by continued synergies from integration of SBC's and BellSouth's formerly separate wireless operations. Major integration initiatives include consolidation of call centers into regional megacenters and centralizing distribution functions into a single high-capacity facility.
- Strong growth in data revenues reflecting the successful rollout of wireless Internet services, completed earlier this year, and continued growth at Cingular Interactive, which provides advanced two-way messaging, customized content services and transaction applications to customers throughout the United States.
- Continued increases in digital utilization of the network. More than 90 percent of Cingular's minutes of use are now digital.

Cingular: Total Domestic Wireless Subscribers



BROAD DISTRIBUTION, STRONG BRAND

Cingular continues to drive subscriber growth through robust distribution capabilities and rapid customer acceptance of its new national brand.

- Cingular now has more than 18,000 distribution points of presence across the United States. These include 1,200 stores and kiosks, 10,500 national retail outlets and 6,800 authorized agents.
- To further energize its brand strength, in June Cingular unveiled an innovative new store design that provides shoppers with a new level of accessibility to products, services and store personnel. Cingular and its authorized agents plan to redesign and incorporate elements of the new look into 90 percent of its 7,500 retail stores by year's end.
- To expand its range of services, in June Cingular announced the national rollout of its wireless micropayment solution, Cingular DirectBill. Cingular is the first wireless carrier in the United States to offer a nationwide wireless micropayment billing service that bills purchases made by wireless phones or from the Internet to the customer's current wireless phone bill. The new service is part of Cingular's suite of mobile commerce services collectively known as Cingular's "Wireless Wallet."

Cingular Focus

- **21.2 million subscribers**
- **211 million POPs**
- **43 of top 50 U.S. markets**
- **$3.6 billion in revenues (2Q01)**
- **$1.25 billion EBITDA (2Q01)**
- **SBC ownership - 60 percent**

cingular WIRELESS

cingular WIRELESS

Cingular pro forma financial statements are available in the Investor Relations section of SBC's Web site. *www.sbc.com*

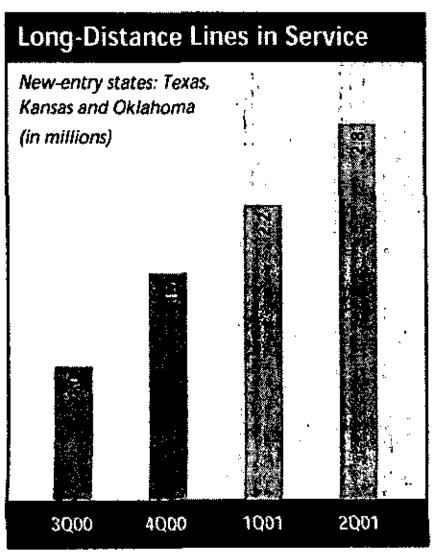
Long-Distance *growth*

SBC targets long-distance approvals in additional states this year, reaches more than 2.8 million lines in service in Texas, Kansas and Oklahoma.

SBC views interLATA long distance as a key growth driver for the future — adding to its bundles of services for residential and small-business customers, driving growth in revenues per line and expanding its ability to deliver expanded solution sets for larger enterprises.

In the second quarter, SBC continued its solid progress in expanding its long-distance growth platform:

- The company passed the 2.8-million-line mark in the three states where it has launched long distance over the past year — Texas in July 2000 and Kansas and Oklahoma in March of this year. SBC serves approximately 13 million access lines in these three states. Sales from SBC's first few months of marketing long-distance services in Kansas and Oklahoma have been consistent with its results in Texas.
- The business segment continues to perform well, representing approximately 20 percent of total sales. Within the business segment, small-business customers account for about 70 percent of sales, and medium- large-business customers combined represent the other 30 percent.



- Long distance, as part of a bundle that includes combinations of vertical services, accounts for nearly one-fourth of total consumer sales. More than 35 percent of small businesses purchase Southwestern Bell long distance as part of a bundle.

MARKETING, PRODUCT INITIATIVES

In the states where it has gained approval for market entry, SBC offers an array of long-distance products, including basic and bundled pricing; block-of-time options; and calling card and toll-free services as well as data services, such as private line, frame relay and ATM Cell Relay.

To further drive growth, SBC continues to add to its long-distance product sets, and has increased its focus on high-usage customers, including those who frequently call internationally. In May, Southwestern Bell Long Distance introduced in Kansas and Oklahoma "block-of-time" monthly plans that offer calls to Mexico for flat rates. The "SuperMexico" plans were launched in Texas in March. According to the Federal Communications Commission (FCC), Mexico is the second most frequently called international destination by U.S. consumers.

ADDITIONAL STATES

SBC continues its work toward gaining approvals for entry into additional in-region states:

- On June 27, Pacific Bell filed with the California Public Utilities Commission the long-distance application it wants to send to the FCC later this year. Based on the state commission's current schedule, SBC expects approvals to enter the California interLATA market by late this year or at the start of 2002, with Nevada expected to follow shortly thereafter.
- On June 7, SBC notified the FCC that it will provide additional evidence supporting its Missouri long-distance bid and plans to refile the company's Missouri long-distance application as soon as possible. SBC expects approvals in both Missouri and Arkansas in the fourth quarter of this year.
- In early May, Ameritech-Michigan submitted a notice of intent to file with the Michigan Public Service Commission, the next step in the long-distance approval process in that state. Independent systems-testing is under way in each of the Ameritech states, and based on current progress, Michigan is expected to be the first of those states to file an application with the FCC.

International *growth*

Continued strong revenue and customer gains expand platforms for growth and value creation.

SBC's portfolio of international investments encompasses companies with operations in 28 countries beyond the United States. Major holdings include strategic investments in Telmex; América Móvil, Latin America's largest wireless communications provider; Bell Canada; TDC, formerly Tele Danmark; Belgacom, the national telecommunications provider in Belgium; Cegetel and SFR, nationwide landline and wireless providers in France; and Telkom South Africa.

In the second quarter, SBC's International holdings continued to generate strong gains in customers and revenues as the international companies expanded their growth platforms for the future. In the second quarter, SBC's directly held international investments achieved:

- 50.7 percent annual growth in total wireless subscribers to 37.7 million.
- 3.2 percent annual growth in total landline access lines to 38.3 million.
- 23.6 percent growth in total data revenues to $1.2 billion.
- 13.0 percent growth in total revenues to $10.9 billion.

MAJOR GROWTH INITIATIVES

Across SBC's international holdings, companies in which SBC is a strategic investor continue to expand their growth potential, particularly in the major growth drivers of wireless and data services, including high-speed transport and solutions for businesses and mass-market broadband.

- Bell Canada, TDC and Belgacom all continue to make good progress in their DSL deployments aimed at bringing high-speed access to customers across their markets.
- Several companies in which SBC is a partner have made disciplined investments to obtain spectrum for 3G wireless data services. In the second quarter, SFR was awarded a 3G license in France. Later this year, TDC is expected to participate in auctions for 3G spectrum in Denmark. And earlier this year, Bell Canada acquired new licenses in Industry Canada's auction of PCS spectrum. The new licenses will allow Bell Mobility, together with its alliance partners, to deliver a full suite of current and future services to Canadians from coast to coast.

STRONG NORTH AMERICAN ALLIANCES

SBC's international alliances with and investments in Telmex, América Móvil and Bell Canada form a powerful North American growth platform. Telmex is Mexico's premier telecommunications company. América Móvil, Latin America's largest wireless communications provider, owns Telcel in Mexico and telecommunications investments in Brazil and several other countries across the region. And Bell Canada is the largest communications provider in Canada.

In the second quarter, Telmex reported 10.4 percent growth in fixed lines, a 43.8 percent increase in Internet access accounts and a 76.5 percent increase in data line equivalents in the business market. In partnership with Telmex, this month SBC's Southwestern Bell Long Distance unit launched cross-border data services — private line and frame relay — between Texas and Mexico, providing customers a single contact and a single bill.

SBC International Highlights

(Dollars in millions) *(Volumes in thousands)*	2Q01	2Q00	Change
Equity income	$ 220	$ 198	11.1%
Total access lines	38,301	37,128	3.2%
Total wireless customers	37,686	25,004	50.7%
Total revenues	$10,946	$ 9,690	13.0%
Proportionate access lines	6,656	6,681	-0.4%
Proportionate wireless customers	4,824	3,310	45.7%
Proportionate revenues	$ 1,848	$ 1,665	11.0%

Except equity income, results have been adjusted to reflect the sale of direct and indirect interests in international equity affiliated.

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SBC Communications Inc.

Consolidated Statements of Income (Unaudited)

(Dollars in Millions, Except per Share Amounts)

	Three Months Ended			Six Months Ended		
	6/30/01	6/30/00	% Change	**6/30/01**	6/30/00	% Change
Operating Revenues						
Landline local service	**$ 5,927**	$ 5,462	8.5%	**$11,495**	$10,586	8.6%
Wireless subscriber	**62**	1,648	-	**116**	3,148	-
Network access	**2,604**	2,674	-2.6%	**5,207**	5,339	-2.5%
Long distance service	**736**	767	-4.0%	**1,519**	1,562	-2.8%
Directory advertising	**947**	967	-2.1%	**1,777**	1,849	-3.9%
Other	**1,201**	1,673	-28.2%	**2,553**	3,260	-21.7%
Total Operating Revenues	**11,477**	13,191	-13.0%	**22,667**	25,744	-12.0%
Operating Expenses						
Operations and support	**6,226**	7,876	-20.9%	**12,309**	15,090	-18.4%
EBITDA*	**5,251**	5,315	-1.2%	**10,358**	10,654	-2.8%
Depreciation and amortization	**2,174**	2,317	-6.2%	**4,622**	4,580	0.9%
Total Operating Expenses	**8,400**	10,193	-17.6%	**16,931**	19,670	-13.9%
Operating Income	**3,077**	2,998	2.6%	**5,736**	6,074	-5.6%
Interest Expense	**425**	416	2.2%	**884**	772	14.5%
Interest Income	**193**	10	-	**371**	34	-
Equity in Net Income of Affiliates	**541**	189	-	**942**	389	-
Other Income (Expense) – Net	**(164)**	132	-	**(58)**	149	-
Income Before Income Taxes	**3,222**	2,913	10.6%	**6,107**	5,874	4.0%
Income Taxes	**1,143**	1,062	7.6%	**2,164**	2,201	-1.7%
Income Before Extraordinary Item	**2,079**	1,851	12.3%	**3,943**	3,673	7.4%
Extraordinary Item, net of tax	**(8)**	-	-	**(18)**	-	-
Net Income	**$ 2,071**	$ 1,851	11.9%	**$ 3,925**	$ 3,673	6.9%
Basic Earnings Per Share:						
Income Before Extraordinary Item	**$ 0.62**	$ 0.54	14.8%	**$ 1.17**	$ 1.08	8.3%
Net Income	**$ 0.62**	$ 0.54	14.8%	**$ 1.16**	$ 1.08	7.4%
Weighted Average Common Shares Outstanding (000,000)	**3,367**	3,396	-0.9%	**3,372**	3,396	-0.7%
Diluted Earnings Per Share:						
Income Before Extraordinary Item	**$ 0.61**	$ 0.54	13.0%	**$ 1.16**	$ 1.07	8.4%
Net Income	**$ 0.61**	$ 0.54	13.0%	**$ 1.15**	$ 1.07	7.5%
Weighted Average Common Shares Outstanding with Dilution (000,000)	**3,395**	3,438	-1.3%	**3,404**	3,435	-0.9%

*EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization.

SBC Communications Inc.

Consolidated Statements of Income - Normalized (Unaudited)

(Dollars in Millions, Except per Share Amounts)

	Three Months Ended			Six Months Ended		
	6/30/01	6/30/00	% Change	**6/30/01**	6/30/00	% Change
Operating Revenues						
Landline local service	**$ 5,927**	$ 5,462	8.5%	**$11,495**	$10,586	8.6%
Wireless subscriber	**1,850**	1,648	12.3%	**3,538**	3,148	12.4%
Network access	**2,592**	2,674	-3.1%	**5,184**	5,339	-2.9%
Long distance service	**736**	767	-4.0%	**1,519**	1,562	-2.8%
Directory advertising	**947**	967	-2.1%	**1,777**	1,849	-3.9%
Other	**1,534**	1,674	-8.4%	**3,217**	3,261	-1.3%
Total Operating Revenues	**13,586**	13,192	3.0%	**26,730**	25,745	3.8%
Operating Expenses						
Operations and support	**7,911**	7,760	1.9%	**15,891**	15,022	5.8%
EBITDA*	**5,675**	5,432	4.5%	**10,839**	10,723	1.1%
Depreciation and amortization	**2,459**	2,317	6.1%	**4,867**	4,509	7.9%
Total Operating Expenses	**10,370**	10,077	2.9%	**20,758**	19,531	6.3%
Operating Income	**3,216**	3,115	3.2%	**5,972**	6,214	-3.9%
Interest Expense	**447**	416	7.5%	**930**	772	20.5%
Interest Income	**92**	10	-	**171**	34	-
Equity in Net Income of Affiliates	**227**	189	20.1%	**415**	389	6.7%
Other Income (Expense) - Net	**101**	130	-22.3%	**237**	147	61.2%
Income Before Income Taxes	**3,189**	3,028	5.3%	**5,865**	6,012	-2.4%
Income Taxes	**1,116**	1,104	1.1%	**2,053**	2,178	-5.7%
Income Before Extraordinary Item	**2,073**	1,924	7.7%	**3,812**	3,834	-0.6%
Extraordinary Item, net of tax	**(8)**	-	-	**(18)**	-	-
Net Income	**$ 2,065**	$ 1,924	7.3%	**$ 3,794**	$ 3,834	-1.0%
Basic Earnings Per Share:						
Income Before Extraordinary Item	**$ 0.62**	$ 0.57	8.8%	**$ 1.13**	$ 1.13	-
Net Income	**$ 0.61**	$ 0.57	7.0%	**$ 1.13**	$ 1.13	-
Weighted Average Common Shares Outstanding (000,000)	**3,367**	3,396	-0.9%	**3,372**	3,396	-0.7%
Diluted Earnings Per Share:						
Income Before Extraordinary Item	**$ 0.61**	$ 0.56	8.9%	**$ 1.12**	$ 1.12	-
Net Income	**$ 0.61**	$ 0.56	8.9%	**$ 1.12**	$ 1.12	-
Weighted Average Common Shares Outstanding with Dilution (000,000)	**3,395**	3,438	-1.3%	**3,404**	3,435	-0.9%

*EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization.

The 2001 results reflect 60% proportional consolidation of Cingular actual results plus the residual wireless properties we hold that have not yet been contributed to Cingular. The 2000 results reflect the historical results of our wireless businesses that have been or will be contributed to Cingular.

Normalized 2001 net income excluded the following special items:

Pension settlement gains of ($189) in the second quarter and ($519) for the first six months related to management employees, primarily resulting from a fourth quarter 2000 voluntary retirement program net of costs associated with that program.

Combined charges of $261 in the second quarter and for the first six months related to valuation adjustments of Williams Communications Group and certain other cost investments accounted for under Financial Accounting Standards Board Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities."

Adjustment of ($78) in the second quarter and for the first six months to the estimate of an allowance for a note receivable related to the sale of Ameritech's SecurityLink business.

Combined charges of $205 for the first six months related to impairment of our cable operations.

Normalized 2000 net income excluded the following special items:

Pension settlement gains of ($80) in the second quarter and ($241) for the first six months primarily related to employees who terminated employment during 1999.

Costs of $153 in the second quarter and $270 for the first six months associated with strategic initiatives and other adjustments resulting from the merger integration process with Ameritech.

A charge of $132 for the first six months related to in-process research and development from the March 2000 acquisition of Sterling Commerce.

SBC Communications Inc.

Consolidated Statements of Segment Income - Normalized (Unaudited)

(Dollars in Millions)

	Three Months Ended			Six Months Ended		
	6/30/01	6/30/00	% Change	**6/30/01**	6/30/00	% Change
Wireline						
Operating Revenues						
Local service	**$ 5,923**	$ 5,467	8.3%	**$11,487**	$10,595	8.4%
Network access	**2,604**	2,696	-3.4%	**5,207**	5,384	-3.3%
Long distance service	**709**	715	-0.8%	**1,447**	1,469	-1.5%
Other	**1,097**	1,094	0.3%	**2,304**	2,153	7.0%
Total Operating Revenues	**10,333**	9,972	3.6%	**20,445**	19,601	4.3%
Operating Expenses						
Operations and support	**5,972**	5,682	5.1%	**11,980**	11,116	7.8%
EBITDA*	**4,361**	4,290	1.7%	**8,465**	8,485	-0.2%
Depreciation and amortization	**2,094**	1,931	8.4%	**4,133**	3,747	10.3%
Total Operating Expenses	**8,066**	7,613	6.0%	**16,113**	14,863	8.4%
Operating Income	**2,267**	2,359	-3.9%	**4,332**	4,738	-8.6%
Interest Expense	**311**	322	-3.4%	**656**	646	1.5%
Other Income (Expense) - Net	**7**	24	-70.8%	**21**	46	-54.3%
Income Before Income Taxes	**$ 1,963**	$ 2,061	-4.8%	**$ 3,697**	$ 4,138	-10.7%
Wireless**						
Operating Revenues						
Subscriber Revenues	**$ 1,850**	$ 1,648	12.3%	**$ 3,538**	$ 3,148	12.4%
Other	**342**	389	-12.1%	**685**	715	-4.2%
Total Operating Revenues	**2,192**	2,037	7.6%	**4,223**	3,863	9.3%
Operating Expenses						
Operations and support	**1,439**	1,348	6.8%	**2,894**	2,521	14.8%
EBITDA*	**753**	689	9.3%	**1,329**	1,342	-1.0%
Depreciation and amortization	**312**	287	8.7%	**599**	566	5.8%
Total Operating Expenses	**1,751**	1,635	7.1%	**3,493**	3,087	13.2%
Operating Income	**441**	402	9.7%	**730**	776	-5.9%
Interest Expense	**142**	85	67.1%	**284**	124	-
Equity in Net Income of Affiliates	**4**	(1)	-	**11**	-	-
Other Income (Expense) - Net	**(14)**	(46)	69.6%	**21**	(81)	-
Income Before Income Taxes	**$ 289**	$ 270	7.0%	**$ 478**	$ 571	-16.3%

**The 2001 results reflect 60% proportional consolidation of Cingular actual results plus the residual wireless properties we hold that have not yet been contributed to Cingular. The 2000 results reflect the historical results of our wireless businesses that have been or will be contributed to Cingular.

	Three Months Ended			Six Months Ended		
	6/30/01	6/30/00	% Change	**6/30/01**	6/30/00	% Change
Directory						
Operating Revenues	**$ 937**	$ 917	2.2%	**$ 1,761**	$ 1,788	-1.5%
Operating Expenses						
Operations and support	**393**	440	-10.7%	**833**	922	-9.7%
EBITDA*	**544**	477	14.0%	**928**	866	7.2%
Depreciation and amortization	**9**	7	28.6%	**18**	15	20.0%
Total Operating Expenses	**402**	447	-10.1%	**851**	937	-9.2%
Operating Income	**535**	470	13.8%	**910**	851	6.9%
Interest Expense	**2**	2	-	**2**	5	-60.0%
Other Income (Expense) - Net	**4**	4	-	**9**	9	-
Income Before Income Taxes	**$ 537**	$ 472	13.8%	**$ 917**	$ 855	7.3%
International						
Operating Revenues	**$ 55**	$ 107	-48.6%	**$ 125**	$ 168	-25.6%
Operating Expenses	**67**	118	-43.2%	**142**	207	-31.4%
Operating Income (Loss)	**(12)**	(11)	-9.1%	**(17)**	(39)	56.4%
Interest Expense	**9**	67	-86.6%	**10**	137	-92.7%
Equity in Net Income of Affiliates	**220**	198	11.1%	**397**	397	-
Other Income (Expense) - Net	**120**	74	62.2%	**227**	212	7.1%
Income Before Income Taxes	**$ 319**	$ 194	64.4%	**$ 597**	$ 433	37.9%

*EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization.

SBC Communications Inc.

Consolidated Balance Sheets (Unaudited)

(Dollars in Millions, Except per Share Amounts)

	6/30/01	12/31/00
Assets		
Current Assets		
Cash and cash equivalents	**$ 649**	$ 643
Accounts receivable - net of allowances for uncollectibles of $1,170 and $1,032	**9,208**	10,144
Prepaid expenses	**1,070**	550
Deferred income taxes	**574**	671
Other current assets	**1,073**	1,640
Total current assets	**12,574**	13,648
Property, Plant and Equipment - at cost	**123,885**	119,753
Less: Accumulated depreciation and amortization	**75,326**	72,558
Property, Plant and Equipment – Net	**48,559**	47,195
Intangible Assets – Net of Accumulated Amortization of $658 and $746	**4,957**	5,475
Investments in Equity Affiliates	**11,757**	12,378
Notes Receivable from Cingular Wireless	**5,942**	9,568
Other Assets	**12,145**	10,387
Total Assets	**$ 95,934**	$ 98,651
Liabilities and Shareowners' Equity		
Current Liabilities		
Debt maturing within one year	**$ 8,021**	$ 10,470
Accounts payable and accrued liabilities	**10,808**	15,432
Accrued taxes	**3,469**	3,592
Dividends payable	**861**	863
Total current liabilities	**23,159**	30,357
Long-Term Debt	**19,024**	15,492
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**7,410**	6,806
Postemployment benefit obligation	**9,967**	9,767
Unamortized investment tax credits	**287**	318
Other noncurrent liabilities	**4,832**	4,448
Total deferred credits and other noncurrent liabilities	**22,496**	21,339
Corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts	**—**	1,000
Shareowners' Equity		
Common shares issued ($1 par value)	**3,433**	3,433
Capital in excess of par value	**12,092**	12,125
Retained earnings	**20,544**	18,341
Guaranteed obligations of employee stock ownership plans	**(21)**	(21)
Deferred Compensation - LESOP	**—**	(37)
Treasury shares (at cost)	**(3,256)**	(2,071)
Accumulated other comprehensive income	**(1,537)**	(1,307)
Total shareowners' equity	**31,255**	30,463
Total Liabilities and Shareowners' Equity	**$ 95,934**	$ 98,651

SBC Communications Inc.

Consolidated Statement of Cash Flows (Unaudited)

(Dollars in Millions, Increase [Decrease] in Cash and Cash Equivalents)

	Six months ended	
	6/30/01	6/30/00
Operating Activities		
Net income	**$ 3,925**	$ 3,673
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**4,622**	4,580
Undistributed earnings from investments in equity affiliates	**(224)**	(142)
Provision for uncollectible accounts	**575**	415
Amortization of investment tax credits	**(31)**	(35)
Deferred income tax expense	**648**	558
Gain on sale of investments	**(224)**	(216)
Extraordinary item, net of tax	**18**	-
Changes in operating assets and liabilities:		
Accounts receivable	**336**	(575)
Other current assets	**(431)**	(371)
Accounts payable and accrued liabilities	**(2,003)**	(99)
Other - net	**(634)**	(1,052)
Total adjustments	**2,652**	3,063
Net Cash Provided by Operating Activities	**6,577**	6,736
Investing Activities		
Construction and capital expenditures	**(5,744)**	(5,341)
Investments in affiliates	**1,512**	(103)
Proceeds from short-term investments	**510**	-
Dispositions	**339**	216
Acquisitions	**—**	(3,663)
Net Cash Used in Investing Activities	**(3,383)**	(8,891)
Financing Activities		
Net change in short-term borrowings with original maturities of three months or less	**(2,402)**	4,604
Issuance of long-term debt	**5,724**	1,031
Repayment of long-term debt	**(2,415)**	(794)
Early extinguishment of corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts	**(1,000)**	-
Purchase of treasury shares	**(1,465)**	(892)
Issuance of treasury shares	**132**	172
Redemption of preferred shares of subsidiaries	**(60)**	-
Dividends paid	**(1,727)**	(1,698)
Other	**25**	50
Net Cash Provided by (Used in) Financing Activities	**(3,188)**	2,473
Net increase in cash and cash equivalents	**6**	318
Cash and cash equivalents beginning of year	**643**	495
Cash and Cash Equivalents End of Period	**$ 649**	$ 813

SBC Communications Inc.

Supplementary Financial and Operating Data (Unaudited)

(Dollars in Millions, Except per Share Amounts)

	Three Months Ended			Six Months Ended		
	6/30/01	6/30/00	% Change	**6/30/01**	6/30/00	% Change
Capital Expenditures	**$ 2,937**	$2,992	-1.8%	**$ 5,744**	$5,341	7.5%
Dividends Declared Per Share	**$0.25625**	$0.25375	1.0%	**$0.51250**	$0.50750	1.0%
End of Period Common Shares Outstanding (000,000)				**3,361**	3,392	-0.9%
Pretax interest coverage[1,4]	**9.7**	8.3	17.0%	**8.6**	8.8	-2.0%
Net cash flow to average total debt[2,4]				**24.0%**	24.3%	-28 BP
Funds from operations interest coverage[3,4]				**10.9**	10.8	1.2%
Debt Ratio				**46.4%**	46.7%	-31 BP
Total Employees				**216,600**	219,000	-1.1%
Access Lines Served (000)				**60,579**	61,233	-1.1%
Residence				**35,904**	37,291	-3.7%
Business				**24,085**	23,239	3.6%
Other				**590**	703	-16.1%
Voice Grade Equivalents (000)				**109,629**	95,286	15.1%
Residence				**42,123**	39,683	6.1%
Business				**66,916**	54,900	21.9%
Other				**590**	703	-16.1%
Resold and Rebundled Lines (000)				**3,200**	2,056	55.6%
Access Minutes of Use (000,000)	**72,738**	70,659	2.9%	**142,738**	140,134	1.9%
Cingular Wireless (Pro Forma)[5]						
Wireless Voice Customers (000)				**21,218**	18,143	16.9%
Net Adds (000)	**683**	849	-19.6%	**1,537**	1,544	-0.5%
POPs (000,000)				**192**	192	-
SBC International[6]						
Total customers of SBC International's affiliates						
Access Lines (000)				**38,301**	37,128	3.2%
Wireless (000):						
Subscribers				**37,686**	25,004	50.7%
Net Adds				**6,942**	6,423	8.1%
Total Revenues				**$ 21,666**	$18,755	15.5%
SBC's proportionate interest of SBC International's affiliates						
Access Lines (000)				**6,656**	6,681	-0.4%
Wireless (000):						
Subscribers				**4,824**	3,310	45.7%
Net Adds				**782**	736	6.3%
Total Revenues				**$ 3,643**	$3,129	16.4%

[1]Normalized pretax income and interest, excluding the interest on payables to and 60 percent proportional consolidation of Cingular Wireless (Cingular) interest.

[2]Net cash flow equals funds from operations (cash flow from operations before working capital changes) less dividends paid.

[3]The sum of funds from operations and cash paid for interest on debt divided by interest incurred on debt.

[4]Prior year amounts restated to conform with current period reporting methodology.

[5]Amounts represent the 100% pro forma results of Cingular as if Cingular had existed for all periods presented. In the second quarter and for the first six months of 2001, there were approximately 18,000 and 30,000 customers removed from Cingular's customer base due to a partitioning agreement with certain minority partners. Excluding these customers, net adds would have been approximately 701,000 and 1,567,000 in the second quarter and for the first six months of 2001.

[6]Amounts for 2001 and 2000 include our investments accounted for under the equity method in 2001. Amounts for 2000 have been restated to exclude investments no longer accounted for under the equity method.

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SBC Investor**Briefing**

SBC *Investor Briefing* is published by the Investor Relations staff of SBC Communications Inc. Requests for further information may be directed to one of the Investor Relations managers by phone (210-351-3327) or fax (210-351-2071).

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