

ORIGINAL
FILE COPY
3/16/3
d 20
183/10

**FLORIDA PUBLIC SERVICE COMMISSION
CAPITAL CIRCLE OFFICE CENTER - 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-350**

971056-TX

**APPLICATION FORM
for**

**AUTHORITY TO PROVIDE ALTERNATIVE LOCAL EXCHANGE SERVICE
WITHIN THE STATE OF FLORIDA**

INSTRUCTIONS

1. This form is used for an original application for a certificate and for approval of sale, assignment or transfer of an existing alternative local exchange certificate. In case of a sale, assignment or transfer, the information provided shall be for the purchaser, assignee or transferee.
2. Respond to each item requested in the application and appendices. If an item is not applicable, please explain why.
3. Use a separate sheet for each answer which will not fit the allotted space.
4. If you have questions about completing the form, contact:

**Florida Public Service Commission
Division of Communications, Certification & Compliance Section
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0866
(904) 413-6600**

5. Once completed, submit the original and six (6) copies of this form along with a non-refundable application fee of \$250 made payable to the Florida Public Service Commission at the above address.

Check received with filing and
forwarded to Fiscal for deposit.
Fiscal to forward a copy of check
to RAR with proof of deposit.

Initials of person who forwarded check:

[Signature]

DOCUMENT NUMBER-DATE

08273 AUG 15 86

FILED-RECORDS/REPORTING

1. This is an application for (check one):

☒ **Original authority (new company)**

☐ **Approval of transfer (to another certificated company)**

Example, a certificated company purchases an existing company and desires to retain the original certificate authority.

☐ **Approval of assignment of existing certificate (to a noncertificated company)**

Example, a non-certificated company purchases an existing company and desires to retain the certificate of authority rather than apply for a new certificate.

☐ **Approval for transfer of control (to another certificated company)**

Example, a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

2. Name of applicant:

BellSouth BSE, Inc.

3. Name under which applicant will be doing business (d/b/a):

BellSouth BSE, Inc.

4. If applicable, please provide proof of fictitious name (d/b/a):

Fictitious name registration number: Not applicable

5. A. National mailing address including street name, number, post office box, city, state, zip code, and phone number.

Suite 500
1100 Peachtree Street, N.E.
Atlanta, Georgia 30309-4599
(404) 249-2080

B. Florida mailing address including street name, number, post office box, city, state, zip code, and phone number.

c/o Akerman, Senterfitt & Eidson, P.A.
216 South Monroe Street
Suite 200
Post Office Box 10555
Tallahassee, Florida 32301-1859 (street address)
32302-2555 (P.O. Box)

6. Structure of organization:

- | | |
|---|---|
| <input type="checkbox"/> Individual | <input type="checkbox"/> Corporation |
| <input checked="" type="checkbox"/> Foreign Corporation | <input type="checkbox"/> Foreign Partnership |
| <input type="checkbox"/> General Partnership | <input type="checkbox"/> Limited Partnership |
| <input type="checkbox"/> Joint Venture | <input type="checkbox"/> Other, Please explain) _____ |

7. If applicant is an individual, partnership, or joint venture, please give name, title and address of each legal entity.

Not applicable.

8. State whether any of the officers, directors, or any of the ten largest stockholders have previously been adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. If so, please explain.

Neither any of the officers, directors nor any of the ten largest stockholders of the Applicant is covered by any of the foregoing.

9. If incorporated, please provide proof from the Florida Secretary of State that the applicant has authority to operate in Florida.

Corporate charter number: F97000003920

For the Commission's convenience, attached to this Application as Exhibits Q - 9(A) through (D) are the certificate of the Department of State evidencing the Applicant's qualification to do business in the State of Florida.

10. Please provide the name, title, address, telephone number, internet address, and facsimile number for the person serving as ongoing liaison with the Commission, and if different, the liaison responsible for this application.

Ongoing liaison:

Robert C. Scheye
Vice President - Supplier
Development and
Business Relations
(effective no earlier than 11/1/97)
BellSouth BSE, Inc.
Suite 500
1100 Peachtree Street, N.E.
Atlanta, Georgia 30309-4599
(404) 420-8327 (phone)
(404) 420-0031 (facsimile)
Internet address:
Bob.Scheye2@bridge.bellsouth.com

Liaison responsible for application:

Harry M. Lightsey, III
Vice President - General Counsel,
External Affairs and Secretary
BellSouth BSE, Inc.
Suite 500
1100 Peachtree Street, N.E.
Atlanta, Georgia 30309-4599
(404) 249-2080 (phone)
(404) 249-2088 (facsimile)
Internet address:
Lightsey.Harry@bsc.bellsouth.net

11. Please list other states in which the applicant is currently providing or has applied to provide local exchange or alternative local exchange service.

Applicant is not currently providing local exchange or alternative local exchange service in any other state. Applicant has applied to provide local exchange or alternative local exchange service in Indiana, Illinois and Ohio.

12. Has the applicant been denied certification in any other state? If so, please list the state and reason for denial.

The applicant has not been denied certification in any other state.

13. Have penalties been imposed against the applicant in any other state? If so, please list the state and reason for penalty.

No penalties have been imposed against the applicant in any other state.

14. Please indicate how a customer can file a service complaint with your company.

BellSouth BSE, Inc. will provide customers with a toll free 800 number or similar access at no charge to end user customer. The method of access will be included on customer bills and bill inserts. The access number will be available 24 hours per day, 7 days per week.

15. Please complete and file a price list in accordance with Commission Rule 25-4-285.

Prior to providing service, the applicant will file and maintain a current price list with the Commission which will clearly set forth the information required by Commission Rule 25-4-285. For the Commission's convenience, attached as Exhibit Q - 15 is an illustrative price list in substantially the form of the price list to be filed by Applicant as stated above.

16. Please provide all available documentation demonstrating that the applicant has the following capabilities to provide alternative local exchange service in Florida.

A. Financial capability.

Regarding the showing of financial capability, the following applies:

The application should contain the applicant's financial statements for the most recent 3 years, including:

1. the balance sheet
2. income statement
3. statement of retained earnings.

Further, a written explanation, which can include supporting documentation, regarding the following should be provided to show financial capability.

1. Please provide documentation that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.
2. Please provide documentation that the applicant has sufficient financial capability to maintain the requested service.
3. Please provide documentation that the applicant has sufficient financial capability to meet its lease or ownership obligations.

NOTE: This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.

If available, the financial statements should be audited financial statements.

If the Applicant does not have audited financial statements, it shall be so stated. The unaudited financial statements should then be signed by the Applicant's chief executive officer and chief. The signatures should attest that the financial statements are true and correct

BellSouth BSE, Inc. is a start-up company. Thus, the availability of historical audited financial information is limited. Set forth on the attached Exhibit Q - 16A(1) and A(2) are a Preliminary Projected Income Statement and Balance Sheet, respectively, for the Company, covering the period from 1997 through 2002. The Applicant is a wholly owned subsidiary of BellSouth BSE Holdings, Inc., which is a wholly owned subsidiary of BellSouth Corporation. The Applicant is relying on the financial strength of BellSouth Corporation as represented by the consolidated financial statements contained in the Annual Report for 1996 (Exhibit Q - 16(A)(3), attached hereto) and Securities and Exchange Commission 10-K Report for 1996 (Exhibit Q - 16A(4), attached hereto).

B. Managerial capability.

The Applicant's local exchange operations will be conducted under the direction of a highly skilled management team. Relevant biographies of the company's current management are attached as Exhibit Q - 15 B.

C. Technical capability.

(If you will be providing local intra-exchange switched telecommunications service, then state how you will provide access to 911 emergency services. If the nature of the emergency 911 service access and funding mechanism is not equivalent to that provided by the local exchange companies in the areas to be served, describe in detail the difference.)

See Exhibit Q - 16 B for a description of the capabilities of the Applicant's senior management team.

BellSouth BSE, Inc. is technically qualified to provide local exchange services in Florida. The Applicant will utilize the facilities of the incumbent local exchange

carriers ("ILECs"), competitive access providers, where available, and its own facilities, as appropriate, to provide local exchange telephone and switched access service. The various features and functions available to customers of the ILECs will initially be available to the Applicant's customers through resold services. It is Applicant's intention to augment its service offerings in the future, adding new services as they become available from the ILECs and as the Applicant uses its own facilities to provide services. When the Applicant offers local exchange services and exchange access services over its own facilities, it will provide access to specific types of services, including two-way lines, trunks, direct inward/outward dialing options, basic custom calling features, and wireless services.

Because BellSouth BSE, Inc. will initially offer resold service of the ILECs, it will rely on the ILECs to provide access to 911 emergency service. The Applicant is familiar and will comply with all rules and regulations of the Commission pertaining to 911 emergency services and will ensure that such services will be readily accessible to its customers in Florida.

Except for those territories served by small local exchange companies subject to earnings based regulation, as provided in Section 364.337(1), Florida statutes, BellSouth BSE, Inc. will provide dial tone access to the public switched telecommunications network statewide.

AFFIDAVIT

By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange service in the State of Florida. I have read the foregoing and declare that to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

Further, I am aware that pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775.083."

Official:


Signature

8/13/97

Date

Title:

Vice President - General Counsel,
External Affairs and Secretary

(404) 249-2080

Telephone Number

Address:

1100 Peachtree Street, N.E.
Suite 500
Atlanta, Georgia 30309-4599

State of Florida



Department of State

I certify from the records of this office that BELLSOUTH BSE, INC., is a corporation organized under the laws of Delaware, authorized to transact business in the State of Florida, qualified on July 25, 1997.

The document number of this corporation is F97000003920.

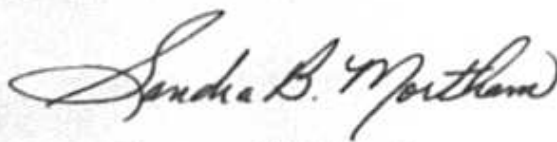
I further certify that said corporation has paid all fees and penalties due this office through December 31, 1997, and its status is active.

I further certify that said corporation has not filed a Certificate of Withdrawal.

Given under my hand and the
Great Seal of the State of Florida,
at Tallahassee, the Capital, this the
First day of August, 1997



CR2EO22 (1-95)

A handwritten signature in cursive script, reading "Sandra B. Northam".

Sandra B. Northam
Secretary of State



Department of State

I certify the attached is a true and correct copy of the complete file of BELLSOUTH BSE, INC., a corporation organized under the laws of Delaware, authorized to transact business in the State of Florida, as shown by the records of this office.

The document number of this corporation is F97000003920.

Given under my hand and the
Great Seal of the State of Florida,
at Tallahassee, the Capitol, this the
First day of August, 1997



CR2EQ22 (2-95)

Sandra B. Northam

Sandra B. Northam
Secretary of State



F97000003920

ACCOUNT NO. : 072100000032

REFERENCE : 464304 4323887

AUTHORIZATION :

Patricia Pygott

COST LIMIT : \$ 70.00

ORDER DATE : July 16, 1997

ORDER TIME : 9:50 AM

ORDER NO. : 464304-005

500002247625--8

CUSTOMER NO: 4323887

CUSTOMER: Ms. Joyce Irvine
Bellsouth Enterprises, Inc.
Suite 1800
1155 Peachtree Street, N. E.
Atlanta, GA 30309-3610

FOREIGN FILINGS

NAME: BELLSOUTH BSE, INC.

97 JUL 25 PM 12:00
SECRETARY OF STATE
TALLAHASSEE, FLORIDA

FILED

XXXX QUALIFICATION (TYPE: CO)

PLEASE RETURN THE FOLLOWING AS PROOF OF FILING:

 CERTIFIED COPY
XX PLAIN STAMPED COPY
 CERTIFICATE OF GOOD STANDING

CONTACT PERSON: Stephanie Stscherban

97 JUL 25 PM 11:27
RECEIVED

**APPLICATION BY FOREIGN CORPORATION FOR AUTHORIZATION
TO TRANSACT BUSINESS IN FLORIDA**

**IN COMPLIANCE WITH SECTION 607.1503, FLORIDA STATUTES, THE FOLLOWING IS
SUBMITTED TO REGISTER A FOREIGN CORPORATION TO TRANSACT BUSINESS IN THE
STATE OF FLORIDA:**

1. BellSouth BSE, Inc.
(Name of corporation: must include the word "INCORPORATED", "COMPANY", "CORPORATION" or words or abbreviations of like import in language as will clearly indicate that it is a corporation instead of a natural person or partnership if not so contained in the name at present.)
2. Delaware
(State or country under the law of which it is incorporated)
3. Applied For
(FEI number, if applicable)
4. July 16, 1997
(Date of Incorporation)
5. Perpetual
(Duration: Year corp. will exist to that of "perpetual")
6. Has not transacted business in Florida.
(Date first transacted business in Florida. (SEE SECTIONS 607.1501, 607.1502, AND 817.153, F.S.))
7. Suite 1800, 1155 Peachtree Street, N.E.
Atlanta, Georgia 30309-3610
(Current mailing address)
8. Telecommunications and other services
(Purpose(s) of corporation authorized in home state or country to be carried out in the state of Florida)
9. **Name and street address of Florida registered agent: (P.O. Box or Mail Drop Box NOT acceptable)**

Name: The Prentice-Hall Corporation System, Inc.

Office Address: 1201 Hays Street
Tallahassee, Florida, 32301
(Zip Code)

10. Registered agent's acceptance:

Having been named as registered agent and to accept service of process for the above stated corporation at the place designated in this application, I hereby accept the appointment as registered agent and agree to act in this capacity. I further agree to comply with the provisions of all statutes relative to the proper and complete performance of my duties, and I am familiar with and accept the obligations of my position as registered agent.

Corporation Service Company

By: _____
(Registered agent's signature)

11. Attached is a certificate of existence duly authenticated, not more than 90 days prior to delivery of this application to the Department of State, by the Secretary of State or other official having custody of corporate records in the jurisdiction under the law of which it is incorporated.

12. Names and addresses of officers and/or directors: (Street address ONLY- P. O. Box NOT acceptable)

A. DIRECTORS (Street address only- P. O. Box NOT acceptable)

Chairman: See Attachment

Address: _____

Vice Chairman: _____

Address: _____

Director: _____

Address: _____

Director: _____

Address: _____

B. OFFICERS (Street address only- P. O. Box NOT acceptable)

President: See Attachment

Address: _____

Vice President: _____

Address: _____

Secretary: _____

Address: _____

Treasurer: _____

Address: _____

NOTE: If necessary, you may attach an addendum to the application listing additional officers and/or directors.

13. Hubert H. Hogeman
(Signature of Chairman, Vice Chairman, or any officer listed in number 12 of the application)

14. Hubert H. Hogeman, Vice President
(Typed or printed name and capacity of person signing application)

BELLSOUTH BSE, INC.

ATTACHMENT TO APPLICATIONS FOR AUTHORITY

DIRECTORS

Earle Mauldin

Business: Suite 1000
1100 Peachtree Street, N.E.
Atlanta, Georgia 30309-4599
Residence: 5425 Chelsen Wood Drive
Duluth, Georgia 30136
DOB: 12/20/40
SSN: 251-68-0717

OFFICERS

John M. Doscher, President

Business: Suite 5HO1
1100 Peachtree Street, N.E.
Atlanta, Georgia 30309-4599
Residence: 3127 Vinings Ridge Drive
Atlanta, Georgia 30339
DOB: 06/15/44
SSN: 551-60-3145

Hubert H. Hogeman, Vice President, Secretary and General Counsel

Business: Suite 5HO1
1100 Peachtree Street, N.E.
Atlanta, Georgia 30309-4599
Residence: 3841 Glenhurst Drive
Smyrna, Georgia 30080
(770) 432-8617
DOB: 11/07/56
SSN: 041-60-5132

Gary L. Walton, Treasurer

Business: Suite 1925
1155 Peachtree Street, N.E.
Atlanta, Georgia 30309-3610
Residence: 4348 Allenhurst Dr.
Norcross, GA 30092
(770) 446-0790
DOB: 10/01/47
SSN: 415-80-5712

Joyce Clower Irvine, Asst. Secretary

Business: Suite 1800
1155 Peachtree Street, N.E.
Atlanta, Georgia 30309-3610

Residence: 1849 Old Jackson Rd.
Locust Grove, GA 30248
(770) 914-8103


DOB: 06/28/52

SSN: 253-92-9026

Sandra B. Mortham, Secretary of State

**DESIGNATION OF REGISTERED AGENT AND REGISTERED OFFICE FOR
ALIEN BUSINESS ORGANIZATION OR FOREIGN CORPORATION**

PURSUANT TO SECTION 607.0505, FLORIDA STATUTES, THE UNDERSIGNED ALIEN BUSINESS ORGANIZATION OR FOREIGN CORPORATION SUBMITS THE FOLLOWING STATEMENT IN ORDER TO DESIGNATE ITS REGISTERED AGENT AND REGISTERED OFFICE IN THE STATE OF FLORIDA:

1. BellSouth BSE, Inc.
(Name of alien business organization or foreign corporation)
 2. Delaware
(State or country under which entity is organized)
 3. Applied For
(FEID Number, if applicable)
 4. Suite 1800, 1155 Peachtree Street, N.E., Atlanta, Georgia 30309-3610
(Principal office address)
 5. Name and Florida street address of registered agent.
The Prentice-Hall Corporation System, Inc.
1201 Hays Street
Tallahassee, Florida 32301
 6. The street address of the registered office and the street address of the business office of the registered agent are identical.
 7. 
(Signature of chairman, vice chairman, or officer)
 8. Hubert H. Hogeman, Vice President
(Name and capacity of person signing in number 7 above)
 9. Signature of registered agent:
I hereby accept the appointment as registered agent. I am familiar with and accept the obligations of section 607.0505, Florida Statutes.
Corporation Service Company
- By: _____
(Registered agent accepting appointment)
- _____
(Date)

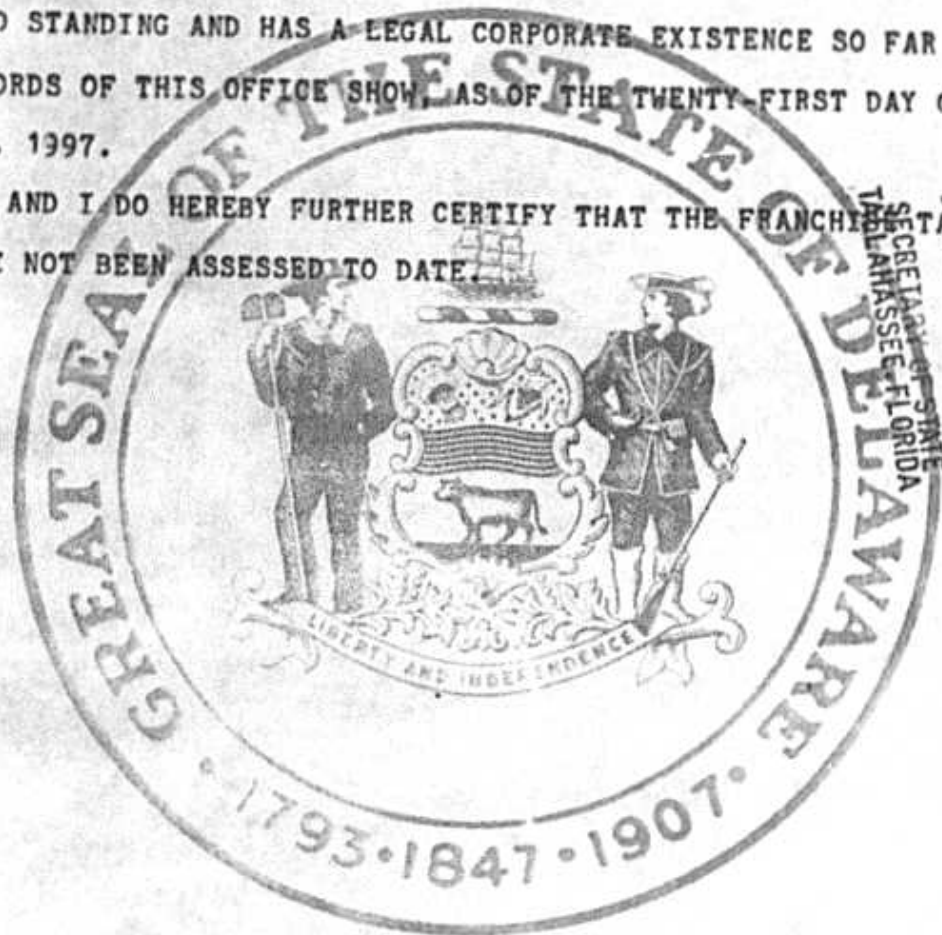
THE FILING OF THIS ALIEN BUSINESS ORGANIZATION FORM WITH THE FLORIDA DEPARTMENT OF STATE DOES NOT AUTHORIZE THE ABOVE REFERENCED ENTITY TO TRANSACT BUSINESS IN THE STATE OF FLORIDA.

FILING FEE \$35

Office of the Secretary of State

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "BELLSOUTH BSE, INC." IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE TWENTY-FIRST DAY OF JULY, A.D. 1997.

AND I DO HEREBY FURTHER CERTIFY THAT THE FRANCHISE TAXES HAVE NOT BEEN ASSESSED TO DATE.



FILED

9 JUL 25 PM 12:00

SECRETARY OF STATE
TALLAHASSEE, FLORIDAEdward J. Freel, Secretary of State

2773859 8300

971240774

AUTHENTICATION: 8567004

DATE: 07-21-97

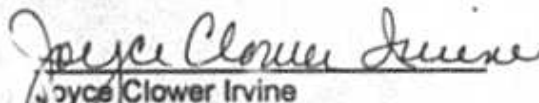
BELLSOUTH BSE, INC.

SECRETARY'S CERTIFICATE

The undersigned, Joyce Clower Irvine, Assistant Secretary of BellSouth BSE, Inc., a United States corporation duly organized on the 16th day of July, 1997, and validly existing under the laws of the State of Delaware (the "Company"), does hereby certify:

1. That she is a duly elected, qualified and acting Assistant Secretary of the Company and that she has the custody of the corporate records, corporate minutes and corporate seal.
2. That attached hereto as Exhibit "A" is a true, correct and complete copy of the By-Laws of the Company which are in full force and effect on the date hereof. No proposal for any amendment to the By-Laws of the Company is currently pending.
3. That she is one of the fully authorized and proper officers of such Company to make certificates in its behalf and that she has caused this Certificate to be executed and the seal of the Company to be hereunto appended as of the day of August, 1997.

BELLSOUTH BSE, INC.


Joyce Clower Irvine
Assistant Secretary

[Corporate Seal]



BYLAWS
OF
BELLSOUTH BSE, INC.
(a Delaware corporation)

ARTICLE I

STOCKHOLDERS

Section 1. Stockholder Meetings. The annual meeting of the stockholders for the election of Directors and for the transaction of such other business as may properly come before the meeting shall be held at such place, within or without the State of Delaware, on such date and at such time as the Board of Directors may by resolution provide, or if the Board of Directors fails to provide, then such meeting shall be held at the principal office of the Company at 10:00 A.M. on the fourth Monday in March of each year, or, if such date is a legal holiday, on the next succeeding business day. The Board of Directors may specify by resolution prior to any special meeting of stockholders held within the year that such meeting shall be in lieu of the annual meeting.

Section 2. Special Meetings. A special meeting shall be held on the date and at the time fixed by the directors. Special meetings shall be held at such place, within or without the State of Delaware, as the directors may, from time to time, fix. Special meetings may be called by the directors or by any officer instructed by the directors to call the meeting.

Section 3. Notice; Waiver of Notice. Written notice of all meetings shall be given, stating the place, date, and hour of the meeting and stating the place within the city or other municipality or community at which the list of stockholders of the corporation may be examined. The notice of an annual meeting shall state that the meeting is called for the election of directors and for the transaction of other business which may properly come before the meeting, and shall (if any other action which could be taken at a special meeting is to be taken at such annual meeting) state the purpose or purposes. The notice of a special meeting shall in all instances state the purpose or purposes for which the meeting is called. The notice of any meeting shall also include, or be accompanied by, any additional statements, information, or documents prescribed by the General Corporation Law of the State of Delaware. Except as otherwise provided by the General Corporation Law of the State of Delaware, a copy of the notice of any meeting shall be given, personally or by mail, not less than ten days nor more than sixty days before the date of the meeting, unless the lapse of the prescribed period of time shall have been waived, and directed to each stockholder at his record address or at such other address which he may have furnished by request in writing to the Secretary of the corporation. Notice by mail shall be deemed to be given when deposited, with postage thereon prepaid, in the United States Mail. If a meeting is adjourned to another time, not more than thirty days hence, and/or to another place, and if an announcement of the adjourned time and/or place is made at the meeting, it shall not be necessary to give notice of the adjourned meeting unless the directors, after adjournment, fix a new record date for the adjourned meeting. Notice need not be given to any stockholder who submits a written waiver of notice signed by him before or

after the time stated therein. Attendance of a stockholder at a meeting of stockholders shall constitute a waiver of notice of such meeting, except when the stockholder attends the meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice.

Section 4. Meaning of Certain Terms. As used herein in respect of the right to notice of a meeting of stockholders or a waiver thereof or to participate or vote thereat or to consent or dissent in writing in lieu of a meeting, as the case may be, the term "share" or "shares" or "share of stock" or "shares of stock" or "stockholder" or "stockholders" refers to an outstanding share or shares of stock and to a holder or holders of record of outstanding shares of stock when the corporation is authorized to issue only one class of shares of stock, and said reference is also intended to include any outstanding share or shares of stock and any holder or holders of record of outstanding shares of stock of any class upon which or upon whom the certificate of incorporation confers such rights where there are two or more classes or series of shares of stock or upon which or upon whom the General Corporation Law of the State of Delaware confers such rights notwithstanding that the certificate of incorporation may provide for more than one class or series of shares of stock, one or more of which are limited or denied such rights thereunder; provided, however, that no such right shall vest in the event of an increase or a decrease in the authorized number of shares of stock of any class or series which is otherwise denied voting rights under the provisions of the certificate of incorporation, except as any provision of law may otherwise require.

Section 5. Quorum. The holders of a majority of the outstanding shares of stock shall constitute a quorum at a meeting of stockholders for the transaction of any business. The stockholders present may adjourn the meeting despite the absence of a quorum.

Section 6. Voting. Each share of stock shall entitle the holders thereof to one vote. Directors shall be elected by a plurality of the votes of the shares of stock present in person or represented by proxy at the meeting and entitled to vote on the election of directors. Any other action shall be authorized by a majority of the votes cast except where the General Corporation Law of the State of Delaware prescribes a different percentage of votes and/or a different exercise of voting power, and except as may be otherwise prescribed by the provisions of the certificate of incorporation and these Bylaws. In the election of directors, and for any other action, voting need not be by ballot.

Section 7. Proxy Representation. Every stockholder may authorize another person or persons to act for him by proxy in all matters in which a stockholder is entitled to participate, whether by waiving notice of any meeting, voting or participating at a meeting, or expressing consent or dissent without a meeting. Every proxy must be signed by the stockholder or by his attorney-in-fact. No proxy shall be voted or acted upon after eleven (11) months from its date unless such proxy provides for a longer

period. A duly executed proxy shall be irrevocable if it states that it is irrevocable and, if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A proxy may be made irrevocable regardless of whether the interest with which it is coupled is an interest in the stock itself or an interest in the corporation generally.

Section 8. Conduct of Meeting. Meetings of the stockholders shall be presided over by one of the following officers in the order of seniority and if present and acting - the Chairman of the Board, if any, the Vice-Chairman of the Board, if any, the President, a Vice-President, or, if none of the foregoing is in office and present and acting, by a chairman to be chosen by the stockholders. The Secretary of the corporation, or in his absence, an Assistant Secretary, shall act as secretary of every meeting, but if neither the Secretary nor an Assistant Secretary is present the Chairman of the meeting shall appoint a secretary of the meeting.

Section 9. Stockholder Action Without Meeting. Any action required by the General Corporation Law of the State of Delaware to be taken at any annual or special meeting of stockholders, or any action which may be taken at any annual or special meeting of stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares of stock entitled to vote thereon were present and voted. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing. Action taken pursuant to this paragraph shall be subject to the provisions of Section 228 of the General Corporation Law of the State of Delaware.

Section 10. Inspectors. The directors, in advance of any stockholder meeting, may, but need not, appoint one or more inspectors of election to act at the stockholder meeting or any adjournment thereof. If an inspector or inspectors are not appointed, the person presiding at the stockholder meeting may, but need not, appoint one or more inspectors. In case any person who may be appointed as an inspector fails to appear or act, the vacancy may be filled by appointment made by the directors in advance of the stockholder meeting or at the stockholder meeting by the person presiding thereat. Each inspector, if any, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspectors at such stockholder meeting with strict impartiality and according to the best of his ability. The inspectors, if any, shall determine the number of shares of stock outstanding and the voting power of each, the shares of stock represented at the meeting, the existence of a quorum, the validity and effect of proxies, and shall receive votes, ballots, or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots, or consents, determine the result, and do such acts as are proper to conduct the election or vote with fairness to all stockholders. On request of the person presiding at the meeting, the inspector or inspectors, if any, shall make a report in writing of any challenge, question, or matter determined by him or

them and execute a certificate of any fact found by him or them. Except as otherwise required by subsection (e) of Section 231 of the General Corporation Law of the State of Delaware, the provisions of that Section shall not apply to the corporation.

ARTICLE II

DIRECTORS

Section 1. Functions and Definition. The business and affairs of the corporation shall be managed by or under the direction of the Board of Directors of the corporation. The Board of Directors shall have the authority to fix the compensation of the members thereof. The use of the phrase "whole board" herein refers to the total number of directors which the corporation would have if there were no vacancies.

Section 2. Composition of the Board. The Board of Directors of the Company shall consist of not less than one nor more than nine natural persons of the age of eighteen years or over. Directors need not be residents of the State of Delaware or stockholders of the Company. At each annual meeting the stockholders shall fix the number of Directors and elect the Directors, who shall serve until their successors are elected and qualified; provided that the stockholders may, by the affirmative vote of the holders of a majority of the shares of stock entitled to vote at an election of Directors, increase the number of Directors and elect additional Directors at any time and may reduce the number of Directors and remove Directors with or without cause at any time. The Board of Directors may, at its discretion, designate a Chairman from among its members at any time.

Section 3. Election and Term. The first Board of Directors, unless the members thereof shall have been named in the certificate of incorporation, shall be elected by the incorporator or incorporators and shall hold office until the first annual meeting of stockholders and until their successors are elected and qualified or until their earlier resignation or removal. Any director may resign at any time upon written notice to the corporation. Thereafter, directors who are elected at an annual meeting of stockholders, and directors who are elected in the interim to fill vacancies and newly created directorships, shall hold office until the next annual meeting of stockholders and until their successors are elected and qualified or until their earlier resignation or removal.

Section 4. Meetings of the Board; Notice of Meetings; Waiver of Notice. Meetings shall be held at such time as the Board shall fix, except that the first meeting of a newly elected Board shall be held as soon after its election as the directors may conveniently assemble. Meetings shall be held at such place within or without the State of Delaware as shall be fixed by the Board. No call shall be required for regular meetings for which the time and place have been fixed. Special meetings may be called by or at the direction of the Chairman of the Board, if any, the Vice-Chairman of the Board, if any, of the President, or of a majority of the directors in office. No notice shall be required for regular meetings for which the time and place have been fixed. Written,

oral, or any other mode of notice of the time and place shall be given for special meetings in sufficient time for the convenient assembly of the directors thereat. Notice need not be given to any director or to any member of a committee of directors who submits a written waiver of notice signed by him before or after the time stated therein. Attendance of any such person at a meeting shall constitute a waiver of notice of such meeting, except when he attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the directors need be specified in any written waiver of notice.

Section 5. Quorum and Action. A majority of the whole Board shall constitute a quorum except when a vacancy or vacancies prevents such majority, whereupon a majority of the directors in office shall constitute a quorum, provided, that such majority shall constitute at least one-third of the whole Board. A majority of the directors present, whether or not a quorum is present, may adjourn a meeting to another time and place. Except as herein otherwise provided, and except as otherwise provided by the General Corporation Law of the State of Delaware, the vote of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board. The quorum and voting provisions herein stated shall not be construed as conflicting with any provisions of the General Corporation Law of the State of Delaware and these Bylaws which govern a meeting of directors held to fill vacancies and newly created directorships in the Board or action of disinterested directors. Any member or members of the Board of Directors or of any committee designated by the Board, may participate in a meeting of the Board, or any such committee, as the case may be, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other.

Section 6. Chairman of the Meeting. The Chairman of the Board, if any and if present and acting, shall preside at all meetings. Otherwise, the Vice-Chairman of the Board, if any and if present and acting, or the President, if present and acting, or any other director chosen by the Board, shall preside.

Section 7. Removal of Directors. Except as may otherwise be provided by the General Corporation Law of the State of Delaware, any director or the entire Board of Directors may be removed, with or without cause, by the holders of a majority of the shares of stock then entitled to vote at an election of directors.

Section 8. Vacancies. A vacancy occurring in the Board of Directors by reason of the removal of a Director by the stockholders shall be filled by the stockholders, or, if authorized by the stockholders, by the remaining Directors. Any other vacancy occurring in the Board of Directors may be filled by the affirmative vote of a majority of the remaining Directors though less than a quorum of the Board of Directors, or by the sole remaining Director, as the case may be, or, if the vacancy is not so filled, or if no Director remains, by the stockholders. A Director elected to fill a vacancy shall serve

for the unexpired term of such Director's predecessor in office until the next election of Directors by the stockholders and the election and qualification of the successor.

Section 9. Committees. The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of one or more of the directors of the corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of any member of any such committee or committees, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board, shall have and may exercise the powers and authority of the Board of Directors in the management of the business and affairs of the corporation with the exception of any authority the delegation of which is prohibited by Section 141 of the General Corporation Law of the State of Delaware, and may authorize the seal of the corporation to be affixed to all papers which may require it.

Section 10. Executive Committee. The Chairman of the Board, if there is one, or the President shall be a member of the Executive Committee. The Executive Committee shall, except as otherwise provided herein, by law or by resolution of the Board of Directors, have all the authority of the Board of Directors during the intervals between the meetings of the Board of Directors. Minutes of all meetings of the Executive Committee shall be kept and recorded by the Secretary, and shall be from time to time reported to the Board of Directors. The Board of Directors may designate from time to time one or more Directors as alternate members of the Executive Committee or of any other committee, who may replace any absent member or members at any meeting of the committee.

Section 10. Telephone Conference Meetings. Members of the Board of Directors, or any committee designated by the Board of Directors, may participate in a meeting of the Board or committee by means of telephone conference or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section shall constitute presence in person at such meeting.

Section 12. Action of the Board Without a Meeting. Any action required or permitted to be taken at any meeting of the Board of Directors or any committee thereof may be taken without a meeting if all members of the Board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board or committee.

ARTICLES III

EXECUTIVE STRUCTURE OF THE COMPANY

Section 1. Executive Structure of the Company. The officers of the Company shall be elected by the Board of Directors, or appointed by the Board of Directors, the Chairman of the Board or the President pursuant to Section 10 of this Article III, and shall consist of a Chairman of the Board, President, such number of Executive Vice Presidents and Vice Presidents as the Board of Directors shall from time to time determine, a Secretary, a Treasurer and such assistants or other officers as may be so elected or appointed. Each officer shall hold office for the term for which such officer has been elected or appointed and until such officer's successor has been elected or appointed and has been qualified, or until such officer's earlier resignation, removal from office or death. Any number of offices may be held by the same person, as the directors may determine.

Section 2. Chairman of the Board. The Chairman of the Board shall be the chief executive officer of the Company and shall give overall supervision to the strategic and financial affairs of the Company, subject to the discretion of the Board of Directors. The Chairman of the Board shall preside at all meetings of the stockholders, the Board of Directors or the Executive Committee at which he is present.

Section 3. President. The President shall be the chief operating officer of the Company and shall give general supervision and direction to the affairs of the Company, subject to the direction of the Board of Directors. If there be no Chairman of the Board, or in the absence of the Chairman of the Board, the President shall have the powers described in Section 2 of this Article III and shall preside at all meetings of the stockholders, the Board of Directors and Executive Committee at which he is present. Subject to the overall discretion of the Chairman of the Board, the President shall have the power to make and execute contracts, deeds and other instruments on behalf of the Company and to delegate such powers to others. The President shall be empowered at any time and from time to time to issue and promulgate rules, regulations and directives relating to the conduct of the business and affairs of the Company, and the Secretary of the Company shall maintain a record of such rules, regulations and directives. Rules, regulations and directives so issued shall be available at any time to the Board of Directors and, subject to the authority of the Board of Directors at any time to amend, suspend or repeal any or all of such rules, regulations or directives, shall evidence the authority of the officers and employees named therein to act on behalf of the Company with respect to the matters set forth therein.

Section 4. Vice Presidents. The Vice Presidents, except as provided for elsewhere herein, shall have such authority and perform such duties as may be conferred upon or assigned to them by the Board of Directors, the Chairman of the Board or the President. In the case of absence or disability of the President, the duties of the office shall be performed by such Vice President or other officer of the Company

as the Board of Directors, the Chairman of the Board or the President may have designated.

Section 5. Secretary. The Secretary shall send all requisite notices of meetings of the stockholders and the Board of Directors. The Secretary shall attend all meetings of the stockholders and the Board of Directors, and shall keep a true and faithful record of the proceedings. The Secretary shall have custody of the seal of the Company, and of all records, books, documents, and papers of the Company, except those required to be in the custody of the Treasurer, and except such subsidiary records as may be kept in departmental offices. The Secretary shall sign and execute all documents which require the Secretary's signature and execution, and shall affix the seal of the Company thereto and attest the same when necessary. Assistant Secretaries shall have such of the authority and perform such of the duties of the Secretary as may be provided in these Bylaws or assigned to them by the Board of Directors or by the Secretary. During the Secretary's absence or inability, the Secretary's authority and duties shall be possessed by such Assistant Secretary or Assistant Secretaries as the Board of Directors or the Secretary may designate.

Section 6. Treasurer. The Treasurer shall receive and have charge of all funds and securities of the Company. The Treasurer shall deposit the funds to the credit of the Company in such depositories as shall be approved from time to time by the Board of Directors, the Chairman of the Board, the President or the Treasurer, and the Treasurer shall disburse the same under such rules and regulations as the Board of Directors may adopt. The Treasurer shall have the power to make and execute evidences of indebtedness on behalf of the Company. The Treasurer shall keep full and regular books showing all of the Treasurer's receipts and disbursements, which books shall be open at all times to the inspection of the President or of any member of the Board of Directors; and the Treasurer shall make such reports as the Board of Directors, the Chairman of the Board or the President may require. Assistant Treasurers shall have such of the authority and perform such of the duties of the Treasurer as may be provided in these Bylaws or as may be assigned to them by the Board of Directors or by the Treasurer. During the Treasurer's absence or inability, the Treasurer's authority and duties shall be possessed by such Assistant Treasurer or Assistant Treasurers as the Board of Directors or the Treasurer may designate. The Treasurer and each Assistant Treasurer shall give such security for the faithful performance of such officer's duties as the Board of Directors may require.

Section 7. Comptroller. The Comptroller shall be the principal accounting officer of the Company and shall have custody and charge of all books of account, except those required by the Treasurer in keeping record of the work of the Treasurer's office, and shall have supervision over such subsidiary accounting records as may be kept in departmental offices. The Comptroller shall have access to all books of account, including the records of the Secretary and the Treasurer, for purposes of audit and for obtaining information necessary to verify or complete the records of the Comptroller's office. The Comptroller or the Comptroller's duly authorized representative shall certify to the authorizations and approvals pertaining to all

vouchers; and no payments from the general cash shall be made by the Treasurer except on vouchers bearing the written approval of the Comptroller or the Comptroller's authorized representative. Assistant Comptrollers shall have such of the authority and perform such of the duties of the Comptroller as may be provided in these Bylaws or assigned to them by the Board of Directors or by the Comptroller. During the Comptroller's absence or inability, the Comptroller's authority and duties shall be possessed by such Assistant Comptroller or Assistant Comptrollers as the Board of Directors or the Comptroller may designate.

Section 8. Other Duties and Authority. Each officer, employee and agent of the Company shall have such other duties and authority as may be conferred upon such officer, employee or agent by the Board of Directors or delegated to such officer, employee or agent by the President.

Section 9. Removal of Officers. Any officer may be removed at any time by the Board of Directors with or without cause, and such vacancy may be filled by the Board of Directors. This provision shall not prevent the making of a contract of employment for a definite term with any officer and shall have no effect upon any cause of action which any officer may have as a result of removal in breach of a contract of employment.

Section 10. Appointed Officers. The Chairman of the Board or the President may, from time to time, appoint individuals to serve in such designated capacities for the Company as the Chairman of the Board or the President may deem appropriate. Each appointed officer shall perform such duties and shall have such authority as shall be delegated to such officer from time to time by the officer of the Company then responsible for the particular area in which such appointed officer is working. Any duty or authority delegated to any appointed officer pursuant to this Section may be withdrawn, with or without cause, at any time by the Chairman of the Board, the President or the officer delegating such duty or authority to the appointed officer.

ARTICLE IV

Section 1. Certificates Representing Stock. Certificates representing stock in the corporation shall be signed by, or in the name of, the corporation by the Chairman or Vice-Chairman of the Board of Directors, if any, or by the President or a Vice-President and by the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary of the corporation. Any or all the signatures on any such certificate may be a facsimile. In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he were such officer, transfer agent, or registrar at the date of issue. Whenever the corporation shall be authorized to issue more than one class of stock or more than one series of any class of stock, and whenever the corporation shall issue any shares of its stock as partly paid stock, the certificates representing shares of stock of any such class or series or of any such

partly paid stock shall set forth thereon the statements prescribed by the General Corporation Law of the State of Delaware. Any restrictions on the transfer or registration of transfer of any shares of stock of any class or series shall be noted conspicuously on the certificate representing such shares of stock. The corporation may issue a new certificate of stock or uncertificated shares of stock in place of any certificate theretofore issued by it, alleged to have been lost, stolen, or destroyed, and the Board of Directors may require the owner of the lost, stolen, or destroyed certificate, or his legal representative, to give the corporation a bond sufficient to indemnify the corporation against any claim that may be made against it on account of the alleged loss, theft, or destruction of any such certificate or the issuance of any such new certificate or uncertificated share of stock.

Section 2. Uncertificated Shares of Stock. Subject to any conditions imposed by the General Corporation Law of the State of Delaware, the Board of Directors of the corporation may provide by resolution or resolutions that some or all of any or all classes or series of the stock of the corporation shall be uncertificated shares of stock. Within a reasonable time after the issuance or transfer of any uncertificated shares of stock, the corporation shall send to the registered owner thereof any written notice prescribed by the General Corporation Law of the State of Delaware.

Section 3. Fractional Share Interests. The corporation may, but shall not be required to, issue fractions of a share of stock. If the corporation does not issue fractions of a share of stock, it shall (1) arrange for the disposition of fractional interests by those entitled thereto, (2) pay in cash the fair value of fractions of a share of stock as of the time when those entitled to receive such fractions are determined, or (3) issue scrip or warrants in registered form (either represented by a certificate or uncertificated) or bearer form (represented by a certificate) which shall entitle the holder to receive a full share of stock upon the surrender of such scrip or warrants aggregating a full share of stock. A certificate for a fractional share of stock or an uncertificated fractional share of stock shall, but scrip or warrants shall not unless otherwise provided therein, entitle the holder to exercise voting rights, to receive dividends thereon, and to participate in any of the assets of the corporation in the event of liquidation. The Board of Directors may cause scrip or warrants to be issued subject to the conditions that they shall become void if not exchanged for certificates representing the full shares of stock or uncertificated full shares of stock before a specified date, or subject to the conditions that the shares of stock for which scrip or warrants are exchangeable may be sold by the corporation and the proceeds thereof distributed to the holders of scrip or warrants, or subject to any other conditions which the Board of Directors may impose.

Section 4. Stock Transfers. Upon compliance with provisions restricting the transfer or registration of transfer of shares of stock, if any, transfers or registration of transfers of shares of stock of the corporation shall be made only on the stock ledger of the corporation by the registered holder thereof, or by his attorney thereunto authorized by power of attorney duly executed and filed with the Secretary of the corporation or

with a transfer agent or a registrar. If any, and, in the case of shares of stock represented by certificates, on surrender of the certificate or certificates for such shares of stock properly endorsed and the payment of all taxes due thereon.

Section 5. Record Date for Stockholders. In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall not be more than sixty nor less than ten days before the date of such meeting. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting. In order that the corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which date shall not be more than ten days after the date upon which the resolution fixing the record date is adopted by the Board of Directors. If no record date has been fixed by the Board of Directors, the record date for determining the stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is required by the General Corporation Law of the State of Delaware, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the corporation by delivery to its registered office in the State of Delaware, its principal place of business, or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to the corporation's registered office shall be by hand or by certified or registered mail, return receipt requested. If no record date has been fixed by the Board of Directors and prior action by the Board of Directors is required by the General Corporation Law of the State of Delaware, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the day on which the Board of Directors adopts the resolution taking such prior action. In order that the corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion, or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than sixty days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

Section 6. Stockholder List. The officer who has charge of the stock ledger of the corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders, arranged in alphabetical order, and showing the address of each stockholder and the number of shares of stock registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city or other municipality or community where the meeting is to be held, which place shall be specified in the notice of the meeting, or if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. The stock ledger shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list required by this section or the books of the corporation, or to vote at any meeting of stockholders.

ARTICLE V

CORPORATE SEAL

The common seal of the Company shall bear within concentric circles the words "BellSouth BSE, Inc." with the word "Seal" in the center. The seal and its attestation may be lithographed or otherwise printed on any document and shall have, to the extent permitted by law, the same force and effect as if it had been affixed and attested manually.

ARTICLE VI

INDEMNIFICATION

Any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (including any action by or in the right of the Company), by reason of the fact that such person is or was a director or officer of the Company, or is or was serving at the request of the Company as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, shall be indemnified by the Company against expenses (including reasonable attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding, if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Company (and with respect to any criminal action or proceeding, if such person had no reasonable cause to believe his conduct was unlawful), to the maximum extent permitted by, and in the manner provided by, the General Corporation Law of the State of Delaware.

ARTICLE VII

AMENDMENT OF BYLAWS

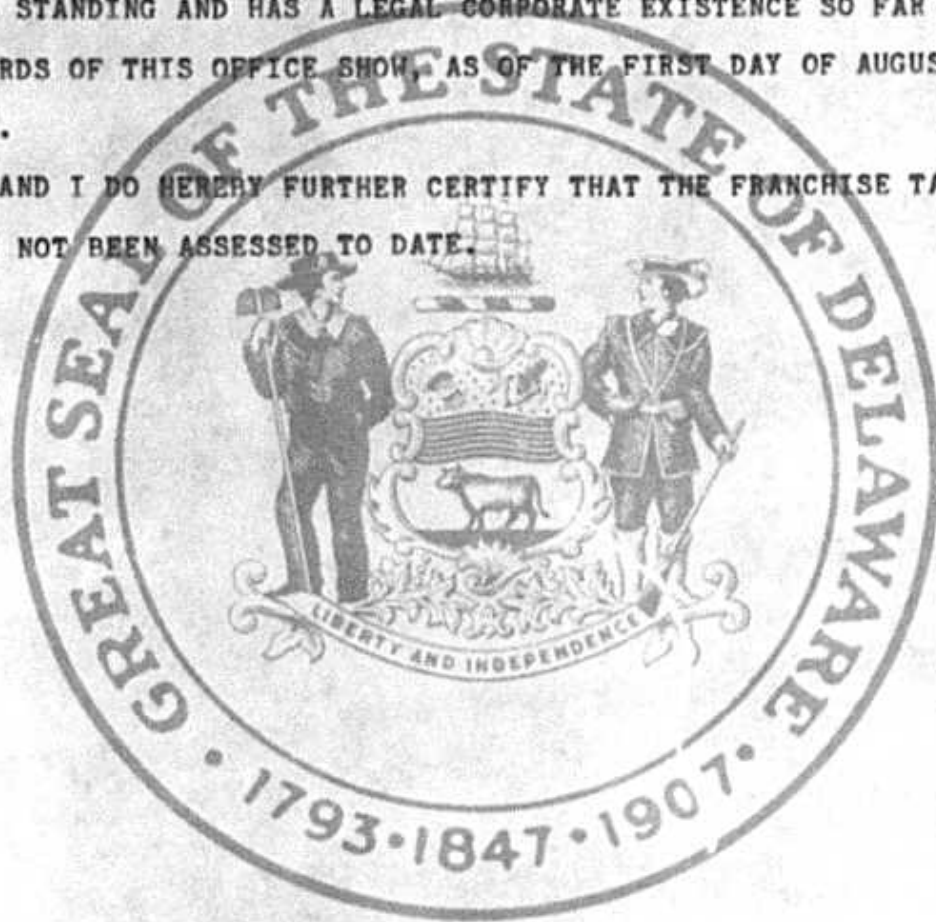
Subject to the provisions of the certificate of incorporation and the provisions of the General Corporation Law of the State of Delaware, the power to amend, alter, or repeal these Bylaws and to adopt new Bylaws may be exercised by the Board of Directors or by the stockholders.

State of Delaware

Office of the Secretary of State

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "BELLSOUTH BSE, INC." IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE FIRST DAY OF AUGUST, A.D. 1997.

AND I DO HEREBY FURTHER CERTIFY THAT THE FRANCHISE TAXES HAVE NOT BEEN ASSESSED TO DATE.



2773859 8300

971256418

A handwritten signature in cursive script, reading "Edward J. Freel".

Edward J. Freel, Secretary of State

AUTHENTICATION:

DATE:

8586375

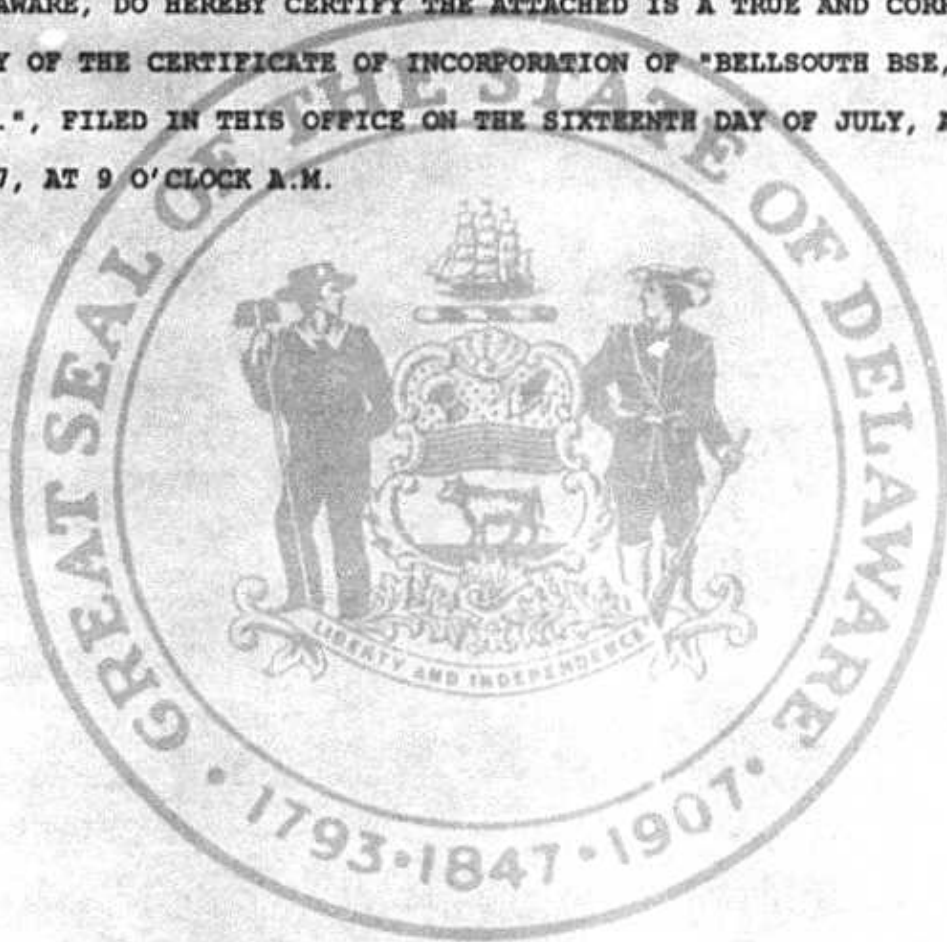
08-01-97

State of Delaware

Office of the Secretary of State

PAGE 1

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF INCORPORATION OF "BELLSOUTH BSE, INC.", FILED IN THIS OFFICE ON THE SIXTEENTH DAY OF JULY, A.D. 1997, AT 9 O'CLOCK A.M.



Edward J. Freel

Edward J. Freel, Secretary of State

2773859 8100

971256459

AUTHENTICATION: 8586902

DATE: 08-01-97

**CERTIFICATE OF INCORPORATION
OF
BELLSOUTH BSE, INC.**

1.

The name of the corporation is BellSouth BSE, Inc.

2.

The address of the initial registered office of the corporation in the State of Delaware shall be 1013 Centre Road, City of Wilmington, County of New Castle, Delaware 19805-1297; and the name of the initial registered agent of the corporation at such address is The Prentice-Hall Corporation System, Inc.

3.

The purpose of the corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

4.

The aggregate number of shares of stock which the corporation shall have authority to issue is One Thousand (1,000) shares of Common Stock, which shall have no par value. Said shares of Common Stock may be issued by the corporation for such consideration as shall be fixed from time to time by the Board of Directors of the corporation.

5.

The corporation shall have perpetual duration.

6.

The name and address of the incorporator is Hubert H. Hogeman,
Suite 5H01, 1100 Peachtree Street, N.E., Atlanta, Georgia 30309-4599.

7.

The initial Board of Directors of the Corporation shall consist of one (1)
member whose name and address is as follows:

Earle Mauldin
Suite 1000
1100 Peachtree Street, N.E.
Atlanta, Georgia 30309-4599

8.

Whenever a compromise or arrangement is proposed between this corporation and its creditors or any class of them and/or between this corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for this corporation under the provisions of §291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this corporation under the provisions of §279 of Title 8 of the Delaware Code order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, agree to an compromise or arrangement and to any reorganization of this corporation as consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this corporation, as the case may be, and also on this corporation.

For the management of the business and for the conduct of the affairs of the corporation, and in further definition, limitation, and regulation of the powers of the corporation and of its directors and of its stockholders or any class thereof, as the case may be, it is further provided that:

1. The management of the business and the conduct of the affairs of the corporation shall be vested in its Board of Directors. The number of directors which shall constitute the whole Board of Directors shall be fixed by, or in the manner provided in, the Bylaws. The phrase "whole Board" and the phrase "total number of directors" shall be deemed to have the same meaning, to wit, the total number of directors which the corporation would have if there were no vacancies. No election of directors need be by written ballot;

2. After the original or other Bylaws of the corporation have been adopted, amended, or repealed, as the case may be, in accordance with the provisions of §109 of the General Corporation Law of the State of Delaware, and, after the corporation has received any payment for any of its stock, the power to adopt, amend, or repeal the Bylaws of the corporation may be exercised by the Board of Directors of the corporation; and,

3. Whenever the corporation shall be authorized to issue only one class of stock, each outstanding share shall entitle the holder thereof to notice of, and the right to vote at, any meeting of stockholders. Whenever the corporation shall be authorized to issue more than one class of stock, no outstanding share of any class of stock which is denied voting power under the provisions of the Certificate of Incorporation shall entitle the holder thereof to the right to vote at any meeting of stockholders except as the provisions of paragraph (2) of subsection (b) of §242 of the General Corporation Law of the State of Delaware shall otherwise require; provided, that no share of any such

class which is otherwise denied voting power shall entitle the holder thereof to vote upon the increase or decrease in the number of authorized shares of said class.

10.

The personal liability of the directors of the corporation is hereby eliminated to the fullest extent permitted by the provisions of paragraph (7) of subsection (b) of §102 of the General Corporation Law of the State of Delaware, as the same may be amended and supplemented.

11.

The corporation shall, to the fullest extent permitted by the provisions of §145 of the General Corporation Law of the State of Delaware, as the same may be amended and supplemented, indemnify any and all persons whom it shall have power to indemnify under said section from and against any and all of the expenses, liabilities, or other matters referred to in or covered by said section, and the indemnification provided for herein shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any Bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee, or agent and shall inure to the benefit of the heirs, executors, and administrators of such a person.

12.

Any action that is required or permitted to be taken at a meeting of the shareholders may be taken without a meeting if the action is taken by persons who would be entitled to vote at a meeting shares having voting power to cast not less than the minimum number (or numbers, in the case of voting by groups) of votes that would be necessary to authorize or take such action at a meeting at which all shareholders entitled to vote were present and voted. The action must be evidenced by one or more written consents describing the action taken, signed by shareholders entitled to take action

without a meeting and delivered to the corporation for inclusion in the minutes or filing with the corporate records.

13.

From time to time any of the provisions of this Certificate of Incorporation may be amended, altered, or repealed, and other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted in the manner and at the time prescribed by said laws, and all rights at any time conferred upon the stockholders of the corporation by this Certificate of Incorporation are granted subject to the provisions of this Article.

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Incorporation this 16th day of July, 1997.


Hubert H. Hogeman, Incorporator

FLORIDA TELECOMMUNICATIONS SERVICES PRICE LIST

OF

BELLSOUTH BSE, INC.

This price list contains the rules, regulations, descriptions and rates applicable to the furnishing of service and facilities for telecommunications services provided by BellSouth BSE, Inc. in the State of Florida.

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

CHECK SHEET

Sheets of this price list indicated below are effective as of the date shown at the bottom of the respective sheet(s). Original and revised sheets as named below comprise all changes from the original price list and are currently in effect as of the date on the bottom of this sheet.

<u>SHEET</u>	<u>REVISION LEVEL</u>
1.....	Original *
2.....	Original *
3.....	Original *
4.....	Original *
5.....	Original *
6.....	Original *
7.....	Original *
8.....	Original *
9.....	Original *
10.....	Original *
11.....	Original *
12.....	Original *
13.....	Original *
14.....	Original *
15.....	Original *
16.....	Original *
17.....	Original *
18.....	Original *
19.....	Original *
20.....	Original *
21.....	Original *
22.....	Original *
23.....	Original *
24.....	Original *
25.....	Original *
26.....	Original *
27.....	Original *
28.....	Original *
29.....	Original *

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

CHECK SHEET

<u>SHEET</u>	<u>REVISION LEVEL</u>
30.....	Original *
31.....	Original *
32.....	Original *
33.....	Original *
34.....	Original *
35.....	Original *
36.....	Original *
37.....	Original *
38.....	Original *
39.....	Original *
40.....	Original *
41.....	Original *
42.....	Original *
43.....	Original *
44.....	Original *
45.....	Original *
46.....	Original *
47.....	Original *

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

TABLE OF CONTENTS

Application of Price List.....	5
Symbols	6
Price List Format	7
Section 1 - Technical Terms and Abbreviations.....	8
Section 2 - Rules and Regulations.....	10
Section 3 - Description of Service and Rates.....	27

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

APPLICABILITY

This price list applies to telecommunications services furnished by BellSouth BSE, Inc. to customers within the state of Florida.

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SYMBOLS

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

C - Changed regulation.

D - Delete or discontinue.

I - Change Resulting in an increase to a Customer's bill.

M - Moved from another price list location.

N - New

R - Change resulting in a reduction to a Customer's bill.

T - Change in text without change in rate or regulation.

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

PRICE LIST FORMAT

- A. **Sheet Numbering** - Sheet numbers appear in the upper right corner of the page. Sheets are numbered sequentially. When a new sheet is added between sheets already in effect, a decimal is added. For example, a new sheet added between sheets 14 and 15 would be 14.1.
- B. **Sheet Revision Numbers** - Revision numbers also appear in the upper right corner of each page. These numbers are used to determine the most current sheet version on file with the Commission. For example, the 4th revised Sheet 14 cancels the 3rd revised Sheet 14. Consult the Check Sheet for the sheet currently in effect.
- C. **Paragraph Numbering Sequence** - There are nine levels of paragraph coding. Each level of coding is subservient to its next higher level:
- 2.
 - 2.1.
 - 2.1.1.
 - 2.1.1.A.
 - 2.1.1.A.1.
 - 2.1.1.A.1.(a).
 - 2.1.1.A.1.(a).I.
 - 2.1.1.A.1.(a).I.(i).
 - 2.1.1.A.1.(a).I.(i).(1).
- D. **Check Sheets** - When a price list filing is made with the Florida Public Service Commission an updated Check Sheet accompanies the price list filing. The Check Sheet lists the sheets contained in the price list, with a cross reference to the current revision number. When new sheets are added, the Check Sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk (*). There will be no other symbols used on this sheet if these are the only changes made to it (i.e., the format, etc. remain the same, just revised revision levels on some sheets.)

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS

Access Line - An arrangement which connects the Customer's location to a BSE switching center or point of presence.

Account Codes - Optional, Customer-defined digits that allow the Customer to identify the individual user, department or client associated with a call. Account Codes appear on the Customer bill.

Authorized User - A person, firm, corporation, or any other entity authorized by the Customer to communicate utilizing the Company's service.

BSE - Used throughout this price list to mean BellSouth BSE, Inc. unless clearly indicated otherwise by the text.

Business - A class of service provided to individuals engaged in business, firms, partnerships, corporations, agencies, shops, works, tenants of office buildings, and individuals practicing a profession or operating a business who have no offices other than their residences and where the use of the service is primarily or substantially of a business, professional or occupational nature.

Calling Card - A billing mechanism by which the charges for a call may be billed to a valid Company-issued or Incumbent Local Exchange Carrier-issued account.

Commission - Florida Public Service Commission.

Company or Carrier - BellSouth BSE, Inc., unless otherwise clearly indicated by the context.

Customer - The person, firm, corporation or other entity which orders, cancels, amends or uses service and is responsible for payment of charges and compliance with the Company's price list.

End User - Any person, firm, corporation, partnership or other entity which uses the services of the Company under the provisions and regulations of this price list. The End User is responsible for payment unless the charges for the services utilized are accepted and paid by another Customer.

Equal Access - The ability of a long distance carrier to serve Customers on a presubscribed basis rather than through the use of dial access codes.

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS, CONT'D.

Holidays - Holidays observed by the Company as specified in this price list.

LATA - Local access and transport area. A geographic area established by the US District Court for the District of Columbia in Civil Action No. 17-49, within which a local exchange company provides communications services.

LEC - Local Exchange Company

Person-to-person - A class of call in which the calling party specifies an individual, station number, department, or an agreed alternate with whom to speak at the called number.

Premises - A building or buildings on contiguous property.

Residence or Residential - A class of service furnished to a Customer at a place of dwelling where the actual or obvious use is for domestic purposes.

Special Construction - Service configurations specifically designed and constructed at a Customer's request.

Station-to-Station - A class of call in which the calling party places the call to any individual or station at the called party location. All toll calls which are not placed on a Person-to-Person basis are station-to-station.

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 2 - RULES AND REGULATIONS**2.1 Undertaking of BellSouth BSE, Inc.**

- 2.1.1 The Company's services are furnished for intrastate telecommunications originating and terminating within the state of Florida under terms of this price list.
- 2.1.2 The Company installs, operates, and maintains the communications services provided herein in accordance with the terms and conditions set forth under this price list. The Company may act as the Customer's agent for ordering access connection facilities provided by other carriers or entities, when authorized by the Customer, to allow connection of a Customer's location to the Company network. The Customer shall be responsible for all charges due for such service arrangement.
- 2.1.3 When services and facilities provided by the Company are used to obtain access to the regulated or unregulated services provided by another company, or are used by another company as a part of the regulated or unregulated services offered by that company, the regulations of the Company apply only to the use of the Company's services and facilities.
- 2.1.4 The Company may offer various unregulated services in conjunction with or ancillary to its regulated services.
- 2.1.5 The Company may serve Customers in the State of Florida through the use of its own facilities or through the resale of services of other telecommunications service providers.
- 2.1.6 The provision of services defined herein is subject to regulations specified in this price list and may be revised, added to, or supplemented by superseding issues.

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 2 - RULES AND REGULATIONS, CONT'D.**2.2 Limitations**

- 2.2.1 Service is offered subject to the availability of the necessary facilities and equipment and subject to the provisions of this price list. The furnishing of service under this price list or an applicable contract is subject to the availability on a continuing basis of all the necessary facilities and is limited to the capacity of the Company's facilities as well as facilities the Company may obtain from other carriers to furnish service from time to time as required at the sole discretion of the Company.
- 2.2.2 Customers and users may use services and facilities provided under this price list or an applicable contract to obtain access to services offered by other companies. The Company is responsible for the services and facilities provided under this price list or an applicable contract, and it assumes no responsibility for any service (whether regulated or not) provided by any other entity that purchases access to the Company network in order to originate or terminate its own services, or to communicate with its own Customers.
- 2.2.3 Prior written permission from the Company is required before any assignment or transfer. All regulations and conditions contained in this price list shall apply to all such permitted assignees or transferees, as well as all conditions for service.
- 2.2.4 In view of the fact that the Customer has exclusive control of his communications over the facilities furnished him by the Company, and of the other uses for which facilities may be furnished him by the Company, and because unavoidable errors incidental to services and use of such facilities of the Company may occur, the services and facilities furnished by the Company are subject to the terms, conditions and limitations herein specified.

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 2 - RULES AND REGULATIONS, CONT'D.**2.2 Limitations, (cont'd.)**

- 2.2.5 Accessories which aid a Customer's convenience in his use of the services provided by the Company which are not furnished under this price list, are permissible provided any such accessory so used would not endanger the safety of Company employees or the public; damage, require change in or alteration of, or involve direct electrical connection to the equipment or other facilities of the Company, or interfere with the proper functioning of such equipment or facilities; or impair the operation of the telecommunications system or otherwise injure the public in its use of the Company's services.
- 2.2.6 The Company reserves the right to limit the length of communication when necessary because of a shortage of facilities caused by emergency conditions.
- 2.2.7 The service is furnished subject to the condition that it will not be used for any unlawful purpose. Service will be discontinued if any law enforcement agency, acting within its apparent jurisdiction, advises in writing that such service is being used in violation of the law. The Company will refuse to furnish service when it has reasonable grounds to believe that such service will be used in violation of the law.

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 2 - RULES AND REGULATIONS, CONT'D.**2.3 Liabilities of Company**

- 2.3.1 The Company's liability for damages arising from any failure of service shall not exceed an amount equivalent to the proportionate charge to the Customer for the period during which the failure occurs.
- 2.3.2 The Company shall not be liable for any claim or loss not directly caused by negligence of the Company.
- 2.3.3 The Company is not liable for any act or omission of any other company or companies furnishing a portion of the facilities, equipment or services used in connection with the services provided by the Company.
- 2.3.4 The Company shall not be liable for the use or abuse of a Customer's service by any party including, but not limited to, the Customer's employees or members of the public. "Use or abuse" includes, but is not limited to, any calls placed by means of a PBX-re-origination or other legal or illegal equipment, service or device. The Company shall not be liable for any action, such as blocking or refusal to accept certain calls, that it deems necessary to take in order to prevent unlawful use of its services. Compensation for any injury the Customer may suffer due to the fault of parties other than the Company must be sought from such other parties.
- 2.3.5 Acceptance by the Commission of the liability provisions contained in this price list does not constitute its determination that the limitation of liability imposed by the Company should be upheld in a court of law, but the recognition that, as it is the duty of the courts to adjudicate negligence claims and rights to recover damages therefor, so it is the duty of the courts to determine the validity of the exculpatory provisions of this price list.

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 2 - RULES AND REGULATIONS, CONT'D.**2.3 Liabilities of Company, (cont'd.)**

- 2.3.6 The liability of the Company for service irregularities shall in no event exceed an amount equivalent to the proportionate charge to the Customer for the service for the period during which the service irregularity exists. Service irregularities are defined as mistakes, omissions, interruptions, delays, errors, or defects in transmission, or failure of or defects in the service and/or facilities furnished by the Company which occur in the course of furnishing service or facilities and are not caused by the negligence of the Customer or the negligence of the Company in failing to maintain proper standards of maintenance or operation, or to exercise reasonable supervision.
- 2.3.7 The Company shall be indemnified and held harmless by the Customer against the following:
- a) Claims for slander, libel or infringement of copyright arising out of the materials, data, information or other content transmitted over the Company's facilities.
 - b) All other claims arising out of any act or omission of the Customer in connection with any service or facility provided by the Company.

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 2 - RULES AND REGULATIONS, CONT'D.**2.4 Taxes and Surcharges**

- 2.4.1 All state and local taxes (i.e., gross receipts tax, sales tax, municipal utilities tax) are listed as separate line items and are not included in the quoted rates.
- 2.4.2 Surcharges (i.e., 911, subscriber line charge, etc.) approved or mandated by any governmental jurisdiction are listed separately on the bill and are not included in quoted rates.

2.5 Terminal Equipment

The Company's service may be used with or terminated in Customer-provided terminal equipment or Customer-provided communications systems, such as a telephone set, key system or private branch exchange (PBX). Such terminal equipment shall be furnished and maintained at the expense of the Customer, except as otherwise provided. The Customer is responsible for all costs at his or her premises, including personnel, wiring, electrical power, and the like, incurred in the use of the Company's service. When such terminal equipment is used, the equipment shall comply with the generally accepted minimum protective criteria standards of the telecommunications industry as endorsed by the Federal Communications Commission.

2.6 Installation

Service is installed upon mutual agreement between the Customer and the Company. The service agreement does not alter rates specified in this price list.

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 2 - RULES AND REGULATION¹², CONT'D.**2.7 Payment for Service**

- 2.7.1 The Customer is responsible for payment of all charges for services and equipment furnished to the Customer or to an authorized user of the Customer by the Company. All charges due from the Customer are payable to the Company or to the Company's authorized billing agent. Terms of payment shall be according to the rules and regulations of regulatory agencies, including the Commission. Any objections to billed charges must be reported to the Company or its billing agent within sixty days after receipt of bill. Contested charges will be handled in accordance with the appropriate Commission rules. Adjustments to Customer's bills shall be made to the extent that circumstances exist which reasonably indicate that such changes are appropriate.
- 2.7.2 Monthly invoices sent to the Customer are due upon receipt and are considered delinquent thirty (30) days after the bill is rendered and the account may be subject to disconnection. All amounts owed after the due date are subject to late payment penalty charges of 1.5 % per month. The late payment fee will not be assessed on unpaid penalty charges and any payment received shall first be applied to any bill for services rendered.
- 2.7.3 In no case shall service be actually disconnected until five days after written notice has been given to the Customer.
- 2.7.4 Returned Check Fee - A \$(To Be Determined) processing fee will be charged if a check for payment of an invoice is dishonored for any reason. This charge applies each time a check is returned to BSE by a bank for insufficient funds.

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 2 - RULES AND REGULATIONS, CONT'D.**2.8 Deposits and Advance Payments**

- 2.8.1 The Company does not normally require a deposit or advance payment from Customers. However, deposits or advance payments may be collected from Customers or potential Customers whose credit or payment history is unsatisfactory or unknown to the Company.
- 2.8.2 In determining whether a Customer's or potential Customer's credit history is unsatisfactory, the Company will consider (i) the Customer's payment history with the Company, (ii) the Customer's ability to demonstrate adequate ability to pay for the service, (iii) credit and related information provided by the Customer, lawfully obtained from third parties or publicly available, and (iv) information relating to Customer's management, owners and affiliates. Customers whose payment or credit history is determined by the Company to present an undue risk may be required at any time to provide the Company a security deposit, in cash or the equivalent of cash, up to an amount equal to the applicable installation charges, if any, and/or two months actual or estimated usage charges for the service to be provided. In the case of a cash deposit, simple interest per annum pursuant to the rules and regulations of the Commission shall be credited or paid to the Customer while the deposit is held by the Company. Such deposit may be refunded to the Customer's account at the end of six (6) months of satisfactory credit history.

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 2 - RULES AND REGULATIONS, CONT'D.

2.9 Cancellation by Customer

No charge applies when the applicant cancels an application for service prior to the start of installation or special construction.

When an applicant cancels an application for service after the start of installation or special construction, the applicant shall pay a cancellation fee which is the lesser of 1) the costs incurred by the Carrier, or 2) the charge for the minimum period of the service ordered, plus applicable installation charges.

Customers of BSE may cancel service by providing thirty (30) days written notice to BSE. Customers are responsible for all charges, including fixed fees, which accrue up to the cancellation date.

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 2 - RULES AND REGULATION^c, CONT'D.**2.10 Interconnection**

Service furnished by BSE may be connected with the services or facilities of other carriers. Such service or facilities, if used, are provided under the terms, rates and conditions of the other carrier. The Customer is responsible for all charges billed by other carriers for use in connection with BSE's service.

2.11 Refusal or Discontinuance by Company

The Company may refuse or discontinue service in the following circumstances. Unless otherwise stated, the Customer will be given ten (10) days' written notice and allowed a reasonable time to comply with any rule or to remedy any deficiency. All notices given shall comply with the Commission rules.

- a) For non-compliance with and/or violation of any State or municipal law, ordinance or regulation pertaining to telephone service.
- b) For the use of telephone service for any other property or purpose other than that described in the application.
- c) For failure or refusal to provide the Company with a deposit to insure payment of bills in accordance with the Company's regulations or failure to meet the Company's credit requirements.
- d) For neglect or refusal to provide reasonable access to the Company for the purpose of inspection and maintenance of equipment owned by the Company. Such action shall be taken only when corrective action negotiated between the Company and the Customer has failed to resolve the situation.
- e) For non-compliance with and/or violation of the Commission regulations or the Company's rules and regulations on file with the Commission.
- f) In the event of tampering with the equipment furnished and owned by the Company.

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 2 - RULES AND REGULATION, CONT'D.**2.11 Refusal or Discontinuance by Company, (cont'd.)**

- g) In the event of Customer use of equipment in such a manner as to adversely affect the Company's service to others. Such discontinuance of service may be made without notice if a dangerous condition relating to Company service exists which could subject any person to imminent harm or result in substantial damage to the property of the Company or others. In such case, the Company shall notify the Customer immediately in writing and, if possible, orally of the reasons for the termination or refusal.
- h) In the event of unauthorized or fraudulent use of service. The Company may terminate service without notice to the Customer if it has evidence that such Customer has obtained unauthorized service by illegal use or theft. The Company shall within twenty four (24) hours after such termination send written notification to the Customer of the reasons for such termination. Whenever service is discontinued for fraudulent use of service, the Company may, before restoring service, require the Customer to make, at his own expense, all changes in facilities or equipment necessary to eliminate illegal use and to pay an amount reasonably estimated as the loss in revenues resulting from such fraudulent use.
- j) For failure of the Customer to make proper application for service. A Customer who has complied with Commission regulations shall not be denied service for failure to comply with the Company's rules which have not been made effective in the manner prescribed by the Commission.
- k) For Customer's breach of the contract for service between the Company and the Customer.
- l) When necessary for the Company to comply with any order or request of any governmental authority having jurisdiction.
- m) The Company reserves the right to discontinue furnishing service or to limit the use of service when necessary due to conditions beyond its control or when the Customer is using service in violation of the law or provisions of this price list.

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 2 - RULES AND REGULATIONS, CONT'D.**2.11 Refusal or Discontinuance by Company, (cont'd.)**

- (n) The Company, with written notification giving reason, may either suspend service or terminate the Customer's service without suspension or following a suspension of service, disconnect the service and remove any of its equipment from the Customer's premises upon:
- a) Abandonment of service.
 - b) Impersonation of another with fraudulent intent.
 - c) Nonpayment of any sum due the Company.
 - c) Abuse or fraudulent use of service.

2.12 Inspection, Testing and Adjustment

Upon reasonable notice, the facilities provided by the Company shall be made available to the Company for tests and adjustments as may be deemed necessary by the Company for maintenance. No interruption allowance will be granted for the time during which such tests and adjustments are made when the interruption is less than twenty-four consecutive hours.

2.13 Tests, Pilots, Promotional Campaigns and Contracts

The Company may conduct special tests, pilot programs, waivers and promotions to demonstrate the ease of use, quality of service and to promote the sale of its services.

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 2 - RULES AND REGULATIONS, CONT'D.**2.14 Interruption of Service**

Interruptions of service and trouble reports are subject to the general liability provisions set forth in Section 2.4 herein and the provisions of the Commission.

2.15 Terms and Conditions

- 2.15.1 Service is provided on the basis of a minimum period of at least one month unless specified otherwise in this price list. For the purpose of computing charges in this price list or an applicable contract, a month is considered to have 30 days.
- 2.15.2 Customers may be required to enter into written service agreements which shall contain or reference a specific description of the service ordered, the rates to be charged, the duration of the services, and the terms and conditions in this price list or an applicable contract. The Customer will also be required to execute any other documents as may be reasonably requested by the Company.
- 2.15.3 At the expiration of the initial term specified in each service agreement, or in any extension thereof, service shall continue on a month to month basis at the then current rates unless terminated by either party. Any termination shall not relieve the Customer of its obligation to pay any charges incurred under the service order and this price list or an applicable contract prior to termination. The rights and obligations which by their nature extend beyond the termination of the term of the service agreement shall survive such termination.
- 2.15.4 In any action between the parties to enforce any provision of this price list or an applicable contract, the prevailing party shall be entitled to recover its legal fees and court costs from the non-prevailing party in addition to other relief a court may award.

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 2 - RULES AND REGULATIONS, CONT'D.**2.16 Non-routine Installation**

At the Customer's request, installation and/or maintenance may be performed outside the Company's regular business hours or in hazardous locations. In such cases, charges based on cost of the actual labor, material, or other costs incurred by or charged to the Company will apply. If installation is started during regular business hours but, at the Customer's request, extends beyond regular business hours into time periods including, but not limited to, weekends, holidays, and/or night hours, additional charges may apply.

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 2 - RULES AND REGULATIONS, CONT'D.**2.17 Special Construction And Special Arrangements**

2.17.1 Special Construction - Subject to the agreement of the Company and to all of the regulations contained in this price list or any applicable contract, special construction and special arrangements may be undertaken on a reasonable effort basis at the request of the Customer. Special arrangements include any service or facility relating to a regulated telecommunications service not otherwise specified under this price list or any applicable contract, or for the provision of service on an expedited basis or in some other manner different from the normal price list or contract conditions. Special construction is that construction undertaken:

- a) Where facilities are not presently available, and there is no other requirement for the facilities so constructed,
- b) Of a type other than that which the Company would normally utilize in the furnishing of its services,
- c) Over a route other than that which the Company would normally utilize in the furnishing of its services,
- d) In a quantity greater than that which the Company would normally construct,
- e) On an expedited basis,
- f) On a temporary basis until permanent facilities are available,
- g) Involving abnormal costs, or
- h) In advance of its normal construction.

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 2 - RULES AND REGULATIONS, CONT'D.**2.17 Special Construction And Special Arrangements, (cont'd.)**

2.17.2 Basis for Charges - Where the Company furnishes a facility on special construction basis, or any service for which a rate or charge is not specified in this price list, charges will be based on the costs incurred by the Company and may include the following: (i) non-recurring type charges, (ii) recurring type charges, (iii) termination liabilities or (iv) combinations thereof. The agreement for special construction will ordinarily include a minimum service commitment based upon the estimated service of the facilities provided.

2.17.3 Basis for Cost Computation - The costs referred to in Section 2.14.3 preceding may include one or more of the following items to the extent they are applicable:

- a) Cost installed of the facilities to be provided including estimated costs for the rearrangements of existing facilities. Cost installed includes the cost of: (i) equipment and materials provided or used, (ii) engineering, labor and supervision, (iii) transportation, (iv) rights of way and (v) any other item chargeable to the capital account.
- b) Annual charges including the following: (i) cost of maintenance, (ii) depreciation on the estimated cost installed of any facilities provided, based on the anticipated useful service life of the facilities with an appropriate allowance for the estimated net salvage, (iii) administration, taxes and uncollectible revenue on the basis of reasonable average costs for these items, (iv) any other identifiable costs related to the facilities provided and (v) an amount for return and contingencies.

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 2 - RULES AND REGULATIONS, CONT'D.**2.17 Special Construction And Special Arrangements, (cont'd.)**

2.17.4 Termination Liability - To the extent that there is no other requirement for use by the Company, a termination liability may apply for facilities specially constructed at the request of the Customer.

- a) The maximum termination liability is equal to the total cost of the special facility as determined under Section 2.14.4, preceding, adjusted to reflect the predetermined estimated net salvage, including any reuse of the facilities provided.
- b) The maximum termination liability as determined in paragraph a) shall be divided by the original term of service contracted for by the Customer (rounded up to the next whole number of months) to determine the monthly liability. The Customer's termination liability shall be equal to this monthly amount multiplied by the remaining unexpired term of service (rounded up to the next whole number of months), discounted to present value at six (6) percent, plus applicable taxes.

2.17.5 Maintenance Charge - A maintenance charge shall apply when a user requests the dispatch of the Company's personnel for the purpose of performing maintenance activity on the Company's facilities and the trouble condition is found to result from equipment, facilities, or systems not provided by the Company.

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 3 - DESCRIPTION OF SERVICE AND RATES

3.1 General

3.1.1 Directory Listings

A white pages standard directory listing is included with each unit of wireline service.

3.1.2 Emergency Services

In jurisdictions where 911 emergency service is available, the Company will provide this feature with all network access service offerings.

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 3 - DESCRIPTION OF SERVICE AND RATES, CONT'D.**3.2 Timing of Calls**

Where applicable, the following rate period and timing parameters apply:

- 3.2.1 Initial Period - The initial period is the length of a call for minimum billing purposes. The initial period varies by rate schedule and is specified in individual product rates sections of this price list.
- 3.2.2 Additional Period - The additional period is the rate element used to bill chargeable time when a call continues beyond the initial period. The additional period starts when the initial period ends. Additional period rates apply to any fraction of the time period for chargeable time beyond the initial period. Additional periods vary by rate schedule and are specified in the individual product rates sections of this price list.
- 3.2.3 Chargeable time for collect calls begins when the called station agrees to accept the charges for the call. Chargeable time for person-to-person calls begins when the designated called party (or an agreed upon substitute) is connected to the calling party. Chargeable time for all other calls begins when the called station is answered.
- 3.2.4 Chargeable time for all calls ends when one of the parties disconnects from the call.
- 3.2.5 Time of day designations are used in this price list to indicate rate period boundaries. Rate periods begin at the first time of day designation and continue up to but not including the second time of day designation.

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 3 - DESCRIPTION OF SERVICE AND RATES, CONT'D.**3.3 Time of Day Rate Periods**

For rating purposes, the Peak period is from 8:00 a.m. to 5:00 p.m., Monday through Friday, and all other times are considered Off-Peak. Also for rating purposes, Day rates apply from 8:00 a.m. to 5:00 p.m., Monday through Friday, Evening rates apply from 5:00 p.m. to 11:00 p.m., Sunday through Friday, and Night/Weekend rates apply all other times. When a call spans more than one rating period, the rates for each period apply to the portion of the call in that rate period.

3.4 Holiday Rates

On the following legal holidays, the Evening (Holiday) rate applies for residence service instead of the Day rate for the appropriate Day period. Other rates apply as usual.

New Year's Day
Memorial Day
Independence Day

Labor Day
Thanksgiving Day
Christmas Day

When a holiday falls on a Sunday, the Holiday calling rate applies to calls placed on the following Monday. When a holiday falls on a Saturday, the Holiday calling rate applies to calls placed on the preceding Friday.

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 3 - DESCRIPTION OF SERVICE AND RATES, CONT'D.

3.5 Local Calling Area

The local calling area mirrors the local calling area for basic local exchange service provided by the incumbent local exchange company for the same exchange.

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 3 - DESCRIPTION OF SERVICE AND RATES, CONT'D.**3.6 Calculation of Mileage and Rate Bands**

For mileage-sensitive schedules, the distance between the originating and terminating points is calculated by using the "V" and "H" coordinates of the rate centers as defined by BellCore (Bell Communications Research), in the following manner:

Step 1: Obtain the "V" and "H" coordinates for the rate center or network access point serving the Customer's location and the called/calling station.

Step 2: Obtain the difference between the "V" coordinates. Obtain the difference between the "H" coordinates.

Step 3: Square the differences obtained in Step 2.

Step 4: Add the squares of the "V" difference and "H" difference obtained in Step 3.

Step 5: Divide the sum of the square obtained in Step 4 by ten (10). Round to the next higher whole number if any fraction results from the division.

Step 6: Obtain the square root of the whole number obtained in Step 5. Round to the next higher whole number if any fraction is obtained. This is the distance between the originating and terminating locations of the call.

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 3 - DESCRIPTION OF SERVICE AND RATES, CONT'D.**3.7 Service Connection Charges****3.7.1 Line Connection Charges**

	Nonrecurring Charge	
	Residence	Business
Line Connection Charge	\$(TBD)	\$(TBD)
Add or Change Existing Service	\$(TBD)	\$(TBD)
Add or change line features, package options	\$(TBD)	\$(TBD)

3.7.2 Premises Work Charges

Premises Work applies to work which requires a visit to the Customer's premises. Premises work orders are priced on a firm quote basis.

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 3 - DESCRIPTION OF SERVICE AND RATES, CONT'D.**3.7 Service Connection Charges, (cont'd.)****3.7.3 Other Connection Charges****A. Service Restoral**

A Service Restoral charge applies when service is reconnected after suspension or disconnection as provided in Section 2.11 of this price list. The Service Restoral charge applies in addition to all other applicable charges.

Service Restoral \$(TBD)

B. Primary Interexchange Carrier (PIC) Change Charge

A PIC Change charge applies when the Customer changes the primary interexchange service on a business or residence exchange line after the initial installation of service.

Per PIC Change, per line \$(TBD)

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 3 - DESCRIPTION OF SERVICE AND RATES, CONT'D.**3.8 Directory Assistance**

The Customer may request a maximum of two telephone numbers per call to Directory Assistance Service.

	<u>Per Call</u>
Directory assistance	\$(TBD)
Directory assistance and call completion	\$(TBD)

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 3 - DESCRIPTION OF SERVICE AND RATES, CONT'D.**3.9 Residence Services**

3.9.1 The following services are available to Customers who subscribe to one of the package services offered in this price list. These services may not be purchased without subscribing to one of the package services specified below.

1. Additional exchange service line with no special features

Monthly Charge per additional residence line \$(TBD)

2. Additional features for a service package line which has a full package of features

Monthly Charge per additional residence feature \$(TBD)

3.9.2 In addition to the packages specified in this price list, additional custom packages may be provided in response to a specific Customer request.

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 3 - DESCRIPTION OF SERVICE AND RATES, CONT'D.

3.9 Residence Services, (cont'd.)

3.9.3 Residence Customers may select optional features from the following list:

1. Call block
2. Call forwarding
3. Call return
4. Call selector
5. Call tracing
6. Call waiting
7. Caller identification
8. Dialing restrictions
9. Distinctive ringing
10. Repeat dialing
11. Speed calling
12. Three-way calling

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 3 - DESCRIPTION OF SERVICE AND RATES, CONT'D.**3.9 Residence Services, (cont'd.)****3.9.4 Residential Service Packages****A. Description**

Residential Service Packages provide exchange telecommunications service combined with long distance service. This service includes the Customer's choice of up to five features from the list specified in Section 3.9.3 above and unregulated services, such as voice messaging, wireless service, video programming, Internet access, and inside wire maintenance, which are included in the price of the service to the consumer. The retail value of the local service portion is shown below. These services will only be offered in a package with nonregulated services and will not be offered individually.

B. Long Distance Service (The rates indicated are illustrative only. Entry into long distance is subject to Commission authorization).

Intrastate long distance messages will be rated using the rates specified in Section 3.11.1.A.

C. The minimum service period for this package is ninety days.**D. Rates**Monthly

Residential Packages Service, per line \$(TBD)

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 3 - DESCRIPTION OF SERVICE AND RATES, CONT'D.**3.10 Business Services**

3.10.1 The following vertical services are included in Bus Pkg SM and Bus Pkg MM

- Call block
- Call forwarding
- Call return
- Call tracing
- Call waiting
- Caller identification
- Message waiting indicator
- Repeat dialing
- Speed calling
- Three-way calling

3.10.2 In addition to the packages specified in this price list, additional custom packages may be provided in response to a specific Customer request.

3.10.3 The following services are available to Customers who subscribe to one of the package services offered in this price list. These services may not be purchased without subscribing to one of the package services specified below.

	Per Line
	<u>Per Month</u>
A. Additional Business Exchange Line	\$(TBD)

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 3 - DESCRIPTION OF SERVICE AND RATES, CONT'D.

3.10 Business Services, (cont'd.)

3.10.4 Bus Pkg SM

A. Description

Bus Pkg SM provides exchange telecommunications with long distance service. This package also includes hunting and unlimited use of the vertical services specified in Section 3.10.1 above and unregulated services, such as voice messaging, wireless service, and inside wire maintenance, which are included in the price of the service to the consumer. The retail value of the local service portion is shown below. These services will only be offered in a package with nonregulated services and will not be offered individually.

B. Long Distance Service (The rates indicated are illustrative only. Entry into long distance is subject to Commission authorization).

Intrastate long distance messages will be rated using the rates specified in Section 3.11.1.B.

C. The minimum service period for this package is one year.

D. Rates

Bus Pkg SM, per line	<u>Monthly</u> \$(TBD)
----------------------	---------------------------

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 3 - DESCRIPTION OF SERVICE AND RATES, CONT'D.**3.10 Business Services, (cont'd.)****3.10.5 Bus Pkg MM****A. Description**

Bus Pkg MM provides channelized network connections with long distance service. This package also includes hunting and unlimited use of the vertical services specified in Section 3.10.1 above and unregulated services which are included in the price of the service to the consumer. The retail value of the local service portion is shown below. These services will only be offered in a package with nonregulated services and will not be offered individually.

B. Long Distance Service (The rates indicated are illustrative only. Entry into long distance is subject to Commission authorization).

Intrastate long distance messages will be rated using the rates specified in Section 3.11.1.B.

C. The minimum service period for this package is one year.**D. Rates**

Bus Pkg MM, per channel

Monthly
\$(TBD)

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 3 - DESCRIPTION OF SERVICE AND RATES, CONT'D.**3.10 Business Services, (cont'd.)****3.10.6 Diversified Access Service**

Diversified Access Service provides vendor diversity for dedicated network access facilities. This package uses separate dedicated access facilities provided by different suppliers to connect the Customer to the local exchange company selected by the Customer. The Company typically uses dedicated access facilities provided by the incumbent local exchange company (ILEC) and similar facilities provided by a facilities-based competitive local exchange carrier (CLEC) unaffiliated with the ILEC. The Company performs the following functions on behalf of the Customer: designs separate access and egress routes from the Customer's premises to the local exchange switching point; procures the facilities from the ILEC and CLEC; manages the installation, coordination and billing of the services; and acts as the Customer's agent for service and support of the dedicated access facilities. The Company provides a single point of accountability to the Customer for all coordination of network trouble resolution, including independent telephone company and CPE vendors/integrators chosen by the Customer. The Customer must have a designated internal help desk to act as coordination point within the Customer's business, and if applicable, must have a current maintenance contract with appropriate CPE vendors/integrators. Customer installation and trouble resolution status will be provided as specified in the Customer's contract.

Nonrecurring Charges
Monthly Recurring Charges

Individual Case Basis
Individual Case Basis

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 3 - DESCRIPTION OF SERVICE AND RATES, CONT'D.**3.11 Domestic Long Distance**

Domestic Long Distance service is offered to Customers of Residence or Business exchange services. Unless otherwise indicated in the rate plans below, calls are billed in full minute increments and the minimum call duration for billing purposes is one minute. No charges apply to incomplete calls. Computation of charges which result in fractional charges are rounded up to the next whole cent on a per call basis. Additional per call service charges as indicated in 3.11.2 below apply when live or automated operator assistance is provided by the Company to complete or bill the call.

3.11.1 Usage Rates**A. Residential Usage****1. Direct Dialed Calls**

Mileage	DAY		EVENING		NIGHT/WEEKEND	
	First Min.	Add'l Min.	First Min.	Add'l Min.	First Min.	Add'l Min.
1-10	.1900	.1900	.1425	.1425	.1140	.1140
11-22	.1995	.1995	.1520	.1520	.1235	.1235
23-55	.2280	.2280	.1710	.1710	.1330	.1330
56-124	.2375	.2375	.1805	.1805	.1425	.1425
125-292	.2375	.2375	.1805	.1805	.1520	.1520
293-430	.2375	.2375	.1805	.1805	.1520	.1520
431-624	.2375	.2375	.1805	.1805	.1520	.1520

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 3 - DESCRIPTION OF SERVICE AND RATES, CONT'D.**3.11 Domestic Long Distance, (cont'd.)****3.11.1 Usage Rates, (cont'd.)****A. Residential Usage, (cont'd.)****2. Calling Card Calls**

Mileage	DAY		EVENING		NIGHT/WEEKEND	
	First Min.	Add'l Min.	First Min.	Add'l Min.	First Min.	Add'l Min.
1-10	.1900	.1900	.1425	.1425	.1140	.1140
11-22	.2090	.2090	.1615	.1615	.1235	.1235
23-55	.2375	.2375	.1805	.1805	.1330	.1330
56-124	.2565	.2565	.1805	.1805	.1425	.1425
125-292	.2660	.2660	.1805	.1805	.1520	.1520
293-430	.2660	.2660	.1900	.1900	.1520	.1520
431-624	.2660	.2660	.1995	.1995	.1520	.1520

3. Operator Assisted Calls - See Section 3.11.2 of this price list.

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 3 - DESCRIPTION OF SERVICE AND RATES, CONT'D.**3.11 Domestic Long Distance, (cont'd.)****3.11.1 Usage Rates, (cont'd.)****B. Business Usage****1. Direct Dialed Calls**

Mileage	DAY		EVENING		NIGHT/WEEKEND	
	First Min.	Add'l Min.	First Min.	Add'l Min.	First Min.	Add'l Min.
1-10	.1900	.1900	.1425	.1425	.1140	.1140
11-22	.1995	.1995	.1520	.1520	.1235	.1235
23-55	.2280	.2280	.1710	.1710	.1330	.1330
56-124	.2375	.2375	.1805	.1805	.1425	.1425
125-292	.2375	.2375	.1805	.1805	.1520	.1520
293-430	.2375	.2375	.1805	.1805	.1520	.1520
431-624	.2375	.2375	.1805	.1805	.1520	.1520

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 3 - DESCRIPTION OF SERVICE AND RATES, CONT'D.**3.11 Domestic Long Distance, (cont'd.)****3.11.1 Usage Rates, (cont'd.)****B. Business Usage, (cont'd.)****2. Calling Card Calls**

Mileage	DAY		EVENING		NIGHT/WEEKEND	
	First Min.	Add'l Min.	First Min.	Add'l Min.	First Min.	Add'l Min.
1-10	.1900	.1900	.1425	.1425	.1140	.1140
11-22	.2090	.2090	.1615	.1615	.1235	.1235
23-55	.2375	.2375	.1805	.1805	.1330	.1330
56-124	.2565	.2565	.1805	.1805	.1425	.1425
125-292	.2660	.2660	.1805	.1805	.1520	.1520
293-430	.2660	.2660	.1900	.1900	.1520	.1520
431-624	.2660	.2660	.1995	.1995	.1520	.1520

3. Operator Assisted Calls - See Section 3.11.2 of this price list.

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 3 - DESCRIPTION OF SERVICE AND RATES, CONT'D.**3.11 Domestic Long Distance, (cont'd.)****SECTION 3 - DESCRIPTION OF SERVICE AND RATES, CONT'D.****3.11 Domestic Long Distance, (cont'd.)****3.11.2 Operator Assistance Service****A. Usage Charges**

Each call is billed in one minute increments. The minimum call duration for billing purposes is one minute. Computation of charges which result in fractional charges are rounded up to the next whole cent on a per call basis.

Mileage	DAY		EVENING		NIGHT/WEEKEND	
	First Min.	Add'l Min.	First Min.	Add'l Min.	First Min.	Add'l Min.
1-10	.1900	.1900	.1425	.1425	.1140	.1140
11-22	.2090	.2090	.1615	.1615	.1235	.1235
23-55	.2375	.2375	.1805	.1805	.1330	.1330
56-124	.2565	.2565	.1805	.1805	.1425	.1425
125-292	.2660	.2660	.1805	.1805	.1520	.1520
293-430	.2660	.2660	.1900	.1900	.1520	.1520
431-624	.2660	.2660	.1995	.1995	.1520	.1520

Issued: August 15, 1997

Effective: _____

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

SECTION 3 - DESCRIPTION OF SERVICE AND RATES, CONT'D.**3.11 Domestic Long Distance, (cont'd.)****3.11.2 Operator Assistance Service, (cont'd.)****B. Operator Assistance Service Charges**

	<u>Per Call</u>
Customer Dialed Calling Card	\$0.76
Operator Dialed Calling Card	\$1.66
Collect	\$1.66
Billed to Third Party	\$1.66
Person-to-Person	\$3.09
Operator Dialed Surcharge	\$1.09

Issued: August 15, 1997Effective:

Issued by: Vice President Supplier Development and Business Relations
BellSouth BSE, Inc.
1100 Peachtree Street, N.E., Suite 500
Atlanta, Georgia 30309-4599

EXHIBIT Q - 16(A)(1)

Income Statement

BellSouth BSE, Inc.

PRELIMINARY

(All numbers in 000s.)

			1997	1998	1999	2000	2001	2002
Customers (000s)								
Number of Customers								
Mass Market			-	325	954	1,154	1,197	1,242
Business			-	13	39	66	92	118
Number of Access Lines								
Mass Market			-	385	1,134	1,373	1,424	1,477
Business			-	128	383	638	894	1,149
Revenue (\$000s)								
Mass Market			-	153,158	1,003,303	1,519,612	1,759,033	1,920,756
	Local/Intralata	Intrastate		45,577	308,203	476,889	561,056	612,773
	Long Distance	Intrastate		11,308	67,879	93,753	102,867	112,366
		Interstate		35,809	214,951	298,883	325,747	355,826
	Cellular	Intrastate		42,245	289,660	456,178	538,283	587,544
		Interstate		548	3,756	5,915	8,979	7,618
	Internet	Intrastate		3,296	22,257	34,761	40,926	44,892
	Video	Intrastate		14,376	98,576	155,234	183,174	199,938
Business			-	162,341	952,522	1,472,383	2,152,330	2,681,812
	Local/Intralata			92,207	553,243	873,541	1,290,200	1,747,082
	Long Distance			70,034	399,280	598,822	862,130	934,731
Total Revenue			-	315,400	1,955,825	2,991,974	3,911,363	4,602,569
Expense								
Mass Market								
Cost of Services Sold (COSS)			-	116,619	781,566	1,221,109	1,373,649	1,424,806
Sales, Service, General and Admin (SSG&A)			4,216	133,668	170,627	183,461	198,042	205,504
Business								
COSS			-	1,111,334	662,258	923,349	1,292,170	1,505,395
SSG&A			6,337	56,111	111,716	194,839	260,780	330,155
Common SSG&A			18,816	65,923	47,336	53,785	53,568	55,274
Total Expense			28,369	492,686	1,753,502	2,578,542	3,178,209	3,521,134
Gross Margin			(28,369)	(177,487)	232,323	413,432	733,154	1,081,434

Income Statement

BellSouth BSE, Inc.

PRELIMINARY

(All numbers in 000s.)

	1997	1998	1999	2000	2001	2002
Depreciation	565	2,006	4,296	7,396	9,649	10,521
Property Tax	28	93	184	291	321	289
Gross Receipts Tax	-	2,839	17,802	26,928	35,202	41,423
Uncollectibles	-	9,462	58,675	74,799	97,784	92,051
Earnings Before Interest and Taxes	(28,962)	(191,888)	121,888	206,018	590,198	937,150
Taxes	(10,137)	(67,180)	47,410	119,347	230,177	365,488
Net Income	(18,825)	(124,726)	74,155	186,671	360,021	571,661
Free Cash Flow	(19,100)	(123,948)	(83,012)	90,795	273,328	494,845
Capital Spending						
Mass Market	1,901	528	646	162	1,911	473
Business	550	2,321	3,842	11,462	557	2,321
Common	3,199	5,910	8,656	5,233	3,199	5,910
Total Capital	5,650	8,759	14,144	16,858	5,667	8,704

EXHIBIT Q - 16(A)(2)

Balance Sheet

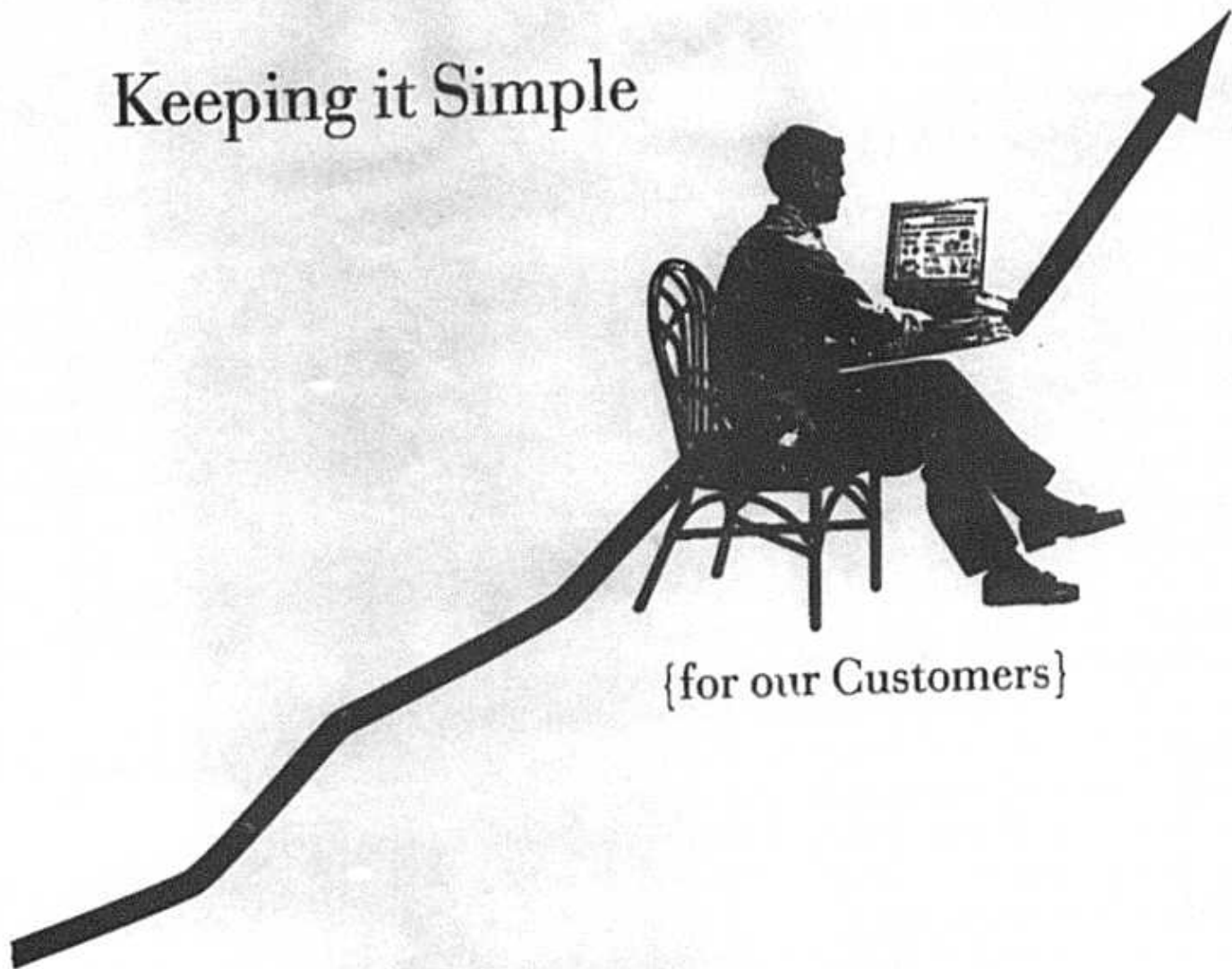
BellSouth BSE, Inc.

All Numbers in \$000s.

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<u>Assets</u>						
Current Assets						
Cash	-	-	-	-	-	-
Accounts Receivable	-	53,618	332,490	508,636	664,932	782,437
inventory	-	-	-	-	-	-
Total Current Assets	-	53,618	332,490	508,636	664,932	782,437
Property, Plant and Equipment						
Equipment	5,650	14,409	28,553	45,411	51,078	59,782
Accumulated Depreciation	565	2,571	6,867	14,264	22,913	34,433
Net PPE	5,085	11,838	21,686	31,147	27,166	25,348
Total Assets	5,085	65,456	354,176	539,783	692,097	807,785
<u>Liabilities</u>						
Accounts Payable	4,596	65,156	195,790	284,443	349,589	388,751
Deferred Taxes	215	805	1,725	2,802	3,278	2,987
Total Liabilities	4,811	65,962	197,515	287,245	352,868	391,739
<u>Stockholders' Equity</u>						
Total Stockholders' Equity	275	(506)	156,661	252,538	339,230	416,047

Building value {for our Owners} by

Keeping it Simple



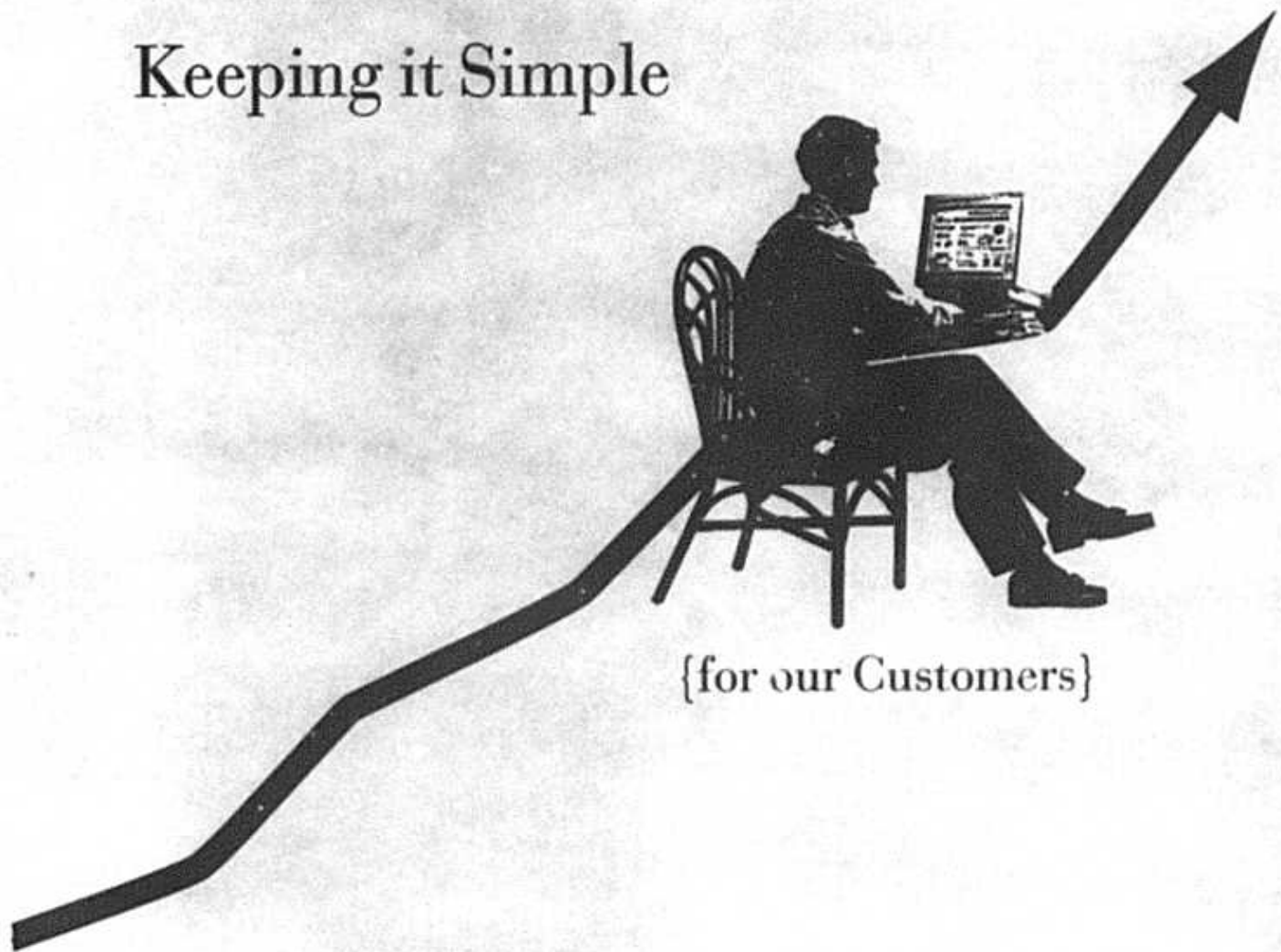
{for our Customers}

BELLSOUTH

1996 Report to Shareholders

Building value {for our Owners} by

Keeping it Simple



{for our Customers}

BELLSOUTH

1996 Report to Shareholders

Shareholders }

Shortly after taking over my new responsibilities as your company's CEO in January, I went to Florida to meet with a group of our marketing people. Florida is our largest market, and I wanted to get a feel for how competition is affecting our employees on the front lines. I wanted to know more about what our customers expect from BellSouth. Just as important, I wanted to know what our customers are hearing from our competitors.

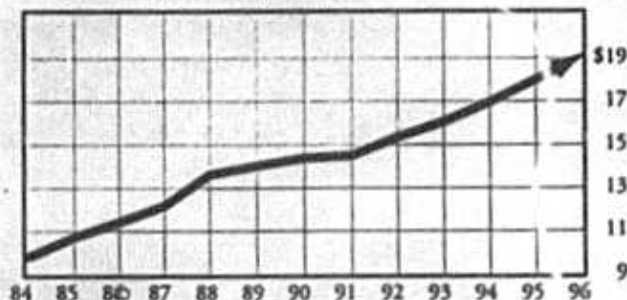
I was not surprised to see our employees are rising to the new challenges in the marketplace.

Our people are driven to continue to earn the loyalty of our existing customers. And they are determined to win new customers. They are telling the BellSouth story:

- We have the world's highest standards of reliability and performance;
- We have highly trained technicians and experienced service professionals;
- Our customers can reach us 24 hours a day, 7 days a week;
- Our fiber optic and digital networks are state-of-the-art;
- Our financial strength ensures we'll be there when our customers need us.

These are the strengths that differentiate BellSouth from the growing number of wireline and wireless competitors.

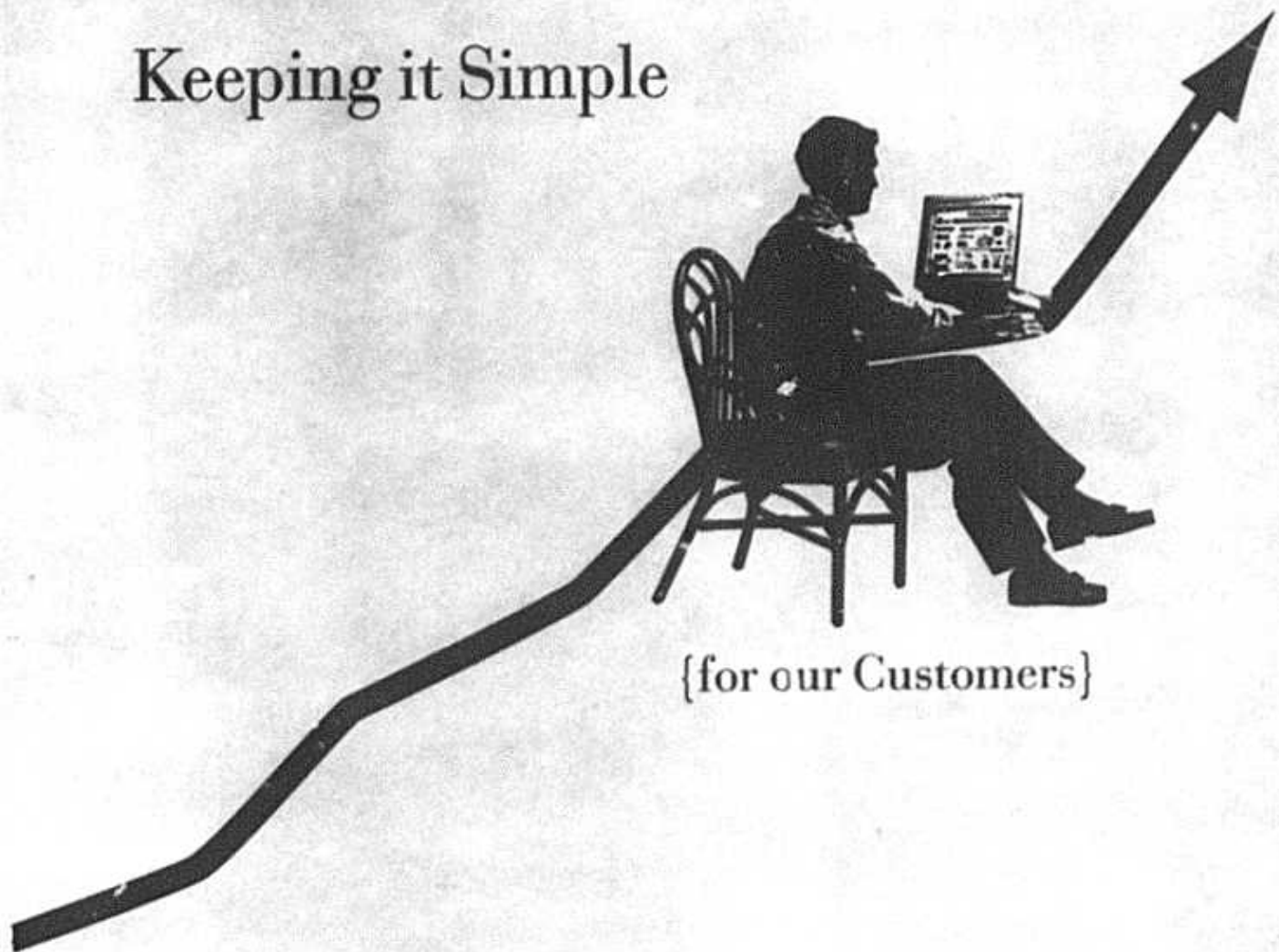
13 Years of Revenue Growth
(in billions)



Quality of earnings starts on the "top line" with revenue growth, and in 1996 BellSouth grew revenues 6.5%, the highest rate since 1988. We surpassed \$19 billion for the first time.

Building value {for our Owners} by

Keeping it Simple



{for our Customers}

BELLSOUTH

1996 Report to Shareholders

Dear

Shareholders}

Shortly after taking over my new responsibilities as your company's CEO in January, I went to Florida to meet with a group of our marketing people. Florida is our largest market, and I wanted to get a feel for how competition is affecting our employees on the front lines. I wanted to know more about what our customers expect from BellSouth. Just as important, I wanted to know what our customers are hearing from our competitors.

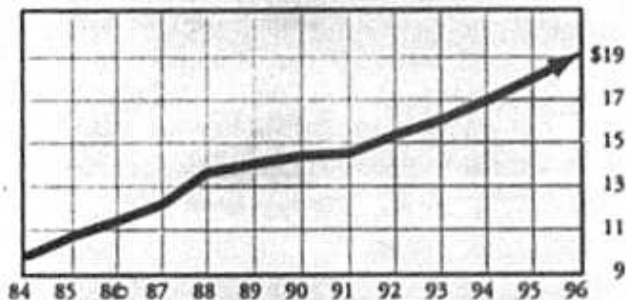
I was not surprised to see our employees are rising to the new challenges in the marketplace.

Our people are driven to continue to earn the loyalty of our existing customers. And they are determined to win new customers. They are telling the BellSouth story:

- We have the world's highest standards of reliability and performance;
- We have highly trained technicians and experienced service professionals;
- Our customers can reach us 24 hours a day, 7 days a week;
- Our fiber optic and digital networks are state-of-the-art;
- Our financial strength ensures we'll be there when our customers need us.

These are the strengths that differentiate BellSouth from the growing number of wireline and wireless competitors.

13 Years of Revenue Growth
(in billions)



Quality of earnings starts on the "top line" with revenue growth, and in 1996 BellSouth grew revenues 6.5%, the highest rate since 1988. We surpassed \$19 billion for the first time.

We surpassed \$19 billion in revenues for the first time. We became the first telecommunications company to grow by more than one million U.S. access lines in a single year. Our wireless operations around the world grew by an unprecedented 1,354,000 customers.

The President signed the Telecommunications Act in February 1996. More than a year later, I had

*Customers buy solutions. They want
easy, practical applications.*

*We know the best way to meet the expectations of our
owners is to exceed the expectations of our customers.*



Duane Ackerman
and Chief Executive Officer

international marketing and information firm J. D. Power and Associates conducted its first-ever survey of local telephone customers. BellSouth ranked Number 1 in customer satisfaction.

Then in February 1997, *Fortune* magazine reported on the American Consumer Satisfaction Index. To determine the rankings, the University of Michigan and the American Society for Quality Control surveyed 28,000 customers of 198 companies in 26 industries. I am proud that BellSouth was again the clear winner with customers in local telephone service.

We're keeping our focus on the customer and on service. At the same time our marketing is generating superior growth through new services and products. When you received your 1995 annual report a year ago, packaged products and per-use convenience features were concepts that had just come off the drawing board. Since then, we've sold 1.1 million packages such as our Complete Choice™ service. For one low price, Complete Choice bundles basic telephone service with Caller ID, Call Waiting and as many calling features as our customers want. Per-use calling features such as Three-Way Calling – a great value at 75 cents – have been enormously popular with our customers. All told, revenues from the array of convenience features customers use on top of their basic phone service grew more than 30 percent in 1996. That revenue stream totaled an impressive \$1 billion for the first time.

Leveraging the power of our BellSouth brand is a key element of our determination to win. As our

people in Florida made clear to me, with all the competitors crowding into the marketplace, the BellSouth brand is a beacon to busy consumers. People turn to the company they know and trust as a safe haven from all the hype. Our world class performance at the 1996 Olympic Games was a tremendous boost to our marketing initiatives. After the 17 days of the Games, our trouble report log showed exactly *zero* entries. BellSouth proved we can execute for a customer the size of the Olympic Games. That means people in the South know we can handle any customer's telecommunications needs.

We're putting a lot of muscle behind making BellSouth synonymous with ease, reliability and value in every aspect of telecommunications – local, long distance, wireless, video, Internet ... residential, large business and small business. We turned up the heat on our advertising and marketing programs in 1996. This annual report is full of examples of BellSouth's creative positioning in the marketplace. I hope you will spend some time checking out the dozens of innovations we're bringing to advertising, marketing, merchandising, promotion and distribution.

In our booming domestic wireless business, we're coupling impressive customer growth with profit growth. Last year we added nearly 2,100 customers every day in our U.S. cellular operations, while at the same time we grew net income 24 percent to \$363 million. As for service, BellSouth Mobility also won the J. D. Power and Associates Award in 1996 for top customer satisfaction in major markets – for the second year in a row.

*The BellSouth brand is a beacon to busy consumers --
the company they know and trust as a safe haven from all the hype.*

*BellSouth ranked No. 1 in customer satisfaction in
J.D. Power and Associates' 1996 survey.*

In our international operations, we passed the one million customer mark in July 1996, and nearly doubled our base in the year as a whole. With licenses covering 62 million potential customers, we still have lots of room to grow. When you consider that half the people in the world have never placed a phone call, you begin to realize international markets will provide excellent growth opportunities for BellSouth well into the new century.

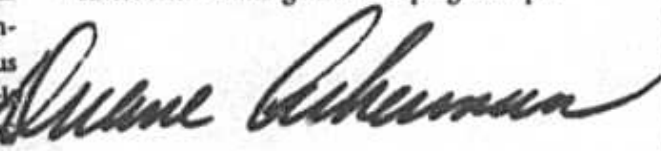
In his 13 years as CEO of BellSouth, my predecessor, John Clendenin, instilled a dual dedication to customers and shareholders throughout our company. John saw the competitive future, and he paved the way for this corporation to continue to prosper in the wake of last year's sweeping new law.

From Day One in 1984, we've been building on the foundation that John established. We continue to grow and diversify around BellSouth's core strength: today. We've taken what many considered to be a mature telephone business and made it a growth engine for shareholders by marketing new applications customers want. Starting from scratch, we've built our domestic and international cellular operations into businesses with a combined \$3.3 billion in revenues. Our financial focus has provided competitive returns for BellSouth investors, and we've driven our normalized EBIT growth rate in 1996 to 12.9 percent. We expect another good year in 1997, assuming the Federal Communications Commission deals evenhandedly with universal service and access reform.

We know the best way to meet the expectations of our owners is to exceed the expectations of our customers. And we are major shareholders ourselves. BellSouth's management, directors and employees are by far the largest owners of our stock. Together we own more than 120 million shares – five times the amount held by our largest institutional investor. Almost 50 percent of all our officers' compensation is linked directly to total shareholder return.

Driven by 16 consecutive quarters of improved operating results, BellSouth enters this exciting new era of expanded competition and opportunity in a strong position. Our core businesses are thriving. We're strengthening these solid foundations and deploying BellSouth's \$5.9 billion cash flow to launch new strategic investments in one of the world's premier growth industries – telecommunications.

We have the right strategies. We have a strong management team that is strategically focused and financially motivated. Above all, we are determined to win in the marketplace. Winning means keeping it easy, reliable and a good value for our customers. Winning means keeping it simple.



Duane Ackerman
President and Chief Executive Officer
February 1997

Few stand taller

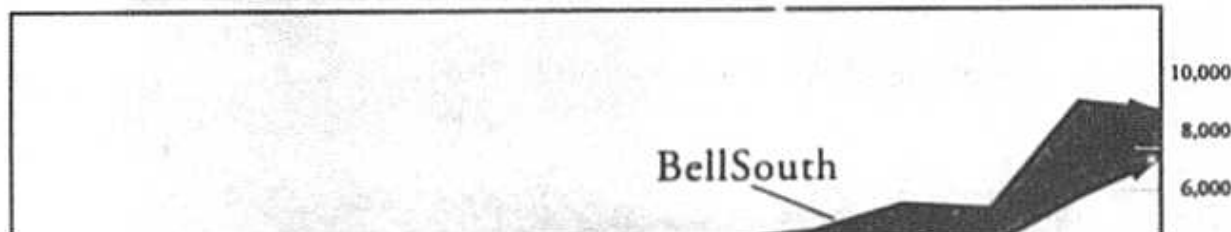
{A tribute to John Clendenin}



The true measure of a CEO is what he does for shareholders, and the true measure of a person is what he does for his family, his community and his country. By all these measures, few people in business history stand taller than John Clendenin. The only CEO BellSouth had from the company's birth in 1984 through 1996, John was the compass that constantly guided BellSouth's future. He instilled standards of excellence, inspired high achievement and embodied the leadership qualities that make everyone he comes in contact with proud to be on John Clendenin's team.

How your investment in BellSouth has grown

(in dollars)



Financial Highlights

BELLSOUTH CORPORATION (dollars in millions, except per share data)	1996 ^(a)	1995 ^(a)	1994	1993 ^(a)	1992
Operating Revenues	\$19,040	\$17,886	\$16,845	\$15,880	\$15,202
Operating Expenses	\$14,261	\$14,594	\$12,787	\$ 3,593	\$12,041
Net Income (Loss)	\$ 2,863	\$(1,232)	\$ 2,160	\$ 880	\$ 1,618
Earnings (Loss) Per Share	\$ 2.88	\$ (1.24)	\$ 2.18	\$.89	\$ 1.65
Dividends Per Share	\$ 1.44	\$ 1.41	\$ 1.38	\$ 1.38	\$ 1.38
Book Value Per Share	\$ 13.37	\$ 11.90	\$ 14.48	\$ 13.60	\$ 13.97
Weighted Average Shares Outstanding (millions)	994	993	992	991	981
Total Assets	\$32,568	\$31,880	\$34,397	\$32,873	\$31,463
Capital Expenditures	\$ 4,455	\$ 4,203	\$ 3,600	\$ 3,486	\$ 3,189
Return to Average Common Equity	22.4%	(9.2%)	15.4%	6.3%	11.9%
Debt Ratio	43.5%	46.7%	39.3%	40.2%	39.0%
Employees (end of year)	81,241	87,571	92,121	95,084	97,112
Telephone Employees (end of year)	62,425	68,585	73,764	77,958	79,453

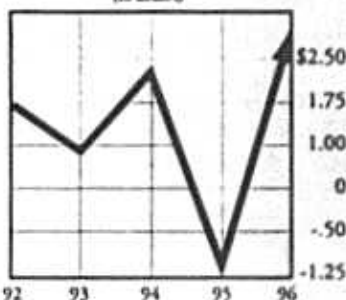
(a) During 1996, BellSouth recognized a gain of \$441 (\$344 after tax or \$.35 per share) from the sale of its paging operations.

(b) During 1995, BellSouth recognized charges of \$4,449 (\$2,718 after tax or \$2.73 per share) for the discontinuance of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," \$1,082 (\$663 after tax or \$.67 per share) for work force reductions to be completed by the end of 1997 in its telephone operations, and \$127 (\$78 after tax or \$.08 per share) for the refinancing of long-term debt issues.

(c) During 1993, BellSouth recognized a charge of \$1,136 (\$697 after tax or \$.71 per share) for restructuring its telephone operations.

Earnings Per Share

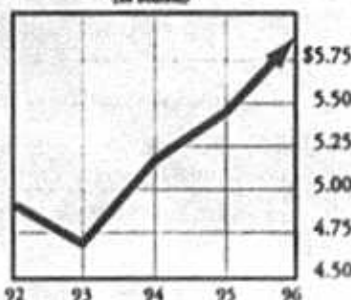
(in dollars)



Record earnings per share of \$2.88 in 1996 included 35 cents from the sale of paging operations. Reported EPS in 1995 reflected special charges totaling \$3.48, including \$2.73 for a required accounting change.

Operating Cash Flow

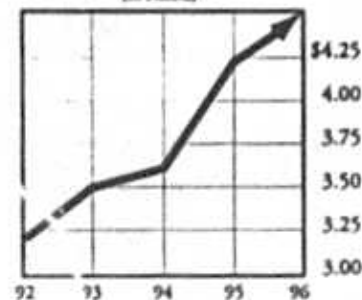
(in billions)



Cash dividends, an all-time high \$1.43 billion, and capital investments were the two primary uses of BellSouth's record 1996 operating cash flow of \$5.86 billion.

Capital Expenditures

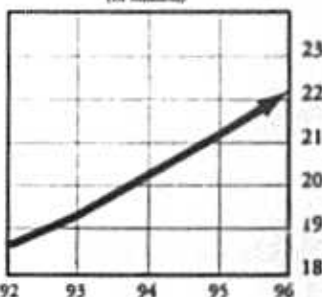
(in billions)



BellSouth invested \$4.5 billion in capital expenditures in 1996, reflecting excellent growth opportunities in telecommunications.

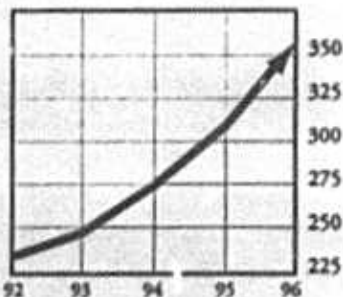
Access Lines

(in millions)



BellSouth became the first company to surpass 22 million U.S. access lines in 1996. Our unprecedented growth included a record 285,000 additional residential lines.

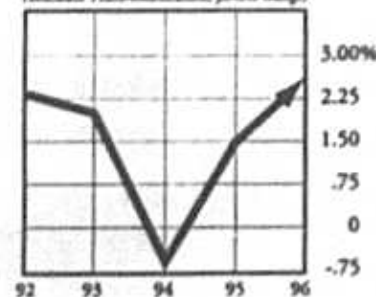
Access Lines Per Employee



This key measure of productivity shows that BellSouth continues to accelerate its initiatives to become even more competitive and efficient.

Cash Operating Expenses

(BellSouth Telecommunications, prices change)



Cash operating expenses in BellSouth's telephone operations increased in 1996 at less than half the growth rate of network service revenues.

Winning in the Marketplace



{A discussion about the future with President and Chief Executive Officer Duane Ackerman}

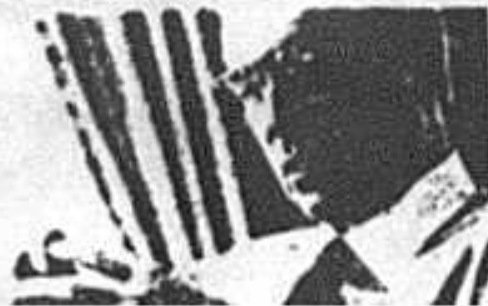
Q *How is BellSouth getting ready for competition?*

A We're not *getting* ready for competition. We are competing *now*. We've been working hard to achieve open competition for virtually the entire life of this corporation. Now, it's our time in history. We're focused on the customer, we have the right growth strategies, we're executing those strategies, and we are determined to win in the competitive marketplace. We have a lot going for us — new products, a very strong brand, proven marketing ability, excellent sales and distribution channels, a huge base of satisfied customers, and BellSouth's financial firepower. As you page through this annual report, I think you will get a feel for the aggressive and creative actions we're taking to make it easy for our customers to do business with BellSouth.

Q *What are the key factors for success in the new marketplace?*

A One big factor is integrating our product lines — local and long distance; wireline and wireless; voice, data and video. One of the first actions I took as CEO was to create a new vice president of marketing position to make this happen. We're already selling wireless through distribution channels that traditionally sold only wireline telephone service. We literally packaged together our Internet access product, BellSouth.net™ service, with our "phone line in a box" concept in retail stores. That's been a big hit with customers who want to get all they need in one easy package to go on-line with their computer and surf the Web. Our customers see BellSouth as one company that provides all their communications products and services in any combination they want.

Efficiency is another critical element in a competitive environment. Our costs have to be low enough to give us the flexibility to be competitive. That's why we've



BellSouth will provide any combination



We have opened our markets to competitors.

Keeping it easy.
Keeping it reliable.
Keeping it a good value.

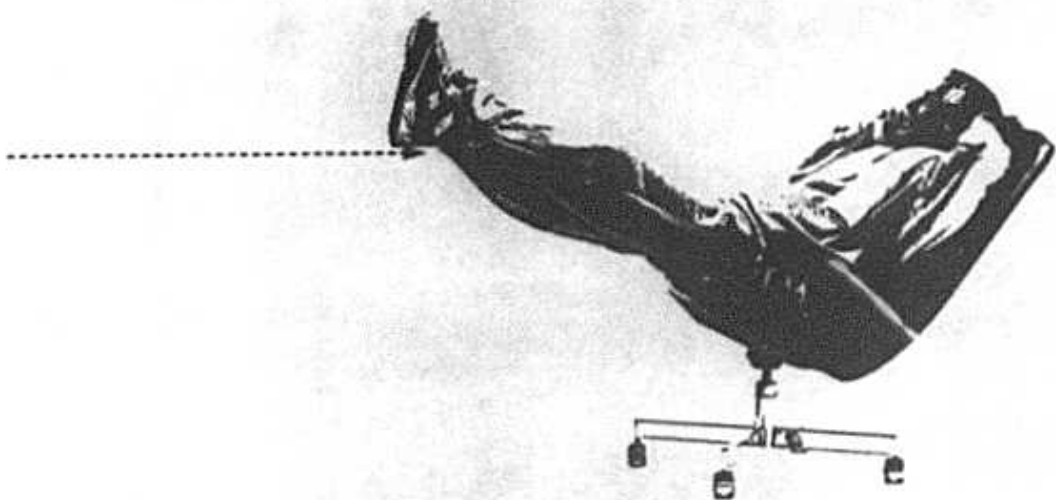
Whenever anyone researches what customers want today from the companies that serve them, one word practically screams out of the surveys: simplicity. BellSouth listens to our customers, so we can see our service through their eyes. We give them convenience, dependability and value because we know for our customers,

the most important thing is

Keeping it simple.



Keeping it easy.



Whenever a customer deals with BellSouth, we want them to tell their neighbors how easy we are to do business with. We are determined to stay better than any other company at keeping our products and services easy and practical.

How we are keeping it easy.

{ BellSouth takes care of the details so our customers
can take care of what's important to them. }



High Profile Pages

Actress Dixie Carter's wit and credibility come through in TV ads where the popular star explains how easy it is to get projects accomplished using the BellSouth Yellow Pages.



TV Campaigns

Promoting packages and bundles of services makes it easy for customers to get the exact combinations of BellSouth calling features they want – and at the same time they save money.

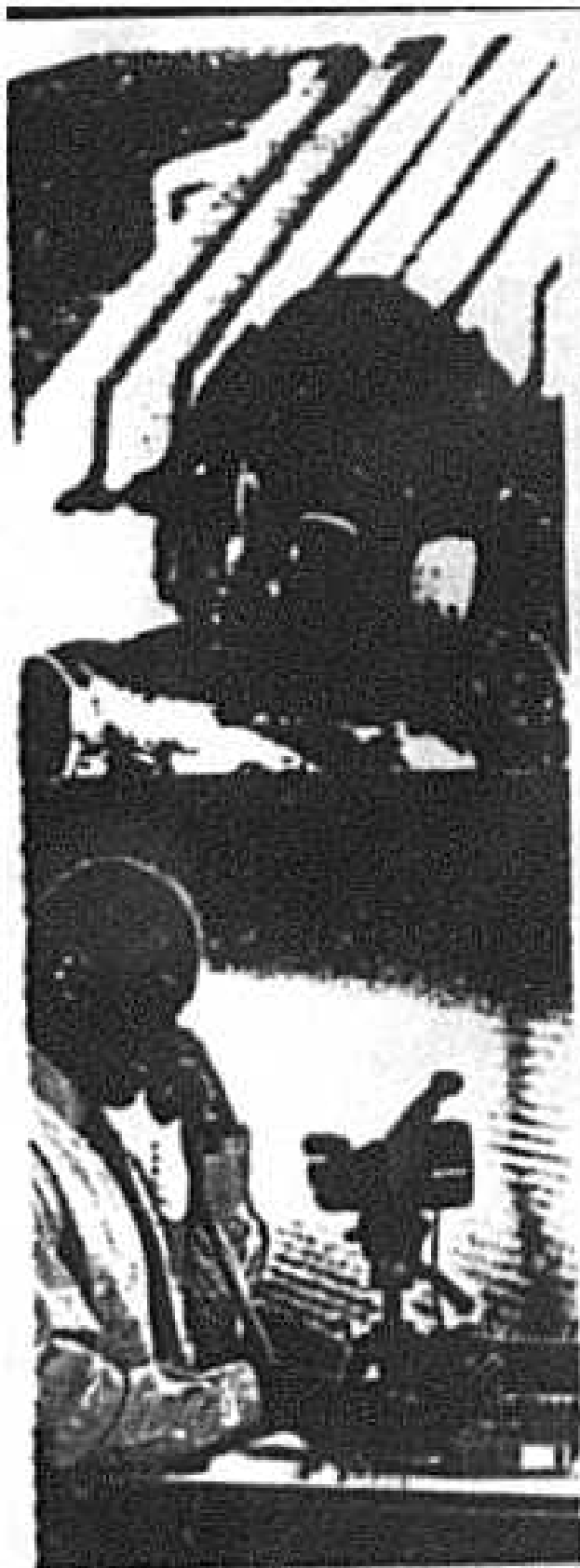


Australia

More than 100 Optus World locations make it easy for customers to find the full communications solution for their home or business in one store. Optus revenues grew 36% in 1996.

Going To Customers

Distribution is the name of the game in wireless services. That's why BellSouth goes where it's easy for customers – supermarkets and thousands of other prime distribution channels throughout the South.



**Introducing
vo Phones In One.**

Say It My Way

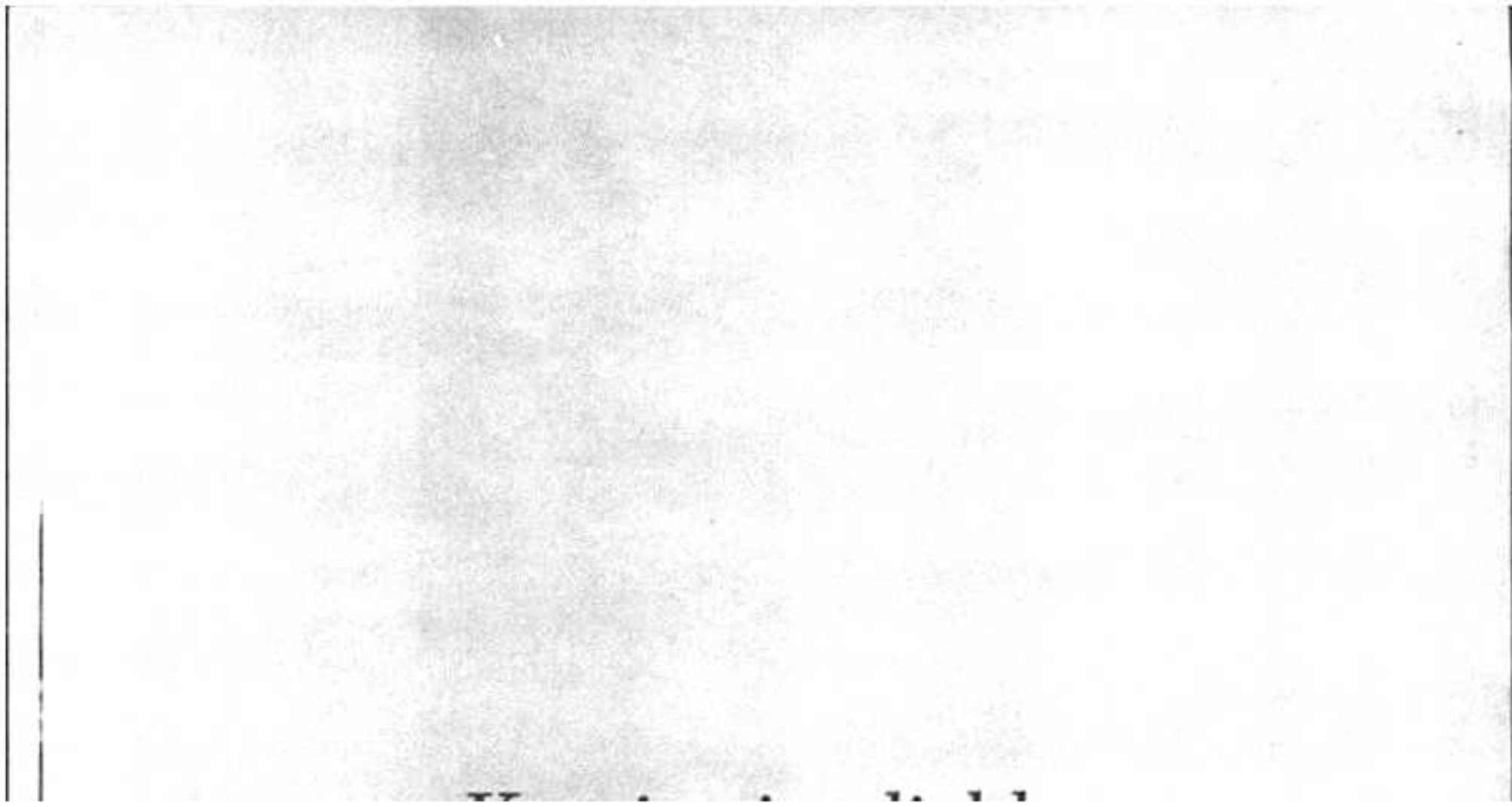
BellSouth speaks our customers' languages — seven of them: English, Spanish, French, German, Portuguese Creole and Arabic dialects. Any way customers say "easy," BellSouth makes it that way for them.

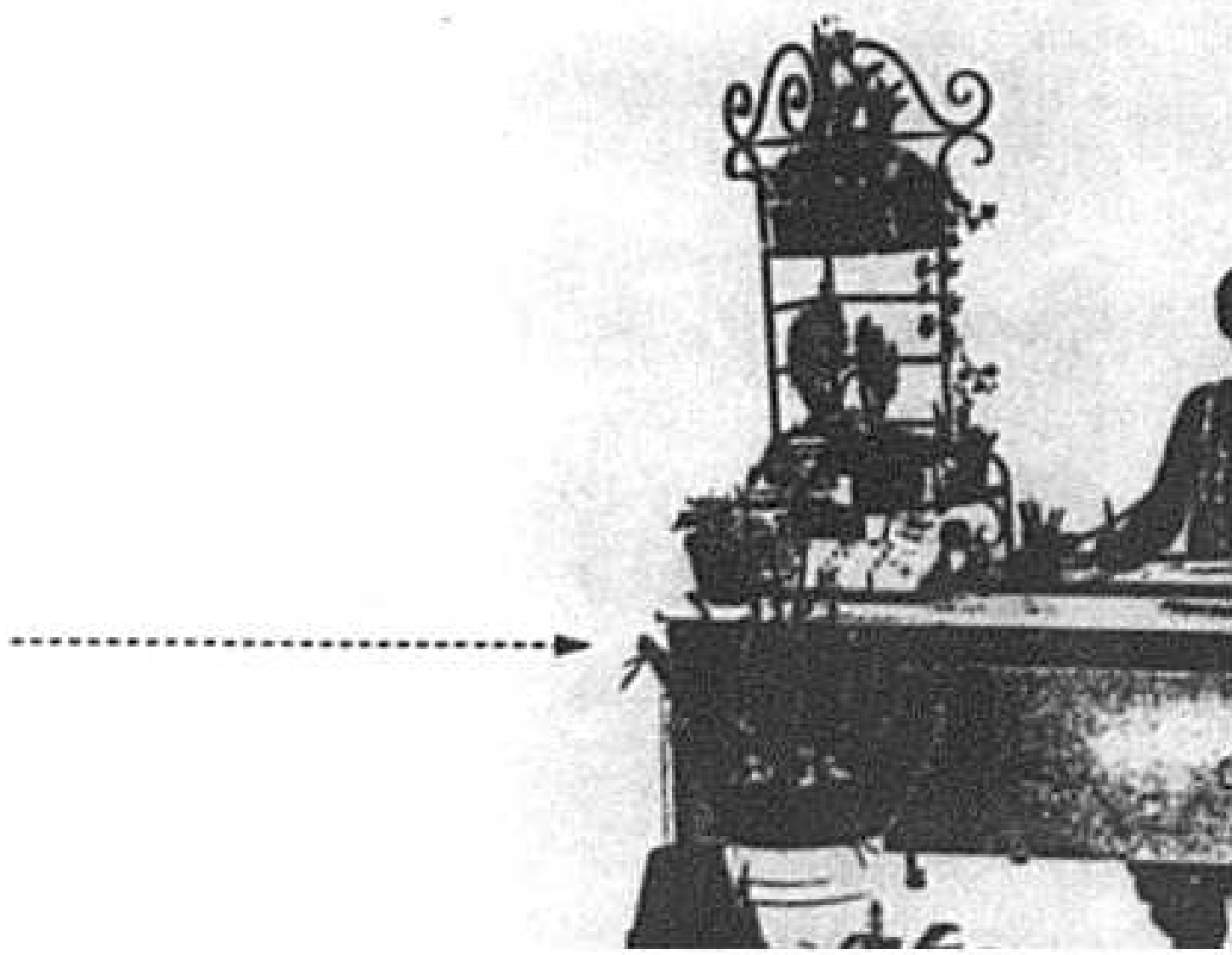
Human Factors Lab

When it comes to keeping it simple for customers, BellSouth has it down to a science. Our Science & Technology Human Factors Lab painstakingly researches how to make our services easy and fun to use.

Cellular Cordless™

BellSouth's strategies to bundle services come together in Cellular Cordless.





How we are keeping it reliable.

{ BellSouth invests billions in state-of-the-art technology so, }
{ for our customers, "It's All Here"—when they need it! }



Tapping New Markets
Precision is a must when gigabytes of data move at ultra-high speed. BellSouth's reliability stands behind the integrated digital services we market to specialty industries such as advertising, graphic arts and printing.



Ready When You Are
BellSouth knows our customers are busy. That's why we provide reliable extended-hour repair and installation appointments starting at 7 a.m. weekdays and on weekends.

Germany
E-Plus tripled its customer base in 1996, thanks to a network that covers more than 90% of the population, making the German wireless phone system one of the largest and most reliable in the world.



Call Waiting

BELLSOUTH
Residential Services

Back Up And Running
BellSouth operates one of the most reliable telecommunications networks in the world because, when natural disasters such as hurricanes strike, our people know how and can do.

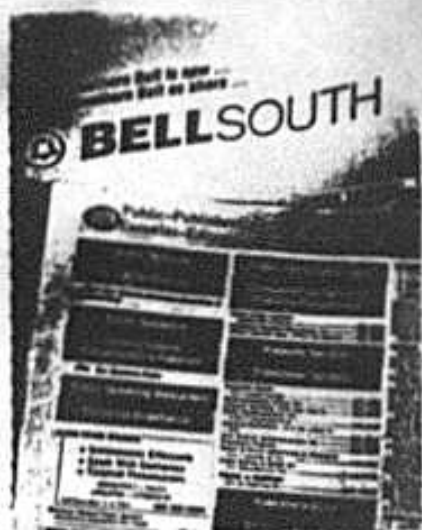
Call Waiting
Attention getting TV ads help make Call Waiting BellSouth's most popular feature, with 56% market penetration. Call Waiting puts an end to missing important calls when you're on the line.

I'll Take Care Of That
BellSouth's Web site shows customers they're never on hold with Right Touch® service. Their own personal code gives customers easy access to automated billing information, and lets them order service and activate calling features anytime, day or night.

We're Here To Help

At BellSouth, we offer two convenient ways for you to get an even faster service. Our **Right Touch** service is available 24 hours a day. All you need is the Personal Access Code (PAC) from your account. We're staffed with helpful BellSouth Representatives who can help you.

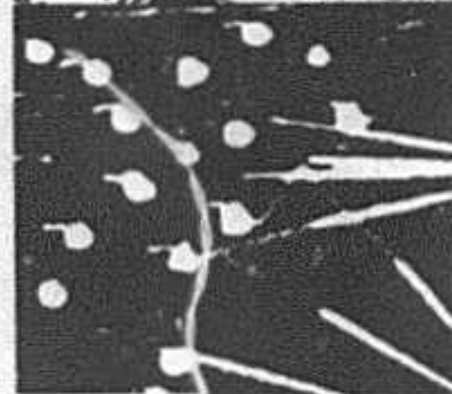
To get Right Touch service, call 1-800-368-3683 or contact your local Service Center. We



Bilingual Directories
Bilingual features make the Miami Yellow Pages the reliable resource for all our customers in BellSouth's biggest in-region market. They can find what they want to buy, when they're ready to buy.

Nationwide Roaming
Our cellular customers can count on quality service from BellSouth, even when outside their home territory. With nationwide roaming, all our customers have to do is turn on their phone, and they're in business.

Digital Wireless
First minute free on incoming calls is just one of the many free features customers get in markets where BellSouth has introduced



Argentina/Uruguay
Because BellSouth and its partners operate cellular systems in both Argentina and Uruguay, our "roaming" customers rely on their wireless phones when traveling between the Latin American neighbors.

NetDay In Schools
BellSouth's initiatives in the important education marketplace emphasize bringing our services, including Internet technology and training, to some 2 million students and teachers across the South.

Service Call Routing
Customers calling BellSouth can rely on quicker response because, when demand is heaviest, our new system routes calls to the next available representative —

Keeping it a good value.



To most telecommunications customers, a good value doesn't mean just a competitive price. Value means getting the variety of practical services customers need in today's busy world, without the hassle of dealing with a bunch of different suppliers. "BellSouth is the one company I do business with," we want our customers to continue saying. "To me, they're the best value. I don't need to switch."

How we are keeping it a good value.

{ BellSouth is making sure that our brand means }
{ customers get great value at competitive prices. }

Small Business VISA

BellSouth™ VISA® Small Business Card is a terrific value. It gives customers cash back on phone charges and purchases, offers higher credit limits and provides a year-end report for financial management.

Celebrity Advertising Convenience features such as Caller ID are an even greater value when customers take advantage of BellSouth promotions advertised by celebrities such as country music superstar Naomi Judd.

Denmark

In Denmark, Sonofon grew 150% in 1996 because of cellular values such as advanced

Internet

With BellSouth.net,™ reliable Internet access is just the beginning. Attractive pricing, an interactive tour of the World Wide Web and alliances with leading Web sites add more value for our customers.

Prepaid Cellular

We make purchasing mobile phone service as simple as possible with BellSouth Prepaid Cellular™ Service. It's a way of expanding the market to budget conscious customers who want flexibility.

Telemedicine

BellSouth's powerful data services are just the value the doctor ordered.



LAST YEAR WE'VE BEEN

customers not only dozens

of entertainments and

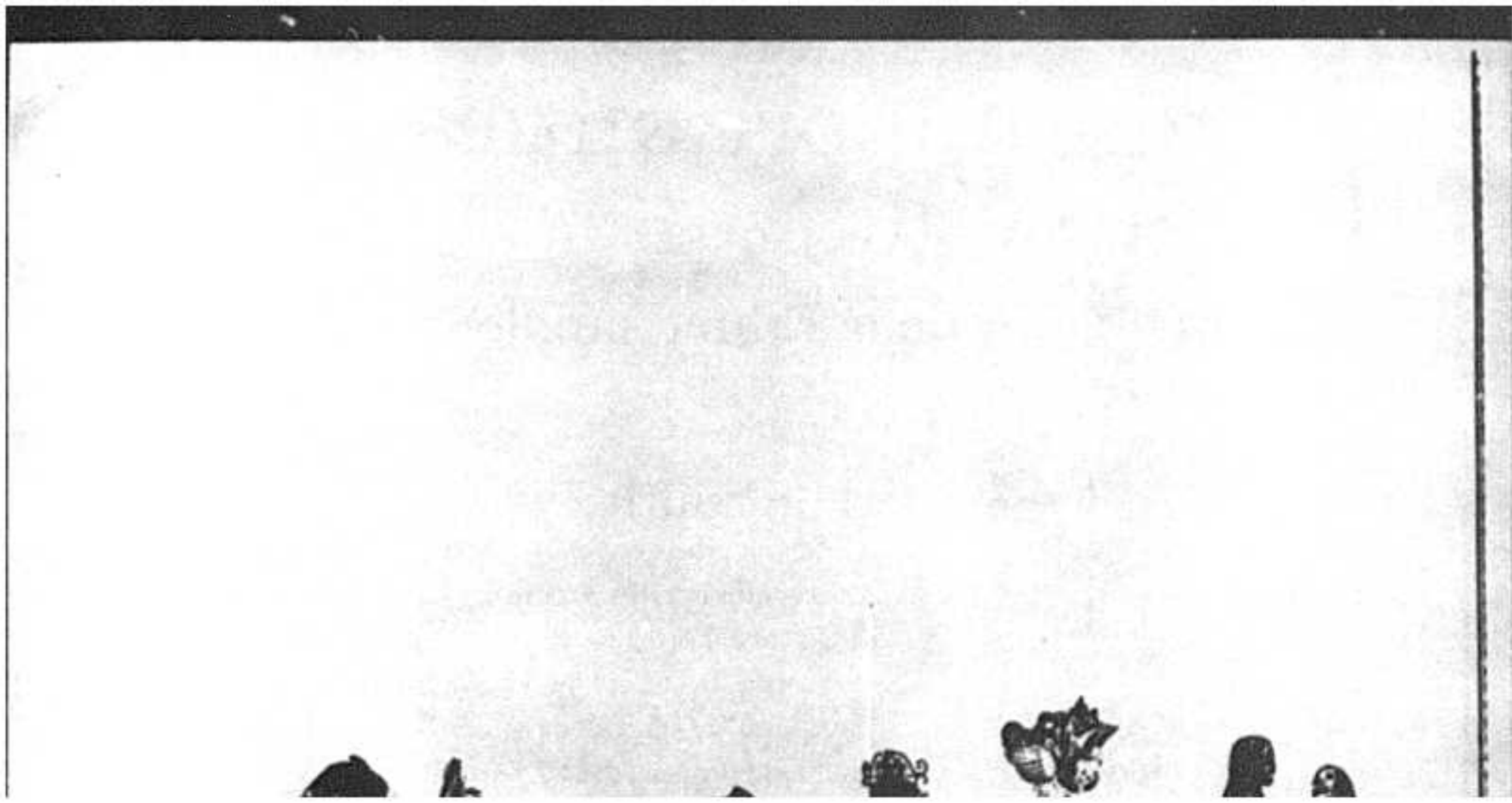


LAST YEAR WE'VE BEEN

ring lets you know who

the call is for, and each

Keeping it simple





*BellSouth's innovative promotions
and pervasive distribution channels
continue to expand the market for
wireless phones.*

will provide our customers with bundled wireless and wireline services as regulations permit.

International BellSouth's international strategy is to continue to grow our existing operations and expand into new markets and related network services. We're taking strengths that are second nature to us in the U.S. and find-

{ 3 }

BellSouth takes its expertise around the world.

{Our Expanding International Operations}

{ Condensed Consolidated Statements of Income }

BellSouth Corporation

(In millions)	For the years ended December 31,		
	1996	1995	1994
Operating revenues:			
Network and related services			
Local service	\$ 8,082	\$ 7,294	\$ 6,863
Interstate access	3,553	3,275	3,127
Intrastate access	812	884	908
Toll	794	1,009	1,190
Wireless communications	2,799	2,592	2,067
Directory advertising and publishing	1,742	1,677	1,556
Other services	1,258	1,155	1,134
Total operating revenues	19,040	17,886	16,845
Operating expenses ^(a)	14,261	14,594	12,787
Operating income	4,779	3,292	4,058
Interest expense	721	724	666
Gain on sale of paging business	442	-	-
Other income, net	108	20	11
Income before income taxes and extraordinary losses	4,608	2,588	3,403
Provision for income taxes	1,745	1,024	1,243
Income before extraordinary losses	2,863	1,564	2,160
Extraordinary loss for discontinuance of SFAS No. 71, net of tax ^(b)	-	(2,718)	-
Extraordinary loss on early extinguishment of debt, net of tax	-	(78)	-
Net income (loss)	\$ 2,863	\$(1,232)	\$ 2,160

These condensed financial statements should be read in conjunction with the full financial statements presented in the appendix to the proxy statement.

(a) During 1995, BellSouth recognized a charge of \$1,082 for work force reductions in its telephone operations. The charge reduced net income by \$663.

(b) In 1995, BellSouth recognized a one-time noncash charge of \$2,718 for the discontinuance of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation."



{Report of Independent Accountants}

To the Shareholders of
BellSouth Corporation
Atlanta, Georgia

{The Board of Directors}

BellSouth Corporation





{BellSouth Corporation}

Keith O. Cowan
Vice President –
Corporate Development

Mark E. Droege
Vice President –
Financial Management
and Treasurer

Ronald M. Dykes
Executive Vice President and
Chief Financial Officer

H.C. Henry, Jr.
Executive Vice President –
Corporate Relations

David J. Markey
Vice President –
Governmental Affairs

W. Patrick Shannon
Vice President
and Controller

Arlen G. Yoldy
Senior Vice President –
Executive Staff Officer
and Corporate Secretary

SHARE



You can share an experience. Share a secret. Or you can have a share in someone's success. That's exactly what BellSouth invites you to do. For the first time ever, you can buy shares directly from BellSouth. It's your chance to invest simply and easily, with lower trading fees. Not only is BellSouth the telecommunications leader in the fastest-growing region in the nation, but we've also excelled with steady expansion both domestically and internationally. Call anytime for your "plain English" prospectus and enrollment form. Or write to BellSouth Shareholder Services at Washington Bridge Station, P.O. Box 465, NY, NY 10033-0465. The company that helps you share your words wants you to share in our growth, too.

1996 the year in simple terms

{Major successes in 1996}



Record Earnings

BellSouth boosted its financial strength in 1996 with record earnings per share of \$2.53, before a one-time gain of 35 cents on the sale of paging operations. This was a 12.9% increase compared to earnings per share in 1995 of \$2.24 before special charges.



Branding

The BellSouth brand stands for convenience, reliability and value. We are aggressively communicating that message to customers in the South with a wide variety of innovative advertising campaigns, marketing programs and sports sponsorships.



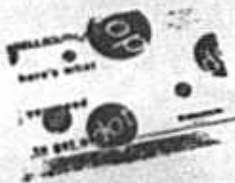
International Expansion

BellSouth continues to hit its two main strategic targets in the international marketplace – growing our existing operations, and expanding into new markets. In 1996, we soared past the 1 million mark in cellular customers overseas, inaugurated services in Panama, and increased our ownership percentage in Denmark. Already in 1997, BellSouth has acquired majority ownership of Peruvian telecommunications company Tele 2000.



No. 1 in Customer Satisfaction

J.D. Power and Associates' first-ever survey of customer satisfaction in the local telecommunications industry came up with a clear winner in 1996 – BellSouth. Then in February 1997, the University of Michigan and the American Society for Quality Control reported that BellSouth topped all others in local telephone services on the American Consumer Satisfaction Index. BellSouth Mobility also won the J.D. Power and Associates Award for the second year in a row.



Internet Access

BellSouth's new service, BellSouth.net™ breaks down the barriers between you and the Internet. Within weeks of its launch in August 1996, BellSouth.net won the loyalty of tens of thousands of Web surfers with its high quality, reliable connection to the Internet and features such as local home pages that can be customized, Internet tutorials, a Rapid Response Help Desk and flexible pricing.

Olympic Games

[BellSouth Corporation, with more than 22 million access lines in nine Southern states, provides local telephone service and long distance access to more customers than any other company in the U.S. We market a full array of telecommunications services to businesses and consumers, including private networks, advanced data services, MemoryCall® voice mail service, Caller ID, TouchStar® services, and other Custom Calling features. BellSouth is one of the world's largest wireless communications companies, serving more than 4.8 million cellular customers in major markets throughout the U.S. and in 12 other countries. BellSouth leads the industry in Yellow Pages advertising and directory publishing. The largest of the Bell holding companies, BellSouth has revenues of more than \$19 billion and assets of over \$32 billion. BellSouth is headquartered in Atlanta, Georgia, and employs some 81,000 men and women in 18 countries.]

Just call BellSouth's Shareholder Services toll-free for answers to questions regarding stock transactions.

1-800-631-6001

8 a.m.-8 p.m. Eastern Time

For faster service you may wish to call during non-peak hours - 8 to 10 a.m. or 5 to 8 p.m.

You may also avoid peak times by calling after the third business day following dividend payments. If you're outside the United States, call collect 212-946-7440.

Our FAX number is 201-329-8990.

Visit BellSouth's home page on the Internet's World Wide Web at
<http://www.bellsouth.com>

{Shareholder Information}

Corporate Headquarters

BellSouth Corporation
1155 Peachtree Street, N.E.
Atlanta, GA 30309-3610

Form 10-K

Copies of Form 10-K Annual Report to the Securities and Exchange Commission can be obtained, without charge, from Investor Relations. Copies also are available on BellSouth's Internet home page - (<http://www.bellsouthcorp.com/investor/> (click on File: gs))

Investor Relations

Inquiries from individual or institutional investors, financial analysts, registered representatives and portfolio managers should be directed to:

Investor Relations
BellSouth Corporation
Room 14B06
1155 Peachtree Street, N.E.
Atlanta, GA 30309-3610

Ticker Symbol:

BLS

Shareholder Quarterly Reports

If your stock is held by a bank or brokerage firm, and you wish to receive BellSouth quarterly reports, please call the Shareholder Services toll-free number, 1-800-631-6001, and we will place you on our mailing list.

Annual Meeting

BellSouth Corporation's Annual Meeting of Shareholders will be held at 9:00 a.m. EDT, Monday, April 28, 1997, in Atlanta, Georgia at Cobb Galleria Centre.



This summary annual report was produced on recycled paper, and at significant cost savings compared with a traditional annual report.

(Page 15)

Netscape and the Netscape Communications Corporate Logo are trademarks and trade names of Netscape Communications Corporation.

(Page 22)

VISA is a registered service mark of Visa International Service Association.



EXHIBIT Q - 16(A)(4)
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)



**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(a) OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 1996

OR



**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from
to

Commission file number 1-8607

BELLSOUTH CORPORATION

A Georgia
Corporation

1155 Peachtree Street, N.E., Atlanta, Georgia 30309-3610
Telephone number 404 249-2000

I.R.S. Employer
No. 58-1533433

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

Title of each class

Common Stock
(par value \$1 per share)
and

Preferred Stock Purchase Rights

9 1/4% Notes due 1/15/98 of
BellSouth Capital Funding
Corporation

Name of each exchange
on which registered

New York, Boston, Chicago,
Pacific and Philadelphia
Stock Exchanges

New York Stock Exchange

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

None.

At February 1, 1997, 991,205,642 shares of Common Stock and Preferred Stock Purchase Rights were outstanding.

At February 1, 1997, the aggregate market value of the voting stock held by non-affiliates was \$43,984,750,364.

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

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

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement dated March 11, 1997, issued in connection with the 1997 annual meeting of shareholders (Part III).

TABLE OF CONTENTS

<u>Item</u>	<u>Page</u>
PART I	
1. Business	1
General	1
Business Operations	1
Telephone Company Operations	2
Other Telecommunications Business Operations	8
Competition	11
Research and Development	15
Licenses and Franchises	16
Employees	16
2. Properties	17
General	17
Capital Expenditures	17
Environmental Matters	18
3. Legal Proceedings	18
4. Submission of Matters to a Vote of Shareholders	19
Additional Information — Description of BellSouth Stock	19
Executive Officers	22
PART II	
5. Market for Registrant's Common Equity and Related Stockholder Matters	23
6. Selected Financial and Operating Data	24
7. Management's Discussion and Analysis of Results of Operations and Financial Condition	25
Results of Operations	25
Volumes of Business	27
Operating Revenues	28
Operating Expenses	31
Other Income Statement Items	33
Extraordinary Losses	33
Financial Condition	34
Operating Environment and Trends of the Business	36
8. Consolidated Financial Statements and Supplementary Data	39
Report of Management	39
Audit Committee Chairman's Letter	40
Report of Independent Accountants	40
Consolidated Statements of Income	41
Consolidated Balance Sheets	42
Consolidated Statements of Shareholders' Equity	43
Consolidated Statements of Cash Flows	44
Notes to Consolidated Financial Statements	45
Supplementary Data — Domestic Cellular Proportionate Operating Data	64
9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	65

<u>Item</u>		<u>Page</u>
PART III		
*10.	Directors and Executive Officers of the Registrant ..	65
*11.	Executive Compensation	65
*12.	Security Ownership of Certain Beneficial Owners and Management	65
*13.	Certain Relationships and Related Transactions	65

PART IV

*14.	Exhibits, Financial Statement Schedules, and Reports on Form 8-K	65
	Signatures	68
	Consent of Independent Accountants	69

*Included in BellSouth Corporation's definitive proxy statement dated March 11, 1997 and incorporated herein by reference.

PART I

ITEM 1. BUSINESS

GENERAL

BellSouth Corporation (BellSouth) is a holding company providing telecommunications services, systems and products primarily through two wholly-owned subsidiaries, BellSouth Telecommunications, Inc. (BellSouth Telecommunications) and BellSouth Enterprises, Inc. (BellSouth Enterprises). BellSouth Telecommunications provides predominantly tariffed wireline telecommunications services to approximately two-thirds of the population and one-half of the territory within Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina and Tennessee. BellSouth's other businesses (predominantly wireless and international communications services and advertising and publishing products) are conducted primarily through subsidiaries of BellSouth Enterprises. BellSouth has its principal executive offices at 1155 Peachtree Street, N.E., Atlanta, Georgia 30309-3610 (telephone number 404-249-2000).

BellSouth was incorporated in 1983 under the laws of the State of Georgia. On December 31, 1983, pursuant to a consent decree approved by the United States District Court for the District of Columbia (the D. C. District Court) entitled "Modification of Final Judgment" (the MFJ) settling antitrust litigation brought by the United States Department of Justice (the Justice Department) in 1974 and the related Plan of Reorganization, American Telephone and Telegraph Company, now AT&T Corp. (AT&T), formed seven holding companies including BellSouth (the Holding Companies), and transferred to them one or more of the operating telephone companies (the Operating Telephone Companies) that were formerly part of the Bell System. As a result, AT&T transferred to BellSouth its 100% ownership of South Central Bell Telephone Company (South Central Bell) and Southern Bell Telephone and Telegraph Company (Southern Bell). On January 1, 1984, ownership of the Holding Companies was transferred by AT&T to its shareholders. As a result, BellSouth became a publicly traded company. BellSouth Telecommunications is the surviving corporation from the merger of South Central Bell and Southern Bell, effective at midnight December 31, 1991.

Under the MFJ, the Operating Telephone Companies could provide local exchange, exchange access, information access and toll telecommunications services within their assigned geographical territories, termed "Local Access and Transport Areas" (LATAs). Although prohibited from providing service between LATAs, the Operating Telephone Companies provided exchange access services that linked a subscriber's telephone or other equipment in one of their LATAs to the transmission facilities of carriers (the Interexchange Carriers), which provided toll telecommunications services between different LATAs.

In February 1996, the President signed into law the Telecommunications Act of 1996 (the 1996 Act). This legislation provides for the development of competitive local telecommunications markets; terminates on a prospective basis the MFJ, enabling the provision by the Operating Telephone Companies of interLATA telecommunications and other services; and repeals the laws prohibiting the Operating Telephone Companies and their affiliates from providing video services within their service areas. The ability of the Operating Telephone Companies to enter businesses previously proscribed to them by the MFJ is, however, generally subject to numerous criteria and the development of and compliance with newly mandated federal regulations.

BUSINESS OPERATIONS

Approximately 70%, 70% and 72% of BellSouth's operating revenues for the years ended December 31, 1996, 1995 and 1994, respectively, were from wireline telecommunications services provided by BellSouth Telecommunications. The remainder was principally derived from wireless operations, directory advertising and publishing, billing and collection and other nonregulated services. Revenues from services provided to AT&T, BellSouth's largest customer, comprised approximately 9%, 10% and 11% of 1996, 1995 and 1994 operating revenues, respectively.

TELEPHONE COMPANY OPERATIONS

BellSouth Telecommunications provides, predominantly, local exchange, exchange access and intraLATA toll services within each of the 38 LATAs in its combined nine-state wireline operating area. BellSouth Telecommunications provided approximately 22,131,000 customer access lines at December 31, 1996, an overall increase of 4.7% since December 31, 1995. The increase was primarily attributable to continued economic growth in BellSouth Telecommunications' nine-state service region. Growth in second residential lines accounted for approximately 28% of the overall increase in total access lines since December 31, 1995. (See "Management's Discussion and Analysis of Results of Operations and Financial Condition — Volumes of Business.")

At December 31, 1996, approximately 74% of access lines were in 44 metropolitan areas, each having a population of 125,000 or more. Many localities and some sizable areas in the states in which BellSouth Telecommunications operates are served primarily by non-affiliated telephone companies, which had approximately 29% of the network access lines in such states on December 31, 1996. BellSouth Telecommunications does not furnish, on a significant scale, local exchange, access or toll services in the areas served by such companies.

Local And IntraLATA Toll Services

Charges for local services for each of the years ended December 31, 1996, 1995 and 1994 accounted for approximately 42%, 41% and 41% of BellSouth's operating revenues, respectively. Local services operations provide lines from telephone exchange offices to subscribers' premises for the origination and termination of telecommunications, including the following: basic local telephone service provided through the regular switched network; dedicated private line facilities for voice and special services, such as transport of data, radio and video, and foreign exchange services; switching services for customers' internal communications through facilities owned by BellSouth Telecommunications; services for data transport that include managing and configuring special service networks; and dedicated low or high capacity public or private digital networks. Other local services revenue is derived from intercept and directory assistance, public telephones and various optional central office features, such as Caller ID service, Call Waiting, Call Return and 3-Way Calling. As other telecommunications companies are authorized by regulatory agencies to compete in the provision of local service, BellSouth Telecommunications will increasingly sell to such carriers unbundled local service elements and discounted wholesale local service for resale.

BellSouth Telecommunications offers certain enhanced services, such as MemoryCallSM voice messaging service, through its network. These services differ from basic services in that they employ computer processing applications to alter the subscriber's transmitted information; provide the subscriber additional, different or restructured information; or involve subscriber interaction with stored information. The terms of many of these service offerings are not regulated under the rules of the Federal Communications Commission (FCC), but the FCC prescribes the method by which such services may be provided (for example, through structurally separated subsidiaries or arrangements providing access to competitive providers). During 1996, total revenue from enhanced and other optional services was approximately \$1 billion.

BellSouth Telecommunications provides intraLATA toll services within (but not between) its 38 LATAs. Such toll services provided approximately 4%, 6% and 7% of BellSouth's operating revenues for the years ended December 31, 1996, 1995 and 1994, respectively. These services include the following: intraLATA service beyond the local calling area; Wide Area Telecommunications Service (WATS or 800 services) for customers with highly concentrated demand; and special services, such as transport of data, radio and video. In recent years, these toll revenues have decreased as local calling areas have been expanded and as competition for toll customers has intensified. This trend is expected to continue.

Regulation of Local and Toll Services

BellSouth Telecommunications is subject to regulation of its intrastate services by state authorities in each state where it provides intrastate telecommunications services; such regulation covers rates,

services, competition and other issues. Traditionally, each state in its service area at levels which were allowed expenses and to provide an opportunity. Such a regulatory structure was satisfactory in a regulatory processes have changed in response to the environment.

Rate Regulation

Under one form of alternative regulation, incentives are provided to lower costs and increase profits over a benchmark rate of return. General earnings were "shared" by providing refunds.

Another alternative form of regulation, general prices that can be charged for certain telecommunications services. Increases in prices for specified services, and service options to more effectively respond to market conditions provides an opportunity to more fully benefit from price competition. Telecommunications has focused its regulatory efforts on such plans. Such plans have been approved or authorized in several states in BellSouth Telecommunications' wireline service areas except Tennessee, where judicial appeals are pending.

The following section contains a brief description of BellSouth Telecommunications' nine-state wireline territories.

Alabama

From December 1988 to September 1995, Alabama's response to a law enacted in 1995 permitting alternative methods of regulation that are not subject to rate of return. Alabama Commission approved a price regulation plan for basic services, including local exchange services, capped for five years, after which prices may be adjusted annually; and intrastate switched access rates. Additional terms of the price regulation plan through 1999, excluding intrastate switched access are estimated to be \$25 million.

Florida

From 1988 through 1992, an incentive regulation plan. Public Service Commission extended the plan through approximately \$300 million over a three-year period.

In 1995, a law was enacted which allowed price regulation, prices for basic services (with local exchange services) are capped for five years with an inflation-based formula. Prices for other services, are capped for three years at the rates may be adjusted annually subject to defined limits. Intrastate switched access prices will decrease over interstate switched access rates. In November 1995, Florida Commission an election for price regulation. BellSouth Telecommunications is currently operating under sharing provisions of the incentive plan described above.

Georgia

From 1990 to August 1995, BellSouth Telecommunications operated under an incentive regulation plan in Georgia. In April 1995, a law was enacted which, effective in July 1995, allowed BellSouth Telecommunications to elect the price regulation plan as described in the legislation. In July 1995, BellSouth Telecommunications filed an election with the Georgia Public Service Commission; such election became effective in August 1995. Basic residence and single-line business rates are capped for five years, after which prices may be changed in accordance with an inflation-based formula. Rates for intrastate switched access services may be no higher than the rates charged for interstate switched access services.

Kentucky

From 1988 to July 1995, an incentive regulation plan was in effect in Kentucky. In July 1995, the Kentucky Public Service Commission approved a price regulation plan. Under the plan, basic residential rates are capped for three years, after which prices may be changed in accordance with an inflation-based formula. Intrastate switched access rates are limited to rates in effect for interstate switched access. Prices for services deemed competitive under the plan can be set by BellSouth Telecommunications in response to market conditions.

In September 1996, the Kentucky Commission issued an order concerning local competition and universal service funds. The order provided that Commission-approved negotiated agreements for interconnection shall be the primary means for implementing local competition. The universal service fund rules established by the Commission are preliminary and interim until the FCC issues its order on this matter.

Louisiana

From February 1992 to April 1996, an incentive regulation plan was in effect in Louisiana. Effective April 1996, the Louisiana Public Service Commission approved a price regulation plan that will remain in effect for a six-year term, subject to review. Under the provisions of the price regulation plan, prices for basic services, which include the provision of local exchange services, are capped for five years, after which prices may be changed in accordance with an inflation-based formula. After five years, individual basic service price can be increased by more than 10% in any twelve-month period. Prices for interconnection services are capped for three years, after which no individual service can be increased more than 10% in any twelve-month period. For non-basic services, price increases may not exceed 2% in any twelve-month period.

In connection with the approval of price regulation, the Louisiana Commission concluded its review of BellSouth Telecommunications' earnings by requiring an aggregate \$70 million price reduction, to be apportioned over a three-year period beginning April 1, 1996.

Mississippi

From June 1990 to January 1996, an incentive regulation plan was in effect in Mississippi. In November 1995, the Mississippi Public Service Commission approved a six-year price regulation plan effective in January 1996. Reviews of this plan will be conducted by the Mississippi Commission in the third and fifth years. Under the provisions of the plan, prices for basic services, which include the provision of basic local telephone service, are capped for three years, after which the basic service category rates will be reduced annually to effect an annual reduction in revenues of 1% or \$3.75 million, whichever is greater, for the last three years of the plan. In addition, intrastate switched access prices are capped at the same level as interstate prices over the life of the plan.

North Carolina

Prior to June 1996, traditional rate of return regulation was in effect in North Carolina. In April 1996, a law was enacted that allowed price regulation, and pursuant to approval by the North Carolina Public Service Commission, a price regulation plan became effective in June 1996. Under the terms of the plan, prices for residence basic local exchange services are capped for three years, after which time any increases are limited by an inflation-based formula. For business basic local exchange, intercon-

and certain non-basic services, any increases in current prices are also subject to inflation-based formulae. Prices for toll switched access services are capped at current prices, after giving effect to specified price reductions ordered in conjunction with approval of the price regulation plan.

South Carolina

Prior to 1996, BellSouth Telecommunications' rates were regulated on a traditional rate of return basis. In December 1994, the South Carolina Public Service Commission issued an order requiring that prices be reduced prospectively by approximately \$26 million on an annual basis and with no change in the previously authorized return on equity of 13%. Based upon an investigation by the South Carolina Commission of BellSouth Telecommunications' 1992 earnings, refunds of approximately \$29 million, plus interest, were ordered. The prospective rate reduction was implemented, but the refund was stayed pending judicial review of the decision. In October 1996, the South Carolina Court of Common Pleas entered an order affirming the South Carolina Commission's order of the refund. BellSouth Telecommunications intends to pursue an appeal of this decision. The South Carolina Commission has postponed review of BellSouth Telecommunications' earnings in 1993 and 1994 until a resolution of the 1992 period is reached. While complete assurance cannot be given as to the outcome of these matters, BellSouth believes that any financial impact would not be material to its financial position or annual operating results or cash flows.

In January 1996, the South Carolina Commission approved a price regulation plan which includes provisions that basic local exchange residence and business service rates will not increase for five years, after which prices may be changed in accordance with an inflation-based formula. Intrastate switched access rates will be capped for three years after which prices may be changed in accordance with an inflation-based formula. The rates for non-basic services will be set by BellSouth Telecommunications, subject only to the limitation that the price for any individual service may not be increased more than 20% in a twelve-month period.

Tennessee

An incentive regulation plan, which had been in effect since August 1990, ended in 1995. In June 1995, a law was enacted which allowed qualified service providers to elect price regulation. BellSouth Telecommunications elected price regulation under which the prices for basic services are to be capped for four years, after which prices may be changed in accordance with an inflation-based formula. Prices for services other than basic services are to be adjusted based on an inflation-based formula.

In order to implement the price regulation election, the Tennessee Public Service Commission required BellSouth Telecommunications to reduce prices by approximately \$56 million on an annual basis. BellSouth Telecommunications has appealed to the Tennessee Court of Appeals. This Court has stayed implementation of both the rate reduction and price regulation plan pending further consideration of the issues.

Local Service Competition

The 1996 Act requires the elimination of state legislative and regulatory barriers to competition for local telephone service, subject only to competitively neutral requirements to preserve and advance universal service, protect the public safety and welfare, maintain the quality of telecommunications services and safeguard the rights of customers. The 1996 Act also includes requirements that incumbent local exchange carriers (ILECs) negotiate with other carriers for interconnection, use of network elements on an unbundled basis and resale of local services. If a negotiated agreement cannot be reached, either party may seek arbitration with the state regulatory authority or the FCC if the state fails to act. If rates are disputed, the arbitrator must set rates for access to network elements on an unbundled basis, based on cost, which may include a reasonable profit. ILECs are also required to negotiate to provide their retail services at wholesale rates for the purposes of resale by competing carriers. If agreement cannot be reached, the arbitrator shall set the wholesale rates at the ILEC's retail rates less costs to be

avoided. BellSouth Telecommunications has executed over 40 interconnection or resale agreements with such carriers and is currently involved in arbitration proceedings with a number of other carriers, including AT&T, MCI Communications Corporation (MCI) and Sprint Corporation (Sprint).

In connection with the requirements of the 1996 Act, in August 1996, the FCC released an order adopting rules governing interconnection and open competition in the local telephone service industry (the Order). Among the issues specifically addressed by the Order are the network elements that ILECs must make available; pricing standards to be followed by states in setting rates for interconnection; access to network elements on an unbundled basis and resold services. BellSouth and several other ILECs joined in an appeal of the Order to the United States Court of Appeals for the Eighth Circuit (the Court). Upon request of several state commissions and ILECs, the Court stayed the Order in part, pending appeal. Such stay relates to pricing prescriptions and certain other terms. The Court heard oral arguments in January 1997, and a decision is pending. Notwithstanding these developments, however, as discussed above, BellSouth Telecommunications and a number of carriers have negotiated interconnection agreements and state regulatory commissions are arbitrating or have approved various terms of interconnection between BellSouth and other carriers. These terms may be revised, depending on, among other things, the outcome of the appeal of the Order. The arbitration results for the wholesale discount rates vary by state from approximately 15% to 21%.

In attempting to comply with the technical requirements of interconnection, BellSouth expects to incur significant costs associated with the development or modification of systems necessary to make interconnection possible. For example, BellSouth Telecommunications will be required to provide for long-term number portability whereby customers switching to competing local carriers will be able to retain their telephone numbers without interruption or charge. It is unclear as to what degree BellSouth will be able to recover these costs.

Regulation of Access Services

BellSouth Telecommunications provides access services by connecting the equipment and facilities of its subscribers with the communications networks of Interexchange Carriers. These connections are provided by linking these carriers and subscribers through the public switched network of BellSouth Telecommunications or through dedicated private lines furnished by BellSouth Telecommunications. Rates and other aspects of interstate access services are regulated by the FCC, and state regulatory commissions have jurisdiction over the provision of access to the Interexchange Carriers to complete intrastate telecommunications.

Access charges, which are payable both by Interexchange Carriers and subscribers, provided approximately 23%, 23% and 24% of BellSouth's operating revenues for the years ended December 31, 1996, 1995 and 1994, respectively. These charges are designed to recover the costs of the common and dedicated facilities and switching equipment used to connect networks of Interexchange Carriers with the telephone company's local network and to subsidize the cost of providing local service to rural and other high-cost areas. In addition, an interstate subscriber line access charge of \$3.50 per line per month applies to single-line business and residential customers. The interstate subscriber access charge for multi-line business customers varies by state but cannot exceed \$6.00 per line per month. The state commissions have authorized BellSouth Telecommunications to collect from the Interexchange Carriers and, in several states, from customers charges for providing intrastate access services.

The FCC regulates the level of access charges through a price cap plan. The price cap plan limits aggregate price changes to the rate of inflation minus an ILEC-selected productivity offset, plus or minus exogenous cost changes recognized by the FCC. Two of the productivity options in the current plan, 4.0% and 4.7%, provide defined earnings limitations with a sharing mechanism. A third option in the plan, 5.3%, removes both earnings limitations and sharing requirements. Consistent with a pricing strategy that BellSouth Telecommunications considered compatible with an increasingly competitive business environment, it selected a 5.3% productivity factor, which, together with other adjustments, has

decreased interstate access revenues below what would have been produced under the other alternatives by approximately \$220 million on an annual basis at 1994 access volume levels. The FCC has under consideration the issue of whether further modification of this plan is warranted.

The 1996 Act requires the FCC to identify the local service subsidy provided by access charges; to provide for the removal of such subsidy from access rates in order that access charges reflect underlying costs; to arrange for a universal service fund to ensure the continuation of universal service; and to develop the arrangements for payments into that fund by all carriers. The FCC is currently engaged in this proceeding. In addition, the FCC has commenced a proceeding to revise its access charge rules.

InterLATA Toll Service

As a result of the 1996 Act, BellSouth and the other Holding Companies are freed from the judicial restrictions of the MFJ that constrained the provision of interLATA communications throughout their wireline service territories and elsewhere; the 1996 Act establishes in its place a new restriction and a procedure for its removal. These companies or their affiliates may apply to the FCC on a state-by-state basis to offer in-region interLATA wireline services, and the FCC must act on such application within 90 days. The FCC must grant such application if it determines that the applicant (a) has met a competitive checklist; (b) has shown (i) the presence of a facilities-based provider offering both residential and business services or (ii) if there is no such provider, a statement that has been approved or permitted to take effect by state regulatory authorities, of the terms under which it would be willing to interconnect with a competitive local carrier; (c) will operate consistently with the separate subsidiary requirement; and (d) has presented an application consistent with the public interest. The FCC is required to consult with state regulatory authorities and the Justice Department when reviewing the application.

BellSouth plans to begin offering interLATA wireline service in each of its in-region states as soon as the FCC approves its application for each state. BellSouth has filed documents with the Georgia Public Service Commission requesting that the Georgia Commission approve a statement of generally available terms and conditions as provided for in the 1996 Act and to establish that such terms and conditions meet the competitive checklist referred to above. BellSouth will file an application for each state as soon as it believes the conditions described above are met. Because of the proceedings required to obtain approval and the potential challenges of competitors and others, it is uncertain when BellSouth will be authorized to commence interLATA service in any of its in-region states. The 1996 Act requires that in-region interLATA service be provided through a subsidiary separate from BellSouth Telecommunications.

In addition to the above matters, BellSouth Telecommunications is a party or is subject to numerous proceedings pending before federal and state regulatory and judicial bodies. These matters involve, among other things, terms and conditions of services provided by BellSouth Telecommunications, rates charged for such services, access reform, universal service, number portability and relationships with competitive service providers and affiliates. No assurance can be given as to the outcome of any such matters.

Public Telephones

In September 1996, the FCC issued an order which requires ILECs to reassign their payphone assets from regulated telephone company accounts to separate unregulated accounts or to transfer assets to a separate subsidiary. They must also remove any subsidy of payphone operations from their regulated rates no later than April 15, 1997 and meet certain other requirements. In return, ILECs their own payphone units are given the freedom to pursue new business opportunities. BellSouth Telecommunications is currently taking action to comply with these requirements.

Consequently, on April 1, 1997, BellSouth Telecommunications plans to transfer its payphone assets to a separate subsidiary, BellSouth Public Communications, Inc. (BPC). BPC has filed for certification as an independent payphone provider in each of the nine states where BellSouth Telecommunications provides wireline telephone service. It plans to continue to provide independent payphone services throughout BellSouth Telecommunications' territory and will selectively provide payphone services in areas served by independent telephone companies.

Billing And Collection Services

BellSouth Telecommunications provides, under contract and/or tariff, billing and collection services for certain long distance services of AT&T and several other Interexchange Carriers. The agreement with AT&T extends through the year 2000, subject to the right of AT&T to assume billing and collection for certain of its services prior to the expiration of the agreement. Revenues from such services have been decreasing and this trend is expected to continue as AT&T and other carriers assume more direct billing for their own services. BellSouth Enterprises also provides limited billing and collection services in foreign countries.

Operator Services

Directory assistance and local and toll operator services are provided by BellSouth Telecommunications in its service areas. Toll operator services include alternate billing arrangements, such as collect calls, third number billing, person-to-person and calling card calls; dialing instructions; pre-billed credit; and rate information. In addition, directory assistance is provided for some other carriers which do not directly provide such services for their own customers.

OTHER TELECOMMUNICATIONS BUSINESS OPERATIONS

Directory Advertising and Publishing

BellSouth Enterprises owns a group of companies which publish, print and sell advertising in, and perform related services concerning, alphabetical and classified telephone directories. Directory advertising and publishing revenues represented approximately 9% of BellSouth's total operating revenues for each of the last three years. Two of BellSouth's directory companies also provide publishing and related products and services to other directory publishers. During 1996, such BellSouth companies published approximately 500 directories for BellSouth Telecommunications and contracted with approximately 170 nonaffiliated companies to sell advertising space in approximately 490 of their publications.

Wireless Communications

BellSouth Enterprises provides wireless communications services, which have consisted mainly of cellular telephone and, through 1995, paging services. In January 1996, BellSouth sold its interest in its paging subsidiary. Revenues from wireless communications comprised approximately 15%, 14% and 12% of BellSouth's total operating revenues for the years ended December 31, 1996, 1995 and 1994, respectively. In addition, BellSouth Enterprises has a noncontrolling financial interest in a number of wireless businesses whose revenues are not reflected in operating revenues because of the method of accounting required for such investments.

Under the MFJ, the Holding Companies generally were prohibited from providing interLATA wireless communications. The 1996 Act lifts this prohibition, and in February 1996, BellSouth began offering the interLATA component of its wireless communications in conjunction with its wireless offerings. Approximately 1.5 million customers subscribe to such interLATA service. In areas where it does not have long distance telephone facilities, BellSouth connects with the networks of the Interexchange Carriers.

The 1996 Act allows BellSouth to market wireless services jointly with wireline local exchange services; previously, separate marketing was required. This change has enabled BellSouth to more efficiently offer and provide integrated telecommunications. In March 1996, BellSouth began joint marketing of wireless and wireline services in selected markets.

Domestic Cellular Operations

The predominant part of the wireless communications business operations is cellular service. Cellular radio telephone systems provide customers with high-quality and readily available communications services that interconnect with the wireline and other cellular telephone

The domestic cellular telephone business has become a significant contributor to operations, primarily due to the continued expansion of the customer base for mobile communications services. BellSouth maintains and operates cellular systems through wholly-owned subsidiaries and business arrangements with other entities. Cellular service and related equipment are provided to consumers, directly and through authorized agents and to businesses that resell the service.

The rates charged by cellular carriers are not regulated by the FCC nor the state. BellSouth's cellular operations are located. Pursuant to a federal statute enacted into law in 1992, state governments are generally preempted from regulating the rates charged by cellular carriers.

At December 31, 1996, businesses in which BellSouth had an equity interest provided service to a total of approximately 4,880,000 domestic customers in 17 states. BellSouth's proportionate share of such total customers, based on its percentage ownership interests of such businesses, was approximately 3,612,000 customers. (See "Consolidated Financial Statements and Supplemental Data — Domestic Cellular Proportionate Operating Data.") BellSouth's proportionate interest in the aggregate population (POPs) served by its domestic cellular systems was approximately 9% of the total population at December 31, 1996, and its penetration rate was approximately 9%. Within its wireline service territory, BellSouth and its partners offer cellular service in cities including Atlanta, New Orleans, Memphis, Louisville, Birmingham and Orlando, while outside its wireline service territory, BellSouth offers cellular service in cities including Los Angeles, Houston, Indianapolis, Honolulu and Virginia.

In February 1997, BellSouth signed a definitive agreement with United States Cellular Corporation to exchange cellular properties. BellSouth would trade its ownership interests in cellular properties located in Wisconsin and Illinois for new or increased equity ownership of cellular properties located in BellSouth's nine-state wireline service territory. The exchange is subject to regulatory approval.

Personal Communications Service

In 1995, the FCC began auctioning available radio spectrum for providing digital mobile communications service, commonly referred to as personal communications service, or PCS. Because PCS service is digital, it provides greater security and clarity than existing analog cellular systems. BellSouth's PCS system has been constructed utilizing a technology standard known as GSM (Global System for Mobile communications). GSM is widely used by international systems. Some PCS systems utilize different, non-compatible technologies. As a result, cellular services can provide greater seamless roaming characteristics across systems than PCS. However, as more PCS systems are deployed across the United States utilizing GSM technology, and as analog cellular systems are augmented with digital capability, PCS systems will be able to offer roaming capabilities comparable to existing cellular services.

BellSouth owns interests in two PCS licenses, one that covers most of North Carolina and another that covers eastern Tennessee. A BellSouth consortium is building and operating the network in the Carolinas while BellSouth alone is building and operating the network in Tennessee. BellSouth's proportionate POPs covered by these licensed territories is 7.6%. Both PCS systems became operational in the summer of 1996.

In January 1997, BellSouth won an additional 39 licenses in 37 markets in the FCC's D-block auctions. These markets cover 11,800,000 POPs in smaller areas within or adjacent to BellSouth's wireline service territory.

International Wireless Operations

Outside the United States, BellSouth owns interests in consortia that hold licenses for, and are building and/or operating, wireless telephone systems in Argentina, Australia, Denmark, Germany, India, Israel, New Zealand, Panama, Peru, Uruguay and Venezuela. Through a wholly-owned subsidiary, BellSouth holds a license for a wireless telephone system in Chile. At December 31, 1996, these systems provided cellular or PCS service to a total of approximately 3,603,000 international customers. BellSouth's proportionate share of such customers, based on its percentage ownership interests in such systems, was approximately 1,244,000 customers. BellSouth's proportionate interest in the aggregate POPs covered by its international wireless systems was approximately 57,641,000 persons at December 31, 1996, and its penetration rate was approximately 2%. BellSouth offers wireless service under regional licenses to areas within Argentina, India, Peru, Uruguay and Chile and offers wireless service under nationwide licenses in Australia, Denmark, Germany, Israel, New Zealand, Panama and Venezuela. Service in Australia is also currently being provided by reselling service obtained from the government-owned carrier. (See "Other International Operations.")

Mobile Data

BellSouth, through its subsidiary BellSouth Mobile Data (BSMD), is an equity investor in five wireless data communications networks worldwide utilizing L.M. Ericsson's Mobitex technology. The countries in which BSMD currently provides service consist of the United States, the United Kingdom, The Netherlands, Belgium and Singapore. These networks enable wireless data applications such as computer-aided dispatch, electronic mail, transaction processing and remote data entry and retrieval. They are also well-suited for fixed applications such as credit card validation and telemetry.

Other International Operations

BellSouth holds a 24.5% interest in Optus Communications Pty. Ltd. (Optus), which is building and operating Australia's second telecommunications network. In addition to its wireline and wireless networks, Optus operates four satellites which were purchased from AUSSAT, Australia's national satellite communications carrier. Optus offers a range of telecommunications services, including national and international long-distance, digital and analog cellular, switched network, enhanced wireline and satellite-based services.

In July 1994, Optus formed a business (Optus Vision) with Australian and United States companies to develop a high capacity broadband network in Australia. Optus and U S West, Inc. (U S West) each own 46.5% of Optus Vision. Two television stations now hold 2% and 5%, respectively, and have the option to increase their respective ownership interests to 15% and 20%. Local telephone service, which is marketed under the Optus brand name, was only recently launched.

BellSouth holds a concession to operate a competing domestic and international long distance business in Chile. In addition, in January 1997, BellSouth purchased an interest in a company that offers wired and wireless cable television and paging services in Peru.

Domestic Broadband Services

The 1996 Act eliminates previous prohibitions on telephone companies' providing cable television services in their service territories, although many federal courts had already held such prohibitions unconstitutional. Although ILECs may not acquire or joint venture with established cable television providers in their wireline territories, they may provide cable television service over their own facilities.

BellSouth has constructed several networks, and provided cable television service to a limited degree, in several areas within its wireline telecommunications service areas to assess the extent to which it wishes to enter this business. It has obtained and is negotiating to acquire franchises and licenses in several metropolitan areas, including New Orleans, Atlanta and Miami, that would enable it to provide video services over wired and wireless networks.

Internet A

In 1995
Netscape
national in

Selling an

To a
Southeast
Holding C
and produ
Maintenan

General

BellSe
judicial ad
products a
companies

Network a

Local
Over 1
have pass
the 1996
commissio
carriers for
also deter
sale local
will exper
higher ma

An inv
been and
Atlanta, G
networks o
of the ILEC
way intera
wireless s
munication

AT&T
local wirel
AT&T to
switched

As ter
data and v
competitio
Holding C
throughou
Corporate
of their ca
services tr

acquisitions that are expected to provide voice and video competition in BellSouth Telecommunications' service areas. U S West has acquired Atlanta's two largest cable operators and, in November 1996, acquired Continental Cablevision, Inc., a provider with a major presence in Florida. In addition, the 1996 acquisition by Time Warner of Turner Broadcasting Corporation will increase concentration in the cable and programming industries.

Joint ventures and mergers between major telecommunications companies will result in large, well-capitalized carriers that will provide formidable competition to BellSouth across a number of markets, including local and long distance telephone service. Such transactions include the proposed mergers of SBC Communications Inc. and Pacific Telesis Group and NYNEX and Bell Atlantic Corporation (Bell Atlantic) and the proposed acquisition by British Telecommunications plc of MCI.

Competition for local service revenues could adversely affect BellSouth's results of operations. However, the existence of competitive local service, among other things, can allow BellSouth to qualify to offer in-region interLATA service, as contemplated in the 1996 Act. (See "BellSouth Competitive Strategy.")

Access Service

The FCC has adopted rules requiring ILECs to offer expanded interconnection for interstate special and switched transport. As a result, BellSouth Telecommunications is required to permit competitive carriers and customers to terminate their transmission lines on BellSouth's facilities through collocation arrangements. The effects of the rules are to increase competition for access transport.

Toll Service

A number of firms compete with BellSouth Telecommunications in its nine-state region for intraLATA toll business by reselling toll services obtained at bulk rates from BellSouth Telecommunications or, subject to the approval of the applicable state public utility commission, providing toll services over their own facilities. Commissions in the states in BellSouth Telecommunications' operating territory have allowed the latter type of intraLATA toll calling, whereby the Interexchange Carriers are assigned a multiple digit access code (10XXX) which customers may dial to place intraLATA toll calls through facilities of such Interexchange Carriers. The legislature or commissions in three states have authorized competing carriers to provide intraLATA toll presubscribed calling with a single digit access code (1+), giving them dialing parity with the ILEC in that area. Commissions in several other states are considering how and when such authorization should be implemented. However, the 1996 Act prohibits states from ordering the implementation of new toll dialing parity until the earlier of (a) three years from the enactment of the 1996 Act or (b) such time as the Operating Telephone Company has qualified to provide in-region interLATA services.

The 1996 Act permits the other Holding Companies to offer BellSouth's local service customers interLATA toll service. BellSouth expects Holding Companies and other carriers to compete for such interLATA toll service. For example, Bell Atlantic has begun offering interLATA toll service to BellSouth's local service customers and other Holding Companies may do likewise. AT&T, MCI, Sprint and a number of other carriers currently provide toll services to BellSouth's local service customers.

Directory Advertising and Publishing

In BellSouth's advertising and publishing business, competition for advertising revenues has expanded. Many different media compete for advertising revenues, and some newspaper organizations and other companies have begun publishing their own directories. Competition for directory sales agency contracts for the sale of advertising in publications of nonaffiliated companies also continues to be strong. Directory listings are now offered in various media besides paper books, including CD ROM, the Internet and other electronic data bases through telephone company and third party networks. As such offerings expand and are enhanced through interactivity and other features, BellSouth will experience heightened competition in its directory advertising and publishing businesses. BellSouth has

responded to the increased competition and its changing market environment with new directory products, product enhancements, multi-media delivery options, pricing changes, competitive advertising, local promotions, directory redeliveries and extended distributions.

Wireless Communications

The FCC's PCS licensing process allows multiple new competitors for BellSouth's businesses. Licenses to provide PCS services have been won in auction by AT&T, Holding Company consortia and other large and well-capitalized entities. PCS will provide competition to BellSouth's local wireline and wireless telephone businesses. Several competitive PCS systems are now operational.

The FCC has jurisdiction over the licensing of cellular mobile radio services in domestic markets. The FCC limits entry for providers of cellular mobile telecommunications to two licensees for each defined metropolitan statistical area (MSA) and each rural service area (RSA) within the country. Each MSA and RSA in which BellSouth participates in the provision of cellular mobile communications has a competing service provider. In many markets, competing cellular service is provided by businesses owned or controlled by a Holding Company, AT&T or a major telephone company. In addition, Bell Atlantic and NYNEX have combined their cellular businesses, and U S West and AirTouch Communications have announced that they plan to merge their cellular businesses. Those four companies have also formed a joint venture to provide PCS in many domestic markets.

BellSouth's international wireless joint ventures are generally subject to competition from at least one other wireless service provider, and sometimes more than one other provider. For example, in Germany there are two competitors. These competing service providers are generally supported by partners who are at least as well-capitalized as BellSouth and its partners. In some cases the competing provider is owned by the state-owned telephone company, which may have access to the financial resources of the government.

BellSouth's wireless data businesses experience competition from private and public wireless data networks, specialized mobile radio networks and cellular networks. The degree and type of competition vary from country to country. BellSouth's wireless data companies all utilize the Mobitex technology which is flexible for targeting both specialized and general market segments.

BellSouth's primary mobile data competitor is ARDIS, a wholly-owned subsidiary of Motorola, Inc. The ARDIS network, which was started in 1983 as a private network for IBM, has historically had greater coverage, an advantage which BellSouth considers has been neutralized. Future competition could come from companies offering Cellular Digital Packet Data (CDPD), a cellular-based system specifically designed for packet data applications and PCS-based services. There are many network and product development issues that CDPD operators must still address before they can offer a fully competitive service.

Other competitive threats to each of BellSouth's overseas wireless data holdings are GSM operators, which may offer an integrated packet data standard around the turn of the century. In Singapore, BellSouth's wireless data property competes against operators of technologies related to Motorola's ARDIS technology.

The FCC has approved construction of enhanced specialized mobile radio (ESMR) systems in many cities around the country. These digital mobile communications systems are expected to provide service very similar to cellular telephone service. There has been a consolidation of the licenses required to provide ESMR service, so that control of this business is concentrated in the hands of a few potential operators, giving them the ability to offer services like nationwide roaming once the systems are built. ESMR became available commercially in Los Angeles during second quarter of 1994 in competition with BellSouth's cellular telephone partnership.

BellSouth Competitive Strategy

BellSouth has developed three main strategies that govern its business decisions in the increasingly competitive telecommunications industry. First, BellSouth will strengthen its leadership position

throughout its nine-state wireline territory by (a) enhancing and building its brand strength and distribution channels; (b) providing full-service offerings including wireline and wireless, local and long-distance, and video and electronic commerce services; and (c) controlling costs. Second, BellSouth will continue to grow profitably its domestic wireless business by (a) deploying value-added products and services and competitive technology; (b) strengthening and expanding distribution channels including joint marketing with BellSouth Telecommunications; and (c) expanding in-region wireless coverage through successfully bidding for PCS licenses and other acquisitions. Third, BellSouth will continue to grow and develop its Latin American and other international operations.

Marketing

A substantial portion of the growth in BellSouth Telecommunications' revenues from local services is derived from the sale of second residential lines and optional calling services. These offerings are marketed in a variety of packages with varying pricing features that are designed to appeal to a wide variety of the Company's customer base. A substantial number of these sales are made by customer service representatives who are on call 24 hours a day, seven days a week, as they are contacted by subscribers on other matters.

Many of BellSouth's other services and products, such as cellular and PCS services and including the long distance component of these wireless services, Internet service and video services, are sold by BellSouth Telecommunications' service representatives. The marketing of many of these services is enhanced by alliances with other service providers and suppliers. For instance, Netscape Communications Corporation provides BellSouth's Internet users with its Web browser, and persons who visit the Netscape Web site are offered a convenient way to sign up for BellSouth's Internet service. Additional arrangements with Yahoo! Inc and Wired Ventures Limited further enhance BellSouth's Internet service marketing strategy.

In addition to utilizing BellSouth Telecommunications' distribution channels, BellSouth's wireless offerings are sold through approximately 275 company-owned stores, 300 kiosks located in retail stores and shopping centers, and non-affiliated retail outlets such as Radio Shack and Circuit City stores. In addition, BellSouth's services are made available through BellSouth's home page on the worldwide web, through a telemarketing organization which contacts over 1 million potential customers each month and through a direct sales force of nearly 4,000 persons. BellSouth's PCS service in the Carolinas is also marketed through BellSouth's partners in that system, including Duke Power Company, when its service representatives receive inquiries and other calls for electric service. BellSouth was the first operational PCS provider in this market, giving it a marketing advantage over other rivals who purchased PCS licenses covering the same territory. BellSouth's PCS service offers a number of packages of optional features with pricing enhancements intended to attract cellular customers from the incumbent wireless carriers in that territory.

BellSouth Telecommunications' business services are marketed by customer service representatives through varied pricing and service options. BellSouth's products and services, such as video conferencing, ISDN service and telecommunications equipment and systems, are also demonstrated and sold through marketing arrangements with other retailers of office products, such as Office Depot. BellSouth Telecommunications markets its services and products to large and complex business customers through highly specialized applications and, where appropriate, through pricing enhancements varying according to business volumes and length of service. In addition to telephone lines, product and service offerings to these customers include Internet access, special networks, high-speed data transmission, business teleconferencing and industry-specific communications configurations.

Advertising and publishing products are marketed to organizations and companies with unique directory needs. Export directories, a home improvement guide, a health and medical guide, consumer tips and a restaurant and entertainment guide are examples of such directories. Directories are also marketed to non-affiliated telephone companies.

While BellSouth Telecommunications continues to use the names South Central Bell and Southern Bell for various purposes, its services were unified under the BellSouth brand name in October 1995 to give BellSouth Telecommunications a clear, consistent identity in the marketplace. BellSouth believes that its brand name is widely recognized and held in high esteem by its customers. A primary marketing strategy is to enhance the recognition and reputation of this mark throughout its service territory, thereby facilitating the joint marketing efforts described above. Accordingly, significant increases in marketing and advertising costs have been and will be incurred. BellSouth advertises in the various media in its territory and in connection with major events, such as the Olympics, the Super Bowl and its sponsored PGA golf tournaments, which offer BellSouth a broader platform to showcase its products and services.

With a few exceptions, BellSouth's international services are not marketed under its brand name, in part because the name recognition is less than in domestic markets. Nevertheless, the appeal of the wireless offerings is significant because the wireline service in many international markets, especially in Latin America, is less reliable or available.

Regulatory and Legislative Changes

BellSouth's primary regulatory focus has been directed toward modifying the regulatory process to one that is more closely aligned with changing market conditions and overall public policy objectives. As an alternative to regulation of intrastate earnings, BellSouth has sought price regulation, whereby prices of basic service are regulated and the pricing of other products and services are based on market factors. While price regulation plans do not provide for the direct recovery through basic service rates of cost increases or extraordinary expenses, they generally provide more flexibility to meet competitive pricing levels. BellSouth Telecommunications has price regulation plans approved or authorized in all states in its wireline territory, although the implementation of the Tennessee plan has been stayed by a court pending resolution of a number of issues.

New Services

Notwithstanding the inevitable loss of local service customers and other risks associated with increased competition, BellSouth will have the opportunity to benefit from entry into new business markets. For example, the presence of competition, among other things, can allow BellSouth to qualify to offer interLATA wireline service under provisions contained in the 1996 Act. BellSouth believes that in order to remain competitive in the future, it must aggressively pursue a corporate strategy of expanding its offerings beyond its traditional businesses and markets. These offerings include interLATA services, information services and video and electronic commerce services. BellSouth has entered some of these businesses through investments in, strategic alliances with and acquisitions of established companies in such industries and through the development of some of these services and capabilities internally. For example, among other initiatives, BellSouth has acquired several cable TV rights, is conducting a trial of cable TV service and is providing Internet access. BellSouth also intends to continue to pursue certain foreign telecommunications licenses as they are offered.

Work Force Reduction

In 1995, BellSouth Telecommunications completed the restructuring of its telephone operations that was announced in 1993. Also, BellSouth Telecommunications announced in 1995 a plan to reduce its work force by approximately 11,300 additional employees by the end of 1997. For a discussion of the work force reduction, see "MD&A — Results of Operations — Operating Expenses — Work Force Reduction Charge."

RESEARCH AND DEVELOPMENT

The majority of BellSouth's research and development activity is conducted at Bell Communications Research, Inc. (Bellcore), one-seventh of which is owned by BellSouth, through BellSouth Telecommunications, with the remainder owned by the other Holding Companies. Bellcore provides research and development and other services for its owners and is the central point of contact for coordinating the Federal government's telecommunications requirements relating to national security and emergency preparedness.

In November 1996, Science Applications International Corporation agreed to purchase Bellcore. BellSouth has contracted with Bellcore for ongoing support of engineering and systems. In addition, the Holding Companies formed the National Telecommunications Alliance to support their commitment to national security and emergency preparedness.

LICENSES AND FRANCHISES

BellSouth Telecommunications' local exchange business is typically provided under certificates of public convenience and necessity granted pursuant to state statutes and public interest findings of the various public utility commissions of the states in which BellSouth Telecommunications does business. These certificates provide for a franchise of indefinite duration, subject to the maintenance of satisfactory service at reasonable rates.

The domestic cellular, PCS, wireless cable and mobile data systems in which BellSouth has an interest are operated under licenses granted by the FCC. A carrier holding a license to provide cellular service in a territory is not eligible for a PCS license covering the same territory. Prior approval of the FCC is required for the assignment of a license or the transfer of control of a license. The licenses are generally issued for up to 10-year periods. At the end of the license period, a renewal application must be filed. BellSouth believes renewal will generally be granted on a routine basis upon showing compliance with FCC regulations and continuing service to the public. Licenses may be revoked and license renewal applications may be denied for cause. With regard to cellular licenses, the FCC has established the procedures and standards for conducting comparative renewal proceedings, including the award of a "renewal expectancy" that effectively eliminates the need to consider competing applicants when the incumbent meets specified criteria.

The wired cable systems over which BellSouth provides domestic cable services are operated under cable franchises granted by the city or unincorporated county government with local franchising authority for the geographic service area in question. These cable franchises are generally issued for 10 to 15 year periods. They typically require the payment of cable franchise fees to the local franchising authority, capped by federal law at 5% of gross cable related revenues, and various forms of financial and facilities support for a limited number of government, education and public access channels.

International systems also operate under licenses granted by the governments in the countries where such systems are located. The foreign licenses are issued for varied terms and are generally renewable at the end of the initial license period. As is the case with BellSouth's domestic wireless properties, the foreign licenses may be revoked and license renewal applications may be denied for cause.

BellSouth believes that it owns or has licenses to use all patents, copyrights, trademarks and other intellectual property necessary for it to conduct its present business operations. It is not anticipated that any of such property will be subject to expiration or non-renewal of rights which would materially and adversely affect BellSouth or its subsidiaries.

EMPLOYEES

At December 31, 1996, 1995 and 1994 BellSouth and its subsidiaries employed approximately 81,200, 87,600 and 92,100 persons, respectively. Of these amounts at these dates, approximately 62,400, 66,800, and 73,800 persons were telephone employees of BellSouth Telecommunications. About 63% of BellSouth's employees at December 31, 1996 were represented by the Communications Workers of America (the CWA), which is affiliated with the AFL-CIO. In October 1995, members of the CWA ratified new three-year contracts with BellSouth. These contracts were effective in August 1995. The contracts include basic wage increases of 10.9% (compounded) over three years. In addition, the agreement provided a cash payment of \$1,100 to each eligible employee upon ratification and further provides payments of \$1,100 per eligible employee in cash or \$1,210 in BellSouth stock, at the option of the employee, on the 1996 and 1997 contract anniversary dates. Other terms of the agreement include discontinuance of annual wage adjustments based on cost of living increases and discontinuance of annual incentive payments.

During 1995, BellSouth Telecommunications completed the 1993 plan to reduce its work force by approximately 10,200 employees. Also during 1995, BellSouth Telecommunications announced a plan to further reduce its work force by approximately 11,300 employees by the end of 1997. Including a reduction of approximately 800 employees which occurred in December 1995, BellSouth Telecommunications has reduced its work force by approximately 7,000 employees under the 1995 plan through December 31, 1996. (See "MD&A — Results of Operations — Operating Expenses — Work Force Reduction Charge.")

ITEM 2. PROPERTIES

GENERAL

BellSouth's properties do not lend themselves to description by character and location of principal units. BellSouth's investment in property, plant and equipment, 91% of which is held by BellSouth Telecommunications, consisted of the following at December 31:

	1996	1995
Outside plant	42%	43%
Central office equipment	35	34
Operating and other equipment	8	8
Land and buildings	8	7
Furniture and fixtures	6	6
Plant under construction	1	2
	<u>100%</u>	<u>100%</u>

Outside plant consists of connecting lines (aerial, underground and buried cable) not on customers' premises, the majority of which are on or under public roads, highways or streets, while the remainder is on or under private property. BellSouth currently self-insures all of its outside plant against casualty losses. Central office equipment substantially consists of digital electronic switching equipment and circuit equipment. Land and buildings consist principally of central offices. Operating and other equipment consists of wireless network equipment, embedded intrasystem wiring (substantially all of which is on the premises of customers), motor vehicles and other equipment. Central office equipment, buildings, furniture and fixtures and certain operating and other equipment are insured under a blanket property insurance program. This program provides substantial limits of coverage against "all risks" of loss including fire, windstorm, flood, earthquake and other perils not specifically excluded by the terms of the policies.

Substantially all of the installations of central office equipment and administrative offices are located in buildings and on land owned by BellSouth Telecommunications. Many garages, business offices and telephone service centers are in leased quarters.

BellSouth Telecommunications' customers are now served by electronic switching systems. The BellSouth Telecommunications network has been transitioned from an analog to a digital network, which provides capabilities for BellSouth Telecommunications to furnish advanced data transmission and information management services. BellSouth has substantially completed adding digital technology to certain cellular systems which were operating with analog technology at or near capacity.

CAPITAL EXPENDITURES

Capital expenditures consist of gross additions to property, plant and equipment having an estimated service life of one year or more, plus the incidental costs of preparing the asset for its intended use.

The total investment in property, plant and equipment has increased from \$37,155 million at January 1, 1992 to \$50,059 million at December 31, 1996, not including deductions of accumulated depreciation. Significant additions to property, plant and equipment will be required to meet the demand

for telecommunications services and to further modernize and improve such services to meet competitive demands. Population and economic expansion is projected by BellSouth in certain growth centers within its nine-state area during the next five to ten years. Expansion of the network will be needed to accommodate such projected growth.

BellSouth's capital expenditures for 1992 through 1996 were as follows:

	Millions
1996	\$4,455
1995	4,203
1994	3,600
1993	3,486
1992	3,189

BellSouth projects capital expenditures of approximately \$4.7 billion to \$5.2 billion for 1997, consisting of \$3.4 billion for BellSouth Telecommunications' and \$1.3 billion to \$1.8 billion primarily for BellSouth's wireless and international businesses. A majority of the expenditures will be to expand, enhance and modernize its current wireline and domestic cellular operating systems, to develop international wireless and other businesses and for property additions to complete construction of PCS systems in the United States.

In 1996, BellSouth generated substantially all of its funds for capital expenditures internally. In 1997, such capital expenditures are expected to be financed primarily through internally generated funds and, to the extent necessary, from external sources.

ENVIRONMENTAL MATTERS

BellSouth is subject to a number of environmental matters as a result of its operations and the shared liability provisions related to the divestiture from AT&T. As a result, BellSouth expects that it will be required to expend funds to remedy certain facilities, including those Superfund sites for which BellSouth has been named as a potentially responsible party, for the remediation of sites with underground fuel storage tanks and other expenses associated with environmental compliance. At December 31, 1996, BellSouth's recorded liability related primarily to remediation of these sites was approximately \$35 million.

BellSouth monitors its operations with respect to potential environmental issues, including changes in legally mandated standards and remediation technologies. BellSouth's recorded liability reflects those specific issues where remediation activities are currently deemed to be probable and where the cost of remediation is estimable. BellSouth continues to believe that expenditures in connection with additional remedial actions under the current environmental protection laws or related matters would not be material to its financial position or annual operating results or cash flows.

ITEM 3. LEGAL PROCEEDINGS

BellSouth and its subsidiaries are subject to claims arising in the ordinary course of business involving allegations of personal injury, breach of contract, anti-competitive conduct, employment law issues, regulatory matters and other actions. While complete assurance cannot be given as to the outcome of any legal claims, BellSouth believes that any financial impact would not be material to its financial position or annual operating results or cash flows. See Note O to the Consolidated Financial Statements.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SHAREHOLDERS

No matter was submitted to a vote of shareholders in the fourth quarter of the fiscal year ended December 31, 1996.

ADDITIONAL INFORMATION

DESCRIPTION OF BELL SOUTH STOCK

General

The Articles of Incorporation of BellSouth authorize the issuance of 2,200,000,000 shares of common stock, par value \$1 per share (the Common Stock), and 100,000,000 shares of cumulative, first preferred stock, par value \$1 per share (the Preferred Stock). BellSouth's Board of Directors (the Board) is authorized to provide for the issuance, from time to time, of the Preferred Stock in series and, as to each series, to fix the number of shares in such series and the voting, dividend, redemption, liquidation, retirement and conversion provisions applicable to the shares of such series. No shares of Preferred Stock are outstanding. The Board has created Series A First Preferred Stock consisting of 30 million shares (the Series A Preferred Stock) for possible issuance under BellSouth's Shareholder Rights Plan. (See "Preferred Stock Purchase Rights" and "Market for Registrant's Common Equity and Related Stockholder Matters.")

Dividend Rights

The holders of Common Stock are entitled to receive, from funds legally available for the payment thereof, dividends when and as declared by resolution of the Board. While any series of Preferred Stock is outstanding, no dividends (other than dividends payable solely in Common Stock) may be declared or paid on Common Stock, and no Common Stock may be purchased, redeemed or otherwise acquired for value, (a) unless dividends on all outstanding shares of Preferred Stock for the current and all past dividend periods have been paid or declared and provision made for payment thereof and (b) unless all requirements with respect to any purchase, retirement or sinking fund or funds applicable to all outstanding series of Preferred Stock have been satisfied. Dividends on the Preferred Stock would be cumulative.

Voting Rights

Except in connection with the "business combinations" and "fair price" provisions discussed below, holders of shares of Common Stock are entitled to one vote, in person or by proxy, for each share held on the applicable record date with respect to each matter submitted to a vote at a meeting of shareholders, but such holders do not have cumulative voting rights. The holders of any series of Preferred Stock, when issued, may receive the right to vote as a class on certain amendments to the Articles of Incorporation and on certain other matters, including the election of directors in the event of certain defaults, which may include non-payment of Preferred Stock dividends.

Liquidation Rights

In the event of voluntary or involuntary liquidation of BellSouth, holders of the Common Stock will be entitled to receive, after creditors have been paid and the holders of the Preferred Stock, if any, have received their liquidation preferences and accumulated and unpaid dividends, all the remaining assets of BellSouth.

Pre-emptive Rights; Conversion Rights; Redemption

No shareholders of any class shall be entitled to any pre-emptive rights to subscribe for or purchase any shares or other securities issued by BellSouth. The Common Stock has no conversion rights and is not subject to redemption.

Preferred Stock Purchase Rights

The Board has declared a dividend of one preferred stock purchase right (Right) for each share of Common Stock from time to time outstanding. Under certain circumstances, each Right will entitle the

holder to purchase one one-hundredth of a share of Series A Preferred Stock, \$1.00 par value (Common Equivalent Preferred Stock), which unit is substantially equivalent in voting and dividend rights to one whole share of the Common Stock, at a price of \$87.50 per whole share (the Purchase Price). The Rights are not presently exercisable and may be exercised only if a person or group acquires 10% of the outstanding voting stock of BellSouth without the prior approval of the Board (Acquiring Person) or announces a tender or exchange offer that would result in ownership of 25% or more of the Common Stock.

If an Acquiring Person becomes such without prior Board approval, the Rights are adjusted, and each holder, other than the Acquiring Person, then has the right to receive, on payment of the Purchase Price, the number of shares of Common Stock, units of the Common Equivalent Preferred Stock or other assets having a market value equal to twice the Purchase Price.

The Rights currently trade with the Common Stock and expire in 1999.

Business Combinations

The Georgia legislature has enacted legislation which generally prohibits a corporation which has adopted a by-law electing to be covered thereby (which BellSouth has done) from engaging in any "business combination" (i.e., a merger, consolidation or other specified corporate transaction) with an "interested shareholder" (i.e., a 10% shareholder or an affiliate of the corporation which was a 10% shareholder at any time within the preceding two years) for a period of five years from the date such person becomes an interested shareholder, unless the interested shareholder (a) prior to becoming an interested shareholder, obtained the approval of the Board of Directors for either the business combination or the transaction which resulted in the shareholder becoming an interested shareholder, (b) becomes the owner of at least 90% of the outstanding voting stock of the corporation in the same transaction in which the interested shareholder became an interested shareholder, excluding for purposes of determining the number of shares outstanding those shares owned by officers, directors, subsidiaries and certain employee stock plans of the corporation or (c) subsequent to the acquisition of 10% or more of the outstanding voting stock of the corporation, acquires additional shares resulting in ownership of at least 90% of the outstanding voting stock of the corporation and obtains approval of the business combination by the holders of a majority of the shares of voting stock of the corporation, other than those shares held by an interested shareholder, officers, directors, subsidiaries and certain employee stock plans of the corporation. BellSouth's "business combinations" by-law may be repealed only by an affirmative vote of two-thirds of the continuing directors and a majority of the votes entitled to be cast by the shareholders, other than interested shareholders, and shall not be effective until 18 months after such shareholder vote. The Georgia statute provides that a domestic corporation which has thus repealed such a by-law may not thereafter adopt the by-law as provided therein.

Fair Price Provisions

"Fair price" provisions contained in the Articles of Incorporation require, generally, in connection with a merger or similar transaction between BellSouth and an "interested shareholder" (a 10% shareholder or an affiliate of BellSouth which was a 10% shareholder at any time within the preceding two years), the unanimous approval of BellSouth's directors not affiliated with the interested shareholder or the affirmative vote of two-thirds of such directors and a majority of the outstanding shares held by disinterested shareholders, unless (a) within the past three years the shareholder has been an interested shareholder and has not increased its shareholdings by more than one percent in any 12-month period or (b) all shareholders receive at least the same consideration for their shares as the interested shareholder previously paid. Additionally, these provisions may be revised or rescinded only upon the affirmative vote of at least two-thirds of the directors not affiliated with an interested shareholder and a majority of the outstanding shares held by disinterested shareholders.

Board Classification

Board classification provisions adopted by the shareholders and contained in the By-laws prescribe a shareholder vote for approximately one-third of the directors, instead of all directors, at each annual meeting of shareholders for a three-year term. Additionally, such provisions provide that shareholders may remove

directors from office, with or without cause, amend the By-laws with respect to the number of directors or amend the board classification provisions only by the affirmative vote of the holders of at least 75% of the outstanding shares entitled to vote for the election of directors.

Removal of Directors

BellSouth's Articles of Incorporation provide that the shareholders of BellSouth may remove a director, with or without cause, by the affirmative vote of the holders of at least 75% of the voting power of all shares of stock entitled to vote generally in the election of directors, voting together as a single class.

Limitation on Shareholders' Proceedings

BellSouth's By-laws require 60 days advance notice of shareholder nominations for directors and of other matters to be brought before annual shareholders' meetings. Such By-laws also provide that a special shareholders' meeting may not be called by fewer than two-thirds of the outstanding shares entitled to vote at the meeting.

The provisions discussed under the six preceding sub-headings and the ability to issue Preferred Stock, such as the Series A Preferred Stock described above, with characteristics established by the Board and without the consent of the holders of Common Stock and the ability to issue additional shares of Common Stock may have the effect of discouraging takeover attempts and may also have the effect of maintaining the position of incumbent management. In addition, these provisions may have a significant effect on the ability of shareholders of BellSouth to benefit from certain kinds of transactions that may be opposed by the incumbent Board.

EXECUTIVE OFFICERS

The executive officers of BellSouth Corporation are listed below:

Name	Age	Office	Officer Since	This Office Since
F. Duane Ackerman*	54	President and Chief Executive Officer	1983	1996
Walter H. Alford	58	Executive Vice President and General Counsel	1983	1988
C. Sidney Boren	53	Senior Vice President — Corporate Planning and Development	1984	1996
Keith O. Cowan	40	Vice President — Corporate Development	1996	1996
Mark E. Droege	43	Vice President — Financial Management and Treasurer	1996	1996
Ronald M. Dykes	50	Executive Vice President and Chief Financial Officer	1988	1995
H. C. Henry, Jr.	53	Executive Vice President — Corporate Relations	1984	1993
David J. Markey	56	Vice President — Governmental Affairs	1986	1993
Charles C. Miller, III	44	President — International	1990	1995
W. Patrick Shannon	34	Vice President and Controller	1997	1997
Arlen G. Yokley	59	Senior Vice President, Executive Staff Officer and Corporate Secretary	1984	1996

The following officers of the companies indicated may be deemed to be executive officers of BellSouth Corporation:

Jere A. Drummond	57	President and Chief Executive Officer — BellSouth Telecommunications, Inc.	1982	1995
Earle Mauldin	56	President and Chief Executive Officer — BellSouth Enterprises, Inc.	1987	1995

All of the executive officers of BellSouth, other than Mr. Shannon and Mr. Cowan, have for at least the past five years held high level management or executive positions with BellSouth or its subsidiaries. Prior to joining BellSouth in 1997, Mr. Shannon was employed by U S West, Inc. as Chief Financial Officer of MediaOne, a company that provides cable TV services. Mr. Cowan was a partner at the law firm of Alston & Bird before joining BellSouth in 1996.

All officers serve until their successors have been elected and qualified.

* John L. Clendenin retired as President and Chief Executive Officer at the end of 1996, and was succeeded by Mr. Ackerman. Mr. Clendenin will remain Chairman of the Board of Directors through 1997 but, since his retirement, he is no longer deemed to be an officer of BellSouth.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The principal market for trading in BellSouth common stock is the New York Stock Exchange, Inc. (NYSE). BellSouth common stock is also listed on the Boston, Chicago, Pacific and Philadelphia exchanges in the United States and the London, Frankfurt, Amsterdam and Swiss exchanges. The ticker symbol for BellSouth common stock is BLS. At February 1, 1997, there were 1,084,146 holders of record of BellSouth common stock. The market price and dividend information listed below has been adjusted for the two-for-one stock split effective in November 1995. Market price data were obtained from the NYSE Composite Tape, which encompasses trading on the principal United States stock exchanges as well as off-board trading. High and low prices represent the highest and lowest sales prices for the periods indicated.

	Market Prices		Per Share Dividends Declared
	High	Low	
1996			
First Quarter	\$45 $\frac{1}{4}$	\$38	\$.36
Second Quarter	42 $\frac{1}{4}$	35 $\frac{1}{4}$.36
Third Quarter	43 $\frac{1}{4}$	35 $\frac{1}{4}$.36
Fourth Quarter	44	36 $\frac{1}{4}$.36
1995			
First Quarter	\$30 $\frac{1}{4}$	\$26 $\frac{1}{4}$	\$.345
Second Quarter	32 $\frac{1}{4}$	29 $\frac{1}{4}$.345
Third Quarter	36 $\frac{1}{4}$	31	.36
Fourth Quarter	43 $\frac{1}{4}$	36 $\frac{1}{4}$.36
1994			
First Quarter	\$30 $\frac{1}{4}$	\$26 $\frac{1}{4}$	\$.345
Second Quarter	31 $\frac{1}{4}$	27 $\frac{1}{4}$.345
Third Quarter	31 $\frac{1}{4}$	27 $\frac{1}{4}$.345
Fourth Quarter	28 $\frac{1}{4}$	25 $\frac{1}{4}$.345

Stock Transfer Agent and Registrar

ChaseMellon Shareholder Services, LLC, is BellSouth's stock transfer agent and registrar.

ITEM 6. SELECTED FINANCIAL AND OPERATING DATA
(Dollars in Millions, Except Per Share Amounts)

	1995	1994	1993	1992
Operating Revenues	\$19,100	\$17,888	\$18,845	\$15,880
Operating Expenses (1)	14,381	14,594	12,787	13,593
Operating Income	4,719	3,292	4,058	2,287
Interest Expense	721	724	686	689
Gain on Sale of Paging Business (2)	442	—	—	—
Other Income, net	108	20	11	8
Income Before Income Taxes, Extraordinary Losses and Accounting Change	4,808	2,588	3,403	1,606
Provision for Income Taxes	1,745	1,024	1,243	572
Income Before Extraordinary Losses and Accounting Change	2,863	1,564	2,160	1,034
Extraordinary Losses, net of tax (3)	—	(2,796)	—	(87)
Accounting Change, net of tax	—	—	—	(67)
Net Income (Loss)	\$ 2,863	\$ (1,232)	\$ 2,160	\$ 880
Earnings (Loss) Per Share:				
Income Before Extraordinary Losses and Accounting Change	\$ 2.88	\$ 1.57	\$ 2.18	\$ 1.04
Change	—	(2.81)	—	(.09)
Extraordinary Losses, net of tax (3)	—	—	—	(.06)
Accounting Change, net of tax	—	—	—	—
Net Income (Loss)	\$ 2.88	\$ (1.24)	\$ 2.18	\$.89
Dividends Declared Per Common Share	\$ 1.44	\$ 1.41	\$ 1.38	\$ 1.38
Book Value Per Share	\$ 13.37	\$ 11.90	\$ 14.48	\$ 13.60
Return to Average Common Equity	22.4%	(9.2%)	15.4%	6.3%
Weighted Average Common Shares Outstanding	994	993	992	991
Return on Average Total Capital	15.0%	(2.7%)	11.5%	6.1%
Total Assets	\$32,588	\$31,880	\$34,397	\$32,873
Capital Expenditures	\$ 4,455	\$ 4,203	\$ 3,600	\$ 3,486
Long-Term Debt	\$ 8,116	\$ 7,924	\$ 7,435	\$ 7,381
Debt Ratio at End of Period (4)	43.5%	46.7%	39.3%	40.2%
Ratio of Earnings to Fixed Charges	6.55	4.24	5.34	2.88
Total Employees	61,241	67,571	92,121	95,084
Telephone Employees (5)	62,425	68,585	73,784	77,958
Telephone Employees per 10,000 Access Lines	28.2	32.5	36.5	40.3
Business Volumes: (6)				
Network Access Lines in Service (thousands)	22,135	21,133	20,220	19,333
Access Minutes of Use (millions):				
Interstate	67,690	62,411	57,778	53,345
Intrastate	21,171	19,197	16,898	15,261
Toll Messages (millions)	1,023	1,374	1,559	1,511
Cellular Customers (thousands): (7)				
Domestic	3,612	2,847	2,156	1,559
International	1,244	655	361	192
Total Cellular Customers	4,856	3,502	2,517	1,751

- (1) Operating Expenses for 1995 include a work force reduction charge of \$1,082, which reduced net income by \$663. See Note J to the Consolidated Financial Statements. Operating Expenses for 1993 include a charge for restructuring of \$1,136, which reduced net income by \$697.
- (2) Represents the pre-tax gain on the sale of BellSouth's paging business in January 1996, which increased net income by \$344. See Note B to the Consolidated Financial Statements.
- (3) For 1995, reflects charges of \$2,718 (\$2.73 per share) for the discontinuance of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," and \$78 (\$.08 per share) related to the refinancing of long-term debt issues. See Notes E and L to the Consolidated Financial Statements.
- (4) The debt ratio at December 31, 1995 has been adjusted to exclude \$485 of debentures redeemed in January 1996.
- (5) Telephone employees exclude those employees in BellSouth Telecommunications' subsidiaries which are unrelated to telephone operations.
- (6) Prior period operating data are revised at later dates to reflect the most current information. The above information reflects the latest data available for the periods indicated.
- (7) Calculated on the equity basis, which includes customers served based on BellSouth's ownership percentage in all markets served.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS
AND FINANCIAL CONDITION**

(Dollars in Millions, Except Per Share Amounts)

BellSouth Corporation (BellSouth) is a holding company headquartered in Atlanta, Georgia whose operating telephone company subsidiary, BellSouth Telecommunications, Inc. (BellSouth Telecommunications) serves, in the aggregate, approximately two-thirds of the population and one-half of the territory within Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina and Tennessee. BellSouth Telecommunications primarily provides local exchange service and toll communications services within geographic areas, called Local Access and Transport Areas (LATAs), and provides network access services to enable interLATA communications using the long-distance facilities of interexchange carriers. Through subsidiaries, other telecommunications services and products are provided primarily within the nine-state BellSouth Telecommunications region. BellSouth Enterprises, Inc. (BellSouth Enterprises), another wholly-owned subsidiary, owns businesses providing wireless and international communications services and advertising and publishing products.

Approximately 70%, 70% and 72% of BellSouth's Total Operating Revenues for the years ended December 31, 1996, 1995 and 1994, respectively, were from wireline services provided by BellSouth Telecommunications. Charges for local, access and toll services for the year ended December 31, 1996 accounted for approximately 61%, 33% and 6%, respectively, of the wireline revenues discussed above. Revenues from consolidated wireless communications services and from directory advertising and publishing services accounted for approximately 15% and 9%, respectively, of Total Operating Revenues for the year ended December 31, 1996. The remainder of such revenues was derived principally from sales and maintenance of customer premises equipment and other nonregulated services provided by BellSouth Telecommunications.

RESULTS OF OPERATIONS

All per share amounts herein reflect a two-for-one stock split effective in November 1995. See Note G to the Consolidated Financial Statements.

	1996	1995	1994	Percent Change	
				1996 vs. 1995	1995 vs. 1994
Income Before Extraordinary Losses	\$ 2,863	\$ 1,564	\$ 2,160	83.1%	(27.6%)
Extraordinary Loss for Discontinuance of SFAS No. 71, net of tax	—	(2,718)	—	—	—
Extraordinary Loss on Early Extinguishment of Debt, net of tax	—	(78)	—	—	—
Net Income (Loss)	<u>\$ 2,863</u>	<u>\$(1,232)</u>	<u>\$ 2,160</u>	—	—

Earnings (Loss) Per Share:

	1996	1995	1994	Percent Change	
				1996 vs. 1995	1995 vs. 1994
Income Before Extraordinary Losses	\$ 2.88	\$ 1.57	\$ 2.18	83.4%	(28.0%)
Extraordinary Loss for Discontinuance of SFAS No. 71, net of tax	—	(2.73)	—	—	—
Extraordinary Loss on Early Extinguishment of Debt, net of tax	—	(.08)	—	—	—
Earnings (Loss) Per Share ..	<u>\$ 2.88</u>	<u>\$ (1.24)</u>	<u>\$ 2.18</u>	—	—

For a discussion of the extraordinary losses in 1995, see "Extraordinary Losses" below.

Income Before Extraordinary Losses for 1996 increased \$1,299 (83.1%) and \$1.31 per share (83.4%), respectively, compared to 1995. The increases were primarily attributable to the effect of an after-tax work force reduction charge in 1995 of \$663 (\$.67 per share). For a discussion of such charge, see "Operating Expenses — Work Force Reduction Charge" below. Also contributing to the increases were the \$344 (\$.35 per share) after-tax gain on sale of BellSouth's paging business (see Note B to the Consolidated Financial Statements) as well as growth in key business volumes, driven by continued growth of access lines and the cellular customer base, and cost control measures at BellSouth Telecommunications, including salary and wage savings attributable to the work force reduction and restructuring plans initiated in 1995 and 1993, respectively.

Income Before Extraordinary Losses for 1995 decreased \$596 (27.6%) and \$.61 per share (28.0%), respectively, compared to 1994. The decreases were primarily due to the after-tax work force reduction charge of \$663 (\$.67 per share). Also contributing to the decreases were the effects of gains in 1994 aggregating \$108 (\$.11 per share) related to the sale of two international cellular investments. The decreases were partially offset by revenue growth, driven by continued growth of access lines and the cellular customer base, and cost control measures at BellSouth Telecommunications, including salary and wage savings attributable to a restructuring plan initiated in 1993 and completed in 1995.

Volumes Of Business

Network Access Lines in Service at December 31 (thousands):

	1996	1995	1994	Percent Change	
				1996 vs. 1995	1995 vs. 1994
By Type:					
Residence	15,136	14,653	14,195	3.3%	3.2%
Business	6,732	6,225	5,771	8.1	7.9
Other	267	255	254	4.7	0.4
Total Access Lines	<u>22,135</u>	<u>21,133</u>	<u>20,220</u>	4.7	4.5
By State:					
Florida	5,899	5,597	5,350	5.4	4.6
Georgia	3,772	3,550	3,354	6.3	5.8
Tennessee	2,544	2,435	2,337	4.5	4.2
North Carolina	2,213	2,101	1,994	5.3	5.4
Louisiana	2,178	2,108	2,037	3.3	3.5
Alabama	1,857	1,792	1,726	3.6	3.8
South Carolina	1,344	1,292	1,244	4.0	3.9
Mississippi	1,193	1,158	1,118	3.0	3.6
Kentucky	1,135	1,100	1,060	3.2	3.8
Total Access Lines	<u>22,135</u>	<u>21,133</u>	<u>20,220</u>	4.7	4.5

The total number of access lines in service increased by approximately 1,002,000 (4.7%) to 22,135,000 since December 31, 1995, compared to a 4.5% rate of increase in 1995. Business and residence access lines increased by 8.1% and 3.3%, respectively, compared to growth rates of 7.9% and 3.2% in 1995. The number of second residence lines, included in total residence lines, increased by 285,000 (22.4%) to 1,556,000 and accounted for 59.0% and 28.4% of the overall increase in residence access lines and total access lines, respectively, since December 31, 1995. Such second residence lines are generally used for home office purposes, access to on-line computer services and children's phones. The growth in all categories of access lines was primarily attributable to continued economic improvement in the Southeast and successful marketing programs.

Access Minutes of Use (millions):

	1996	1995	1994	Percent Change	
				1996 vs. 1995	1995 vs. 1994
Interstate	67,690	62,411	57,778	8.5%	8.0%
Intrastate	21,171	19,117	16,888	10.3	13.7
Total Access Minutes of Use	<u>88,861</u>	<u>81,601</u>	<u>74,666</u>	8.9	9.3

Access minutes of use represent the volume of traffic carried by interexchange carriers between LATAs, both interstate and intrastate, using BellSouth Telecommunications' local facilities. In 1996, total access minutes of use increased by 7,253 million (8.9%) compared to an increase of 9.3% in 1995. The increases in access minutes of use were primarily attributable to access line growth, promotions by the interexchange carriers and intraLATA toll competition, which has the effect of increasing access minutes of use while reducing toll messages carried over BellSouth Telecommunications' network. The growth rate in total minutes of use continues to be negatively impacted by competition and the migration of

interexchange carriers to categories of service (e.g., special access) that have a fixed charge opposed to a volume-driven charge and to high capacity services, which causes a decrease in minutes of use.

	1996	1995	1994	Percent Change	
				1996 vs. 1995	1995 vs. 1994
Toll Messages (millions)	1,423	1,374	1,559	(25.5%)	(11.9%)

Toll messages are comprised of Message Telecommunications Service and Wide Area Telecommunications Service. Toll messages decreased by 351 million (25.5%) in 1996 compared to a decrease of 11.9% in 1995. The decrease in 1996 was primarily attributable to the expansion of local area calling plans (LACPs) in Florida, Georgia and North Carolina and, to a lesser extent, increased competition from interexchange carriers in the intraLATA toll market. While the respective impacts of such factors cannot be precisely quantified, BellSouth estimates that about 70% of the decline in toll messages was attributable to expanded LACPs and about 30% was due to increased competition. The decrease in 1995 was also attributable to LACPs in Florida, Georgia and North Carolina as well as South Carolina and Mississippi. These plans and future implementation of other such plans in BellSouth Telecommunications' service region, coupled with competition from the interexchange carriers in the intraLATA market, will adversely impact future toll message volumes. The expansion of LACPs and some effects of competition result in the transfer of calls from toll to the local service and access categories, respectively but the corresponding revenues are not generally shifted at commensurate rates.

Cellular and Paging Customers — Equity Basis (thousands):

	1996	1995	1994	Percent Change	
				1996 vs. 1995	1995 vs. 1994
Domestic Cellular	3,612	2,847	2,156	26.9%	32.1%
International Cellular	1,244	655	361	89.9	81.4
Paging Customers (all domestic)	—	1,777	1,614	—	10.1

Domestic cellular customers increased by 765,000 (26.9%) since December 31, 1995. While the rate of increase has declined since 1995, the overall penetration rate (number of customers as a percentage of the total population in the service territory) increased from 7.1% at December 31, 1995 to 8.9% at December 31, 1996. Total minutes of use have also continued to increase, although average minutes of use per cellular customer have remained relatively flat in 1996.

Since December 31, 1995, the number of international cellular customers increased by 589,000 (89.9%) to 1,244,000. Growth in total minutes of use for international cellular properties remained strong due to demand stimulated by competitive programs, enhanced services and underdeveloped land-line service.

In January 1996, BellSouth sold its paging business to Mobile Media Communications Inc. See Note B to the Consolidated Financial Statements.

Operating Revenues

For a discussion of the impact of impending local service competition on revenues and volumes of business, see "Operating Environment and Trends of the Business."

Total Operating Revenues increased \$1,154 (6.5%) in 1996 compared to an increase of \$1,041 (6.2%) during 1995. The increases resulted from growth in revenues from BellSouth's wireline telephone business, coupled with significant increases in revenues from the cellular communications business. The increase in 1996 was partially offset by the effect of the January 1996 sale of BellSouth's paging business. Excluding paging revenues in 1995, Total Operating Revenues increased \$1,503 (8.6%) in 1996.

The components of Total Operating Revenues were as follows:

	1996	1995	1994	Percent Change	
				1996 vs. 1995	1995 vs. 1994
Local Service	\$ 8,082	\$ 7,294	\$ 6,863	10.8%	6.3%
Interstate Access	3,553	3,275	3,127	8.5	4.7
Intrastate Access	812	884	908	(8.1)	(2.6)
Toll	794	1,009	1,190	(21.3)	(15.2)
Wireless Communications	2,799	2,592	2,067	8.0	25.4
Directory Advertising and Publishing ...	1,742	1,677	1,556	3.9	7.8
Other Services	1,258	1,155	1,134	8.9	1.9
Total Operating Revenues	\$19,040	\$17,886	\$16,845	6.5	6.2

Local Service revenues reflect amounts billed to customers for local exchange services, which include connection to the network and optional services, such as custom calling features and custom dialing packages. Local Service revenues for 1996 increased \$788 (10.8%) compared to an increase of \$431 (6.3%) in 1995.

The increase in 1996 was due primarily to an increase of 1,002,000 access lines since December 31, 1995. Also contributing were an increase of \$248 due to higher customer demand for optional services and net rate increases of \$88 which include benefits related to the effects of expanded LACPs.

The 1995 increase was due primarily to an increase of 913,000 access lines since December 31, 1994 and an increase of \$107 due to higher customer demand for optional services. The increase in 1995 was partially offset by net rate reductions since December 31, 1994 of approximately \$46 which are net of benefits related to the effects of expanded LACPs.

Interstate Access revenues result from the provision of access services to interexchange carriers to provide telecommunications services between states and from end-user charges collected from residential and business customers. Interstate Access revenues increased \$278 (8.5%) in 1996 compared to an increase of \$148 (4.7%) in 1995.

The 1996 increase was due primarily to growth in minutes of use of 8.5%, an increase of \$69 due to higher demand for special access services and an increase in end-user charges of \$58 attributable to growth in the number of access lines in service. Such increases were offset by net rate reductions since December 31, 1995 of \$25.

The increase for 1995 was due primarily to growth in minutes of use of 8.0%, an increase in end-user charges of \$52 attributable to growth in the number of access lines in service and an increase of \$42 due to higher demand for special access services. The 1995 increase was partially offset by net rate reductions since December 31, 1994 of approximately \$58.

Intrastate Access revenues result from the provision of access services to interexchange carriers which provide telecommunications services between LATAs within a state. In 1996, Intrastate Access revenues decreased \$72 (8.1%) compared to a decrease of \$24 (2.6%) in 1995.

The decreases for 1996 and 1995 were due primarily to net rate reductions of \$160 and \$100, respectively, partially offset by growth in minutes of use of 10.3% and 13.7%, respectively.

Toll revenues are received from the provision of long-distance services within (but not between) LATAs. These services include IntraLATA service beyond the local calling area; Wide Area Telecommunications Service (WATS or 800 services) for customers with highly concentrated demand; and special services, such as transport of voice, data and video. Toll revenues decreased \$215 (21.3%) in 1996 compared to a decrease of \$181 (15.2%) in 1995.

The decrease for 1996 was primarily attributable to the expansion of LACPs and increased competition from interexchange carriers, the effects of which reduced toll messages by 25.5%. The decrease was partially offset by a retroactive independent company settlement in 1995 which reduced revenue by \$31 in that period.

In 1995, the decrease was due primarily to a decline in toll messages of 11.9%. The decline in toll messages reflects the expansion of LACPs and increased competition from interexchange carriers. The decrease also includes the effect of the retroactive independent company settlement.

The overall decline in intraLATA toll revenues is expected to continue over the long term.

Wireless Communications revenues include revenues from consolidated wireless communications businesses (primarily domestic cellular and, prior to 1996, paging within BellSouth Enterprises) as well as revenues from interconnections by unaffiliated cellular carriers with BellSouth Telecommunications' network. (BellSouth's interests in the net income or loss of the unconsolidated wireless business within BellSouth Enterprises, which are accounted for under the equity method of accounting, recorded in Other Income, net.)

Wireless Communications revenues increased \$207 (8.0%) in 1996 compared to an increase of \$525 (25.4%) in 1995. The increases for both years resulted primarily from continued growth in the customer base for wireless services in domestic and international markets. The 1996 increase was partially offset by the effect of the January 1996 sale of BellSouth's paging business. Revenues from such paging services were \$349 and \$276, respectively, in 1995 and 1994. Excluding such revenues, in 1995, Wireless Communications revenues increased 24.8% in 1996.

Consistent with anticipated growth in the overall wireless industry, BellSouth's revenues from wireless services are expected to continue to increase. However, the rate of growth of revenues from BellSouth's existing cellular businesses could be adversely affected by competitive pressures on pricing, the continuing effect of an increasingly diversified customer base with lower average usage, and the emergence of new wireless service providers offering personal communications service (PCS).

Directory Advertising and Publishing revenues include revenues derived from publishing and selling advertising in, and performing related services concerning, alphabetical and classified telephone directories. Directory Advertising and Publishing revenues increased \$65 (3.9%) in 1996 compared to a \$121 (7.8%) increase in 1995.

The increase for 1996 was primarily due to increases in the volume and prices of advertising. The increase was partially offset by the effect of BellSouth Telecommunications' adoption of issue basis accounting for directory revenues, which increased revenues in 1995 by \$41, in connection with the discontinuance of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for Effects of Certain Types of Regulation." See Note L to the Consolidated Financial Statements.

The 1995 increase was due primarily to increases in the volume of advertising sold and the implementation of BellSouth Telecommunications' adoption of issue basis accounting for directory revenues.

Other Services revenues are principally comprised of revenues from customer premises equipment (CPE) sales and maintenance services and other nonregulated services (primarily inside line billing and collection and voice messaging services) offered by BellSouth Telecommunications. Other Services revenues increased \$103 (8.9%) in 1996 compared to an increase of \$21 (1.9%) in 1995.

The 1996 increase was primarily attributable to higher demand and prices for nonregulated services, product sales and fees totalling \$132. In addition, the increase was also due to incremental impacts related to potential sharing under certain state regulatory plans. The increase was partially offset by the sale in 1996 of a subsidiary which performed computer maintenance.

The increase in 1995 was due primarily to reduced levels of revenue reduction accruals and potential sharing under certain state regulatory plans coupled with the reclassification of certain accruals to Local Service revenues, the combined effect of which increased Other Services revenues.

approximately \$76. The increase was also due to approximately \$41 resulting from higher demand for voice messaging and inside wire services. The increase was partially offset by a reduction of \$37 in revenues from billing and collection services and by approximately \$33 related to the sale in April 1994 of BellSouth Telecommunications' out-of-region CPE sales and service operations.

Operating Expenses

Total Operating Expenses decreased \$333 (2.3%) in 1996 compared to an increase of \$1,807 (14.1%) in 1995. The 1996 decrease was primarily attributable to the effects of the 1995 work force reduction charge of \$1,082 and the sale of BellSouth's paging business in January 1996. Excluding these effects, Total Operating Expenses increased \$1,049 (7.9%) in 1996. The components of Total Operating Expenses were as follows:

	1996	1995	1994	Percent Change	
				1996 vs. 1995	1995 vs. 1994
Depreciation and Amortization	\$ 3,719	\$ 3,455	\$ 3,259	7.6%	6.0%
Other Operating Expenses:					
Cost of Services and Products	6,072	6,184	6,043	(1.8)	2.3
Selling, General and Administrative	4,470	3,873	3,485	15.4	11.1
	10,542	10,057	9,528	4.8	5.6
Subtotal	14,261	13,512	12,787	5.5	5.7
Work Force Reduction Charge	—	1,082	—	—	—
Total Operating Expenses	\$14,261	\$14,594	\$12,787	(2.3)	14.1

Depreciation and Amortization increased \$264 (7.6%) in 1996 compared to a \$196 (6.0%) increase in 1995.

The increase for 1996 was due primarily to higher levels of property, plant and equipment and shorter depreciable lives subsequent to the discontinuance of SFAS No. 71. The higher levels of property, plant and equipment resulted from continued growth in the customer base for wireless and wireline services and modernization of the networks. The increase was partially offset by the sale of BellSouth's paging business in January 1996 which had depreciation and amortization of \$44 in 1995.

The 1995 increase was due primarily to higher levels of property, plant and equipment since December 31, 1994 resulting from sustained growth in the customer base for wireless and wireline services and continued modernization of the networks.

Other Operating Expenses are comprised of Cost of Services and Products and Selling, General and Administrative. Cost of Services and Products includes employee and employee-related expenses associated with network repair and maintenance, material and supplies expense, cost of tangible goods sold and other expenses associated with providing services. Selling, General and Administrative includes expenses related to sales activities such as salaries, commissions, benefits, travel, marketing and advertising expenses and administrative expenses.

Other Operating Expenses increased \$485 (4.6%) in 1996 compared to an increase of \$529 (5.6%) in 1995. The increase for 1996 was primarily related to growth in the wireless and wireline businesses, partially offset by the effect of the January 1996 sale of BellSouth's paging business. Excluding such paging-related expenses in 1995, Other Operating Expenses increased \$741 (7.6%) in 1996.

For 1996, expenses related to the cellular and PCS businesses increased \$342 and \$69, respectively, as a result of sustained growth in the cellular customer base and the initiation of PCS services. At BellSouth Telecommunications, Other Operating Expenses increased \$202 due principally to higher business volumes, new service offerings and intensified marketing and advertising. The increase was partially offset by a decrease of approximately \$162 for employee-related costs in the wireline telephone operations, and the sale in 1994 of a subsidiary which performed computer maintenance. The decrease

in employee-related costs reflects employee reductions attributable to the restructuring and work reduction plans, partially offset by annual compensation increases for management and represented employees. The 1996 increase in Other Operating expenses also included an increase of approximately \$50 in expenses related to the directory advertising and publishing business.

The 1995 increase was due primarily to increased expenses of approximately \$310 related to sustained growth in the cellular customer base, reflecting additional marketing and operational associated with higher levels of sales and expanded operations. At BellSouth Telecommunications Other Operating Expenses increased \$114, which reflected volume growth that was partially offset by a decrease of approximately \$130 for employee-related costs. Such decrease was attributable to the restructuring plan begun in 1993, partially offset by annual compensation increases for management and represented employees. The 1995 increase in Other Operating Expenses was also attributable to approximately \$55 related to growth in the volume of directory advertising sold.

Work Force Reduction Charge. In the fourth quarter of 1995, BellSouth recognized a charge of \$1,082 (\$663 after tax), comprised of \$942 (\$577 after tax) related to planned work reductions by the end of 1997, \$85 (\$52 after tax) for expected severance benefit payments after 1997 and \$55 (\$34 after tax) for additional net curtailment losses related to employee reductions under the restructuring plan initiated in 1993 and completed in 1995.

1995 Work Force Reduction. The \$942 pretax charge was comprised of approximately \$561 related to the provisions of SFAS No. 112, "Employers' Accounting for Postemployment Benefits," related to employees expected to receive severance benefits under preexisting separation plans, and approximately \$381 for curtailment losses under the provisions of SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," and No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." Substantially all the curtailment losses relate to postretirement benefits other than pensions.

Under this plan, BellSouth Telecommunications expects to reduce the work force of the telephone operations by approximately 11,300 employees by the end of 1997. The work force reduction will be accomplished through the separation of approximately 13,200 employees, partially offset by planned hiring of new employees primarily to replace those not expected to relocate in connection with the consolidation of work locations. Including a reduction of approximately 800 employees that occurred in December 1995, BellSouth Telecommunications has reduced its work force by approximately 7,000 employees under the 1995 plan through December 31, 1996.

Once the plan to reduce 11,300 employees is completed, annual net employee cost savings are estimated to be approximately \$500 after considering increased costs for outsourced services.

Postemployment Benefits and Other Charges. The pretax charge of \$85 represented estimated future postemployment severance benefits to be paid after 1997, also in accordance with the provisions of SFAS No. 112. This component was based on BellSouth's belief that work force reductions will continue under existing separation plans, although at reduced separation benefit levels.

A pretax charge of \$55 was also recorded related to additional net curtailment losses in connection with a restructuring plan initiated in 1993 and completed in 1995. This charge resulted primarily from a greater number of retirement-eligible employees separating under the plan than was originally expected.

Other Income Statement Items

	1996	1995	1994	Percent Change	
				1996 vs. 1995	1995 vs. 1994
Interest Expense	\$ 721	\$ 724	\$ 666	(0.4)%	8.7%
Gain on Sale of Paging Business	442	—	—	—	—
Other Income, net	108	20	11	440.0	81.8
Provision for Income Taxes	1,745	1,024	1,243	70.4	(17.6)

Interest Expense includes interest on debt, certain other accrued liabilities and capital leases, partially offset by interest capitalized as a cost of installing equipment and constructing plant. Interest expense decreased \$3 (0.4%) in 1996 compared to an increase of \$58 (8.7%) in 1995.

The decrease for 1996 was primarily attributable to lower average interest rates on borrowings due in part to refinancings during 1995, partially offset by higher average debt balances in 1996.

The 1995 increase was primarily attributable to higher average interest rates on short-term borrowings and higher average debt levels for long-term borrowings. The average interest rate on long-term borrowings was slightly lower in 1995 compared to 1994, reflecting the initial impact of 1995 debt refinancings at more favorable interest rates.

Gain on Sale of Paging Business represents the pre-tax gain on the sale of BellSouth's paging business in January 1996.

Other Income, net includes earnings and losses from unconsolidated subsidiaries, businesses and partnerships; income and losses from the sale of operations; interest and dividend income; minority interests; and other nonoperating items. Other Income, net increased \$88 in 1996 compared to an increase of \$9 in 1995.

The 1996 increase resulted primarily from a \$55 increase in interest income and lower net minority interest deductions of \$35. Equity in losses was \$(76) in 1996, an improvement of \$10 since 1995. The lower 1996 losses were primarily attributable to improved operating results at unconsolidated domestic cellular operations and certain international businesses, principally operations in Israel and Venezuela. Such improvements were partially offset by increased losses attributable to the continuing development of German cellular operations.

The increase in Other Income, net in 1995 included a \$43 increase in interest income, an improvement of \$24 in equity in losses and \$18 in lower net minority interest deductions. The increase in Other Income, net was also attributable to a \$34 increase in miscellaneous income related to nonstrategic business activities. The increases in Other Income were partially offset by the effect of a gain of \$108 in 1994 from the sale of two international cellular investments.

Equity in losses of unconsolidated affiliates was \$(86) in 1995 compared to \$(110) in 1994. The lower 1995 losses reflect a reduction in losses in the mobile data communications businesses and higher income from unconsolidated domestic cellular operations, partially offset by increased losses from certain developing international businesses, principally operations in Germany and Israel.

Provision for Income Taxes increased \$721 (70.4%) in 1996 compared to a decrease of \$219 (17.6%) in 1995. BellSouth's effective tax rates were 37.9%, 39.6% and 36.5% in 1996, 1995 and 1994, respectively. The lower effective tax rate for 1996 compared to 1995 was due primarily to a higher tax than book basis for the paging business, which resulted in a lower gain on sale for computing tax expense. A reconciliation of the statutory Federal income tax rates to these effective tax rates is provided in Note K to the Consolidated Financial Statements.

Extraordinary Losses

Discontinuance of SFAS No. 71. In 1995, as a result of its continuing regulatory and marketplace assessments, BellSouth Telecommunications concluded that it was required to discontinue SFAS No. 71

for financial reporting purposes. Accordingly, BellSouth Telecommunications recorded a non extraordinary charge of \$2,718 (net of a deferred tax benefit of \$1,731). The extraordinary charge \$3,002 (after tax) to reduce the recorded value of long-lived telephone plant and equipment, all was within the regulatory framework, to the level appropriate for nonregulated enterprises. The charge was partially offset by \$194 related to the method by which BellSouth Telecommur reported its directory publishing revenue, \$71 related to the elimination of regulatory ass liabilities and \$19 for the partial acceleration of unamortized investment tax credits associated reductions in asset carrying values and in asset lives.

See Note L to the Consolidated Financial Statements.

Early Extinguishment of Debt. During 1995, BellSouth Telecommunications recogni traordinary losses of \$78 (net of a current tax benefit of \$49) related to the early extinguish outstanding debt issues. See Note E to the Consolidated Financial Statements.

FINANCIAL CONDITION

BellSouth uses the net cash generated from its operations and external financing to inves operate its existing and new businesses and to pay dividends. While current liabilities exceeded assets at both December 31, 1996 and 1995, BellSouth's sources of funds — primarily from op and, to the extent necessary, from readily available external financing arrangements — are suff meet all current obligations on a timely basis. BellSouth believes that such sources of funds sufficient to meet the needs of its business for the foreseeable future.

	1996	1995	1994	Percent Change	
				1996 vs. 1995	1995 vs. 1994
Net Cash Provided by Operating Activities . . .	\$5,863	\$5,443	\$5,172	7.7%	5.

Operating Activities. Net cash provided by operating activities increased \$420 (7.7%) compared to an increase of \$271 (5.2%) in 1995. The increase in 1996 was primarily attributable \$669 increase in operating income excluding depreciation, amortization and the work force re charge. The 1996 increase was partially offset by higher cash expenditures for reductions of a payable.

The increase in 1995 was primarily attributable to a \$512 increase in operating income ex depreciation, amortization and the work force reduction charge. The 1995 increase was partial by higher cash expenditures of \$258 related to a restructuring plan begun in 1993.

	1996	1995	1994	Percent Change	
				1996 vs. 1995	1995 vs. 1994
Net Cash Used for Investing Activities . . .	\$(4,199)	\$(4,384)	\$(3,935)	(4.2%)	11.

Investing Activities. BellSouth's primary use of capital resources continues to be for expenditures to support development of the wireline and wireless networks. Net cash used for ir activities decreased \$185 (4.2%) in 1996 compared to an increase of \$449 (11.4%) in 1995. The decrease in 1996 was primarily due to \$930 in cash received from the sale of the paging busine decrease was partially offset by higher capital expenditures of \$252 related substantially to wire wireless network development and a decrease of \$324 in proceeds from other investment disp and repayment of advances.

Capital expenditures were \$4,455 in 1996 and are projected to be approximately \$4,700 to \$ 1997. Such capital expenditures for 1996 were financed internally and, for 1997, are expecte financed primarily through internally generated funds and, to the extent necessary, from sources.

The increase in 1995 was primarily attributable to higher capital expenditures of \$603 related substantially to wireline and wireless network development, partially offset by higher cash proceeds of \$188 from investment dispositions and repayment of advances. Substantially all cash required for capital expenditures in 1995 was provided internally.

	1996	1995	1994	Percent Change	
				1996 vs. 1995	1995 vs. 1994
Net Cash Provided by (Used for) Financing Activities	\$ (2,197)	\$ 46	\$ (1,132)	—	—

Financing Activities. During 1996, financing activities used cash of \$(2,197) while in 1995 financing activities provided cash of \$46. The increased use of cash from 1995 to 1996 of \$2,243 primarily reflects higher levels of net proceeds from all borrowing activities in 1995 compared to 1996.

In September 1995, BellSouth's Board of Directors raised the quarterly dividend by \$.015 per share to a total of \$.36 per share and declared the same \$.36 per share dividend again in November 1995 and for each quarter in 1996.

The change in cash used for financing activities from 1994 to 1995 was primarily attributable to higher levels of net proceeds from all borrowing activities in 1995 compared to 1994.

Debt Activities. During 1996, BellSouth issued \$300 of long term debt and, with net proceeds as well as cash on hand, redeemed outstanding short-term debt and long-term debentures of \$417 and \$485, respectively.

During 1995, BellSouth issued \$500 of long-term debt and, with net proceeds, refinanced outstanding short-term debt. Also during 1995, BellSouth issued approximately \$1,900 of long-term debt to refinance \$1,885 of outstanding long-term debentures, including \$485 of debentures redeemed in January 1996. The funds to redeem the \$485 of debentures in January 1996 are included in Cash and Cash Equivalents in the Consolidated Balance Sheet at December 31, 1995. In addition, Cash and Cash Equivalents at December 31, 1995 includes \$500 which was used to reduce commercial paper on January 2, 1996.

BellSouth has committed credit lines aggregating \$1,951 with various banks. Borrowings under the committed credit lines totaled \$92 at December 31, 1996. BellSouth also maintains uncommitted lines of credit of \$650. At December 31, 1996, there were no borrowings under the uncommitted lines. As of February 14, 1997, shelf registration statements were on file with the Securities and Exchange Commission under which \$1,927 of debt securities could be publicly offered.

BellSouth's debt to total capitalization ratio, adjusted in 1995 to exclude the \$485 of debentures redeemed in January 1996, decreased to 43.5% at December 31, 1996 from 46.7% at December 31, 1995. The decrease was primarily caused by a reduction in short-term borrowings and an increase in shareholders' equity due to earnings during 1996.

Derivative Activities. BellSouth enters into foreign exchange forward contracts, currency swap agreements and interest rate swap agreements in its normal course of business for hedging purposes. These financial instruments are used to mitigate foreign currency and interest rate risks, although to a limited extent they expose the company to market and credit risks. The credit risks associated with these instruments are controlled through the evaluation and continual monitoring of the creditworthiness of the counterparties. In the event that a counterparty fails to meet the terms of a contract or agreement, BellSouth's exposure is limited to the then current value of the currency rate or interest rate differential, not the full notional amount. Such contracts and agreements have been executed with creditworthy financial institutions whose credit ratings are generally AA/Aa or higher. As such, BellSouth considers the risk of nonperformance to be remote. See Note N to the Consolidated Financial Statements for additional information.

OPERATING ENVIRONMENT AND TRENDS OF THE BUSINESS

Regulatory Environment. In providing telecommunications services, BellSouth is subject to regulation by both state and federal regulators with respect to rates, services, competition and other issues. BellSouth's primary regulatory focus has been directed toward modifying the regulatory process to one that is more closely aligned with changing market conditions and overall public policy objectives. As an alternative to regulation of intrastate earnings, BellSouth has sought price regulation, whereby prices of basic service are regulated and the pricing of other products and services are based on market factors. While price regulation plans do not provide for the direct recovery through basic service rates of cost increases or extraordinary expenses, they generally provide more flexibility to meet competitive pricing levels. BellSouth Telecommunications has price regulation plans approved or authorized in all states in its wireline territory, although the implementation of the Tennessee plan has been stayed by a court pending resolution of a number of issues. At the federal level, BellSouth Telecommunications is operating under a price regulation plan established by the Federal Communications Commission (FCC) in 1995. This plan provided a productivity option, which BellSouth Telecommunications selected, that eliminated both earnings limitations and sharing requirements.

Economy. The nation's output of goods and services, which grew 2.0% in 1995, grew at a moderate rate of 2.3% in 1996. Employment in nonfarm business establishments grew 2.2% during the year and the unemployment rate averaged 5.4%. The economy of the nine-state region served by BellSouth Telecommunications' wireline telephone business grew slightly faster than the national economy. The number of jobs in nonfarm businesses grew 2.3% as the unemployment rate averaged 5.0% for the year. Real income expanded at an estimated 3.7%. Net migration added approximately 400,000 persons, accounting for half of the region's population growth. The demand for telecommunications services in the region reflected the strength of its economic and population growth. Moderate economic expansion is expected during 1997, as tight labor markets, slow labor force growth and modest productivity growth act to constrain the pace of growth. The region's cost advantages and strong net migration should bring an economic growth rate comparatively better than the nation's and further increase the demand for telecommunications services. The increased competition faced by BellSouth Telecommunications and the growing percentage of revenues from unregulated businesses make BellSouth's financial performance more susceptible to changes in the economy than previously, as its operations reflect the more competitive business environment and the greater demand elasticities for its products and services.

Competition. BellSouth is subject to increasing competition in all areas of its business. Regulatory, legislative and judicial actions and technological developments have expanded the types of available services and products and the number of companies that may offer them. Increasingly, this competition is from large companies which have substantial capital, technological and marketing resources.

The 1996 Act. The 1996 Act requires the elimination of state legislative and regulatory barriers to competition for local telephone service, subject only to competitively neutral requirements to preserve and advance universal service, protect the public safety and welfare, maintain the quality of telecommunications services and safeguard the rights of customers. The 1996 Act also includes requirements that BellSouth negotiate with other carriers for interconnection, use of network elements on an unbundled basis and resale of local services. If a negotiated agreement cannot be reached, either party may seek arbitration with the state regulatory authority or the FCC if the state fails to act. If rates are disputed, the arbitrator must set rates for access to network elements on an unbundled basis, based on cost, which may include a reasonable profit. BellSouth is also required to negotiate to provide retail services at wholesale rates for the purposes of resale by competing carriers. If agreement cannot be reached, the arbitrator shall set the wholesale rates at BellSouth's retail rates less costs to be avoided. BellSouth Telecommunications has executed over 40 interconnection or resale agreements with such carriers and is currently involved in arbitration proceedings with a number of other carriers, including AT&T, MCI and Sprint. The arbitration results for the wholesale discount rates vary by state from approximately 15% to 21%.

In connection with the requirements of the 1996 Act, in August 1996, the FCC released an order adopting rules governing interconnection and open competition in the local telephone service industry (the Order). Among the issues specifically addressed by the Order are the network elements that BellSouth must make available; pricing standards to be followed by states in setting rates for interconnection; access to network elements on an unbundled basis and resold services. BellSouth and several other incumbent local exchange carriers (ILECs) joined in an appeal of the Order to the United States Court of Appeals for the Eighth Circuit (the Court). Upon request of several state commissions and ILECs, the Court stayed the Order in part, pending appeal. Such stay relates to pricing prescriptions and certain other terms. The Court heard oral arguments in January 1997, and a decision is pending. Notwithstanding these developments, however, as discussed above, BellSouth Telecommunications and a number of carriers have negotiated interconnection agreements and state regulatory commissions are arbitrating or have approved various terms of interconnection between BellSouth Telecommunications and other carriers. These terms may be revised, depending on, among other things, the outcome of the appeal of the Order.

The 1996 Act also requires the FCC to identify the local service subsidy provided by access charges; to provide for the removal of such subsidy from access rates in order that access charges reflect underlying costs; to arrange for a universal service fund to ensure the continuation of universal service; and to develop the arrangements for payments into that fund by all carriers. The FCC is currently engaged in this proceeding. In addition, the FCC has commenced a proceeding to revise its access charge rules. Until final orders are issued by the FCC and any judicial appeals have been concluded, it will not be possible to determine the impact on access charge revenues; however, an interim access charge plan provides for lower access charges paid by carriers that purchase unbundled network elements from ILECs or that connect wireless communications with the wireline networks of the ILECs.

In attempting to comply with the technical requirements of interconnection, BellSouth expects to incur significant costs associated with the development or modification of systems necessary to make interconnection possible. For example, BellSouth Telecommunications will be required to provide for long-term number portability whereby customers switching to competing local carriers will be able to retain their telephone numbers without interruption. It is unclear as to what degree BellSouth will be able to recover these costs.

Until the FCC issues final orders on matters such as access reform, universal service and number portability, as well as other matters, and any judicial appeals have been concluded, it will not be possible to determine the impact the 1996 Act will have on BellSouth's financial position or annual operations results or cash flows.

Wireless Services. The FCC's PCS licensing process allows multiple new competitors for BellSouth's businesses. Licenses to provide PCS services have been won in auction by AT&T, Bell Holding Company consortia and other large and well-capitalized entities. PCS will provide competition to BellSouth's local wireline and wireless telephone businesses. Several competitive PCS systems are now operational.

In many markets, competing cellular service is provided by businesses owned or controlled by a Bell Holding Company, AT&T or a major telephone company. In addition, Bell Atlantic Corporation and NYNEX Corporation have combined their cellular businesses, and U S West, Inc. and AirTouch Communications have announced that they plan to merge their cellular businesses. Those four companies have also formed a joint venture to provide PCS in many domestic markets.

BellSouth Competitive Strategy. BellSouth has developed three main strategies that govern its business decisions in the increasingly competitive telecommunications industry. First, BellSouth will strengthen its leadership position throughout its nine-state wireline territory by (a) enhancing and building its brand strength and distribution channels; (b) providing full-service offerings including wireline and wireless, local and long-distance, and video and electronic commerce services; and (c) controlling costs. Second, BellSouth will continue to grow profitably its domestic wireless business by (a) deploying value-added products and services and competitive technology; (b) strengthening and

BellSouth Strategic Management Unit, responsible for the development for BellSouth Corporation, new business and market opportunities.

Mr. Meyers received his Bachelor of Arts degree from Louisiana State University - New Orleans.

Robert Scheye - Vice President - Supplier Development and Business Relations - BellSouth BSE, Inc. (effective no earlier than November 1, 1997). In his current capacity, Mr. Scheye is leading negotiations with other telecommunications carriers for obtaining the underlying services to be provided by BSE, Inc. In addition, he is responsible for negotiating and procuring all network hardware, software, and other components to deliver a complete communications package to BSE, Inc. customers. Mr. Scheye has over 30 years of experience in the telecommunications industry, including positions with C & P Telephone Company, AT&T, Bell Communications Research, BellSouth Telecommunications and BellSouth Corporation. Mr. Scheye has most recently been responsible for development of BellSouth policy positions relating to long distance entry and competition, access charges and interconnection, resale and unbundled network elements. In addition, Mr. Scheye has extensive experience in negotiating and concluding interconnection and resale agreements between incumbent local exchange carriers and new entrants such as competitive local exchange carriers.

Mr. Scheye received his undergraduate degree in economics from Loyola College in Baltimore.

Harry M. Lightsey, III - Vice President - General Counsel, External Affairs and Secretary - BellSouth BSE, Inc. Mr. Lightsey began his career in telecommunications with Southwestern Bell Corporation Legal Department in 1982. Since then, Mr. Lightsey has held positions in the Legal Departments of Southern Bell Telephone Company, BellSouth Telecommunications and BellSouth Corporation. Most recently, Mr. Lightsey has been General Counsel - South Carolina for BellSouth Telecommunications.

Mr. Lightsey received his undergraduate degree from Princeton University and his J.D. from the University of South Carolina.

expanding distribution channels including joint marketing with BellSouth Telecommunications; and (c) expanding in-region wireless coverage through successful bidding for PCS licenses and other acquisitions. Third, BellSouth will continue to grow and develop its Latin American and other international operations.

New Services. Notwithstanding the inevitable loss of local service customers and other risks associated with increased competition, BellSouth will have the opportunity to benefit from entry into new business markets. For example, the presence of competition, among other things, can allow BellSouth to qualify to offer interLATA wireline service under provisions contained in the 1996 Act. BellSouth believes that in order to remain competitive in the future, it must aggressively pursue a corporate strategy of expanding its offerings beyond its traditional businesses and markets. These offerings include interLATA services, information services and video and electronic commerce services. BellSouth has entered some of these businesses through investments in, strategic alliances with and acquisitions of established companies in such industries and through the development of some of these services and capabilities internally. For example, among other initiatives, BellSouth has acquired several cable TV rights, is conducting a trial of cable TV service and is providing Internet access. BellSouth also intends to continue to pursue certain foreign telecommunications licenses as they are offered.

BellSouth plans to begin offering interLATA wireline service in each of its in-region states as soon as the FCC approves its application for each state. BellSouth has filed documents with the Georgia Public Service Commission requesting that the Georgia Commission approve a statement of generally available terms and conditions as provided for in the 1996 Act and to establish that such terms and conditions meet the competitive checklist. BellSouth will file an application for each state as soon as it believes the conditions are met. Because of the proceedings required to obtain approval and the potential challenges of competitors and others, it is uncertain when BellSouth will be authorized to commence interLATA service in any of its in-region states. The 1996 Act requires that in-region interLATA service be provided through a subsidiary separate from BellSouth Telecommunications.

Joint Marketing. The 1996 Act allows BellSouth to market wireless and other services jointly with its wireline local exchange services; previously, separate marketing was required. This change has enabled BellSouth to more efficiently offer and provide integrated telecommunications. In March 1996, BellSouth began joint marketing of wireless and wireline services in selected markets. In addition, as permitted by the 1996 Act, BellSouth intends to jointly market other services such as video, Internet access and, eventually, interLATA service with its wireline and wireless services.

1995 Work Force Reduction. As another part of its competitive strategy, BellSouth Telecommunications announced in 1995 a plan to reduce its work force by approximately 11,300 employees by the end of 1997. Also, in 1995, BellSouth Telecommunications completed the restructuring of its telephone operations that had been announced in 1993.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF MANAGEMENT

To the Shareholders of BellSouth Corporation:

These financial statements have been prepared in conformity with generally accepted accounting principles and have been audited by Coopers & Lybrand L.L.P., independent accountants, whose report is contained herein.

The integrity and objectivity of the data in these financial statements including estimates and judgments relating to matters not concluded by the end of the year, are the responsibility of the management of BellSouth. Management has also prepared all other information included therein unless indicated otherwise.

Management maintains a system of internal accounting controls which is continuously reviewed and evaluated. However, there are inherent limitations that should be recognized in considering the assurances provided by any system of internal accounting controls. The concept of reasonable assurance recognizes that the cost of a system of internal accounting controls should not exceed, in management's judgment, the benefits to be derived. Management believes that BellSouth's system does provide reasonable assurance that the transactions are executed in accordance with management's general or specific authorizations and are recorded properly to maintain accountability for assets and to permit the preparation of financial statements in conformity with generally accepted accounting principles. Management also believes that this system provides reasonable assurance that access to assets is permitted only in accordance with management's authorizations, that the recorded accountability for assets is compared with the existing assets at reasonable intervals and that appropriate action is taken with respect to any differences. Management also seeks to assure the objectivity and integrity of its financial data by the careful selection of its managers, by organizational arrangements that provide an appropriate division of responsibility and by communications programs aimed at assuring that its policies, standards and managerial authorities are understood throughout the organization. Management is also aware that changes in operating strategy and organizational structure can give rise to disruptions in internal controls. Special attention is given to controls while the changes are being implemented.

Management maintains a strong internal auditing program that independently assesses the effectiveness of the internal controls and recommends possible improvements thereto. In addition, as part of its audit of these financial statements, Coopers & Lybrand L.L.P. completed a review of the accounting controls to establish a basis for reliance thereon in determining the nature, timing and extent of audit tests to be applied. Management has considered the internal auditor's and Coopers & Lybrand L.L.P.'s recommendations concerning the system of internal controls and has taken actions that it believes are cost-effective in the circumstances to respond appropriately to these recommendations. Management believes that as of December 31, 1996, the system of internal controls was adequate to accomplish the objectives discussed herein.

Management also recognizes its responsibility for fostering a strong ethical climate so that BellSouth's affairs are conducted according to the highest standards of personal and corporate conduct. This responsibility is communicated to all employees through policies and guidelines addressing such issues as conflict of interest, safeguarding of BellSouth's real and intellectual properties, providing equal employment opportunities and ethical relations with customers, suppliers and governmental representatives. BellSouth maintains a program to assess compliance with these policies and our ethical standards through its Senior Vice President, Executive Staff Officer and Corporate Secretary.



F. Duane Ackerman
President and Chief Executive Officer



Ronald M. Dykes
Executive Vice President and
Chief Financial Officer

February 3, 1997

AUDIT COMMITTEE CHAIRMAN'S LETTER

The Audit Committee of the Board of Directors consists of four members who are neither officers nor employees of BellSouth Corporation. Information as to these persons, as well as their duties, is provided in the Proxy Statement. The Audit Committee met six times during 1996 and reviewed with the Chief Corporate Auditor, Coopers & Lybrand L.L.P. and management current audit activities, plans and the results of selected internal audits. The Audit Committee also reviewed the objectivity of the financial reporting process and the adequacy of internal controls. The Audit Committee recommended, subject to shareholder ratification, the appointment of the independent accountants and considered factors relating to their independence. In addition, the Audit Committee provided guidance in matters regarding ethical considerations and business conduct, reviewed the operations of political action committees and monitored compliance with laws and regulations. The Chief Corporate Auditor and Coopers & Lybrand L.L.P. each met privately with the Audit Committee on occasion to encourage confidential discussions as to any auditing matters.



Marshall M. Criser
Chairman, Audit Committee

February 3, 1997

REPORT OF INDEPENDENT ACCOUNTANTS

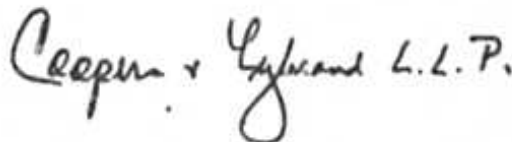
To the Shareholders
BellSouth Corporation
Atlanta, Georgia

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

We conducted our audits in accordance with generally accepted auditing standards. 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 consolidated financial position of BellSouth Corporation as of December 31, 1996 and 1995, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

As discussed in Note L to the consolidated financial statements, BellSouth discontinued accounting for the operations of BellSouth Telecommunications, Inc. in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," effective June 30, 1995.



Atlanta, Georgia
February 3, 1997

BELLSOUTH CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(In Millions, Except Per Share Amounts)

	For the Years Ended December 31,		
	1996	1995	1994
Operating Revenues:			
Network and related services:			
Local service	\$ 8,082	\$ 7,294	\$ 6,863
Interstate access	3,553	3,275	3,127
Intrastate access	812	884	908
Toll	794	1,009	1,190
Wireless communications	2,799	2,592	2,067
Directory advertising and publishing	1,742	1,677	1,556
Other services	1,258	1,155	1,134
Total Operating Revenues	<u>19,040</u>	<u>17,886</u>	<u>16,845</u>
Operating Expenses:			
Cost of services and products	6,072	6,184	6,043
Depreciation and amortization	3,719	3,455	3,259
Selling, general and administrative	4,470	3,873	3,485
Work force reduction charge (Note J)	—	1,082	—
Total Operating Expenses	<u>14,261</u>	<u>14,594</u>	<u>12,787</u>
Operating Income	4,779	3,292	4,058
Interest Expense	721	724	666
Gain on Sale of Paging Business (Note B)	442	—	—
Other Income, net	108	20	11
Income Before Income Taxes and Extraordinary Losses	4,608	2,588	3,403
Provision for Income Taxes (Note K)	1,745	1,024	1,243
Income Before Extraordinary Losses	2,863	1,564	2,160
Extraordinary Loss for Discontinuance of SFAS No. 71, net of tax (Note L)	—	(2,718)	—
Extraordinary Loss on Early Extinguishment of Debt, net of tax (Note E)	—	(78)	—
Net Income (Loss)	<u>\$ 2,863</u>	<u>\$ (1,232)</u>	<u>\$ 2,160</u>
Weighted Average Common Shares Outstanding (Note G)	994	993	992
Dividends Declared Per Common Share (Note G)	\$ 1.44	\$ 1.41	\$ 1.38
Earnings (Loss) Per Share: (Note G)			
Income Before Extraordinary Losses	\$ 2.88	\$ 1.57	\$ 2.18
Extraordinary Loss for Discontinuance of SFAS No. 71, net of tax (Note L)	—	(2.73)	—
Extraordinary Loss on Early Extinguishment of Debt, net of tax (Note E)	—	(.08)	—
Net Income (Loss)	<u>\$ 2.88</u>	<u>\$ (1.24)</u>	<u>\$ 2.18</u>

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

BELLSOUTH CORPORATION
CONSOLIDATED BALANCE SHEETS
(In Millions, Except Per Share Amounts)

	December 31,	
	1996	1995
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,178	\$ 1,711
Temporary cash investments	51	71
Accounts receivable, net of allowance for uncollectibles of \$180 and \$171	4,087	3,772
Material and supplies	451	430
Other current assets	531	521
Total Current Assets	6,208	6,505
Investments and Advances (Note B)	2,430	2,418
Property, Plant and Equipment, net (Note C)	21,825	21,092
Deferred Charges and Other Assets	610	338
Intangible Assets, net	1,405	1,527
Total Assets	\$32,568	\$31,880
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Debt maturing within one year (Note E)	\$ 2,124	\$ 2,951
Accounts payable	1,446	1,724
Other current liabilities (Note D)	2,871	2,715
Total Current Liabilities	6,441	7,390
Long-Term Debt (Note E)	8,116	7,924
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	1,899	1,650
Unamortized investment tax credits	278	355
Other liabilities and deferred credits (Note F)	2,585	2,736
Total Deferred Credits and Other Liabilities	4,762	4,741
Shareholders' Equity:		
Common stock, \$1 par value (2,200 shares authorized; 991 and 994 shares outstanding)	1,009	1,007
Paid-in capital	7,697	7,618
Retained earnings	5,541	4,096
Shares held in trust and treasury (Note G)	(532)	(374)
Guarantee of ESOP debt (Note H)	(466)	(526)
Total Shareholders' Equity	13,249	11,821
Total Liabilities and Shareholders' Equity	\$32,568	\$31,880

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

BELLSOUTH CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In Millions)

	Number of Shares		Amount					
	Common Stock	Shares Held in Trust and Treasury	Par Value	Paid-in Capital	Retained Earnings	Shares Held in Trust and Treasury	Guarantee of ESOP Debt	Total
Balance at December 31, 1993	502	(6)	\$ 502	\$8,010	\$5,919	\$(293)	\$(643)	\$13,495
Net income					2,160			2,160
Dividends declared					(1,370)			(1,370)
Shares issued for:								
Employee benefit plans				6				6
Grantor trusts	1	(1)	1	42		(43)		—
ESOP activities and related tax benefit					12		59	71
Foreign currency translation adjustment				6				6
Balance at December 31, 1994	503	(7)	503	8,064	6,721	(336)	(584)	14,368
Two-for-one stock split (Note G)	503	(6)	503	(503)				—
Net loss					(1,232)			(1,232)
Dividends declared					(1,400)			(1,400)
Shares issued for:								
Employee benefit plans	1		1	30				31
Grantor trusts				38		(38)		—
ESOP activities and related tax benefit					10		58	68
Foreign currency translation adjustment				(10)				(10)
Balance at December 31, 1995	1,007	(13)	1,007	7,613	4,099	(374)	(526)	11,825
Net income					2,863			2,863
Dividends declared					(1,430)			(1,430)
Shares issued for:								
Employee benefit plans	1		1	14		11		26
Grantor trusts	1	(1)	1	34		(35)		—
Shares purchased for:								
Treasury		(3)				(85)		(85)
Grantor trusts		(1)				(49)		(49)
ESOP activities and related tax benefit					9		60	69
Foreign currency translation adjustment				30				30
Balance at December 31, 1996	1,009	(18)	\$1,009	\$7,697	\$5,541	\$(532)	\$(466)	\$13,249

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

BELLSOUTH CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Millions)

	For the Years Ended December		
	1996	1995	19
Cash Flows from Operating Activities:			
Net income (loss)	\$ 2,863	\$ (1,232)	\$ 2
Adjustments to net income (loss):			
Gain on sale of paging business	(442)	—	—
Depreciation and amortization	3,719	3,455	2
Provision for uncollectibles	254	213	
Deferred income taxes and unamortized investment tax credits	120	(1,971)	
Pension expense in excess of funding/(pension income)	(14)	(53)	
Dividends from unconsolidated affiliates	130	149	
Losses from unconsolidated affiliates, net	76	86	
Extraordinary loss for discontinuance of SFAS No. 71	—	4,449	—
Extraordinary loss on early extinguishment of debt	—	127	—
Payment of call premium	—	(74)	—
Work force reduction charge	—	1,082	—
Net change in:			
Accounts receivable and other current assets	(645)	(770)	
Accounts payable and other current liabilities	(700)	(283)	
Deferred charges and other assets	(126)	(28)	
Other liabilities and deferred credits	581	315	
Other reconciling items, net	55	(22)	
Net cash provided by operating activities	5,863	5,443	1
Cash Flows from Investing Activities:			
Capital expenditures	(4,455)	(4,203)	(1)
Proceeds from sale of paging business	930	—	—
Proceeds from disposition of short-term investments	355	187	
Purchases of short-term investments	(336)	(207)	
Proceeds from investment dispositions and repayments of advances	102	426	
Investments in and advances to unconsolidated affiliates	(620)	(521)	
Other investing activities, net	(175)	(66)	
Net cash used for investing activities	(4,199)	(4,384)	(1)
Cash Flows from Financing Activities:			
Proceeds from short-term borrowings	23,942	21,075	2
Repayments of short-term borrowings	(24,439)	(20,565)	(2)
Proceeds from long-term debt	392	2,488	
Repayments of long-term debt	(544)	(1,555)	
Dividends paid	(1,430)	(1,385)	(1)
Other financing activities, net	(118)	(12)	
Net cash provided by (used for) financing activities	(2,197)	46	(1)
Net Increase (Decrease) in Cash and Cash Equivalents	(533)	1,105	
Cash and Cash Equivalents at Beginning of Period	1,711	606	
Cash and Cash Equivalents at End of Period	\$ 1,178	\$ 1,711	\$

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

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Millions, Except Per Share Amounts)

Note A — ACCOUNTING POLICIES

Organization. BellSouth Corporation (BellSouth) is a holding company headquartered in Atlanta, Georgia whose operating telephone company subsidiary, BellSouth Telecommunications, Inc. (BellSouth Telecommunications), serves, in the aggregate, approximately two-thirds of the population and one-half of the territory within Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina and Tennessee. BellSouth Telecommunications primarily provides local exchange service and toll communications services within geographic areas, called Local Access and Transport Areas (LATAs), and provides network access services to enable interLATA communications using the long-distance facilities of interexchange carriers. Through subsidiaries, other telecommunications services and products are provided primarily within the nine-state BellSouth Telecommunications region. BellSouth Enterprises, Inc. (BellSouth Enterprises), another wholly-owned subsidiary, owns businesses providing wireless and international communications services and advertising and publishing products.

Substantially all of BellSouth's operating revenues are derived from domestic operations. For the year ended December 31, 1996, approximately 70% of BellSouth's operating revenues were from wireline and network services, 15% were from wireless communications services and 9% were from directory advertising and publishing services. The remainder of such operating revenues was derived principally from other nonregulated services provided by BellSouth Telecommunications.

Basis of Presentation. The consolidated financial statements include the accounts of BellSouth and subsidiaries in which it has a controlling financial interest. Investments in certain partnerships, joint ventures and subsidiaries are accounted for using the equity method. All significant intercompany transactions and accounts have been eliminated. Certain amounts in the prior period consolidated financial statements have been reclassified to conform to the current year's presentation.

Basis of Accounting. BellSouth's consolidated financial statements have been prepared in accordance with generally accepted accounting principles. Such financial statements include estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the amounts of revenues and expenses. Actual results could differ from those estimates.

Effective June 30, 1995, BellSouth discontinued application of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." See Note L for further discussion of the impacts of discontinuance of SFAS No. 71.

Cash and Cash Equivalents. BellSouth considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Investments with an original maturity of over three months to one year are not considered cash equivalents and are included as temporary cash investments on the consolidated balance sheets. Interest income on cash equivalents, temporary cash investments and other interest-bearing instruments was \$163, \$108 and \$65 for the years ended December 31, 1996, 1995 and 1994, respectively.

Material and Supplies. New and reusable material is carried in inventory, principally at average original cost, except that specific costs are used in the case of large individual items. Nonreusable material is carried at estimated salvage value.

Property, Plant and Equipment. The investment in property, plant and equipment is stated at original cost. For plant dedicated to providing regulated telecommunications services, depreciation is based on the remaining life method of depreciation and straight-line composite rates determined on the basis of equal life groups of certain categories of telephone plant acquired in a given year. When depreciable telephone plant is disposed of, the original cost less net salvage value is charged to accumulated depreciation. The cost of other property, plant and equipment is depreciated using either

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Dollars in Millions, Except Per Share Amounts)

Note A — ACCOUNTING POLICIES (Continued)

straight-line or accelerated methods over the estimated useful lives of the assets. Gains or losses on disposal of other depreciable property, plant and equipment are recognized in the year of disposition as an element of other non-operating income.

Intangible Assets. Intangible assets consist of the excess consideration paid over the fair value of net assets acquired in business combinations, acquired licenses and customer lists. Intangible assets are being amortized using the straight-line and accelerated methods over periods of benefit. Such periods do not exceed 40 years. The carrying value of intangible assets is periodically reviewed on the basis of whether such intangibles are fully recoverable from projected, discounted net cash flows of the related business unit. Amortization of such intangibles was \$49, \$50 and \$53 for the years ended December 31, 1996, 1995 and 1994, respectively. At December 31, 1996 and 1995, accumulated amortization of intangibles was \$220 and \$228, respectively.

Foreign Currency. Assets and liabilities of foreign subsidiaries and equity investees with a functional currency other than U.S. dollars are translated into U.S. dollars at exchange rates in effect at the end of the reporting period. Foreign entity revenues and expenses are translated into U.S. dollars at the average rates that prevailed during the period. The resulting net translation gains and losses are reported as foreign currency translation adjustments in Shareholders' Equity as a component of Paid-In Capital.

Exchange gains and losses on transactions of the company and its equity investees denominated in a currency other than their functional currency are generally included in results of operations as incurred unless the transactions are hedged (see "Derivative Financial Instruments" below). The exchange gains and losses for the years ended December 31, 1996, 1995 and 1994 were not material.

Derivative Financial Instruments. Foreign exchange forward contracts are carried at fair value in the consolidated balance sheets. Gains and losses on foreign exchange forward contracts used as currency hedges of existing assets or liabilities are deferred and offset the deferred losses and gains of the underlying asset or liability. The net effect is ultimately recognized in income as the underlying transaction matures. Gains and losses related to qualifying hedges of firm commitments also are deferred and are recognized in income or as adjustments of carrying amounts when the hedged transaction occurs.

Currency swap contracts entered into as hedges of existing assets and liabilities are carried at fair value in the consolidated balance sheets. Gains and losses on currency swaps are deferred and offset against the deferred currency losses and gains of the underlying asset or liability. The net effect is ultimately recognized in income as the underlying transaction matures.

Interest rate swap agreements are treated as off-balance sheet financial instruments. Receipts or payments resulting from these instruments are recognized as adjustments to interest expense as received or paid.

Revenue Recognition. Revenues are recognized when earned. Certain revenues derived from local telephone and wireless services are billed monthly in advance and are recognized the following month when services are provided. Directory advertising and publishing revenues and related directory costs are recognized upon publication of directories. Revenues derived from other telecommunications services, principally network access, toll and cellular airtime usage, are recognized monthly as services are provided. Allowances for uncollectible billed services are adjusted monthly. The provision for such uncollectible accounts was \$254, \$213 and \$175 for the years ended December 31, 1996, 1995 and 1994, respectively.

Revenues from services provided to AT&T Corp., BellSouth's largest customer, were approximately 9%, 10% and 11% of consolidated operating revenues for 1996, 1995 and 1994, respectively.

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Dollars in Millions, Except Per Share Amounts)

Note A — ACCOUNTING POLICIES (Continued)

Maintenance and Repairs. The cost of maintenance and repairs of plant, including the cost of replacing minor items not effecting substantial betterments, is charged to operating expenses.

Income Taxes. The balance sheet reflects deferred tax balances associated with the anticipated tax impact of future income or deductions implicit in the balance sheet in the form of temporary differences. Temporary differences primarily result from the use of accelerated methods and shorter lives in computing depreciation for tax purposes.

For financial reporting purposes, BellSouth is amortizing deferred investment tax credits earned prior to the 1986 repeal of the investment tax credit and also some transitional credits earned after the repeal. The credits are being amortized as a reduction to the provision for income taxes over the estimated useful lives of the assets to which the credits relate.

Earnings Per Share. Earnings per common share are computed on the basis of the weighted average number of shares of common stock outstanding during each year.

Note B — INVESTMENTS, ADVANCES AND SALES OF OPERATIONS

Investments and advances as of December 31 consist of the following:

	1996	1995
Investments accounted for under the equity method	\$1,676	\$1,845
Advances to and notes receivable from affiliates	675	477
Other investments	79	96
Total Investments and Advances	<u>\$2,430</u>	<u>\$2,418</u>

BellSouth's equity method investments primarily include various partnerships in domestic and international wireless properties and other international communications consortiums. Losses related to investments accounted for under the equity method were \$(76), \$(86) and \$(110) for the three years ended December 31, 1996, 1995 and 1994, respectively, and are included as a component of Other Income, net.

Domestic Cellular. BellSouth's domestic cellular investments consist primarily of a 60.0% noncontrolling financial interest in the Los Angeles Cellular Telephone Company and a 43.8% interest in the Houston Cellular Telephone Company. At December 31, 1996, BellSouth's aggregate investment in these entities exceeded the underlying book value of the investees' net assets by \$880. The excess of consideration paid over net assets acquired along with other intangible assets is being amortized using either straight-line or accelerated methods over periods of benefit, which do not exceed 40 years.

International Communications. BellSouth has equity investments in international cellular operations in Latin America, Europe, the Asia-Pacific region and other international markets with ownership ranging from 22.5% to 53.3%. Telcel Cellular C.A. (TelCel), in which BellSouth has a noncontrolling 53.3% interest, provides cellular telephone service in Venezuela. BellSouth is a 24.5% participant in Optus, an international consortium which provides a full spectrum of telecommunications services in Australia, including switched network and enhanced services, wireless and satellite based services. BellSouth is a 22.5% participant in the E-Plus Mobilfunk consortium (E-Plus), which provides cellular telephone service in Germany.

Other Investments. BellSouth has noncontrolling financial interests ranging from 70% to 80% in the USL Ventures and 1155 Peachtree Associates real estate partnerships. BellSouth had notes receivable from and advances to these partnerships totaling \$193 and \$188 at December 31, 1996 and 1995, respectively. The notes bear interest at rates ranging from 6.31% to 9.31% while the advances bear

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Dollars in Millions, Except Per Share Amounts)

Note B — INVESTMENTS, ADVANCES AND SALES OF OPERATIONS (Continued)

interest at the federal funds rate plus .30%. Principal amounts outstanding at December 31, 1996 are due and payable to BellSouth between January 15, 1998 and August 8, 2002. The instruments require periodic payments of interest and are collateralized by various real estate holdings.

BellSouth has a credit agreement with Prime South Diversified, Inc. (Prime) to provide up to \$250 in financing, of which \$250 and \$185 had been borrowed by Prime as of December 31, 1996 and 1995, respectively. The loan is collateralized by the stock of Prime, which indirectly wholly owns Community Cable TV in Las Vegas, and its wholly-owned subsidiary Prime South Holdings, Inc. The loan bears interest at a variable rate of 10% to 11% and matures in 2001.

BellSouth and RAM Communications Group, Inc. are partners in an entity that owns and operates certain mobile data communications networks. Through its investment, BellSouth holds a 49% interest in the United States mobile data operations and various interests in foreign mobile data operations ranging from 6% to 72.5%.

In 1996, BellSouth initiated a tender offer for a controlling interest in an entity that provides cellular telephone service in Peru. BellSouth deposited \$148 in escrow arrangements pending the outcome of the tender offer. Such amount is included in Deferred Charges and Other Assets in the accompanying consolidated balance sheet. In January 1997, BellSouth successfully completed the tender offer, acquiring a 58.7% interest in the entity.

Minority interests of consolidated subsidiaries, included as a component of Other Income, net, were \$(27), \$(62) and \$(80) for the years ended December 31, 1996, 1995 and 1994, respectively.

Sales of Operations. In January 1996, BellSouth sold to Mobile Media Communications, Inc. its paging subsidiary, Mobile Communications Corporation of America (MCCA), and its two-way nationwide narrowband personal communications services license for a total of approximately \$930. The pretax gain on such sale was \$442. MCCA's operating revenues were \$349 and \$276, respectively, for the years ended December 31, 1995 and 1994. Total operating expenses were \$300 and \$245, respectively, for the years ended December 31, 1995 and 1994. Total assets at December 31, 1995 were \$355.

In 1994, BellSouth disposed of its interests in cellular telephone businesses in Mexico and France. BellSouth recognized gains from these dispositions aggregating \$108, which are included in Other Income, net.

Note C — PROPERTY, PLANT AND EQUIPMENT

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

	1996	1995
Outside plant	\$20,866	\$20,092
Central office equipment	17,442	16,132
Building and building improvements	3,595	3,303
Operating and other equipment	3,595	2,952
Furniture and fixtures	3,017	2,791
Plant under construction	716	782
Station equipment	638	626
Land	190	191
	<u>50,059</u>	<u>46,869</u>
Less: Accumulated depreciation	28,234	25,777
Total Property, Plant and Equipment, net	<u>\$21,825</u>	<u>\$21,092</u>

See Note L for a discussion of the discontinuance of SFAS No. 71 and its effect on Property, Plant and Equipment.

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Dollars in Millions, Except Per Share Amounts)

Note D — OTHER CURRENT LIABILITIES

Other current liabilities are summarized as follows at December 31:

	1996	1995
Advanced billing and customer deposits	\$ 539	\$ 493
Taxes accrued	517	382
Dividends payable	363	363
Salaries and wages payable	335	325
Postemployment benefits (see Note J)	303	273
Interest and rents accrued	293	282
Compensated absences	244	317
Other	277	280
Total Other Current Liabilities	<u>\$2,871</u>	<u>\$2,715</u>

Note E — DEBT

Debt Maturing Within One Year: Debt maturing within one year is summarized as follows at December 31:

	1996	1995
Debentures Redeemed in January 1996	\$ —	\$ 485
Short-term notes payable:		
Bank loans	73	85
Commercial paper	1,885	2,302
Current maturities of long-term debt	166	79
Total Debt Maturing Within One Year	<u>\$2,124</u>	<u>\$2,951</u>
Weighted average interest rate at end of period:		
Bank loans	7.40%	7.50%
Commercial paper	5.50%	5.81%

BellSouth has committed credit lines aggregating \$1,951 with various banks. Borrowings under the committed lines totaled \$92 and \$66, respectively, at December 31, 1996 and 1995. BellSouth also maintains uncommitted lines of credit aggregating \$650. At December 31, 1996, there were no borrowings under the uncommitted lines. There are no significant commitment fees or requirements for compensating balances associated with any lines of credit.

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Dollars in Millions, Except Per Share Amounts)

Note E — DEBT (Continued)

Long-Term: Long-term debt, summarized below, consists primarily of debentures and notes issued by BellSouth Telecommunications. Interest rates and maturities in the table below are for the amounts outstanding at December 31, 1996.

	<u>Contractual Interest Rates</u>	<u>Maturities</u>	<u>1996</u>	<u>1995</u>
BellSouth Telecommunications Debentures:	4 3/4% - 6 3/4%	1997 - 2045	\$1,905	\$1,915
	6.65% - 7%	2095	635	626
	7% - 8 1/4%	2010 - 2035	2,050	2,535
			4,590	5,076
BellSouth Telecommunications Notes ..	5 1/4% - 7%	1998 - 2008	2,175	2,175
BellSouth Capital Funding Corporation Notes	4.89% - 9.25%	1997 - 2026	820	544
Guarantee of ESOP debt	9.125% - 9.19%	2003	594	647
Other			136	79
Unamortized discount, net of premium ..			(33)	(33)
			8,282	8,488
Current maturities			(168)	(564)
Total Long-Term Debt			\$8,116	\$7,924

Maturities of long-term debt outstanding (principal amounts) at December 31, 1996 are summarized below. Maturities after the year 2001 include \$500 principal amount 6.65% debentures due in 2095. At December 31, 1996, such debentures had an accreted book value of \$135.

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>Thereafter</u>	<u>Total</u>
Maturities	\$ 166	\$ 796	\$ 265	\$ 473	\$ 182	\$6,796	\$8,680

Notes issued by BellSouth Capital Funding Corporation (Capital Funding) are used to finance the businesses of BellSouth Enterprises and the unregulated subsidiaries of BellSouth Telecommunications. BellSouth has agreed to ensure the timely payment of principal, premium, if any, and interest on Capital Funding's debt securities.

During 1995, BellSouth Telecommunications refinanced certain long-term debt issues at more favorable interest rates. The approximate \$1,900 gross proceeds of debentures issued during the year to accomplish these refinancings are included in Long-Term Debt. Of the total \$1,885 aggregate principal amount of debentures called for redemption during 1995, \$1,400 had actually been redeemed as of December 31, 1995. The remaining \$485 of debentures, redeemed in January 1996, are included in the Consolidated Balance Sheet at December 31, 1995 in Debt Maturing Within One Year. As a result of the early extinguishment of these issues, including the issues redeemed in January 1996, an extraordinary loss of \$78 (\$.08 per share), net of a current tax benefit of \$49, was recognized in 1995.

At December 31, 1996, shelf registration statements were on file with the Securities and Exchange Commission under which \$1,927 of debt securities could be offered.

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Millions, Except Per Share Amounts)

Note F — OTHER LIABILITIES AND DEFERRED CREDITS

Other liabilities and deferred credits are summarized as follows:

Postretirement benefits other than pensions (see Notes I and J)	
Accrued pension cost (see Notes H and J)	
Compensation related	
Minority interests	
Postemployment benefits (see Note J)	
Sharing accrual under FCC price cap plan	
Other	
Total Other Liabilities and Deferred Credits	

Note G — SHAREHOLDERS' EQUITY

Stock Split. In September 1995, BellSouth's Board of Directors effected in the form of a stock dividend, whereby each share received on November 8, 1995 one additional share of common stock on record date. As a result of the split, 503,555,084 shares were issued. In Capital to Common Stock. Also in September 1995, BellSouth increased the number of authorized shares of common stock to 1,500,000,000. Weighted average common shares outstanding and per share amounts reflect the stock split.

Preferred Stock Authorized. BellSouth's Articles of Incorporation authorize the issuance of 1,000,000 shares of non-cumulative First Preferred Stock having a par value of \$1 per share. As of December 31, 1996, no preferred shares had been issued.

Shareholder Rights Plan. In 1989, BellSouth adopted a Shareholder Rights Plan. The plan provides that each share of common stock then outstanding entitles shareholders to buy one one-hundredth of a share of common stock at \$87.50 per share. The rights may be exercised only if a person acquires 10% of BellSouth's stock without the prior approval of the Board of Directors. The rights may be redeemed by the Board of Directors for one cent and thereafter under certain circumstances. The rights expire on December 31, 1999.

Shares Held in Trust and Treasury. During 1994, 1995 and 1996, BellSouth established trusts to provide partial funding for the benefits payable under its pension and profit-sharing plans. The trusts are irrevocable and assets contributed to the trusts are not subject to certain exceptions. At December 31, 1996 and 1995, the assets of the trusts were 15,796,782 and 13,753,204 shares, respectively, of BellSouth common stock. Of the 15,796,782 shares held by the trusts, 14,586,782 were issued out of previously unissued shares and 1,210,000 shares were purchased through use of the trusts' funds.

The total cost of the shares issued by BellSouth as of the end of 1996 is included in Common Stock and Paid-In Capital; however, because these shares are not included in the consolidated financial reporting purposes, the shares are included within

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Dollars in Millions, Except Per Share Amounts)

Note G — SHAREHOLDERS' EQUITY (Continued)

reduction to Shareholders' Equity. In addition, there is no earnings per share impact of these shares. The cost of shares acquired in open market purchases by the trust are also included in Shares Held in Trust and Treasury.

In addition to shares held by the grantor trusts, Shares Held in Trust and Treasury includes treasury shares purchased in connection with BellSouth's announced plans to repurchase shares of its common stock. In 1996, BellSouth purchased 2,207,152 treasury shares for an aggregate of \$85. A total of 276,168 shares were reissued under various employee benefit plans.

Shares Held in Trust and Treasury as of December 31, 1996 and 1995 are comprised of the following:

	1996		1995	
	Shares	Amount	Shares	Amount
Shares held by Grantor Trusts	15,796,782	\$458	13,753,204	\$374
Shares held in Treasury	1,930,984	74	—	—
Total Shares Held in Trust and Treasury ..	<u>17,727,766</u>	<u>\$532</u>	<u>13,753,204</u>	<u>\$374</u>

Guarantee of ESOP Debt. Financial reporting practices require that the amount equivalent to BellSouth's guarantee of the amortizing notes issued by its ESOP trusts be presented as a reduction to Shareholders' Equity. The amount recorded as a decrease in Shareholders' Equity represents the cost of unallocated BellSouth common stock purchased with the proceeds of the amortizing notes and the timing difference resulting from the shares allocated accounting method. See Note H.

Note H — EMPLOYEE BENEFIT PLANS

Pension Plans. Substantially all employees of BellSouth are covered by noncontributory defined benefit pension plans. Principal plans are discussed below; other plans are not significant individually or in the aggregate.

The plan covering nonrepresented employees is a cash balance plan which provides pension benefits determined by a combination of compensation-based service and additional credits and individual account-based interest credits. The cash balance plan is subject to a minimum benefit determined under a plan in existence for nonrepresented employees prior to July 1, 1993 which provided benefits based upon credited service and employees' average compensation for a specified period. The minimum benefit under the prior plan is applicable to employees retiring through 2005. Both the 1996 and 1995 projected benefit obligations assume interest and additional credits greater than the minimum levels specified in the written plan. Pension benefits provided for represented employees are based on specified benefit amounts and years of service and include the projected effect of future bargained-for improvements.

BellSouth's funding policy is to make contributions to trust funds with the objective of accumulating sufficient assets to pay all pension benefits for which BellSouth is liable. Contributions are actuarially determined using the aggregate cost method, subject to ERISA and Internal Revenue Service limitations. Pension plan assets consist primarily of equity securities and fixed income investments.

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Dollars in Millions, Except Per Share Amounts)

Note H — EMPLOYEE BENEFIT PLANS (Continued)

The components of net pension (income) cost are summarized below:

	1996	1995	1994
Service cost — benefits earned during the year	\$ 288	\$ 239	\$ 272
Interest cost on projected benefit obligation	799	812	778
Actual (return) loss on plan assets	(1,957)	(3,041)	136
Net amortization and deferral	856	1,937	(1,158)
Net pension (income) cost	<u>\$ (14)</u>	<u>\$ (53)</u>	<u>\$ 28</u>

Effective January 1, 1994, the nonrepresented cash balance plan was divided from one into four cash balance plans which allowed for costs to be accounted for more precisely based upon specific company demographic information. The plan division had no material impact on BellSouth in 1994. Net pension (income) cost is affected by changes in the discount rate and other actuarial assumptions. The consolidated net pension (income) cost amounts reflected above are exclusive of curtailment effects reflected in the work force reduction and restructuring activities (see Note J) and do not reflect curtailment gains in the amount of \$43 in 1996.

The following table sets forth the funded status of the plans at December 31:

	1996	1995
Actuarial present value of:		
Vested benefit obligation	\$ 9,321	\$ 8,853
Accumulated benefit obligation	<u>\$ 9,824</u>	<u>\$ 9,961</u>
Projected benefit obligation	\$11,303	\$11,994
Plan assets at fair value	<u>15,614</u>	<u>14,613</u>
Plan assets in excess of projected benefit obligation	4,311	2,619
Unrecognized net gain due to past experience different from assumptions made	(4,286)	(2,738)
Unrecognized prior service cost	(304)	(199)
Unrecognized net asset at transition	<u>(130)</u>	<u>(151)</u>
Accrued pension cost	<u>\$ (409)</u>	<u>\$ (469)</u>

The significant actuarial assumptions at December 31, 1995 and 1996 were as follows:

	1996	1995
Weighted average discount rate	7.5 %	7.0 %
Weighted average rate of compensation increase	5.8 %	5.7 %
Expected long-term rate of return on plan assets	8.25 %	8.0 %

Postretirement Benefits Other Than Pensions. BellSouth sponsors postretirement health and life insurance welfare plans for most of its nonrepresented and represented employees. BellSouth's transition benefit obligation is being amortized over 15 years, the average remaining service period of active plan participants at adoption. The accounting for the health care plan does not anticipate future adjustments to the cost-sharing arrangements provided for in the written plan for employees who retire after December 31, 1991.

BellSouth's funding policy is to make contributions to trust funds with the objective of accumulating sufficient assets to pay all health and life benefits for which BellSouth is liable. Contributions are

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Dollars in Millions, Except Per Share Amounts)

Note H — EMPLOYEE BENEFIT PLANS (Continued)

actuarially determined using the aggregate cost method, subject to ERISA and Internal Revenue Service limitations. Assets in the health and life plans consist primarily of equity securities and fixed income investments.

Net postretirement benefit cost (income) for the years ended December 31, 1996, 1995 and 1994, respectively, is composed of the following:

	1996		1995		1994	
	Health	Life	Health	Life	Health	Life
Service cost — benefits earned during the year	\$ 35	\$ 12	\$ 27	\$ 10	\$ 35	\$ 13
Interest on accumulated postretirement benefit obligation	225	43	223	38	211	37
Actual (return) loss on plan assets	(163)	(103)	(185)	(125)	14	(12)
Amortization of transition liability (asset)	96	(13)	110	(13)	112	(13)
Other amortization and deferral, net	115	58	115	77	(85)	(30)
Net postretirement benefit cost (income)	\$ 308	\$ (3)	\$ 290	\$ (13)	\$ 307	\$ (5)

The consolidated net postretirement benefit cost (income) amounts reflected above are exclusive of curtailment effects reflected in the work force reduction and restructuring activities discussed in Note J.

The following table sets forth the plans' funded status at December 31, 1996 and 1995, respectively:

	1996		1995	
	Health	Life	Health	Life
Accumulated postretirement benefit obligation:				
Retirees	\$ 1,994	\$ 318	\$ 1,909	\$ 305
Fully eligible active plan participants	437	135	712	178
Other active plan participants	541	164	667	137
Plan assets at fair value	2,972	617	3,306	620
	1,379	778	1,159	692
Accumulated postretirement benefit obligation, less than (in excess of) plan assets	(1,583)	161	(2,149)	72
Unrecognized prior service cost	71	17	103	5
Unrecognized net (gains) losses	(279)	7	218	117
Unrecognized transition obligation (asset)	1,057	(144)	1,153	(157)
(Accrued) prepaid postretirement benefit cost	\$ (744)	\$ 41	\$ (675)	\$ 37

The significant actuarial assumptions at December 31, 1996 and 1995 were as follows:

	1996	1995
Weighted average discount rate	7.5 %	7.0 %
Weighted average rate of compensation increase	5.8 %	5.7 %
Health care cost trend rate (1)	8.5 %	9.0 %
Expected long-term rate of return on plan assets (2)	8.25 %	8.0 %

(1) Trend rate used to value the accumulated postretirement obligation in 1996 and 1995 is assumed to decrease gradually to 5% in 2003.

(2) Rate net of an estimated 30% tax reduction for the nonrepresented employees' trust for 1996 and 1995.

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Dollars in Millions, Except Per Share Amounts)

Note H — EMPLOYEE BENEFIT PLANS (Continued)

The health care cost trend rate assumption affects the amounts reported. A one-percentage-point increase in the assumed health care cost trend rates for each future year would increase the accumulated postretirement benefit obligation by \$190 at December 31, 1996 and the estimated aggregate service and interest cost components of the 1996 postretirement benefit cost by \$17.

Defined Contribution Plans. BellSouth maintains several contributory savings plans which cover substantially all employees. In April 1996, the BellSouth Management Savings and Employee Stock Ownership Plan and the BellSouth Enterprises Retirement Savings Plan merged to form the BellSouth Retirement Savings Plan. The BellSouth Retirement Savings Plan and the BellSouth Savings and Security Plan (collectively, the Savings Plans) are tax-qualified defined contribution plans. Assets of the plans are held by two trusts (the Trusts) which, in turn, are part of the BellSouth Master Savings Trust.

In 1990, a leveraged Employee Stock Ownership Plan (ESOP) was incorporated into the Savings Plans. The Trusts borrowed \$850 by issuing amortizing notes which are guaranteed by BellSouth (see Note E). The Trusts used the loan proceeds to purchase shares of BellSouth common stock in the open market. These shares are held in suspense accounts in the Trusts; a scheduled number of shares is released for allocation to participants as each semi-annual loan payment is made. The Trusts service the debt with contributions from BellSouth and with dividends paid on the shares held by the Trusts. None of the shares held by the Trusts is subject to repurchase.

A portion of employees' eligible contributions to the Savings Plans is matched by BellSouth at rates determined annually by the Board of Directors. BellSouth's matching obligation is fulfilled with shares released from the suspense accounts semi-annually for allocation to participants. The number of shares allocated to each participant's account is based on the market price of the shares at the time of allocation. If shares released for allocation do not fulfill BellSouth's matching obligation, BellSouth makes further contributions to the Trusts to fund the purchase of additional shares in the open market to fulfill the remaining obligation.

BellSouth recognizes expense using the shares allocated accounting method, which combines the cost of the shares allocated for the period plus interest incurred, reduced by the dividends used to service the ESOP debt. Dividends on all ESOP shares are recorded as a reduction to retained earnings and all ESOP shares are included in the computation of earnings per share.

	1996	1995	1994
Compensation cost	\$58	\$75	\$77
Interest expense	\$33	\$37	\$39
Actual interest on ESOP Notes	\$56	\$62	\$66
Cash contributions, excluding dividends paid to the Trusts	\$91	\$101	\$100
Dividends paid to the Trusts, used for debt service	\$44	\$44	\$42
Shares allocated to participants	14,305,917	11,942,278	9,621,034
Shares committed to be released	—	—	—
Shares unallocated	17,472,807	19,836,446	22,157,690

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Dollars in Millions, Except Per Share Amounts)

Note 1 — STOCK COMPENSATION PLANS

At December 31, 1996, BellSouth has stock options outstanding under several stock-based compensation plans. The BellSouth Corporation Stock Plan (the Stock Plan) provides for grants to key employees of stock options and various other stock-based awards. One share of BellSouth common stock is the underlying security for any award. The aggregate number of shares of BellSouth common stock which may be granted in any calendar year cannot exceed one percent of the shares outstanding at the time of grant. Prior to adoption of the Stock Plan, stock options were granted under the BellSouth Corporation Stock Option Plan. Stock options granted under both plans entitle an optionee to purchase shares of BellSouth common stock within prescribed periods at a price either equal to, or in excess of the fair market value on the date of grant. Options granted under these plans generally become exercisable at the end of five years and have a term of 10 years.

BellSouth applies APB Opinion 25 and related Interpretations in accounting for its stock plans. Accordingly, no compensation cost has been recognized for grants of stock options. Had compensation cost for BellSouth's stock-based compensation plans been determined in accordance with the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," BellSouth's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	1996	1995
Net income (loss) — as reported	\$2,863	\$(1,232)
Net income (loss) — pro forma	\$2,852	\$(1,235)
Earnings (loss) per share — as reported	\$ 2.88	\$ (1.24)
Earnings (loss) per share — pro forma	\$ 2.87	\$ (1.24)

The pro forma amounts reflected above are not representative of the effects on reported net income in future years because, in general, the options granted in 1996 and 1995 do not vest for several years and additional awards are made each year.

The following table summarizes the activity for stock options outstanding:

	1996	1995	1994
Options outstanding at January 1	14,287,748	10,345,924	7,308,284
Options granted	5,376,513	5,269,040	3,525,722
Options exercised	(667,545)	(1,226,040)	(374,278)
Options forfeited	(401,324)	(101,176)	(113,804)
Options outstanding at December 31	18,571,392	14,287,748	10,345,924
Weighted-average option prices per common share:			
Outstanding at January 1	\$30.56	\$28.65	\$26.14
Granted at fair market value	\$42.50	\$30.85	\$30.20
Granted at above fair market value	N/A	\$41.34	\$41.79
Exercised	\$26.24	\$24.46	\$23.58
Forfeited	\$33.71	\$30.10	\$29.08
Outstanding at December 31	\$34.11	\$30.56	\$28.65
Weighted-average fair value of options granted at fair market value during the year	\$7.66	\$5.60	\$7.50
Weighted-average fair value of options granted at above fair market value during the year	N/A	\$2.48	\$1.70
Options exercisable at December 31	6,523,291	5,242,258	4,667,262
Shares available for grant at December 31	9,910,692	10,074,447	10,050,096

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Dollars in Millions, Except Per Share Amounts)

Note I — STOCK COMPENSATION PLANS (Continued)

The fair value of each option grant is estimated on the grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	1996	1995	1994
Expected life (years)	7	7	7
Dividend yield	3.39%	4.55%	4.59%
Expected volatility	15.4%	15.8%	16.4%
Risk-free interest rate	5.56%	7.21%	5.75%

The following table summarizes information about stock options outstanding at December 31, 1996:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 12/31/96	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 12/31/96	Weighted-Average Exercise Price
\$18.50 - \$25.99	1,466,990	4.66 years	\$24.65	1,466,990	\$24.65
\$26.00 - \$27.99	2,819,677	5.24 years	\$27.23	1,839,895	\$27.27
\$28.00 - \$29.99	3,668,220	7.05 years	\$29.44	1,229,828	\$29.28
\$30.00 - \$38.99	3,259,373	7.56 years	\$30.98	819,337	\$31.41
\$39.00 - \$44.50	7,357,132	8.77 years	\$42.34	1,167,241	\$42.08
\$18.50 - \$44.50	18,571,392	7.36 years	\$34.11	6,523,291	\$30.23

Note J — WORK FORCE REDUCTION CHARGE

In the fourth quarter of 1995, BellSouth recognized a pretax charge of \$1,082 related to work force reductions. The primary component of the charge, \$942 for planned work force reductions in the core wireline business by the end of 1997, consists of \$561 under the provisions of SFAS No. 112, "Employers' Accounting for Postemployment Benefits," related to those employees who are expected to receive severance benefits under preexisting separation plans, and \$381 for curtailment losses under the provisions of SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." Substantially all of the curtailment losses relate to postretirement benefits other than pensions. The remaining components of the charge are \$85 for expected severance benefit payments after 1997, also under SFAS No. 112, and \$55 for additional net curtailment losses related to employee reductions under a restructuring plan initiated in 1993 and completed in 1995.

Under the 1995 work force reduction plan, BellSouth Telecommunications expects to reduce the work force of the wireline telephone operations by approximately 11,300 employees by the end of 1997. The work force reduction will be accomplished through the separation of approximately 13,200 employees, partially offset by the planned hiring of new employees primarily to replace those not expected to relocate in connection with the consolidation of work locations. Including a reduction of approximately 800 employees which occurred in December 1995, BellSouth Telecommunications has reduced its work force by approximately 7,000 employees under the 1995 plan through December 31, 1996.

Note K — INCOME TAXES

In accordance with SFAS No. 109, "Accounting for Income Taxes," the balance sheet reflects the anticipated tax impact of future taxable income or deductions implicit in the balance sheet in the form of temporary differences. These temporary differences reflect the difference between the basis in assets and liabilities as measured in the financial statements and as measured by tax laws using enacted tax rates.

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Dollars in Millions, Except Per Share Amounts)

Note K — INCOME TAXES (Continued)

The provision for income taxes is summarized as follows:

	1996	1995	1994
Federal:			
Current	\$1,390	\$1,061	\$1,082
Deferred, net	170	(148)	34
Investment tax credits, net	(77)	(69)	(73)
	<u>1,483</u>	<u>844</u>	<u>1,043</u>
State:			
Current	235	203	180
Deferred, net	27	(23)	20
	<u>262</u>	<u>180</u>	<u>200</u>
Total provision for income taxes	<u>\$1,745</u>	<u>\$1,024</u>	<u>\$1,243</u>

Extraordinary losses in 1995 are presented in the Consolidated Statement of Income net of tax benefits totaling \$1,780, of which \$49 is current and \$1,731 is deferred.

Temporary differences which gave rise to deferred tax assets and (liabilities) at December 31 were as follows:

	1996	1995
Compensation related	\$ 707	\$ 627
Work force reduction charge	210	370
Allowance for uncollectibles	87	89
Regulatory sharing accruals	32	114
Other	244	219
	<u>1,280</u>	<u>1,419</u>
Valuation allowance	(64)	(55)
Deferred Tax Assets	<u>1,216</u>	<u>1,364</u>
Depreciation	(2,110)	(2,042)
Equity investments	(354)	(361)
Issue basis accounting	(197)	(207)
Licenses	(187)	(190)
Other	(133)	(129)
Deferred Tax Liabilities	<u>(2,981)</u>	<u>(2,929)</u>
Net Deferred Tax Liability	<u>\$(1,765)</u>	<u>\$(1,565)</u>

The valuation allowance, which increased by \$9 in 1996, primarily relates to state net operating losses that will not be utilized during the carryforward period. Of the Net Deferred Tax Liability at December 31, 1996 and 1995, \$134 and \$85, respectively, was current and \$(1,899) and \$(1,650), respectively, was noncurrent.

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Dollars in Millions, Except Per Share Amounts)

Note K — INCOME TAXES (Continued)

A reconciliation of the Federal statutory income tax rate to BellSouth's effective tax rate follows:

	1996	1995	1994
Federal statutory tax rate	35.0%	35.0%	35.0%
State income taxes, net of Federal income tax benefit	3.7	4.5	4.0
Amortization of investment tax credits	(1.7)	(2.7)	(2.1)
Equity of unconsolidated subsidiaries	1.6	2.0	0.6
Benefit of capital loss carryforward	—	(0.4)	(1.1)
Basis difference in disposed subsidiary	(1.5)	—	—
Miscellaneous items, net	0.8	1.2	.1
Effective tax rate	<u>37.9%</u>	<u>39.6%</u>	<u>36.5%</u>

Note L — DISCONTINUANCE OF SFAS NO. 71

In 1995, as a result of its continuing regulatory and marketplace assessments, BellSouth Telecommunications concluded that it was required to discontinue SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," for financial reporting purposes. Accordingly, BellSouth Telecommunications recorded a noncash extraordinary charge of \$2,718 (net of a deferred tax benefit of \$1,731). The components of the charge are as follows:

	Pretax	After Tax
Reduction in recorded value of long lived telephone plant	\$(4,896)	\$(3,002)
Full adoption of issue basis accounting	317	194
Elimination of regulatory assets and liabilities	111	71
Partial adjustment to unamortized investment tax credits	19	19
Total	<u>\$(4,449)</u>	<u>\$(2,718)</u>

The reduction of telephone plant, \$4,896 (pretax), was recorded as an increase to the related accumulated depreciation accounts, the categories and amounts of which are as follows:

Central Office Equipment:	
Digital switching	\$1,305
Circuit-other	1,291
Total Central Office Equipment	<u>2,596</u>
Outside Plant:	
Buried metallic cable	1,345
Aerial metallic cable	630
Underground metallic cable	325
Total Outside Plant	<u>2,300</u>
Total	<u>\$4,896</u>

Such reduction of plant was determined by an impairment analysis that identified estimated amounts not recoverable from future discounted cash flows. The analysis considered projected effects of future competition as well as changes in technology and capital requirements. The plant-related charge, all of which related to assets within the regulatory framework, was further supported by depreciation studies that identified inadequate levels of accumulated depreciation for certain asset categories. These studies give recognition to the historical underdepreciation of assets resulting primarily from regulator-prescribed asset lives that exceeded the estimated economic asset lives.

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Dollars in Millions, Except Per Share Amounts)

Note L — DISCONTINUANCE OF SFAS NO. 71 (Continued)

For financial reporting purposes, the average depreciable lives of affected categories of long lived telephone plant have been reduced to more closely reflect the economic and technological lives. Differences between regulator-approved asset lives and the current estimated economic asset lives are as follows:

Category	Composite of Regulator-Approved Asset Lives	Estimated Economic Asset Lives
	(in Years)	
Digital switching	17.0	10.0
Circuit-other	10.5	9.1
Buried metallic cable	20.0	14.0
Aerial metallic cable	20.0	14.0
Underground metallic cable	25.0	12.0

The remaining components of the extraordinary charge, which partially offset the plant-related portion of the overall charge, include \$194 (after tax) related to the adoption by BellSouth Telecommunications of issue basis accounting for its directory publishing revenues. BellSouth's unregulated subsidiaries already recognized directory publishing revenues and production expenses using issue basis accounting.

The overall extraordinary charge was also reduced by \$71 (after tax) to reflect the removal of regulatory assets and liabilities that were recorded as a result of previous actions by regulators. Virtually all of these regulatory assets and liabilities arose in connection with the incorporation of new accounting standards into the ratemaking process and were transitory in nature. In addition, the overall extraordinary charge was reduced by \$19 (after tax) for the partial acceleration of unamortized investment tax credits associated with the reductions in asset carrying values and in asset lives.

Note M — SUPPLEMENTAL CASH FLOW INFORMATION

	1996	1995	1994
Cash Paid For:			
Income Taxes	\$1,427	\$1,231	\$1,375
Interest	\$ 740	\$ 760	\$ 665
Noncash Investing and Financing Activities:			
Shares issued to Grantor Trusts	\$ 35	\$ 38	\$ 43

Note N — FINANCIAL INSTRUMENTS

The recorded amounts of cash and cash equivalents, temporary cash investments, bank loans and commercial paper approximate fair value due to the short-term nature of these instruments. The fair value for BellSouth Telecommunications Debentures and Notes are estimated based on the closing market prices for each issue at December 31, 1996 and 1995. Fair value estimates for the Guarantee of ESOP Debt, BellSouth Capital Funding Corporation Notes, foreign exchange contracts, foreign currency swaps and interest rate swaps are based on quotes from dealers. Since judgment is required to develop the estimates, the estimated amounts presented herein may not be indicative of the amounts that BellSouth could realize in a current market exchange.

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Dollars in Millions, Except Per Share Amounts)

Note N — FINANCIAL INSTRUMENTS (Continued)

Following is a summary of financial instruments where the fair values differ from the recorded amounts as of December 31, 1996 and 1995:

	1996		1995	
	Recorded Amount	Estimated Fair Value	Recorded Amount	Estimated Fair Value
Balance Sheet Financial Instruments				
Long-Term Debt:				
BellSouth Telecommunications Debentures	\$ 4,580	\$ 4,422	\$ 5,076	\$ 5,079
BellSouth Telecommunications Notes	2,175	2,141	2,175	2,216
BellSouth Capital Funding Corporation Notes . . .	820	856	544	587
Guarantee of ESOP Debt	594	675	647	803
Off Balance Sheet Financial Instruments				
Interest Rate Swaps	—	(5)	—	(10)

Derivative Financial Instruments. BellSouth is, from time to time, party to currency swap agreements, interest rate swap agreements and foreign exchange forward contracts in its normal course of business for purposes other than trading. These financial instruments are used to mitigate foreign currency and interest rate risks, although to some extent they expose the company to market risks and credit risks. The credit risks associated with these instruments are controlled through the evaluation and continual monitoring of the creditworthiness of the counterparties. In the event that a counterparty fails to meet the terms of a contract or agreement, BellSouth's exposure is limited to the then current value of the currency rate or interest rate differential, not the full notional amount. Such contracts and agreements have been executed with creditworthy financial institutions. As such, BellSouth considers the risk of nonperformance to be remote.

Currency Swap. BellSouth entered into a currency swap in 1994 to hedge European Currency Units (ECU) 125,000,000 debt issued by Capital Funding. The currency swap and related debt mature in February 1999. At December 31, 1996, the net currency swap receivable, which equals the fair value of the swap, was \$23 and the related net interest receivable was \$7, both of which are included in accounts receivable in the consolidated balance sheet at December 31, 1996.

Interest Rate Swaps. BellSouth enters into interest rate swap agreements to exchange fixed and variable rate interest payment obligations without the exchange of the underlying principal amounts. As of December 31, 1996, BellSouth was a party to various interest rate swaps with an aggregate notional amount of \$120. Under these swaps, BellSouth paid fixed rates averaging 7.13% and received variable rates averaging 5.52%. These swaps mature at dates ranging from 2001 to 2002.

At December 31, 1995, BellSouth was a party to two types of interest rate swaps with aggregate notional amounts of \$96 and \$75, respectively. Under the \$96 swaps, BellSouth paid fixed rates averaging 7.38% and received variable rates averaging 6.05%. Under the \$75 swaps, BellSouth paid variable rates averaging 5.96% and received fixed rates averaging 4.86%.

Other. BellSouth has also issued letters of credit and financial guarantees which approximate \$322 at December 31, 1996. Of this total, \$169 represents the U.S. Dollar equivalent of the outstanding balance of E-Plus debt guaranteed by BellSouth. BellSouth has agreed to guarantee E-Plus borrowings up to a U.S. Dollar equivalent of \$341 (530 million German Marks) at December 31, 1996.

Since there is no market for the instruments, it is not practicable to estimate their fair value.

Concentrations of Credit Risk. Financial instruments which potentially subject BellSouth to credit risk consist principally of trade accounts receivable. Concentrations of credit risk with respect to

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Dollars in Millions, Except Per Share Amounts)

Note N — FINANCIAL INSTRUMENTS (Continued)

these receivables, other than those from interexchange carriers, are limited due to the composition of the customer base, which includes a large number of individuals and businesses. At December 31, 1994 and 1995, approximately \$492 and \$520, respectively, of trade accounts receivable were from interexchange carriers.

Note O — COMMITMENTS AND CONTINGENCIES

Leases. BellSouth has entered into operating leases for facilities and equipment used in operations. Rental expense under operating leases was \$269, \$252 and \$311 for 1996, 1995 and 1994, respectively. Capital leases currently in effect are not significant.

The following table summarizes the approximate future minimum rentals under noncancelable operating leases in effect at December 31, 1996:

	1997	1998	1999	2000	2001	Thereafter	Total
Minimum rentals	\$ 181	\$ 143	\$ 121	\$ 101	\$ 88	\$ 483	\$1,117

Outside Plant. BellSouth currently self-insures all of its outside plant against casualty losses. The net book value of outside plant was \$7,621 and \$8,080 at December 31, 1996 and 1995, respectively. Such outside plant, located in the nine Southeastern states served by BellSouth Telecommunications, is susceptible to damage from severe weather conditions and other perils, including hurricanes.

Legal Claims. BellSouth and its subsidiaries are subject to claims arising in the ordinary course of business involving allegations of personal injury, breach of contract, anti-competitive conduct, employment law issues, regulatory matters and other actions. BellSouth Telecommunications is also subject to claims attributable to pre-divestiture events involving environmental liabilities, rates, taxes, contracts and torts. Certain contingent liabilities for pre-divestiture events are shared with AT&T Corp.

With respect to regulatory matters, the South Carolina Public Service Commission has ordered BellSouth Telecommunications to refund approximately \$29, plus interest, based on an investigation of its 1992 earnings. The refund was stayed pending judicial review of the decision. In 1996, the South Carolina Court of Common Pleas entered an order affirming the Commission's order of the refund. BellSouth Telecommunications intends to pursue an appeal of this decision. The Commission has postponed review of BellSouth Telecommunications' earnings in 1993 and 1994 until a resolution of the 1992 period is reached.

While complete assurance cannot be given as to the outcome of any legal claims, BellSouth believes that any financial impact would not be material to its financial position or annual operating results or cash flows.

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Dollars in Millions, Except Per Share Amounts)

Note P — QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

In the following summary of quarterly financial information, all adjustments necessary for a fair presentation of each period were included. The results for first quarter 1996 include a gain on sale of paging business of \$442, which increased net income by \$344. The results for fourth quarter 1995 include a work force reduction charge of \$1,082, which reduced net income by \$663.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1996				
Operating Revenues	\$4,541	\$ 4,620	\$4,829	\$5,050
Operating Income	\$1,183	\$ 1,188	\$1,201	\$1,207
Net Income	\$ 970	\$ 629	\$ 631	\$ 633
Earnings Per Share	\$.98	\$.63	\$.63	\$.64
1995				
Operating Revenues	\$4,299	\$ 4,390	\$4,432	\$4,765
Operating Income	\$1,095	\$ 1,096	\$1,058	\$ 43
Income (Loss) Before Extraordinary Losses	\$ 547	\$ 557	\$ 559	\$ (99)
Extraordinary Loss for Discontinuance of SFAS No. 71, net of tax	—	(2,718)	—	—
Extraordinary Loss on Early Extinguishment of Debt, net of tax	—	(16)	—	(62)
Net Income (Loss)	<u>\$ 547</u>	<u>\$(2,177)</u>	<u>\$ 559</u>	<u>\$ (161)</u>
Earnings (Loss) Per Share:				
Income (Loss) Before Extraordinary Losses	\$.55	\$.56	\$.56	\$ (.10)
Extraordinary Loss for Discontinuance of SFAS No. 71, net of tax	—	(2.73)	—	—
Extraordinary Loss on Early Extinguishment of Debt, net of tax	—	(.02)	—	(.06)
Net Income (Loss)	<u>\$.55</u>	<u>\$(2.19)</u>	<u>\$.56</u>	<u>\$ (.16)</u>

SUPPLEMENTARY DATA

BELLSOUTH CORPORATION DOMESTIC CELLULAR PROPORTIONATE OPERATING DATA (Dollars in Millions) (Unaudited)

The following table sets forth unaudited, supplemental financial data for BellSouth's domestic cellular operations reflecting proportionate consolidation of entities in which BellSouth has an interest. This presentation differs from the consolidation methodology used to prepare BellSouth's principal financial statements in accordance with generally accepted accounting principles. The proportionate operating data reflect BellSouth's ownership percentage of entities consolidated for financial reporting purposes and BellSouth's ownership percentage in the entities which are accounted for on the equity method for financial reporting purposes. The data exclude gains (losses) from the disposition of property interests and include equipment revenue, net of cost.

	Year Ended December 31,	
	1996	1995
Cellular Revenue, net	\$ 2,312	\$ 1,886
Operating Expenses	1,308	1,061
Depreciation and Amortization	364	291
Total Operating Expenses	1,672	1,352
Operating Income	640	525
Other Expenses, net (including interest and taxes)	277	23
Net Income	\$ 363	\$ 29
Operating Margins as a Percentage of Revenue:		
Including Depreciation and Amortization	27.7%	27.9%
Excluding Depreciation and Amortization	43.4%	43.2%
Operational Comparisons (thousands):		
Proportionate Cellular Population Served	40,696	39,93
Proportionate Cellular Customers	3,612	2,84

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

No change in accountants or disagreements on the adoption of appropriate accounting standards or financial disclosure has occurred during the periods included in this report.

PART III

ITEMS 10 THROUGH 13.

Information regarding executive officers required by Item 401 of Regulation S-K is furnished in a separate disclosure on page 22 in Part I of this report since the registrant did not furnish such information in its definitive proxy statement prepared in accordance with Schedule 14A.

The additional information required by these items will be included in the registrant's definitive proxy statement dated March 11, 1997 as follows, and is herein incorporated by reference pursuant to General Instruction G(3):

<u>Item</u>	<u>Description</u>	<u>Page(s) in Definitive Proxy Statement</u>
10.	Directors and Executive Officers of the Registrant	5 - 12
11.	Executive Compensation	21 - 28 (a)
12.	Security Ownership of Certain Beneficial Owners and Management	12
13.	Certain Relationships and Related Transactions	21 (b)

(a) Beginning with "Compensation Committee Interlocks and Insider Participation" through but not including "Five Year Performance Comparison"

(b) Includes only "Compensation Committee Interlocks and Insider Participation"

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

	<u>Page(s) in This Form 10-K</u>
a. Documents filed as a part of the report:	
(1) Financial Statements:	
Report of Independent Accountants	40
Consolidated Statements of Income	41
Consolidated Balance Sheets	42
Consolidated Statements of Shareholders' Equity	43
Consolidated Statements of Cash Flows	44
Notes to Consolidated Financial Statements	45-64
(2) Financial statement schedules have been omitted because the required information is contained in the financial statements and notes thereto or because such schedules are not required or applicable.	
(3) Exhibits: Exhibits identified in parentheses below, on file with the SEC, are incorporated herein by reference as exhibits hereto. All management contracts or compensatory plans or arrangements required to be filed as exhibits to this Form 10-K Report pursuant to Item 14(c) are filed as Exhibits 10a through 10y inclusive.	

**Exhibit
Number**

- 3a Articles of Incorporation of BellSouth Corporation. (Exhibit 3a to Form 10-K for the year ended December 31, 1990, File No. 1-8607).
- 3a-1 Articles of Amendment to Articles of Incorporation of BellSouth Corporation. (Exhibit 3a-1 to Form 10-Q for the quarter ended September 30, 1995, File No. 1-8607).
- 3b Bylaws of BellSouth Corporation. (Exhibit 3b to Form 10-Q for the quarter ended September 30, 1994, File No. 1-8607).
- 4 BellSouth Corporation Shareholder Rights Agreement. (Exhibit 4-b to Form 8-K. Date of report November 27, 1989).
- 4a No instrument which defines the rights of holders of long and intermediate term debt of BellSouth Corporation is filed herewith pursuant to Regulation S-K, Item 601(b)(4)(iii)(A). Pursuant to this regulation, BellSouth Corporation hereby agrees to furnish a copy of any such instrument to the SEC upon request.
- 10a BellSouth Corporation Officer Short Term Incentive Award Plan. (Exhibit 10y to Form 10-Q for the quarter ended September 30, 1996, File No. 1-8607).
- 10b BellSouth Corporation Executive Long Term Incentive Plan. (Exhibit 10e to Form 10-K for the year ended December 31, 1991, File No. 1-8607).
- 10c BellSouth Corporation Executive Long Term Disability and Survivor Protection Plan as amended and restated effective January 1, 1994. (Exhibit 10c-1 to Form 10-K for the year ended December 31, 1993, File No. 1-8607).
- 10d BellSouth Corporation Executive Transfer Plan. (Exhibit 10ee to Registration Statement No. 2-87846).
- 10e BellSouth Corporation Death Benefit Program. (Exhibit 10ff to Form 10-K for the year ended December 31, 1989, File No. 1-8607).
- 10f BellSouth Corporation Plan For Non-Employee Directors' Travel Accident Insurance. (Exhibit 10ii to Registration Statement No. 2-87846).
- 10g BellSouth Corporation Executive Incentive Award Deferral Plan as amended and restated effective September 23, 1996.
- 10h BellSouth Corporation Nonqualified Deferred Compensation Plan as amended and restated effective November 25, 1996.
- 10i BellSouth Corporation Supplemental Executive Retirement Plan as amended on May 18, 1995. (Exhibit 10j-1 to Form 10-Q for the quarter ended June 30, 1995, File No. 1-8607).
- 10j BellSouth Corporation Directors Retirement Plan. (Exhibit 10qq to Form 10-K for the year ended December 31, 1986, File No. 1-8607).
- 10k BellSouth Corporation Financial Counseling Plan. (Exhibit 10r to Form 10-K for the year ended December 31, 1992, File No. 1-8607).
- 10k-1 Amendment dated November 3, 1995 to the BellSouth Corporation Financial Counseling Plan for Executives. (Exhibit 10i-1 to Form 10-K for the year ended December 31, 1995, File No. 1-8607).
- 10l BellSouth Corporation Deferred Compensation Plan for Non-Employee Directors. (Exhibit 10gg to Registration Statement No. 2-87846).
- 10m BellSouth Corporation Executive Life Insurance Plan. (Exhibit 10v to Form 10-K for the year ended December 31, 1992, File No. 1-8607).
- 10n BellSouth Corporation Non-Employee Directors' Stock Option Plan. (Exhibit 10z to Form 10-Q for the quarter ended September 30, 1996, File No. 1-8607).
- 10o Form of Executive Officer Successor and Retirement Agreement. (Exhibit 10aa to Form 10-Q for the quarter ended September 30, 1996, File No. 1-8607).
- 10p BellSouth Non-Employee Directors Charitable Contribution Program. (Exhibit 10z to Form 10-K for the year ended December 31, 1992, File No. 1-8607).

Exhibit
Number

- 10q BellSouth Personal Retirement Account Pension Plan, as amended and restated effective July 1, 1996. (Exhibit 10r to Form 10-Q for the quarter ended September 30, 1996, File No. 1-8607).
- 10r BellSouth Corporation Trust Under Executive Benefit Plan(s) as amended April 28, 1995. (Exhibit 10u-1 to Form 10-Q for the quarter ended June 30, 1996, File No. 1-8607).
- 10r-1 Amendment dated May 23, 1996 to the BellSouth Corporation Trust Under Executive Benefit Plan(s). (Exhibit 10s-1 to Form 10-Q for the quarter ended June 30, 1996, File No. 1-8607).
- 10s BellSouth Telecommunications, Inc. Trust Under Executive Benefit Plan(s) as amended April 28, 1995. (Exhibit 10v-1 to Form 10-Q for the quarter ended June 30, 1996, File No. 1-8607).
- 10s-1 Amendment dated May 23, 1996 to the BellSouth Telecommunications, Inc. Trust Under Executive Benefit Plan(s). (Exhibit 10t-1 to Form 10-Q for the quarter ended June 30, 1996, File No. 1-8607).
- 10t BellSouth Corporation Trust Under Board of Directors Benefit Plan(s) as amended April 28, 1995. (Exhibit 10w-1 to Form 10-Q for the quarter ended June 30, 1996, File No. 1-8607).
- 10t-1 Amendment dated May 23, 1996 to the BellSouth Corporation Trust Under Board Directors Benefit Plan(s). (Exhibit 10u-1 to Form 10-Q for the quarter ended June 30, 1996, File No. 1-8607).
- 10u BellSouth Telecommunications, Inc. Trust Under Board of Directors Benefit Plan(s) as amended April 28, 1995. (Exhibit 10x-1 to Form 10-Q for the quarter ended June 30, 1996, File No. 1-8607).
- 10u-1 Amendment dated May 23, 1996 to the BellSouth Telecommunications, Inc. Trust Under Board of Directors Benefit Plan(s). (Exhibit 10v-1 to Form 10-Q for the quarter ended June 30, 1996, File No. 1-8607).
- 10v BellSouth Corporation Stock Plan as amended on September 23, 1996 and November 24, 1996.
- 10w BellSouth Retirement Savings Plan as amended and restated effective July 1, 1996. (Exhibit 10x to Form 10-Q for the quarter ended September 30, 1996, File No. 1-8607).
- 10x BellSouth Corporation Officer Estate Enhancement Plan and Agreement.
- 10y BellSouth Change in Control Executive Severance Agreements.
- 11 Computation of Earnings Per Share.
- 12 Computation of Ratio of Earnings to Fixed Charges.
- 21 Subsidiaries of BellSouth.
- 24 Powers of Attorney.
- 27 Financial Data Schedule.
- 99a Annual report on Form 11-K for BellSouth Retirement Savings Plan for the fiscal year ended December 31, 1996 (to be filed as an amendment hereto within 180 days of the end of the period covered by this report).
- 99b Annual report on Form 11-K for BellSouth Savings and Security ESOP Plan for the fiscal year ended December 31, 1996 (to be filed as an amendment hereto within 180 days of the end of the period covered by this report).

b. Reports on Form 8-K:

Date of Event

January 23, 1997

Subject

Fourth Quarter 1996 Earnings Release

SIGNATURES

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

BELLSCOTH CORPORATION

/s/ RONALD M. DYKES

Ronald M. Dykes
Executive Vice President and
Chief Financial Officer
February 25, 1997

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

PRINCIPAL EXECUTIVE OFFICER:

F. Duane Ackerman*
President and Chief Executive Officer

PRINCIPAL FINANCIAL OFFICER:

Ronald M. Dykes*
Executive Vice President and
Chief Financial Officer

PRINCIPAL ACCOUNTING OFFICER:

W. Patrick Shannon*
Vice President and Controller

DIRECTORS:

F. Duane Ackerman*
Reuben V. Anderson*
James H. Blanchard*
J. Hyatt Brown*
John L. Clendenin*
Armando M. Codina*
Marshall M. Criser*

Phyllis Burke Davis*
John G. Medlin, Jr.*
Robin B. Smith*
C. Dixon Spangler, Jr.*
Ronald A. Terry*
Thomas R. Williams*
J. Tylee Wilson

*By: /s/ RONALD M. DYKES

Ronald M. Dykes
(Individually and as Attorney-in-Fact)
February 25, 1997

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of BellSouth Corporation on Form S-3 (Nos. 33-29411, 33-48929, 33-49461, 33-51449, 33-63173 and 333-21233) and Form S-8 (Nos. 33-38265, 33-38264, 33-38263, 33-30773, 33-30772, 33-26518, 33-12165, 2-94802, 33-49459, 333-01427, 333-01429 and 333-13783) of our report, dated February 3, 1997, which includes an explanatory paragraph stating that the Company discontinued accounting for the operations of BellSouth Telecommunications, Inc. in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation", effective June 30, 1995, on our audits of the consolidated financial statements of BellSouth Corporation as of December 31, 1996 and 1995, and for each of the three years in the period ended December 31, 1996, which report is included in this Annual Report on Form 10-K.

/s/ Coopers & Lybrand L.L.P.

Atlanta, Georgia
February 25, 1997

EXHIBIT O - 16(B)

DESCRIPTION OF SENIOR MANAGEMENT OF APPLICANT

John Michael Doscher - President - BellSouth BSE, Inc. Mr. Doscher has over 25 years of experience in the telecommunications industry with a wide range of telecommunications manufacturers and operators, including Pacific Bell, Northern Telecom, Hutchinson Communications and BellSouth. Mr. Doscher's most recent position has been as Assistant Vice president - Strategic Management for BellSouth Telecommunications, responsible for development of business strategies based on new and emerging markets, technology and regulatory opportunities. Prior to assuming that position in 1996, Mr. Doscher was General Manager - Network and Technology for Hutchinson Communications Ltd. in Hong Kong, responsible for architecture design, procurement, delivery and operations.

Mr. Doscher received his undergraduate degree from California State University - Sacramento and has attended various executive development programs at University of California - Berkeley and Cornell University.

Ellen M. Mitchell - Vice President - Mass Market Sales and Service - BellSouth BSE, Inc. Ms. Mitchell is responsible for identification, development and delivery of consumer sales and service capabilities, as well as customer care for the consumer market. She began her telecommunications career over 14 years ago and has held positions of increasing responsibility with AT&T, BellSouth Advanced Systems, BellSouth Services, BellSouth Telecommunications and BellSouth Corporation. These positions have included responsibilities at BellSouth Telecommunications as Promotion manager - Consumer/Small Business Voice Products, Director - Product Innovation - Consumer Market and Director - Strategic Market Planning - Consumer Market. Most recently, Ms. Mitchell has held the position of Senior Director - Emerging New Business Strategic Development, responsible for leading cross-department and cross-entity teams addressing strategic planning initiatives for BellSouth Corporation.

Ms. Mitchell received her Bachelor of Science from the University of Alabama - Birmingham and her Masters in Business Administration from Samford University.

David J. Meyers - Vice President - Business Sales and Service - BellSouth BSE, Inc. Mr. Meyers is responsible for staffing internal and external sales organizations for meeting the needs of the business market and for delivery of products and services to that market. He has over 20 years of experience in the Bell System and has held positions of increasing responsibility in the sales and marketing organizations of AT&T and South Central Bell (a predecessor of BellSouth Telecommunications). Most recently, Mr. Meyers has held the position of Senior Director -