Statements of Consolidated Operations – E-Systems, Inc. and Subsidiaries

(In Thousands except per share data) – Three years ended December 31, 1993

		1993	1992	1991
Revenues	Net sales	$2,097,114	$ 2,094,913	$ 1,991,284
	Other income - net	10,775	3,753	6,478
		2,107,889	2,098,666	1,997,762
Costs and Expenses	Contract and manufacturing costs	1,759,533	1,776,037	1,695,286
	Selling, general and administrative expenses	161,870	152,493	135,166
	Interest expense	6,211	7,664	8,559
		1,927,614	1,936,194	1,839,011
	Income Before Federal Income Taxes and the Cumulative Effect of a Change in Accounting Principle	180,275	162,472	158,751
Federal Income Taxes	Current	62,893	51,266	52,336
	Deferred	(4,484)	2,187	(3,123)
Note E		58,409	53,453	49,213
	Income before the Cumulative Effect of a Change in Accounting Principle	121,866	109,019	109,538
Cumulative Effect of a Change in Accounting Principle	Retiree health care and life insurance benefits – net of tax benefit of $91,960	—	(178,510)	—
	Net Income (Loss)	$ 121,866	$ (69,491)	$ 109,538
Note J				
Net Income (Loss) Per Share	Income before the cumulative effect of a change in accounting principle	$ 3.58	$ 3.31	$ 3.35
Note A	Cumulative effect of a change in accounting principle	—	(5.42)	—
	Earnings (Loss) Per Share	$ 3.58	$ (2.11)	$ 3.35

See notes to consolidated financial statements.

(In Thousands) – December 31, 1993 and 1992

		1993	1992
Current Assets	Cash and cash equivalents	$ 32,638	$ 62,240
	Accounts receivable - *Note B*	426,404	431,852
	Unreimbursed costs and fees under cost-plus-fee contracts – *Note B*	207,519	186,071
	Fixed-price contracts:		
	Fixed-priced contracts in progress - *Note C*	54,644	71,646
	Less progress and advance payments	21,580	33,834
		33,064	37,812
	Raw materials and purchased parts	11,714	12,114
	Prepaid expenses and other assets	38,623	15,584
	Total Current Assets	749,962	745,673
Other Assets	Prepaid pension costs - *Note I*	36,489	29,858
	Deferred charges and other - *Note I*	56,653	50,031
	Deferred federal income taxes - *Note E*	65,544	55,844
	Costs in excess of net assets acquired - *Note A*	62,401	64,728
		221,087	200,461
Property, Plant and Equipment	Land	7,279	7,279
Notes A and H	Buildings	94,731	89,461
	Machinery and equipment	306,915	307,420
	Leasehold improvements - net	75,572	75,989
	Construction in progress	13,957	11,893
		498,454	492,042
	Less allowances for depreciation	190,330	184,603
		308,124	307,439
		$1,279,173	$ 1,253,573

Liabilities and Stockholders' Equity

		1993	1992
Current Liabilities	Accounts payable	$ 70,313	$ 95,536
	Accrued liabilities - *Note F*	73,495	82,376
	Short-term obligations and current portion of long-term debt - *Note D*	25,256	69,801
	Total Current Liabilities	169,064	247,713
Long-Term Debt	Long-term debt - *Note D*	738	25,994
	Installment lease obligations - *Note H*	7,135	8,125
		7,873	34,119
Deferred Items	Retiree health care and life insurance benefits - *Note J*	290,795	287,327
	Other deferred items	41,445	24,414
		332,240	311,741
Stockholders' Equity	Common stock, par value $1.00	33,885	32,892
	Additional capital	172,300	140,638
Notes D and G	Retained earnings	563,811	486,470
		769,996	660,000
Commitments and Contingencies			
Notes H and K			
		$1,279,173	$ 1,253,573

See notes to consolidated financial statements.

Superconducting

E-Systems groundbreaking work in high temperature **superconducting electronics** accelerated in 1993 with a follow-on award by the Advanced Research Projects Agency. Superconducting materials will allow the company to shrink the size of electronic systems while greatly increasing performance. Under this new contract, the company will focus on enhancing computer aided design tools, materials research and cryogenic cooling.

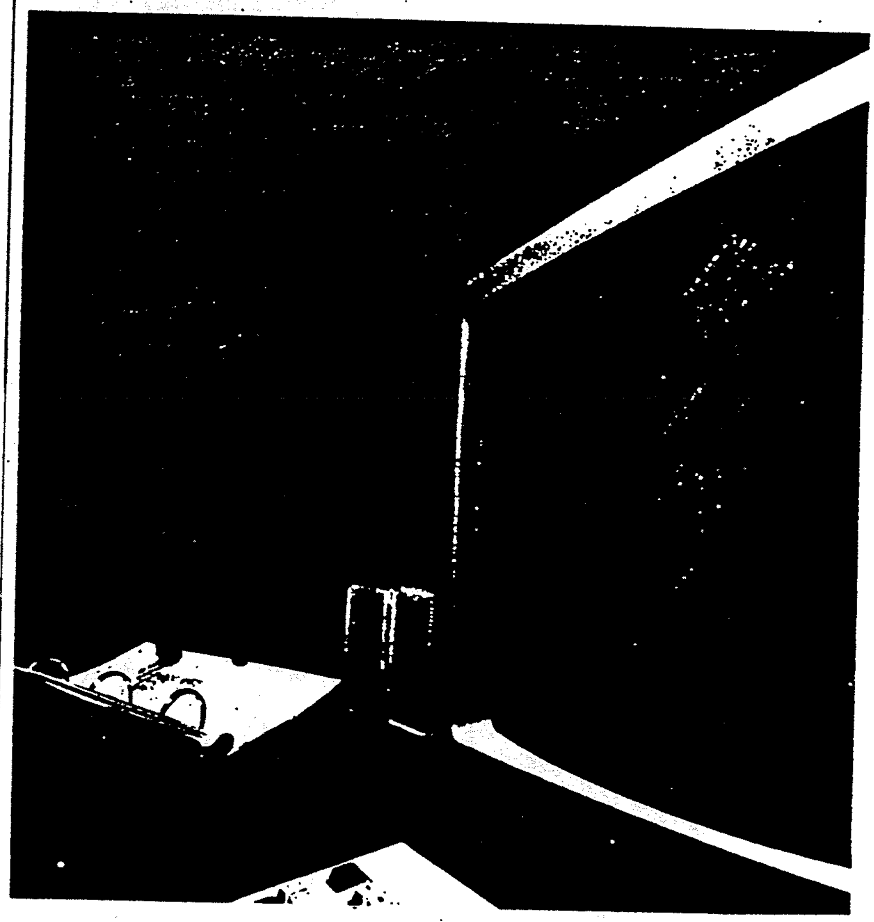
Secure ID Documents

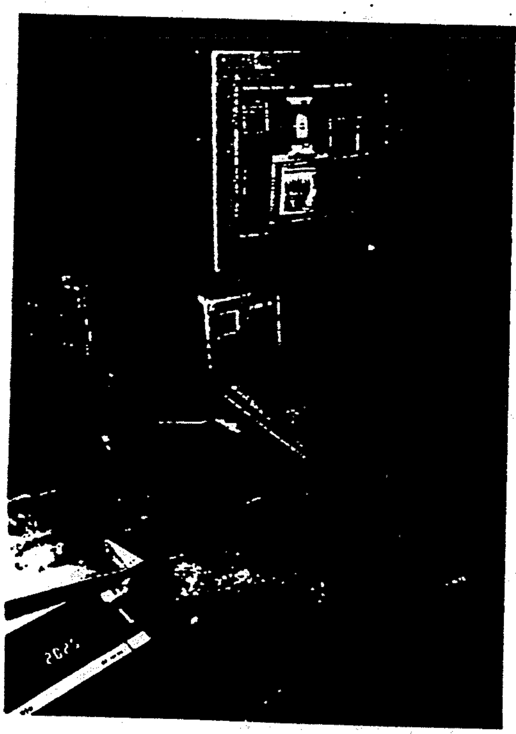
E-Systems has developed an inexpensive and virtually **tamper-proof identification card.** The multi-layered ID card can be used for citizen registry, voting, military identification, health care and numerous other applications. In its first utilization of border access control, the card is scanned while an operator at a workstation immediately verifies authenticity through up-to-the-minute information at a central database. This provides an inexpensive, yet extremely efficient, means of border control.

◀ Used for border monitoring, health care, voter registration and other applications, this Secure ID Document System, designed by the Garland Division, provides instant access to real-time information. A virtually tamper-proof identification card provides multi-layered capabilities to store information on the bearer which can easily be verified using scanner technology.

▼ Solid model heat transfer analysis at the Montek Division provides more accurate data for detail design of a new electronic controller for the Tri-Service Stand-off Attack Missile.

(Below left) Using advanced lightweight composites, the Melpar Division is developing material systems for the thermal management of high density electronics.





Communications

▲ *As one of only five suppliers in the world of dual polarization antennas, the Garland Division has made substantial strides in decreasing the size while increasing the flexibility of antennas. The Integrated Antenna Millimeter Wave Downconverter provides a high performance solution for detecting advanced radar threat systems and can be rapidly installed to modernize existing systems without aircraft modifications.*

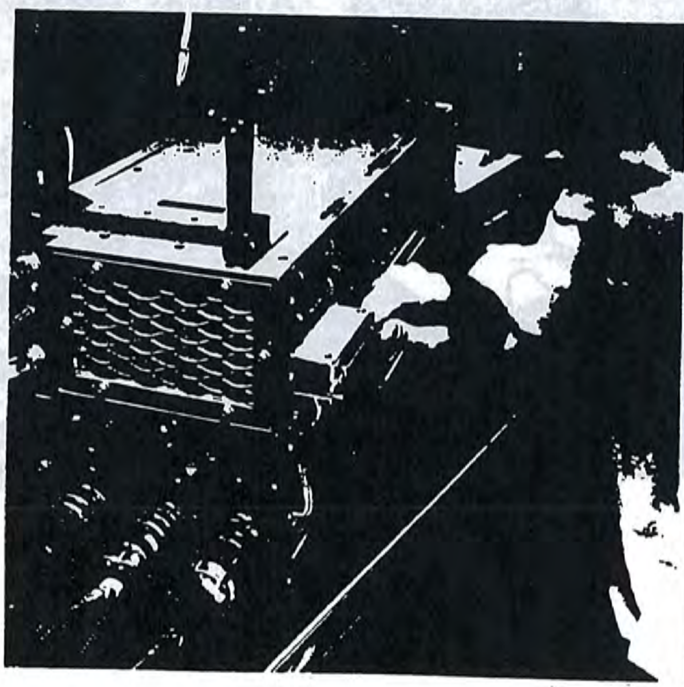
E-Systems is designing a system to integrate multi-source data fusion capabilities into a future deployable ground intercept facility. Fusion is the science which provides field commanders with more meaningful information for better decision making. By combining vast amounts of data from multiple sources, fusion yields a more **complete picture of an imminent combat scenario.**

The E-Systems Future Advanced Sensor Technology, developed with research and development funds, provides **increased flexibility while decreasing non-recurring costs.** A set of compatible signal intelligence collection modules, EFAST™ can satisfy a number of open architecture collection requirements.

The company possesses an established reputation in high performance networking systems. Building upon this base, E-Systems is developing **network products** for the emerging Asynchronou Transfer Mode local area network standards of th "Information Highway." These products not only provide solutions for defense applications, but als offer significant opportunities for entering the commercial network marketplace.

Building upon our **experience in advanced communication technology and systems,** we ar developing adaptive antenna arrays. These are used for the cellular and Personal Communication System frequency bands, along with multi-standar base stations, to address the emerging digital cellular and data transmission functions. Key alliances have been established with service providers and complementary equipment vendors to further advance these initiatives.

▼ *The Frequency Agile Filter is a high performance, electronically tuned bandpass filter that operates over the entire 225-400 MHz UHF range. The filter, developed at ECI, is designed to reduce interference aboard military aircraft.*



▼ *The Melpar Division has developed a very high data rate, high-speed optical interconnect transceiver module for local area networks. This technology meets the demand for smaller and faster computers connected to networks spanning short to medium distances.*

Size Reduction

Reducing size while increasing capabilities is an ongoing goal of the E-Systems development teams. In a multi-divisional effort, company engineers have designed a single-channel, briefcase size communications terminal. **Weighing under 30 pounds,** the terminal monitors tactical intelligence broadcasts, filters the information and displays it on a portable workstation.

Extensive R&D investments in increased bandwidth and hardware size reduction have enabled the company to penetrate a new segment of the tactical and commercial business area with a system called called Cluster Sentinel. This system provides significantly **increased computing and storage capacity** while occupying less than one-fourth of the space of similar available products.

E-Systems is also working with Cray Research to make commercial super computer technology suitable for a ruggedized military environment yet small enough to be practical. Super computing capabilities in a battlefield environment will provide **a quantum leap in signal processing power.**

As a world class supplier of advanced microelectronic systems, the company continually strives to make improvements in productivity. Multi-chip Modules designed by E-Systems **dramatically reduce the size of electronic systems** while expanding capabilities. In 1993, the company inserted MCM technology into airborne equipment, increasing system flexibility and enhancing performance.

Compatibility

With the continued emphasis on adaptability and standardization, the company has developed a **plug-compatible scientific workstation** called OASIS. Using off-the-shelf elements and special purpose hardware and software, the OASIS workstation can be adapted to suit most analysis applications without the associated development expense.

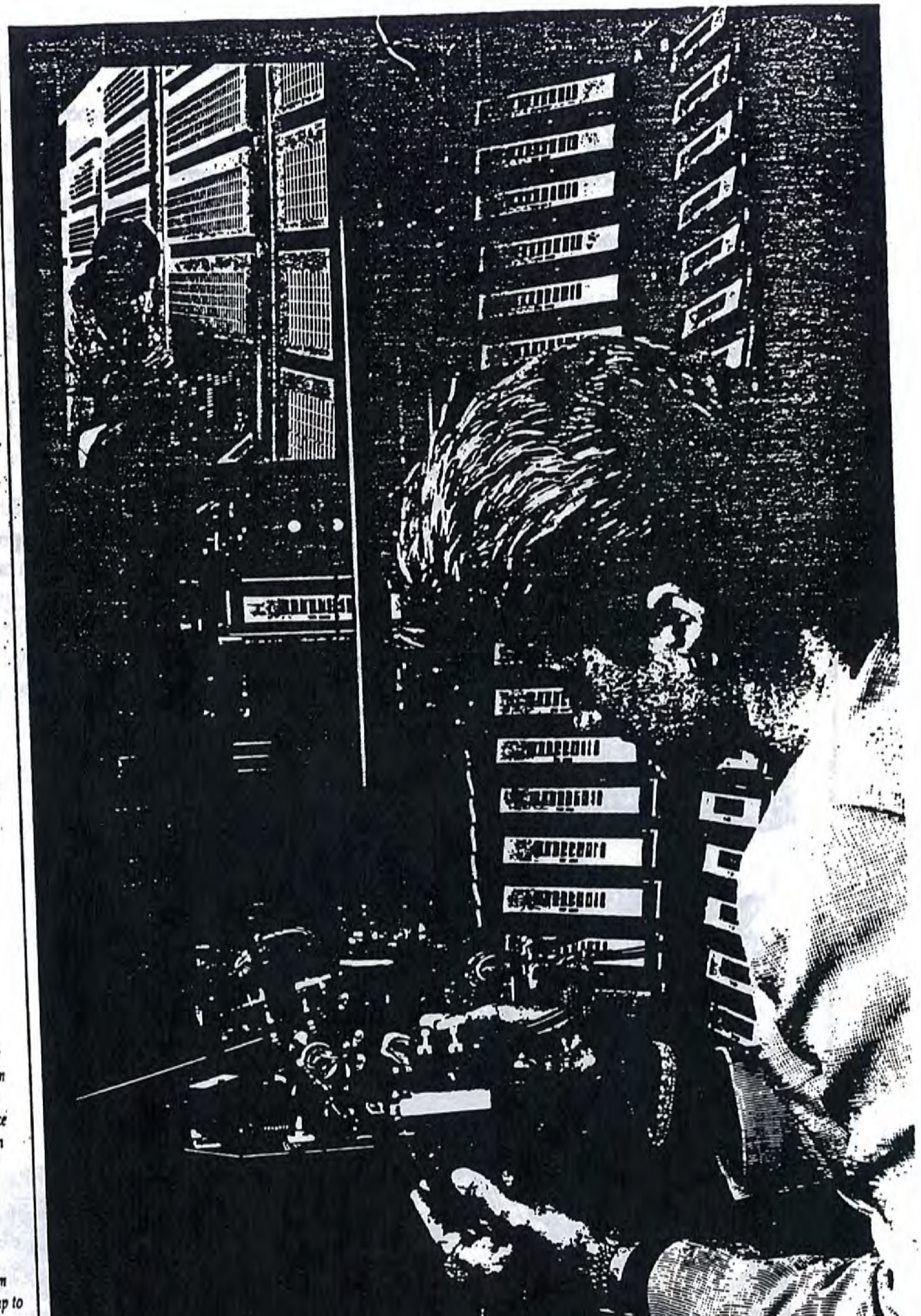
▲ *E-Systems Future Advanced Sensor Technology, or EFAST™, is a family of VME compatible signal intelligence collection modules which can be applied to a variety of open architecture collection system requirements. EFAST represents the next generation low cost technology for electronic warfare programs and allows the Garland Division to maximize flexibility while minimizing non-recurring cost to our customers.*

▼ *The OASIS workstation combines the latest commercial technology with advanced hardware and software developed by the Garland Division. This family of products addresses diverse processing and data management needs through a flexible systems approach to minimize total lifecycle costs for our customers.*

◀ *World-class leadership in high density microelectronic packaging is demonstrated by the decimating down-converter development at the Melpar Division.*

Leveraging and

With continuing emphasis on our traditional business and customers, E-Systems is also expanding into other markets by leveraging leading edge defense technologies and core competencies into systems suited for non-defense government and commercial customers. Some of these are well along in their development such as mass storage, medical electronics, federal information systems and flight inspection programs. Other promising initiatives are under way throughout the company. We expect several of these, briefly described here, to make significant contributions in the years ahead.



(Inset) By taking a pro-active approach, the Garland Division successfully sold a system to a major customer in 1993. This new configuration will replace high maintenance hardware and will pay for itself in less than three years.

▶The robotic tape storage and retrieval unit, integral to one of the E-Systems Modular Automated Storage Systems from the Garland Division, can accommodate up to 258 nineteen millimeter tape cassettes each having a capacity of 25 gigabytes (one billion bytes).

Mass Storage and Retrieval

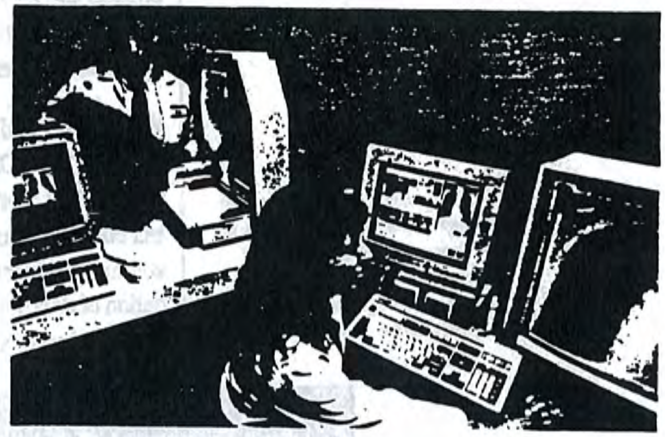
One of the most successful conversion products is the company's E-Systems Modular Automated Storage Systems, EMASS®. Advances in computer technology and expansion of high performance networks have contributed to the data explosion. E-Systems has become a major force in the mass storage field by providing a **total systems solution with our EMASS®** family of products. Connectivity to a variety of platforms is accomplished using specialized software developed by the company.

Key strategic alliances and reseller agreements with several major computer companies are providing E-Systems with a **worldwide corps of sales and service people** marketing our state-of-the-art EMASS® as the primary mass storage system.

Medical Technology

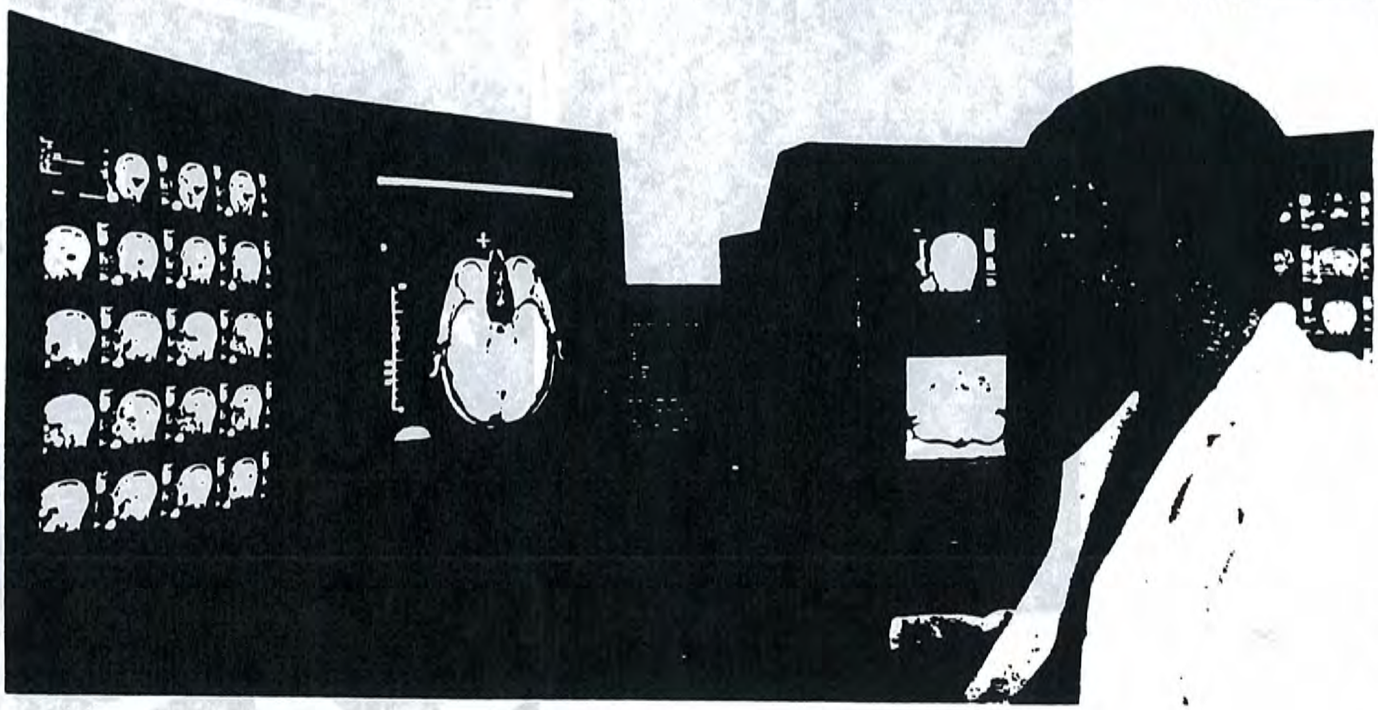
Several of our divisions are working on significant initiatives in the health care industry. Using the Picture Archiving and Communications System as the core element, the company is delivering a **comprehensive image management and communications system** within a major medical center.

In another related effort, E-Systems is applying our algorithm development strength to improve the accuracy of mammography analysis. Using change detection, the company is developing a technique of **screening mammograms to automatically locate areas of concern** before they can be detected by the naked eye.



▶ The Melpar Division developed a standards-compatible multimedia networking protocol that permits use of low-cost workstations for point to multi-point local and wide-area teleconferencing. The technology has been successfully demonstrated in medical imaging applications.

▼ This AVP developed PACSPRO system is currently in use in a major Houston hospital and allows for on-line image viewing thereby eliminating the need to generate film. Using an optical disk jukebox, images are available for on-line retrieval on display stations located in radiology, intensive care, orthopedics, surgery or physician offices.



Secure Data

The emergence of the "Information Highway" and massive data exchange is leading to demands for increased levels of integrity and privacy. E-Systems is tackling this issue with a family of products called TeleSecurity™. Building from our strong record of defense security communications, the company has developed an inexpensive wide-area network security system that **controls remote access to protected resources.**

E-Systems has developed key components of the Government Emergency Telecommunications Service. This service allows priority status for officials and emergency **support personnel to establish communication** over public telephone networks in times of crisis.

With widespread commercial applications, the company's INFOSEC offers a completely **secure information storage and retrieval system** to protect both government and civilian data. INFOSEC automates information processing through consolidation of data systems using media encryptors and encrypted compact discs.

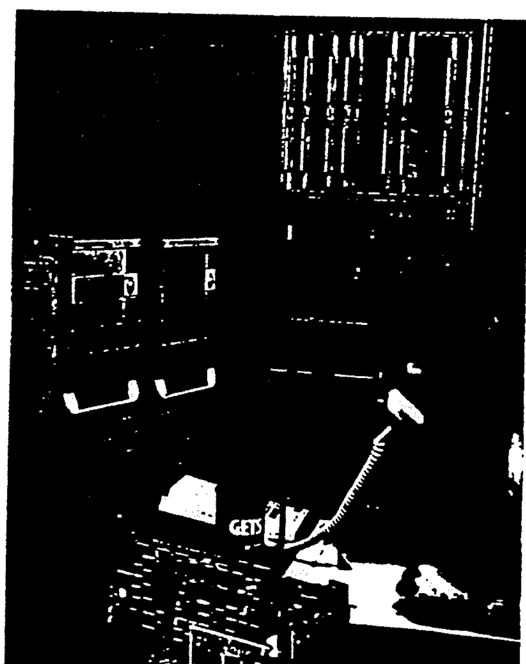
Data Handling

E-Systems has a solid reputation in **data handling capabilities** and has successfully applied this knowledge to numerous commercial products. One such application is for a data system for the National Student Loan program.

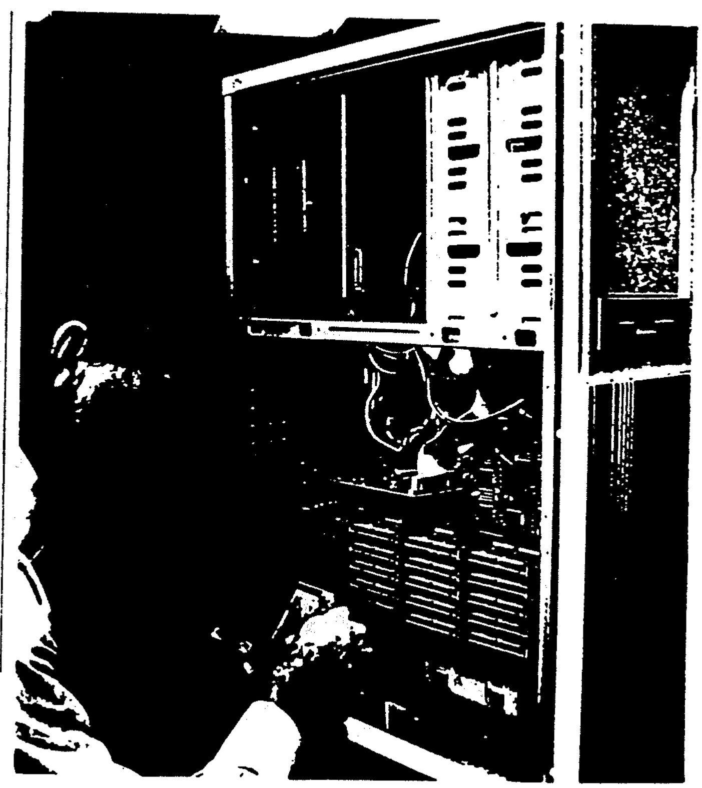
Designed to **detect and locate those who default on student loans,** this product provides a total systems approach from machine envelope stuffers to computers.

The Digital Multimedia Workstation uses digital audio recording, storage and recall for passive telephonic monitoring. With DMW, **law enforcement agencies and investment firms** are able to stay well ahead of those who use sophisticated techniques to commit fraud and other crimes. E-Systems successfully marketed the DMW to a significant international customer in 1993.

▼ *By integrating digital signal processing with high-volume processing platforms, the ECI Division supports the Government Emergency Telecommunications Service with the most cost-effective solution in the telephone industry.*



▼ *TeleSec, from the ECI Division, is a new commercial data security system for wide-area networks. Combining data-encryption, use-authentication, and authorization features, this system protects critical business data from fraud, theft, unlawful entry and computer criminals.*



During 1993, the company received an option award for the Global Positioning Satellite **anti-jam antenna/electronics equipment.** Our customer utilizes this equipment on airborne platforms to prevent interference with the reception of satellite signals. To date, over 1200 units have been delivered.

The Advanced Narrowband Digital Voice Terminal, another E-Systems product, provides **secure voice and data communications** for tactical military forces. The terminal is designed to meet a variety of military applications including shipboard, ground mobile, fixed and airborne environments. First article testing was completed and full production was begun in 1993.

▶ *The ECI Division's Survivable Communications Integration System provides the vital tactical warning / attack assessment communications link to the U.S. Air Force Space Command.*

▲ *The Garland Division's Joint Service Imagery Processing System is a modular, tactically deployable system for receiving, processing, exploiting and disseminating digital imagery from multiple sensor types and sources. Most systems are packaged in 8x8x10 feet or 8x8x20 feet shelters and are transportable by truck, rail, ship, aircraft or helicopter.*

◀ *The Cooperative Engagement Capability designed at ECI will provide the U.S. Navy with a highly reliable, secure data communication link to distribute real-time sensor information for ship defense. Threat-tracking data is shared interactively between all ships and aircraft in the same battle group.*

The provision for income taxes varies from the amount computed by applying the statutory federal income tax rate to income before provision for income taxes. The difference is attributable to the following factors:

	Years Ended December 31,		
	1993	1992	1991
Statutory federal income tax rate	35.0%	34.0%	34.0%
Investment tax credits	(2.6)	(3.3)	(2.9)
State income taxes, net of federal tax benefits	3.9	4.2	3.8
Benefit of rate differential applied to reversing timing differences	(2.6)	(3.3)	(3.2)
Reversal of previously capitalized taxes and payroll-related construction costs	1.5	.6	1.4
Other, net	(.4)	(.4)	2.0
Effective income tax rate	34.8%	31.8%	35.1%

At December 31, 1993, the significant components of deferred tax assets and liabilities were as follows:

	Deferred Tax Assets	Deferred Tax Liabilities
	(Dollars in Millions)	
Depreciation	$ —	$3,817.1
Employee benefits	1,384.7	—
Investment tax credits	284.9	—
Leasing activities	—	901.8
Net operating loss carryforwards:		
Federal	111.5	—
State	60.4	—
Advance payments	61.4	—
Other	435.2	327.7
	2,338.1	5,046.6
Valuation allowance	(74.8)	—
Total	$2,263.3	$5,046.6

Total deferred tax assets include approximately $1,033 million related to postretirement benefit costs recognized in accordance with Statement No. 106. This deferred tax asset will gradually be realized over the estimated lives of current retirees and employees.

At December 31, 1993, NOL carryforwards for federal income tax purposes were approximately $318 million. The NOL carryforwards, which expire from 1998 to 2006, relate principally to the Metro Mobile subsidiaries. Federal tax law restricts the future utilization of the Metro Mobile NOL carryforwards, permitting them to offset only the taxable income earned by the Metro Mobile subconsolidated group. At December 31, 1993, NOL carryforwards for state income tax purposes were approximately $798 million (excluding amounts attributable to leveraged leases) and expire from 1994 to 2009.

Based on projections of future taxable income, the Company expects to realize future tax benefits of federal and state NOL carryforwards in the amount of $115.2 million.

The valuation allowance required under Statement No. 109 primarily represents tax benefits of certain state NOL carryforwards which may expire unutilized. Subsequent to the adoption of Statement No. 109 on January 1, 1993, the valuation allowance increased $35.1 million as a result of additional state NOL carryforwards and deferred state tax assets.

10. SUPPLEMENTAL CASH FLOW AND ADDITIONAL FINANCIAL INFORMATION

	Years Ended December 31,		
	1993	1992	1991
	(Dollars in Millions)		
Supplemental Cash Flow Information:			
Interest paid, net of interest capitalized	$680.5	$797.7	$ 904.4
Income taxes paid	$844.8	$752.6	$ 620.0
Additional Financial Information:			
Interest expense:			
Interest on long-term debt	$610.6	$670.8	$ 796.6
Interest on notes payable	43.7	61.9	115.4
Other	65.3	96.0	88.8
Total interest, including Financial Services	$719.6	$828.7	$1,000.8
Portion of total interest expense incurred by Financial Services and included in other operating expenses	$107.5	$133.8	$ 194.0

The Provision for Income Taxes, as well as payroll, gross receipts, property, capital stock and other taxes which are included in other operating expenses, totaled $1,648.4 million for 1993.

Included in operating expenses are amounts billed by Bell Communications Research, Inc. Such expenses for 1993, 1992, and 1991 were $143.2 million, $194.3 million, and $158.4 million, respectively, for various network planning, engineering, and software development projects.

During 1993, 1992, and 1991, the Company received dividends from less-than-majority-owned businesses of $73.4 million, $64.4 million, and $87.4 million, respectively.

11. INVESTMENT IN TELECOM CORPORATION OF NEW ZEALAND LIMITED

In 1990, the Company acquired a 50% ownership interest in Telecom Corporation of New Zealand Limited (Telecom), the principal provider of telecommunications services in that country, for approximately $1.2 billion. Under the terms of an agreement with the New Zealand government, the Company, through a series of stock sales, has reduced its investment in Telecom to approximately 24.9%. The Company recorded after-tax gains of $44.7 million in 1993 and $74.1 million in 1991 as a result of the sales of stock.

At the date of acquisition, the Company's 24.9% long-term interest exceeded the recorded value of the proportionate share of the underlying net assets by approximately $285 million. This amount is being amortized by the straight-line method over a period of 40 years.

12. INVESTMENT IN GRUPO IUSACELL, S.A. de C.V.

In November 1993, the Company acquired a 23% economic interest in Grupo Iusacell, S.A. de C.V. (Iusacell), the second largest telecommunications company in Mexico, through the purchase of $520.0 million of newly issued Iusacell stock. Substantially all of this investment exceeded the recorded value of the proportionate share of the underlying net assets and is being amortized by the straight-line method over a period of 25 years.

Subject to the satisfaction of various conditions, the Company has agreed to invest up to a total of $1.04 billion in Iusacell to acquire a 42% (or, under certain circumstances, up to a 46%) economic interest.

13. MERGER WITH METRO MOBILE CTS, INC.

On April 30, 1992, Bell Atlantic issued approximately 34.3 million shares of its common stock to acquire all of the outstanding shares of common stock of Metro Mobile CTS, Inc. (Metro Mobile) in a transaction accounted for as a pooling of interests. Accordingly, the Company's financial statements were restated to include the accounts and operations of Metro Mobile. The Metro Mobile businesses include companies that own, operate, and control cellular telephone systems serving markets located in the Northeast, Southeast, and Southwest regions of the United States and, in addition, companies engaged in the sale and distribution of liquefied petroleum gas.

In the second quarter of 1992, the Company recorded a charge of $47.3 million for the cost of consummating the merger and integrating the operations of the companies.

In 1993, the Company issued 883,832 shares of common stock to settle certain litigation arising from the merger with Metro Mobile.

14. FINANCIAL INSTRUMENTS

Off-Balance-Sheet Risk

The Company is party to interest rate swap contracts on its direct finance lease receivable transfer agreements and on its debt. These contracts entail the exchange of floating and fixed rate interest payments periodically over the life of the contracts.

At December 31, 1993 and 1992, interest rate swap contracts on receivable transfer agreements, which have the effect of fixing interest rates on floating rate direct finance lease receivable transfer agreements, amounted to $414.4 million and $476.4 million, respectively. The contracts outstanding at December 31, 1993 mature from 1994 to 1997 and have fixed rates payable ranging from 4.08% to 7.96%. The contracts outstanding at December 31, 1992 had maturity dates ranging from 1993 to 1996 and had the effect of fixing interest rates on the agreements from 4.32% to 7.96%.

Interest rate swap contracts that have the effect of fixing the rate of interest on $115.0 million and $420.0 million of debt were outstanding at December 31, 1993 and 1992, respectively. The contracts that were outstanding at December 31, 1993 expire during 1994 and effectively fix the rate of interest on the debt at rates of 3.65% to 7.72%. The contracts that were outstanding at December 31, 1992 had expiration dates ranging from 1993 to 1994 and had the effect of fixing interest rates on the debt from 3.41% to 9.56%.

Additionally, at December 31, 1992, interest rate swap contracts, which expired during 1993, were used to convert fixed interest rates ranging from 7.45% to 7.53% on $35.0 million of debt to floating rates.

The Company enters into forward exchange contracts to offset the effects of foreign exchange fluctuations on exposed balances. At December 31, 1992, the outstanding face amounts of these contracts totaled 243.0 million New Zealand Dollars which were exchanged for $124.0 million.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments, trade receivables, and various hedging instruments, principally interest rate swap agreements and foreign currency contracts.

The Company places its temporary cash investments with high-credit-quality financial institutions and, by policy, limits the amount of credit exposure to any one financial institution. Concentrations of credit risk with respect to trade receivables other than those from AT&T (Note 15) are limited due to the large number of customers included in the Company's customer base.

In management of its exposure to fluctuations in foreign currency exchange and interest rates, the Company has entered into interest rate swap agreements and forward exchange contracts. During 1993 and 1992, the Company entered into these contracts with various counterparties. The Company is exposed to credit loss in the event of non-performance by these counterparties. The Company continually monitors its positions and the credit ratings of its counterparties, and limits the amount of contracts it enters into with any one party. While the Company may be exposed to credit losses in the event of nonperformance by its counterparties, it does not expect to incur such losses.

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

Cash and Cash Equivalents, Short-Term Investments, Accounts Receivable, Accounts Payable, Accrued Liabilities, and Forward Exchange Contracts

The carrying amount approximates fair value.

Debt Maturing Within One Year and Long-Term Debt

The fair value of debt maturing within one year and long-term debt is estimated based on the quoted market prices for the same or similar issues or is based on the net present value of the future expected cash flows using current interest rates.

Finance Notes Receivable

Fair values of finance notes receivable are based on the net present value of the future expected cash flows using current interest rates or on quoted market prices for similar instruments, where available.

Interest Rate Swap Agreements

The fair value of interest rate swap agreements is the estimated amount that the Company would have to pay to terminate the swap agreements at December 31, 1993 and 1992, taking into account current interest rates and the creditworthiness of the swap counterparties.

The estimated fair values of the Company's financial instruments are as follows:

	December 31, 1993		December 31, 1992	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Dollars in Millions)			
Financial Instruments on the Balance Sheets:				
Debt maturing within one year, excluding capital lease obligations	$2,666.5	$2,696.3	$2,672.4	$2,702.2
Long-term debt, excluding unamortized discount and premium and capital lease obligations	$7,207.2	$7,512.0	$7,343.7	$7,472.9
Finance notes receivable	$ 926.5	$ 924.5	$ 882.5	$ 886.5
Financial Instruments with Off-Balance-Sheet Risk:				
Unrealized loss on interest rate swap agreements	—	$ 1.6	—	$ 14.0

15. SEGMENT INFORMATION

Communications and Related Services—Provides voice and data transport and calling services, network access, directory publishing, inside wire maintenance, and public telephones to customers in the mid-Atlantic region; provides billing and collection services to interexchange carriers; provides cellular mobile communications products and services; markets and maintains customer premises equipment to originate, route, or receive telecommunications; services and repairs computers; and provides software development and support, systems integration, and telecommunications and data processing equipment sales and consulting.

Financial, Real Estate, and Other Services—Engages in lease financing of commercial, industrial, medical, and high-technology equipment and in real estate investment and development; sells and distributes liquefied petroleum gas.

	1993	1992	1991
	(Dollars in Millions)		
Operating revenues:			
Communications and Related Services	$12,534.8	$12,164.6	$11,850.2
Financial, Real Estate, and Other Services	455.4	553.8	701.9
	$12,990.2	$12,718.4	$12,552.1
Operating profit:			
Communications and Related Services	$ 2,821.6	$ 2,526.9	$ 2,566.1
Financial, Real Estate, and Other Services	32.4	27.7	1.8
	2,854.0	2,554.6	2,567.9
Corporate expense	(56.4)	(48.4)	(42.6)
Interest expense, excluding Financial Services	(612.1)	(694.9)	(806.8)
Allowance for funds used during construction	22.4	24.6	20.6
Equity in income of affiliates	48.3	52.4	79.5
Interest income	11.9	63.2	30.1
Other nonoperating income	5.5	74.2	46.0
Income before provision for income taxes, extraordinary item, and cumulative effect of changes in accounting principles	$ 2,273.6	$ 2,025.7	$ 1,894.7
Identifiable assets:			
Communications and Related Services	$25,949.9	$24,297.1	$24,079.3
Financial, Real Estate, and Other Services	3,380.9	3,452.9	3,948.2
Corporate assets	213.4	349.5	278.3
	$29,544.2	$28,099.5	$28,305.8
Depreciation and amortization:			
Communications and Related Services	$ 2,436.6	$ 2,250.8	$ 2,053.5
Financial, Real Estate, and Other Services	108.5	166.6	285.3
	$ 2,545.1	$ 2,417.4	$ 2,338.8
Additions to plant, property and equipment:			
Communications and Related Services	$ 2,485.9	$ 2,510.1	$ 2,486.9
Financial, Real Estate, and Other Services	33.1	36.7	157.2
	$ 2,519.0	$ 2,546.8	$ 2,644.1

Operating profit for each segment consists of total revenues less applicable costs and expenses related to operations, including, in the case of Financial Services, interest expense. Corporate assets consist principally of cash and cash equivalents and short-term investments.

At December 31, 1993, 1992, and 1991, identifiable assets included investments in affiliates of $1,333.0 million, $929.3 million, and $927.7 million, respectively, for the Communications and Related Services segment and $61.7 million, $58.2 million, and $78.0 million, respectively, for the Financial, Real Estate, and Other Services segment.

Net income (loss) for the Financial, Real Estate, and Other Services subsidiaries was $(1.8) million, $13.4 million, and $(21.9) million in 1993, 1992, and 1991, respectively. Total liabilities associated with the Financial, Real Estate, and Other Services subsidiaries were $2,984.8 million and $3,041.2 million in 1993 and 1992, respectively.

For the years ended December 31, 1993, 1992, and 1991, revenues generated from services provided to AT&T, principally network access, billing and collection, and sharing of network facilities, were $1,368.4 million, $1,518.0 million, and $1,541.2 million, respectively. At December 31, 1993 and 1992, Accounts receivable, net, included $162.4 million and $156.1 million, respectively, from AT&T.

16. FINANCIAL SERVICES BUSINESSES

In October 1993, the Company announced that it has begun to evaluate strategies for exiting its Financial Services businesses. The Company filed a registration statement in December 1993 for a potential public sale of TriCon Capital Corporation, a wholly owned subsidiary that provides commercial finance and equipment leasing services.

17. QUARTERLY FINANCIAL INFORMATION (unaudited)

Quarter Ended	Operating Revenues	Operating Income	Income Before Extraordinary Item and Cumulative Effect of Changes in Accounting Principles	Income Before Extraordinary Item and Cumulative Effect of Changes in Accounting Principles Per Common Share	Net Income
	(Dollars in Millions, Except Per Share Amounts)				
1993:					
March 31*	$3,163.3	$717.5	$372.2	$.85	$329.2
June 30	3,220.1	752.2	385.5	.88	362.6
September 30	3,289.6	720.7	386.7	.89	378.5
December 31	3,317.2	607.2	337.2	.77	333.1
1992:					
March 31	$3,090.7	$669.9	$346.9	$.81	$338.6
June 30	3,166.5	650.0	314.9	.74	298.1
September 30	3,187.0	668.2	392.9	.91	386.6
December 31	3,274.2	518.1	327.5	.76	317.3

*Net income for the first quarter of 1993 includes a tax benefit of $65.2 million related to the adoption of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (Note 9). In addition, net income for the first quarter of 1993 has been restated to include a charge of $85.0 million, net of a deferred income tax benefit of $50.6 million, related to the adoption of Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" (Note 8).

Income before extraordinary item and cumulative effect of changes in accounting principles per common share is computed independently for each quarter and, for 1992, the sum of the quarters does not equal the annual amount.

Shareowner Information

Form 10-K

Copies of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission can be obtained, without charge, by contacting Bell Atlantic Shareowner Services, 31st Floor, 1717 Arch Street, Philadelphia, PA 19103.

Stock Market and Dividend Information

Bell Atlantic is listed in some newspaper stock tables under "BellAtl," and its ticker symbol is "BEL." Bell Atlantic common stock is traded on the New York, Philadelphia, Chicago, Boston, Pacific, London, Zurich, Geneva, Basel, Frankfurt, and Tokyo stock exchanges. Dividends on common stock are payable quarterly, upon authorization by the Board of Directors. Based on the current schedule, the expected payment dates are the first business days of February, May, August, and November. As of December 31, 1993, Bell Atlantic had 1,026,371 shareowners of record.

High and low stock prices, as reported on the Composite Tape, and dividend data are as follows:

	Market Price		Cash Dividend Declared
	High	Low	
1993: First Quarter	$56¾	$49⅝	$.67
Second Quarter	59⅛	50¾	.67
Third Quarter	64⅞	55⅝	.67
Fourth Quarter	69⅛	57	.67
1992: First Quarter	$49	$41¼	$.65
Second Quarter	45	40¼	.65
Third Quarter	49¾	44¼	.65
Fourth Quarter	53⅞	44½	.65
1991: First Quarter	$54⅛	$46¾	$.63
Second Quarter	52¾	44⅛	.63
Third Quarter	50⅝	44⅞	.63
Fourth Quarter	49¼	43	.63

BELL ATLANTIC CORPORATION
1717 Arch Street, Philadelphia, PA 19103

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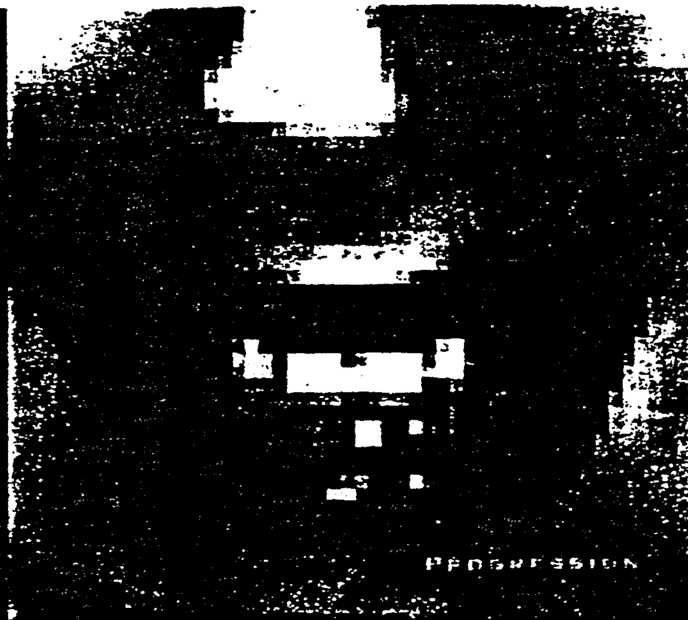
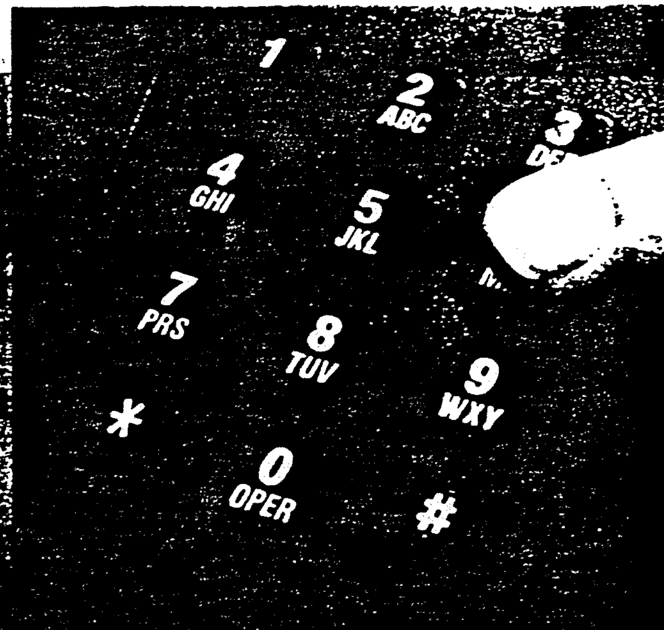




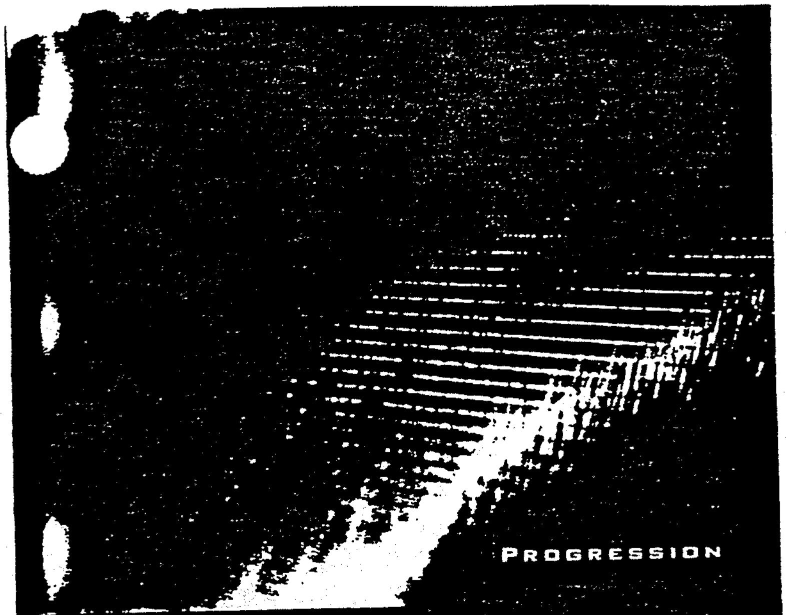
1994 • BELL ATLANTIC REDEFINED: WE WILL BE THE WORLD'S BEST

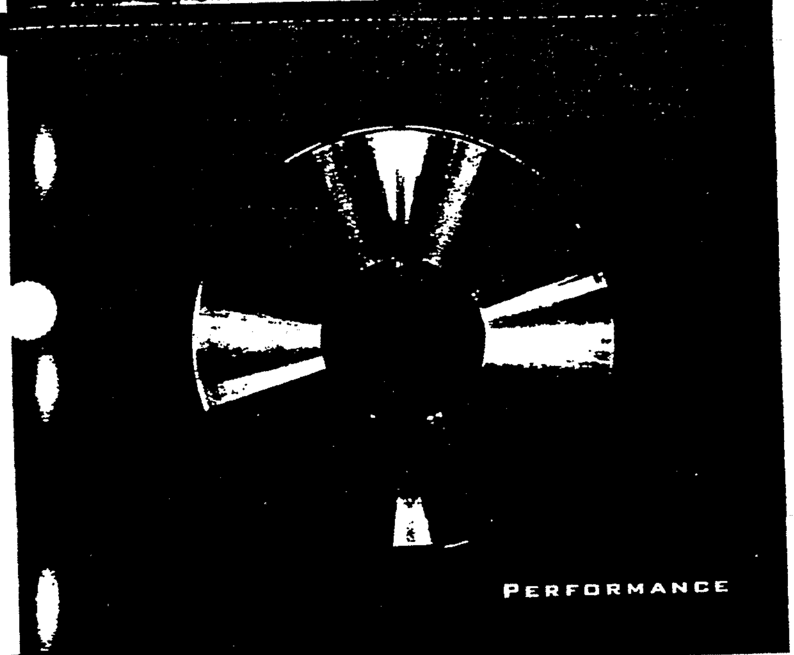
"Your computer will speak,
your television will listen,
and your telephone
will show you pictures."

Ray Smith
Chairman and CEO

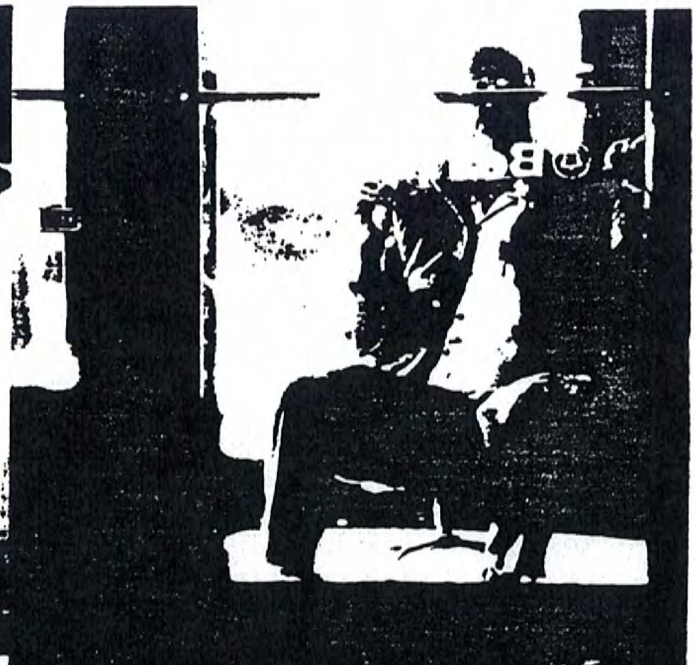
COMMUNICATIONS, INFORMATION, AND ENTERTAINMENT COMPANY.

Bell Atlantic


PROGRESSION


PERFORMANCE

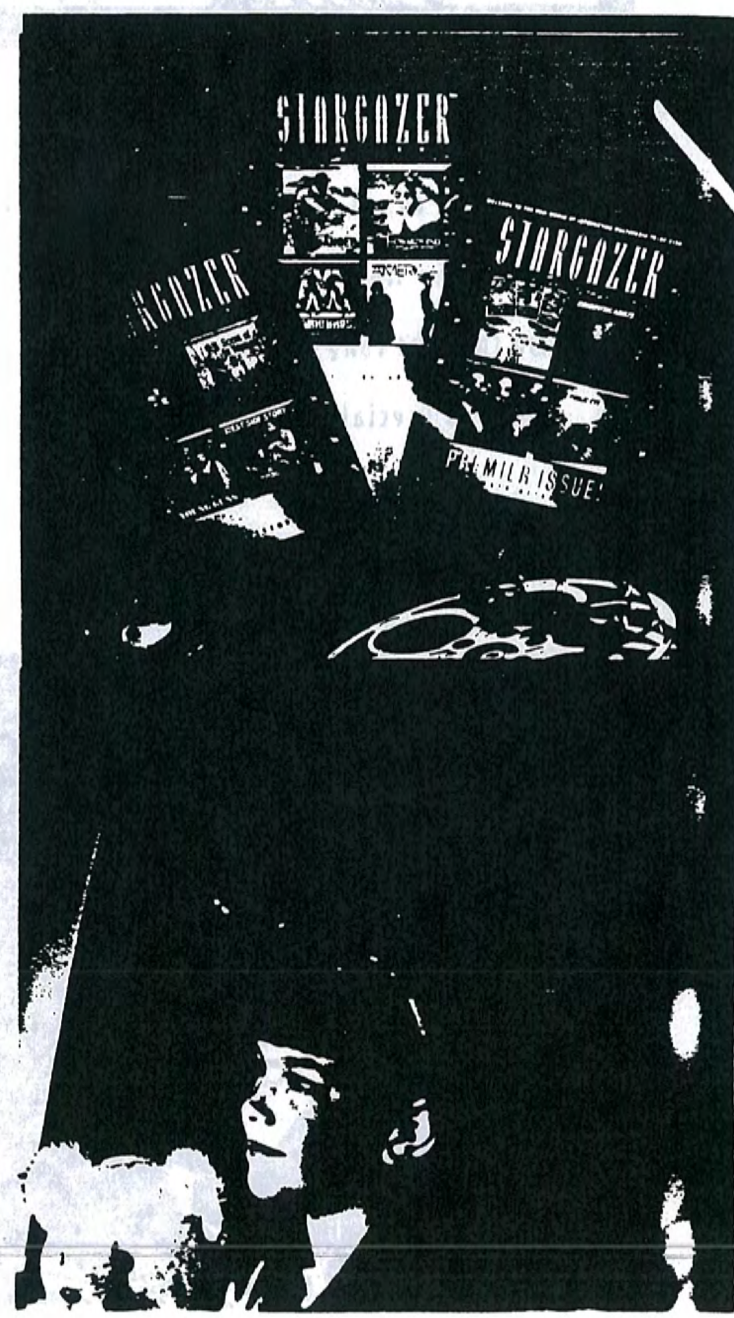

XCELLENCE



"When we decided last year to unify the names of all our telephone companies under the single name 'Bell Atlantic,' we thought long and hard about what makes us special. The answer is summed up in our tag line:

The heart of communication."

"The new age in technology will be defined by an . . . ambitious and elegant idea – universal information. This means unlimited memory, logic and transport – all within reach of everyone, anyone, anywhere."



A CONVERSATION WITH *Ray Smith*

RAY SMITH HAS A VISION: HE WANTS BELL ATLANTIC TO BE NOTHING LESS THAN "THE WORLD'S BEST COMMUNICATIONS, INFORMATION, AND ENTERTAINMENT COMPANY." IN THESE EXCERPTS FROM A CONVERSATION WITH BELL ATLANTIC'S CHAIRMAN AND CEO, SMITH TALKS ABOUT MAKING THAT VISION A REALITY — AND WHAT IT MEANS TO CUSTOMERS.

ON THE "INFORMATION SUPERHIGHWAY"

Over the last 12 months, we've heard the phrase "information superhighway" — but almost nobody knows what it means.

First of all, it's not a single "highway," but a whole system of interconnected networks: telephone, cable, cellular, PCS, satellite — all being upgraded to carry vast amounts of information at extremely high speeds. We are moving rapidly from an age of scarcity to one of abundance — of capacity, of vendors, of choice.

And second, unlike the interstate highway system, this superhighway won't be built by the government, but rather by private companies making individual investment decisions. So the best thing government can do is give us incentives to invest and then let market forces take over.

Where the "superhighway" metaphor really works is in suggesting what all this will mean for the American economy. When companies can ship their most valuable commodity — information — anywhere they want over high-speed networks, and when consumers can link up instantaneously with the providers of goods and services — from video games to encyclopedias to hiking boots — from their living rooms, our economy will be launched into a whole new cycle of productivity, growth, and innovation.

Personal communications services combine the intelligence of the landline network with the mobility of wireless networks to deliver user-controlled features and anytime, anywhere access to voice and data communications.

One thing's for certain: the speed limit on the information superhighway has gone from 50 m.p.h. to 150 m.p.h. — and there's no slowing down now.

ON BELL ATLANTIC'S STRATEGIES

We've been called "the most aggressive of the Bells." I think that's because we've been implementing the same three bold strategies for some time:

- We'll build full-service networks — meaning we'll deploy digital, interactive, broadband networks in and out of our region with both wired and wireless access.
- We'll develop and deliver video programming and value-added information and communications services over those networks. This may involve developing or acquiring content and software, in addition to packaging and marketing these services.
- We'll expand into international markets with our core competencies in communications, information, and entertainment.

We determined early on that implementing these strategies would be the key to fulfilling our vision of being the world's best communications, information, and entertainment companies. We may have to change tactics along the way, but our goal is very clear.

ON THE "FULL-SERVICE NETWORK"

From a technical standpoint, "full-service networks" are those which can deliver *any service* (voice, data, or video), on *any technology platform* (wired or wireless), to *any customer, anywhere*.

For customers, full-service networks will offer a way to connect the confusing array of appliances they now have in their homes, on their desks, or in their briefcases.

If you're like most people, the back of your TV set probably looks like a bowl of spaghetti; your PC at work can't talk to your PC at home; you never *have* learned your Internet address; and you have four or five different numbers for your home telephone, your work number, your fax machine, your cellular phone, and your beeper.

We intend to simplify all that and deliver the promise of "anytime, anywhere" communications to homes and businesses all over our region.

That's why we've stepped up our investment in broadband technology. By the end of 1995, we'll have broadband networks capable of reaching up to a million households in our region. Within five years, we'll have them in our top 20 markets. And, because we operate cellular networks in many parts of the country, we'll be able to offer full-service network-type services to customers outside the mid-Atlantic region, as well.

A communications system capable of handling vast amounts of voice, video, and data images simultaneously.

On "Killer Applications"

As with any new technology, there will be a few "killer applications" — those super-popular services that will drive customer acceptance of full-service network capabilities.

For residential customers, I think a lot of those killer applications will be in the entertainment area, delivered to a "souped-up" television that's connected to the broadband network. Our network will be a much more efficient way of delivering services that customers *today* are spending billions of dollars on — things like movies-on-demand, video games, and home shopping.

For businesses, the key appliance is the personal computer, and the killer applications will be services like video-conferencing, file sharing, telecommuting, transactions, and LAN interconnections — all of which will help leverage the tremendous investment businesses now have in information technology.

Add to that the growing need for mobility — not just cellular phones, but also mobile faxes, data transfers, e-mail, and order processing — and we believe that a full-service communications company like Bell Atlantic can be an invaluable partner in meeting our customers' needs in the years ahead.

At Bell Atlantic, we use three simple words to describe what all these new services will mean for our customers: Choice. Convenience. Control.

When you get right down to it, that's what the Information Age is all about.

On Competition

We're entering an era in which there will be competition in every one of our major markets and every one of our profitable lines of business. You'll have the telephone and the cable network in every major location, plus any number of wireless delivery systems, from cellular to direct broadcast satellite to PCS. Before long, customers will be able to choose from a variety of vendors for virtually any communications or information service.

Clearly, competition is music to customers' ears. For Bell Atlantic, it's been a wake-up call.

We started preparing ourselves several years ago to compete for our customers' business. We've invested steadily in advanced network technologies, reduced costs, re-engineered our processes to speed up response time, and reorganized ourselves around major market segments.

We're not your father's telephone company any more. We're prepared to go head-to-head with anybody in the marketplace.

Competition has made us a better company. And our customers tell us they can see the difference.

On Flexibility

Being flexible is a big part of being competitive. In the old Bell System days, we had the luxury of dreaming up the most elegant network solution and then implementing it at the pace that suited *us*. We had a "one-size-fits-all" approach to everything, from network design to customer relations.

Today, we have to be prepared to move fast, with whatever solution makes sense in a particular market for a particular customer. That philosophy permeates every aspect of our strategic thinking — from our "just-in-time" network deployment plans, which will put the right technical capabilities in the right place at the right time, to our state regulatory plans, which give us greater pricing flexibility, to our "Service When You Want It" policy on service provisioning, which really puts the customer in the driver's seat.

Providing service connections within a time frame specified by the customer.

In competition, as in chess, it's easy to figure out the "end-game" but it's not so easy to see the "mid-game" — that is, the best way to outmaneuver your opponent and counter any competitive thrusts as the game proceeds. It takes great vision to keep the end in view and great reflexes to make the right adjustments along the way.

At Bell Atlantic, we're getting to be pretty good chess players.

On "the Heart of Communication[SM]"

We know that, in a competitive world, it is important that Bell Atlantic speak with a single voice and establish a clear identity in the marketplace. That's why, in 1994, we unified the names of all our telephone companies under the single name, "Bell Atlantic."

But an identity is much more than just a name. In deciding how to introduce ourselves to the world as a unified "Bell Atlantic," we thought long and hard about what makes us special — what we can offer customers that no other communications company can.

The answer is summed up in our tag line, "the heart of communication."

The fact is, we touch the lives of virtually every home and business in our territory. We're part of your community. We have a vested interest in making your business grow. And we have a legacy of service excellence and local accountability.

No one understands your requirements better than we do, and no one cares more about helping you be successful. And no matter where we do business — whether here at home or around the world — we intend to make ourselves absolutely indispensable to our customers through that same kind of dedication to superior service.

On Creating the Customer-Focused Corporation

You know the most rewarding thing for me after five years as chairman of Bell Atlantic? It's the quantum-leap we've made toward becoming a totally customer-focused corporation.

We used to *talk* about customer requirements, but we weren't really *focused* on them — they didn't drive our decisions or change the way we went about our business.

Digitizing content and making it accessible to customers through software and operating systems.

An open network platform over which providers of video content can deliver their products.

We have a whole new mind-set now. You can feel it in every work group in every part of the company — there's a new level of energy, of urgency, of excitement everywhere I go.

Our people are obsessed with finding better ways to do things. They're churning out new, innovative products and services like video dial tone, at a record pace. They're banding together to help one another meet customer needs. They are absolutely determined that Bell Atlantic be the number-one choice of customers, no matter how many alternatives there are in the marketplace. It's really a point of pride with Bell Atlantic people.

This hasn't happened by accident. We've worked very hard to transform ourselves into a market-focused, responsive, quality-driven organization — so much so that people used to think I was a pain in the neck for talking so much about "culture change."

Not any more — nowadays, the folks on the front lines are just as impatient for change as I am!

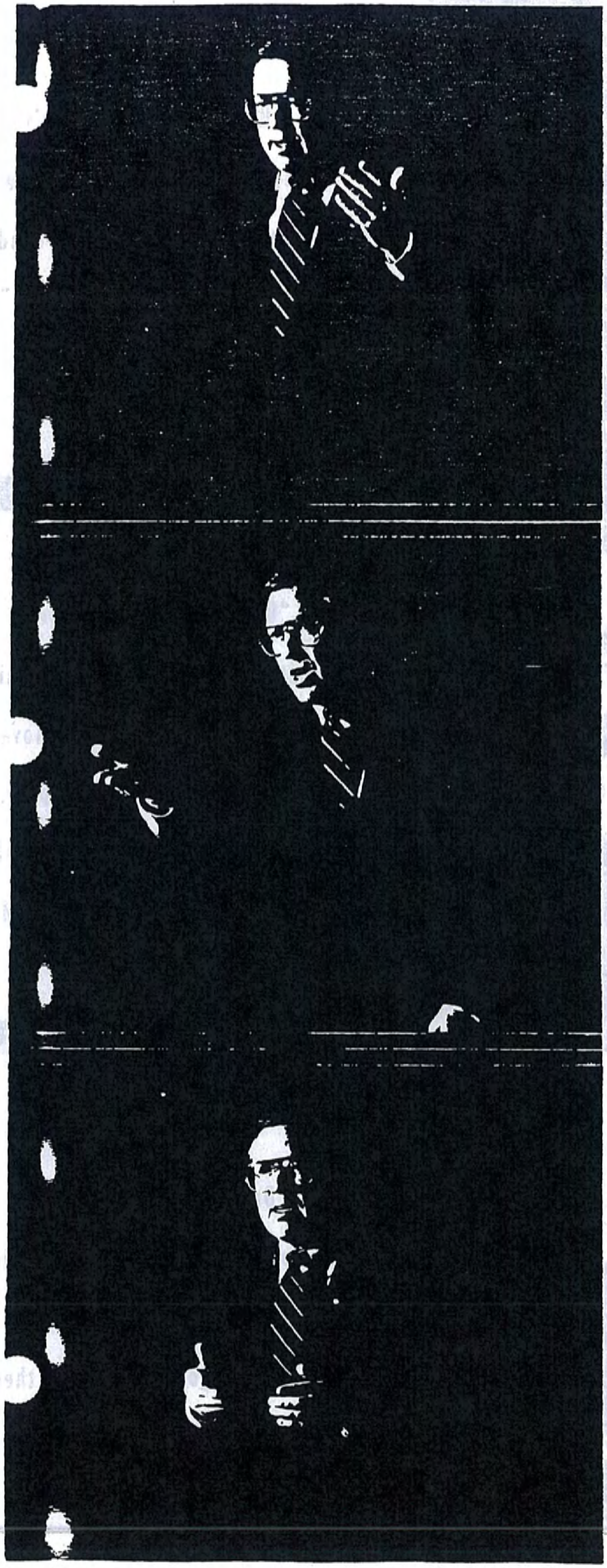
On Bell Atlantic's Vision of the Future

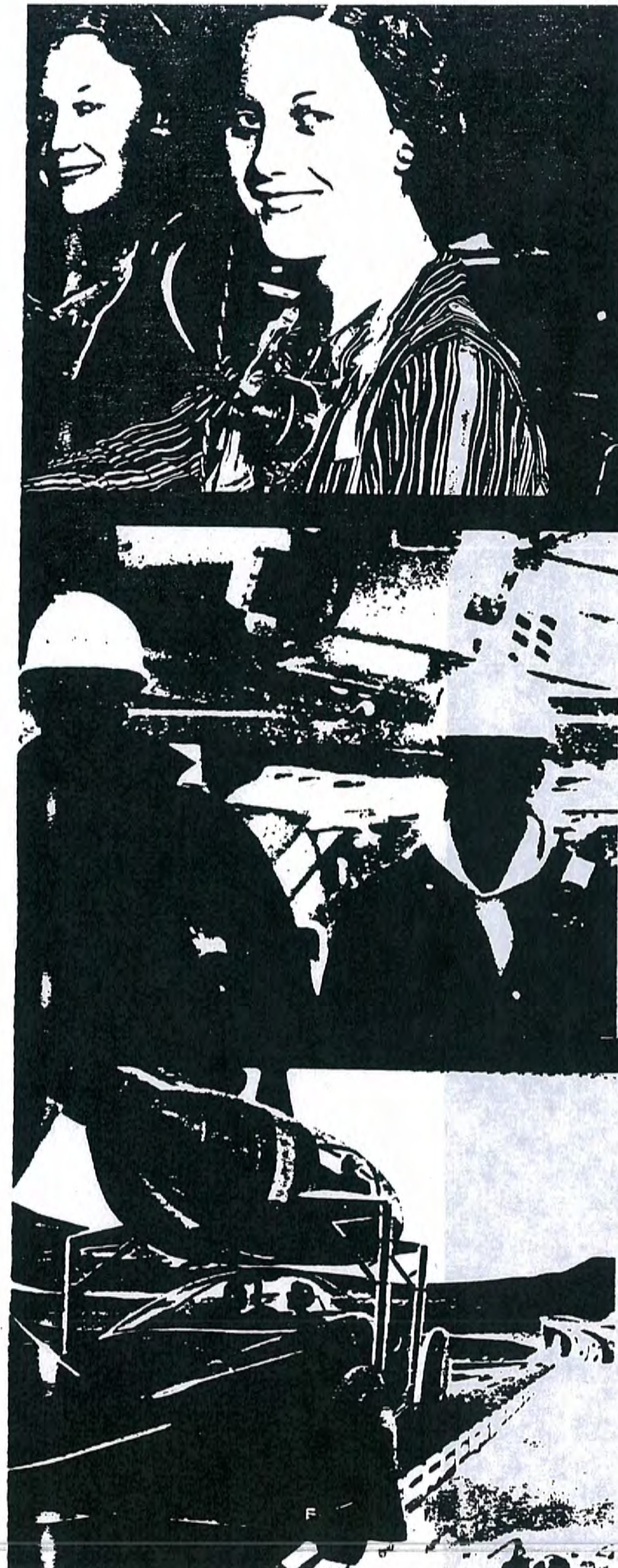
Oh, I definitely believe Bell Atlantic can be *"the world's best communications, information, and entertainment company."*

Yes, it means stretching our boundaries to develop a competency in video programming and packaging, and it means picking the right opportunities to expand beyond our regional borders. It also means offering world-class customer service, and challenging ourselves to meet the highest benchmarks in every facet of our operations.

Never underestimate the power of a shared vision to transform a company and make the people in it perform at levels they never dreamed they could reach.

I've already seen it happen at Bell Atlantic — and we're not even *close* to being done yet!





"We're not your father's telephone company any more. We're prepared to go head-to-head with anybody in the marketplace."

"Our people are obsessed with finding better ways to do things. They're churning out new, innovative products . . . at a record pace. They're banding together to help one another meet customer needs."

"One thing's for certain: the speed limit on the information superhighway has gone from 50 m.p.h. to 150 m.p.h. – and there's no slowing down now."

FLEXIBILITY

FLEXIBLE SERVICE:

PROVIDING WHAT YOU WANT, WHEN YOU WANT IT, WHERE YOU WANT IT

FLEXIBLE CUSTOMER SERVICE: EXCEEDING YOUR EXPECTATIONS FOR RELIABILITY,

In a changing marketplace, flexibility is the key to meeting customer requirements every time. After all, customers don't want just any solution to their unique challenges; they want *their* solutions. And they want them today.

At Bell Atlantic, we will design, deliver, and service your solution. We've built the necessary flexibility into our customer-focused structure, our technology development, our product and service creation, and our customer service. And, we've achieved unprecedented regulatory freedom to develop the capabilities customers need and to price them competitively. It's all part of our drive to be the very best communications, information, and entertainment company in the world.

ORGANIZATION.

Each of Bell Atlantic's network lines of business — Large Business Services, Consumer Services, Small Business Services, Video Services, Carrier Services, Directory Services, Federal Systems, and Public and Operator Services — along with Bell Atlantic Mobile and

BUREAUCRACIES, NO ONE-SIZE-FITS-ALL APPROACHES. • FLEXIBLE PUBLIC POLICY: COM-

MILESTONES

1984

Bell Atlantic opens for business, led by Chairman and Chief Executive Officer Thomas E. Bolger.

Bell Atlantic

Bell Atlantic introduces trial of CLASS℠ Calling Service in Harrisburg, the first trial of the service in the nation.

1985

Bell Atlantic acquires Sorbus Inc., the nation's leading independent provider of computer maintenance. In 1990, the company's name is changed to Bell Atlantic Business Systems Services.

Bell Atlantic demonstrates first working system of integrated services digital network (ISDN) architecture in the nation.

Bell Atlantic installs one-millionth digital access line in McLean, Virginia.

1986

Bell Atlantic's board of directors declares a two-for-one split of common stock.

The White House awards "1986 President's Volunteer Action Award" to Bell Atlantic-West Virginia for its program to encourage economic development.

"I'm convinced that the flexible organization is the key to world-class results. When it comes to meeting your needs, Bell Atlantic's dedicated business units call the shots. Corporate organizations serve as their coaches, advisors, and enablers, not bureaucratic overseers. This structure is an extension of the culture we've established at the working level, where front-line employees have the flexibility to determine how best to delight our customers, while supervisors are there to help train, coach, and counsel them to do the best possible job."

John Gamba
Senior Vice President
Bell Atlantic Corporate and Human Resources

Beyond our Regional Bounds

In Aiken, South Carolina, where it manages the Department of Energy's 310-square mile Savannah River nuclear materials site, Westinghouse chose Bell Atlantic Federal Systems to replace the facility's entire communication system with a fully digital, fiber-based network. The new system contains features that will enhance productivity throughout the site and provide for more efficient network management.

VERSATILITY, AND RESPONSIVENESS. • FLEXIBLE ORGANIZATIONS: NO EXCUSES, NO

Bell Atlantic Business Systems Services, is accountable for satisfying a well-defined set of customers. Every unit is dynamic, responsive, and familiar with the unique needs of its customers.

In response to these needs, the lines of business define the capabilities to be developed and the technologies to be deployed. They then call on their suppliers, including Bell Atlantic's own technology and network organizations, to deliver "the right stuff" — the technologies, services, and implementation teams to get the job done.

To minimize our costs to you, our technology deployment is as prudent as it is aggressive. We're taking a "just-in-time" approach, aiming first at immediate and near-term customer requirements, but remaining flexible to meet your emerging needs, too.

We're a different company from what we were a decade ago, not only structurally, but in terms of how we do business. We simply don't rest on success. We're shattering old norms, challenging conventional wisdom, and constantly striving to improve. For example:

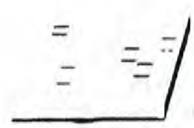
- We're expanding our competencies by teaming with other companies to develop cutting-edge tech-

PETITIVE PRICING, CUSTOM-DESIGNED SERVICE PACKAGES, ACCELERATING THE FUTURE.

Bell Atlantic and GTE Directories Sales Corp. announce formation of Chesapeake Directory Sales Company to sell Yellow Pages directory advertising, becoming the representative for Bell Atlantic's telephone companies in southern markets.

Bell Atlantic is the first in the nation to implement Signalling System 7 (SS7) — the key to the company's evolving intelligent network — with the conversion of two Bell Atlantic–New Jersey central offices

Bell Atlantic Mobile announces formation of Bell Atlantic Paging to market pagers and paging service in New Jersey, parts of Delaware, and the Philadelphia, Pittsburgh, and Harrisburg areas.



Bell Atlantic forms Bell Atlantic Directory Graphics, a joint venture with R.R. Donnelley and Sons Company, to provide electronic composition services for advertisers in Bell Atlantic's telephone directories.

The Federal District Court permits Bell Atlantic to transmit information through both videotex and audiotex and to offer storage and retrieval services.

1987

1988

Nationwide-Worldwide Computer Service

Bell Atlantic Business Systems Services was chosen by AMR Corporation, parent of American Airlines Inc., to service computers and peripherals for its SABRE Group nationwide and in 44 countries overseas. The world's largest privately owned real-time computer network, the SABRE Travel Information Network is the travel distribution and information services system for more than 25,600 travel agencies worldwide.

FLEXIBLE TECHNOLOGY STRATEGY: "INVESTING, DEVELOPING, AND DEPLOYIN

nologies, services, and delivery systems, and by importing talented people with new skills;

- We're rewarding all employees on how well they apply continuous quality improvement to delight customers;
- And we're offering employees in network operations the opportunity to become **"Bell Atlantic Certified"** in their jobs. It's a matter of pride with us, and it's evidence of how we strive to deliver best-in-class service.

TECHNOLOGY.

Being best-in-class means giving you reliability, versatility, and responsiveness over and above what you're looking for. Bell Atlantic rises to the occasion with full-service networks, optical fiber rings, and wireless technologies to meet the challenge.

FULL-SERVICE NETWORKS. The ultimate in versatility is the network that can do it all — the one that can deliver any kind of communication and information over

SERVICES MAINTAINS OVER 650,000 COMPUTER SYSTEMS AND PERIPHERALS. • BELL

Bell Atlantic employees who, in addition to being fully qualified to perform their jobs, demonstrate knowledge of and proficiency in a range of administrative functions and human resource skills. Employees also are trained in leading-edge technology before it is deployed.

"Increasingly flexible communications technology – mobile phones, fax machines, universal access to databases, instantaneous translations, voice recognition, voice synthesis – will make it possible to

move ideas,

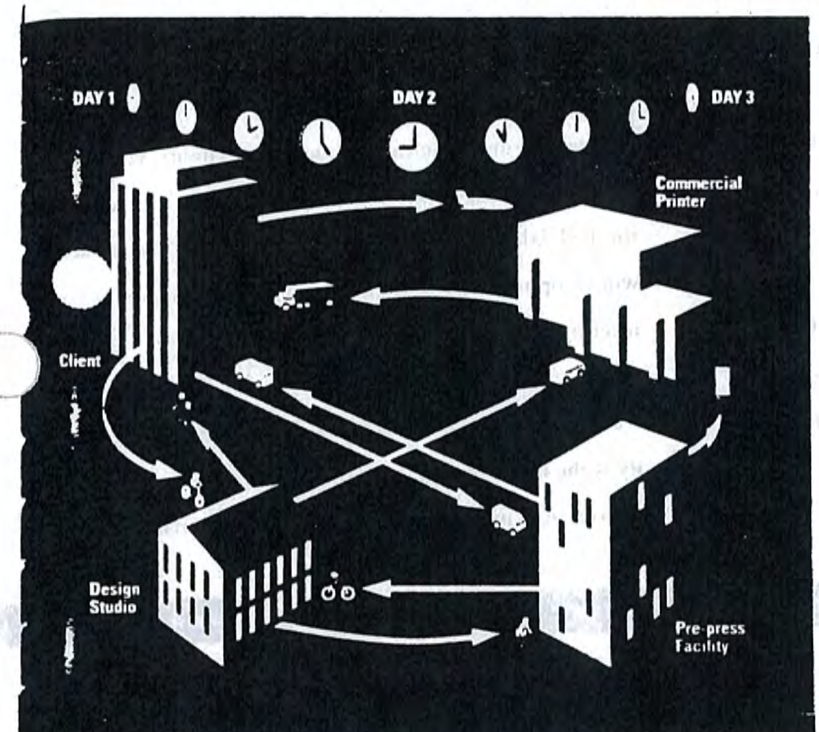
service, and

value without moving people."

Ray Smith

1990

Bell Atlantic Rescues Trade Center Businesses



"Help, I'm lost!"

"Out of stock!"

"Can you break a $20?"

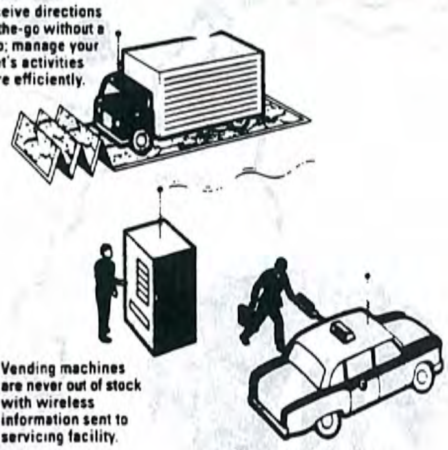
"We've been robbed! Our alarm system's been cut."

SONET Fiber Rings

With Bell Atlantic's SONET-based IntelliLight℠ Dual Wire Center Service, customers who handle large amounts of information no longer need separate emergency back-up networks. The fiber-optic ring configuration features both transmission and switching redundancy, creating a "self-healing" capability that restores service disruptions in milliseconds. When a break occurs, traffic is re-routed in the opposite direction on the ring, and if a wire center fails, traffic is re-routed through a stand-by wire center.

SMDS

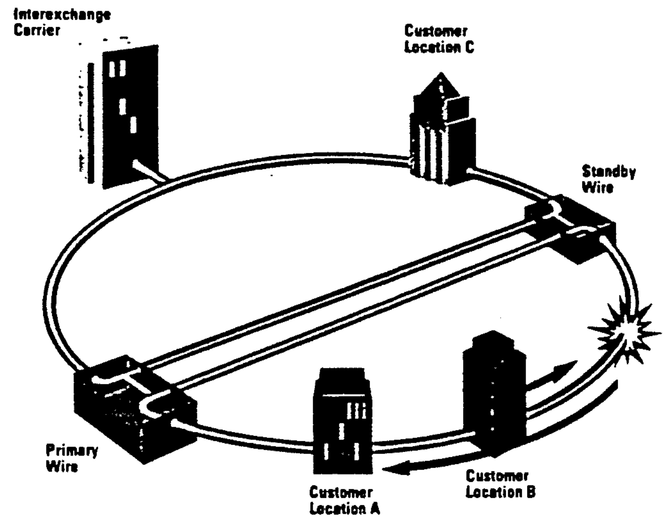
With Fast-Packet Services, such as Bell Atlantic's switched multimegabit data service (SMDS), enterprise networks of customers, suppliers, clients, and business partners can rely on the public network to meet their needs for quick transmission of large amounts of information. One industry particularly well-suited to SMDS is graphic arts. With SMDS, artists, publishers, pre-press facilities, and printers can create, evaluate, and alter highly detailed artwork on-line, without using messenger and overnight-mail services.



Receive directions on-the-go without a map; manage your fleet's activities more efficiently.

Vending machines are never out of stock with wireless information sent to servicing facility.

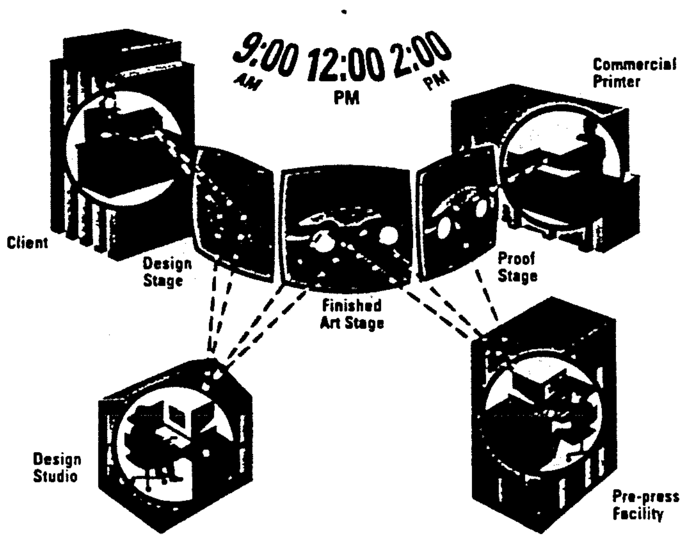
Charge your cab or bus fare; no need to hunt for exact change.



SONET Ring Restores Service to World Trade Tower Businesses

Within hours after the bombing of New York's World Trade Center in February 1993, Bell Atlantic had high-capacity circuits connected at temporary facilities in northern New Jersey to accommodate disabled businesses. Synchronous optical network (SONET) technology and fiber ring deployment enable us to connect high-capacity service with unprecedented speed.

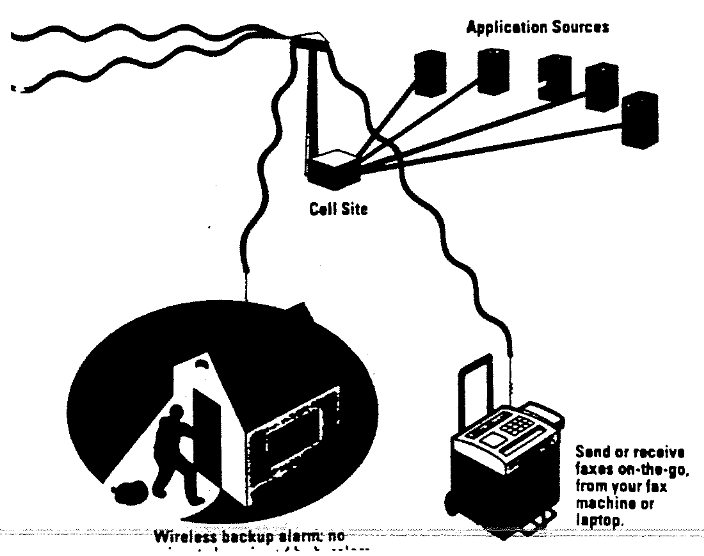
ACCORDING TO YOUR VIEW OF THE FUTURE." • BELL ATLANTIC BUSINESS SYSTEMS



any platform (wired or wireless) to thousands of people or one individual. It's a single concept flexible enough to handle everything from high-quality voice transmission to remote classroom instruction to video programming to volumes of data without failure. We're building full-service networks wherever customer requirements dictate.

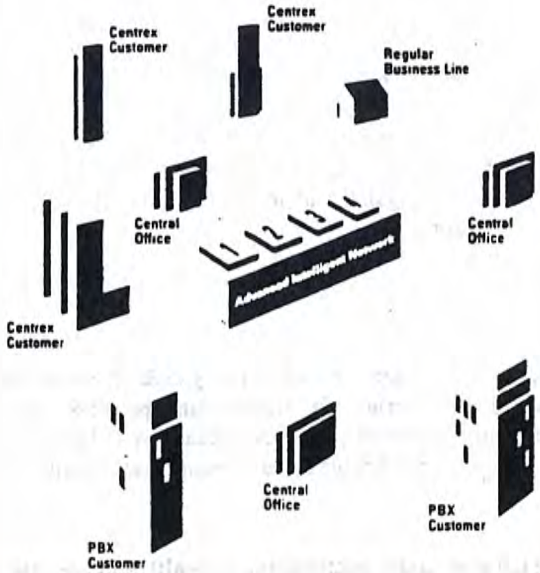
OPTICAL FIBER RINGS. In these networks, a cornerstone technology is the synchronous optical network (SONET). In major business centers, it's the best thing to happen to critical communication applications since high-

ATLANTIC CONSISTENTLY RANKS IN THE TOP 3 OF UTILITIES IN THE FORTUNE SERVICE 500.



Wireless Data Services

Bell Atlantic's AirBridge℠ family of services takes wireless communications to new levels, providing a range of wireless data applications. From remote locations, for example, customers can track the location of vehicles and packages, check the stock in vending machines, or monitor alarm systems. While in their vehicles, taxi drivers can verify credit cards, while their passengers send or receive — using portable PCs or fax machines — data, facsimiles, or electronic mail.



Centrex Extend

With Centrex Extend, you can call co-workers at different addresses using different phone systems in the Bell Atlantic region by dialing three- or four-digit extensions as if they were in the same building. Centrex Extend is made possible by the Advanced Intelligent Network, a platform currently deployed by Bell Atlantic.

BELL ATLANTIC'S REGION REPRESENTS 2% OF THE NATION'S LAND MASS AND ... OF

capacity service itself, delivering the utmost in responsiveness and reliability. With SONET, high-capacity service can be connected in a matter of minutes. And with the Bell Atlantic SONET ring configuration, the network "self-heals" within milliseconds of a service disruption. Your applications are survivable, and you no longer need costly back-up networks from other vendors.

By the end of the 1994, SONET-based, multi-wire center, fiber-optic rings will be in all the major metropolitan areas we serve. We've already deployed these high-speed rings between northern New Jersey and New York City.

WIRELESS TECHNOLOGIES. In our wireless network, Bell Atlantic is making significant investments to maximize coverage and sound quality. Bell Atlantic Mobile is the first company in our market to offer digital cellular service — which increases capacity in populous areas to meet the ever-expanding demand for wireless services — to Washington, D.C., Baltimore, Pittsburgh, and Philadelphia customers. And throughout our service areas, microcells are bringing cellular service to places such as train stations, airports, and other public buildings.

Wireless technologies provide the "anywhere" dimen-

THE INDUSTRY." • "THE POTENTIAL OF THE WIRELESS NETWORK EXTENDS FAR BEYOND

MILESTONES

1989

Raymond W. Smith is elected chairman and chief executive officer of Bell Atlantic, succeeding Bolger, who remains on the board of directors as chairman of the executive committee.

1990

Bell Atlantic teams with Ameritech and two New Zealand firms to purchase Telecom Corporation of New Zealand for US$2.4 billion.

Bell Atlantic's board of directors declares a two-for-one split of common stock.

Bell Atlantic and U S WEST win a joint bid to build a wireless communications network and a packet-data network in Czechoslovakia.

The Bell Atlantic Showcase series premieres on ABC-TV with **"To Be Free: The National Literacy Honors from the White House." The program celebrates the national literacy movement** and is hosted by President and Mrs. Bush.

1991

Bell Atlantic Mobile expands its use of microcellular technology to enhance cellular

reception indoors in public locations, beginning with Amtrak's Union Station in Washington, D.C.

Financial Instruments

In the normal course of business, the Company employs a variety of off-balance-sheet financial instruments to reduce its exposure to fluctuations in interest and foreign exchange rates, including interest rate swap agreements and forward exchange contracts. The Company designates interest rate swaps as hedges of direct finance lease receivable transfer agreements and debt, and accrues the differential to be paid or received under the agreements as interest rates change and recognizes this expense over the life of the contracts. Realized and unrealized gains and losses arising from forward exchange contracts that hedge certain balances of a long-term investment nature are included in Shareowners' Investment. Realized and unrealized gains and losses on contracts that hedge certain balances of a temporary nature are included in results of operations.

Employee Benefits

Pension Plans

Substantially all employees of the Company are covered under noncontributory defined benefit pension plans. The Company uses the projected unit credit actuarial cost method for determining pension cost for financial reporting purposes. Amounts contributed to the Company's pension plans are actuarially determined, principally under the aggregate cost actuarial method, and are subject to applicable federal income tax regulations.

Postretirement Benefits Other Than Pensions

Substantially all employees of the Company are covered under postretirement health and life insurance benefit plans.

Effective January 1, 1991, the Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," which requires accrual accounting for all postretirement benefits other than pensions. Under the prescribed accrual method, the Company's obligation for these postretirement benefits is to be fully accrued by the date employees attain full eligibility for such benefits.

A portion of the postretirement accrued benefit obligation is contributed to 501(c)(9) trusts and 401h accounts under applicable federal income tax regulations. The amounts contributed to these trusts and accounts are actuarially determined, principally under the aggregate cost actuarial method.

Postemployment Benefits

The Company provides employees with postemployment benefits such as disability benefits, workers' compensation, and severance pay.

Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits," which requires accrual accounting for the estimated cost of benefits provided to former or inactive employees after employment but before retirement. Prior to 1993, the cost of these benefits was primarily charged to expense as the benefits were paid.

Savings Plans and Employee Stock Ownership Plans

The Company maintains savings plans which cover substantially all of its employees. A substantial portion of the Company's matching contribution is provided through employee stock ownership plans (ESOPs). The Company recognizes expense based on accounting rules applicable to companies with ESOP trusts that held securities prior to December 15, 1989. Under this method, the Company recognizes 80 percent of the cumulative expense that would have been recognized under the shares allocated method.

The obligations of the ESOP trusts, which are guaranteed by the Company, are recorded as long-term debt and the offsetting deferred compensation is classified as a reduction of Shareowners' Investment. As the ESOP trusts make principal payments, the Company reduces the long-term debt balance. The deferred compensation balance is reduced by the amount of employee compensation recognized as the ESOP shares are allocated to participants.

Income Taxes

Bell Atlantic Corporation and its domestic subsidiaries file a consolidated federal income tax return.

Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (Statement No. 109), which requires the determination of deferred taxes using the liability method. Under the liability method, deferred taxes are provided on book and tax basis differences and deferred tax balances are adjusted to reflect enacted changes in income tax rates.

Prior to 1993, the Company accounted for income taxes based on the provisions of Accounting Principles Board Opinion No. 11, "Accounting for Income Taxes" (APB No. 11). Under APB No. 11, deferred taxes were generally provided to reflect the effect of timing differences on the recognition of revenue and expense determined for financial and income tax reporting purposes. Certain of the telephone subsidiaries did not fully provide deferred income taxes on certain timing differences when regulators permitted only income taxes actually paid to be recognized currently as a cost of service.

The Tax Reform Act of 1986 repealed the investment tax credit (ITC) as of January 1, 1986, subject to certain transitional rules. ITCs of the telephone subsidiaries were deferred and are being amortized as a reduction to income tax expense over the estimated service lives of the related assets.

Earnings Per Common Share

Earnings per common share calculations are based on the weighted average number of shares and equivalent shares outstanding during the year and reflect the shares issued in April 1992 in connection with the merger with Metro Mobile CTS, Inc. as outstanding for all years presented.

Prior to January 1, 1993, for purposes of computing earnings per common share, net income attributable to common shares included the income tax benefit resulting from dividends paid on shares held by the Company's ESOPs. As a result of implementing Statement No. 109, the Company no longer includes the income tax benefit resulting from dividends paid on unallocated shares held by ESOPs in net income attributable to common shares for purposes of computing earnings per share. Pursuant to the provisions of Statement No. 109, the income tax benefit resulting from dividends paid on allocated shares is included in net income.

Reclassifications

Certain reclassifications of prior years' data have been made to conform to 1993 classifications.

2. DEBT

Long-Term

Long-term debt consists of the following at December 31:

	Interest Rates	Maturities	1993	1992
			(Dollars in Millions)	
Communications and Related Services				
Telephone subsidiaries' debentures:	3.25%—7.00%	1995—2025	$1,972.0	$1,827.0
	7.125%—7.75%	2002—2033	2,105.0	2,155.0
	7.85%—8.75%	1994—2031	1,480.0	1,575.0
			5,557.0	5,557.0
Unamortized discount and premium, net			(113.2)	(115.5)
Capital lease obligations—average rate 10.6% and 10.8%			125.8	133.4
Other			43.9	84.9
			5,613.5	5,659.8
Financial, Real Estate, and Other Services				
Notes payable	3.63%—11.27%	1994—2014	984.8	1,459.0
Mortgage and installment notes	3.90%—12.00%	1994—2011	33.3	51.6
Nonrecourse notes	7.95%—10.35%	1994—1997	4.3	3.7
Capital lease obligations—average rate 11.1%			—	18.9
			1,022.4	1,533.2
Corporate				
Notes payable	6.625%	1997	130.0	379.5
Medium-term notes	4.07%—7.24%	1995—2003	570.1	98.8
Unamortized discount			(2.8)	(1.2)
			697.3	477.1
Employee Stock Ownership Plan Loans				
Senior Notes	8.17%	2000	633.7	687.2
Total long-term debt, including current maturities			7,966.9	8,357.3
Less maturing within one year			760.7	1,009.1
Total long-term debt			$7,206.2	$7,348.2

Maturities of long-term debt outstanding at December 31, 1993, excluding unamortized discount and premium and capital lease obligations, are as follows:

Years	Communications and Related Services	Financial, Real Estate, and Other Services	Corporate	Employee Stock Ownership Plan Loans	Total
		(Dollars in Millions)			
1994	$ 100.1	$ 587.4	$ —	$ 62.4	$ 749.9
1995	92.2	251.8	75.7	73.5	493.2
1996	35.2	78.6	97.8	85.6	297.2
1997	.2	43.7	130.0	98.9	272.8
1998	20.1	.6	201.9	113.5	336.1
Thereafter	5,353.1	60.3	194.7	199.8	5,807.9
Total	$5,600.9	$1,022.4	$700.1	$633.7	$7,957.1

Telephone subsidiaries' debentures outstanding at December 31, 1993 include $2,072.0 million that are callable. The call prices range from 104.3% to 100.0% of face value, depending upon the remaining term to maturity of the issue. In addition, the telephone subsidiaries' debentures include $640.0 million that will become redeemable for a limited period at the option of the holders. The redemption prices will be 100.0% of face value plus accrued interest.

Installment and nonrecourse notes in the amount of $9.1 million at December 31, 1993 were collateralized by finance lease receivables and equipment. Mortgage notes in the amount of $25.9 million at December 31, 1993 were collateralized by land and buildings held for investment purposes.

Corporate debt includes debt securities issued by Bell Atlantic Financial Services, Inc. (FSI), which provides financing for Bell Atlantic and certain of its subsidiaries. At December 31, 1992, corporate debt also included financing related to the Company's investment in Telecom.

FSI debt securities that are classified as long-term debt (aggregating $700.1 million at December 31, 1993) have the benefit of a Support Agreement dated October 1, 1992 between Bell Atlantic and FSI, under which Bell Atlantic has committed to make payments of interest, premium, if any, and principal on the FSI debt in the event of FSI's failure to pay. The Support Agreement provides that the holders of FSI debt shall not have recourse to the stock or assets of Bell Atlantic's telephone subsidiaries. However, in addition to dividends paid to Bell Atlantic by any of its consolidated subsidiaries, assets of Bell Atlantic that are not subject to such exclusion are available as recourse to holders of FSI debt. The carrying value of the available assets reflected in the consolidated financial statements of Bell Atlantic was approximately $6 billion at December 31, 1993.

See Note 8 for information on the Employee Stock Ownership Plan Loans.

The Company has recorded extraordinary charges associated with the early extinguishment of debentures called by the Company's telephone subsidiaries prior to the balance sheet date. These charges reduced net income by $58.4 million (net of an income tax benefit of $36.2 million) in 1993, and $41.6 million (net of an income tax benefit of $25.2 million) in 1992.

Maturing Within One Year

Debt maturing within one year consists of the following at December 31:

	1993	1992	1991
		(Dollars in Millions)	
Notes payable:			
Bank loans	$ 582.0	$ 336.2	$ 304.1
Commercial paper	1,334.6	1,358.2	817.2
Long-term debt maturing within one year	760.7	1,009.1	1,710.8
Total	$2,677.3	$2,703.5	$2,832.1
Average amounts of notes payable outstanding during the year*	$1,398.7	$1,616.1	$1,821.9
Weighted average interest rates for notes payable outstanding during the year**	3.3%	3.9%	6.3%
Maximum amounts of notes payable at any month-end during the year	$1,916.6	$2,368.4	$2,292.3

*Amounts represent average daily face amounts of notes.

**Weighted average interest rates are computed by dividing average daily face amounts of notes into the aggregate related interest expense and include both domestic and international borrowings.

Construction of telephone plant and the operations of the Company's Financial Services, real estate, and cellular subsidiaries are partially financed, pending long-term financing, through bank loans and the issuance of commercial paper payable within 12 months.

At December 31, 1993, the Company had in excess of $2.0 billion of unused bank lines of credit. The availability of these lines, for which there are no formal compensating balances or commitment fee agreements, is at the discretion of each bank.

3. PLANT, PROPERTY AND EQUIPMENT

Plant, property and equipment, which is stated at cost, is summarized as follows at December 31:

	1993			1992
	Communications and Related Services	Financial, Real Estate, and Other Services	Total	Total
		(Dollars in Millions)		
Land	$ 151.1	$ 110.9	$ 262.0	$ 252.6
Buildings	2,349.8	256.9	2,606.7	2,504.5
Central office equipment	11,905.5	—	11,905.5	11,498.4
Cable, wiring, and conduit	11,635.4	—	11,635.4	11,209.7
Other equipment	4,483.7	55.8	4,539.5	4,241.9
Other	544.5	151.7	696.2	652.4
Construction-in-progress	682.4	2.2	684.6	686.7
	31,752.4	577.5	32,329.9	31,046.2
Accumulated depreciation	(11,862.7)	(101.3)	(11,964.0)	(10,716.2)
Total	$ 19,889.7	$ 476.2	$ 20,365.9	$ 20,330.0

4. LEASING ARRANGEMENTS AS LESSOR

Certain of the Company's subsidiaries provide a variety of leasing services, predominantly related to computer, medical, and industrial equipment and real estate properties. The leases are classified as capital or operating leases in accordance with the provisions of Statement of Financial Accounting Standards No. 13, "Accounting for Leases."

Finance lease and notes receivable, net, consist of the following components at December 31:

	1993			1992		
	Leveraged Leases	Direct Finance Leases	Total	Leveraged Leases	Direct Finance Leases	Total
			(Dollars in Millions)			
Minimum lease payments receivable	$ 879.9	$ 736.1	$1,616.0	$ 905.2	$ 732.3	$1,637.5
Estimated residual value	584.1	136.9	721.0	584.1	154.2	738.3
Unearned income	(542.8)	(156.8)	(699.6)	(573.8)	(167.6)	(741.4)
	$ 921.2	$ 716.2	1,637.4	$ 915.5	$ 718.9	1,634.4
Allowance for doubtful accounts			(48.9)			(52.2)
Finance lease receivables, net			1,588.5			1,582.2
Notes receivable			926.5			882.5
Finance lease and notes receivable, net			$2,515.0			$2,464.7

Minimum lease payments receivable for the leveraged leases are shown net of principal and interest on the associated nonrecourse debt. Accumulated deferred taxes arising from leveraged leases, which are included in deferred income taxes, amounted to $799.8 million and $742.7 million at December 31, 1993 and 1992, respectively.

Notes receivable consist of amounts due to the Financial Services subsidiaries in connection with various financing and lending arrangements. The notes bear interest at rates ranging from 6.0% to 20.0% and mature in varying amounts between the years 1994 and 2015.

Equipment under operating leases is net of accumulated depreciation of $652.4 million and $758.2 million at December 31, 1993 and 1992, respectively.

Plant, property and equipment at December 31, 1993 and 1992 includes real estate property under operating leases, or held for lease, of $434.3 million and $471.7 million, less accumulated depreciation of $67.9 million and $62.8 million, respectively.

Future minimum lease payments to be received from noncancelable leases, net of nonrecourse loan payments related to leveraged leases, for the periods shown are as follows at December 31, 1993:

Years	Capital Leases	Operating Leases
	(Dollars in Millions)	
1994	$ 242.7	$135.4
1995	201.2	109.5
1996	140.8	74.2
1997	95.0	52.8
1998	64.0	34.7
Thereafter	872.3	86.4
Total	$1,616.0	$493.0

5. LEASING ARRANGEMENTS AS LESSEE

The Company has entered into both capital and operating leases for facilities and equipment used in operations. Plant, property and equipment included capital leases of $221.2 million and $211.3 million and related accumulated amortization of $112.7 million and $91.5 million at December 31, 1993 and 1992, respectively. In 1993, 1992, and 1991, the Company incurred initial capital lease obligations of $13.6 million, $15.2 million, and $40.2 million, respectively.

Total rent expense amounted to $307.8 million in 1993, $295.7 million in 1992, and $298.1 million in 1991.

At December 31, 1993, the aggregate minimum rental commitments under noncancelable leases for the periods shown are as follows:

Years	Capital Leases	Operating Leases
	(Dollars in Millions)	
1994	$ 24.5	$ 122.8
1995	22.6	106.3
1996	23.0	93.3
1997	19.4	85.4
1998	17.5	73.1
Thereafter	112.4	645.8
Total	219.4	$1,126.7
Less imputed interest and executory costs	93.6	
Present value of net minimum lease payments	125.8	
Less current installments	10.8	
Long-term obligation at December 31, 1993	$115.0	

As of December 31, 1993, the total minimum sublease rentals to be received in the future under noncancelable operating subleases was $86.5 million.

6. SHAREOWNERS' INVESTMENT

	Common Stock		Common Stock Issuable		Contributed Capital	Reinvested Earnings	Foreign Currency Translation Adjustment	Treasury Stock		Deferred Compensation—ESOPs
	Shares (in Thousands)	Amount	Shares (in Thousands)	Amount				Shares (in Thousands)	Amount	
	(Dollars in Millions, Except Per Share Amounts)									
Balance, December 31, 1990	433,818	$433.8	—	$ —	$5,301.3	$3,904.0	$(29.8)	6,302	$316.7	$761.1
Loss						(324.4)				
Dividends declared on common stock ($2.52 per share)						(993.7)				
Purchase of common stock for treasury								329	15.3	
Sales and distributions of treasury shares to employee savings plans and shareowner dividend reinvestment and stock purchase plan					(10.3)			(2,949)	(148.9)	
Treasury shares distributed in connection with stock incentive plans					.3			(240)	(11.5)	
Foreign currency translation adjustment, net of income tax benefit of $4.7 million							(70.7)			
Reduction of ESOP obligations										(39.7)
Tax benefit of dividends paid to ESOPs						14.4				
Metro Mobile CTS, Inc. premerger acquisition activities					35.8					
Other					(.1)					
Balance, December 31, 1991	433,818	433.8	—	—	5,327.0	2,600.3	(100.5)	3,442	171.6	721.4
Net income						1,340.6				
Dividends declared on common stock ($2.60 per share)						(1,102.3)				
Acquisitions	337	.4	186	.2	23.0					
Purchase of common stock for treasury								3	.1	
Sales and distribution of treasury shares to employee savings plans and shareowner dividend reinvestment and stock purchase plan					(9.1)			(2,915)	(146.4)	
Treasury shares distributed in connection with stock incentive plans					(1.2)			(344)	(16.2)	
Foreign currency translation adjustment, net of income tax benefit of $5.3 million							(39.6)			
Reduction of ESOP obligations										(42.2)
Tax benefit of dividends paid to ESOPs						14.8				
Metro Mobile CTS, Inc. premerger activities					17.0					
Other					.2					
Balance, December 31, 1992	434,155	434.2	186	.2	5,356.9	2,853.4	(140.1)	186	9.1	679.2
Net income						1,403.4				
Dividends declared on common stock ($2.68 per share)						(1,166.6)				
Acquisition			3	—	.6			(70)	(3.4)	
Distribution of common stock to employee savings plans	256	.2			12.3					
Sale of common stock to shareowner dividend reinvestment and stock purchase plan	278	.3			16.0					
Common stock distributed in connection with stock incentive plans	510	.4			30.3	(8.2)		(66)	(3.3)	
Common stock issued pursuant to acquisition agreement	47	.1	(47)	(.1)						
Common stock distributed to Metro Mobile CTS, Inc. shareowners	884	.9			(.9)					
Foreign currency translation adjustment, net of income tax benefit of $6.3 million							56.2			
Reduction of ESOP obligations										(44.9)
Tax benefit of dividends paid to ESOPs						11.6				
Balance, December 31, 1993	436,130	$436.1	142	$ .1	$5,415.2	$3,093.6	$(83.9)	50	$ 2.4	$634.3

Bell Atlantic Corporation is authorized to issue up to 12.5 million shares each of Preferred and Preference stock and 1.5 billion shares of common stock.

Under the terms of an acquisition of a cellular telephone system in 1992, the Company issued 46,449 shares of common stock in October 1993. Additionally, the Company is required to deliver 46,449 common shares in October 1994 and 92,899 common shares in October 1995 (subject to reduction for certain contingencies) pursuant to this agreement.

Under the terms of an acquisition in 1993 of a permit for the construction of a cellular telephone system, the Company will be required to deliver 2,720 shares of its common stock in March 1994.

In 1993, the Company issued 883,832 shares of common stock to settle certain litigation arising from the merger with Metro Mobile CTS, Inc. (Note 13). This settlement had no impact on the Company's results of operations.

Under a Shareholder Rights Plan adopted in 1989, one right is attached to each outstanding share of common stock. When exercisable, each right entitles the holder to purchase one one-hundredth of a share of Series A Junior Participating Preference Stock at an exercise price of $250, subject to adjustment. The rights become exercisable and will trade separately from the common stock 10 days after a person or group acquires, or announces a tender offer for, 15% or more of the Company's outstanding common stock. In the event any person acquires 15% or more of the Company's common stock (except pursuant to certain transactions previously approved by the Board of Directors), each holder of a right other than such person will have the right to receive, upon payment of the exercise price, common stock of the Company with a market value of two times the exercise price. In the event that the Company is acquired in a merger or other business combination, or certain events occur, each right entitles the holder to purchase shares of common stock of the surviving company having a market value of twice the exercise price of the right. Until the rights become exercisable, they may be redeemed by the Company at a price of one cent per right. The rights expire on April 10, 1999.

7. STOCK INCENTIVE PLANS

Under the Bell Atlantic Stock Incentive Plan (the Plan), a total of 14,000,000 shares of common stock may be distributed upon the exercise of incentive stock options and for payment of performance share awards. Key employees may be granted incentive stock options to purchase shares of Bell Atlantic's common stock at prices not less than the fair market value of the stock at the date of the grant. Stock appreciation rights (SARs) may also be granted in tandem with the incentive stock options. Upon exercise of the SARs, the related incentive stock options are canceled. Incentive stock options and SARs are exercisable at dates determined by the terms of the grant, but not later than 10 years from the date of the grant.

The Plan also provides for the granting of performance share awards to certain key employees. Payment of performance share awards is based on the achievement of financial, market performance, and other objectives set by the Board of Directors, typically over a five year period, and made in stock, unless otherwise determined by the Board. The Plan also allows payment of the performance share awards to be deferred until later periods.

A subsidiary of Bell Atlantic also maintains a separate performance share award plan that provides for awards of Bell Atlantic's common stock, distributable at various times, based on the subsidiary's performance and other factors.

Incentive stock options, SARs and performance share awards outstanding under both the Bell Atlantic and the subsidiary's plans are as follows:

	Incentive Stock Options	SARs	Weighted Average Price of Incentive Stock Options	Performance Share Awards
Outstanding, December 31, 1990	777,501	41,112	$41.68	1,293,261
Granted	1,085,462	33,034	$53.35	585,049
Exercised/Distributed	(58,994)	—	$35.50	(286,061)
Canceled	(99,264)	(35,628)	$47.09	(163,368)
Outstanding, December 31, 1991	1,704,705	38,518	$49.01	1,428,881
Granted	993,008	—	$47.04	119,026
Exercised/Distributed	(117,677)	—	$35.00	(403,288)
Canceled	(167,834)	(23,116)	$51.91	(142,873)
Outstanding, December 31, 1992	2,412,202	15,402	$48.68	1,001,746
Granted	930,219	—	$53.45	91,258
Exercised/Distributed	(664,753)	—	$47.77	(280,049)
Canceled	(95,100)	(2,742)	$52.08	(76,576)
Outstanding, December 31, 1993	2,582,568	12,660	$50.50	736,379

At December 31, 1993, incentive stock options to purchase 1,742,207 shares of common stock were exercisable under the Plan. A total of 8,114,064 and 8,888,299 shares of common stock were available for the granting of incentive stock options and performance share awards under the Plan at December 31, 1993 and 1992, respectively. Compensation expense related to the stock incentive plans described above amounted to $18.6 million in 1993, $17.0 million in 1992, and $20.6 million in 1991. At December 31, 1993, employees had deferred receipt of 243,618 shares awarded under the Company's incentive award plans.

8. EMPLOYEE BENEFITS

PENSION PLANS

Substantially all of the Company's management and associate employees are covered under noncontributory defined benefit pension plans. The pension benefit formula is based on a flat dollar amount per year of service according to job classification under the associate plan and a stated percentage of adjusted career average earnings under the plans for management employees. The Company's objective in funding the plans is to accumulate funds at a relatively stable level over participants' working lives so that benefits are fully funded at retirement. Plan assets consist principally of investments in domestic and foreign corporate equity securities, U.S. and foreign Government and corporate debt securities, and real estate.

Pension cost is composed of the following:

	Years Ended December 31,		
	1993	1992	1991
	(Dollars in Millions)		
Benefits earned during the year	$ 162.7	$ 171.3	$ 184.5
Interest on projected benefit obligation	818.9	786.8	735.1
Actual return on plan assets	(1,731.7)	(514.9)	(2,166.9)
Deferral of difference between actual and assumed return on plan assets	898.3	(309.6)	1,433.3
Net amortization	.9	(10.3)	(30.3)
Special termination benefits	—	45.0	10.1
Pension cost	$ 149.1	$ 168.3	$ 165.8
Pension cost as a percentage of salaries and wages	4.9%	5.7%	5.5%

The decrease in pension cost in 1993 is due to the net effect of the elimination of one-time charges associated with special termination benefits that were recognized in the preceding years, favorable investment experience, and changes in plan demographics due to retirement and severance programs.

In 1992, the Company recognized $45.0 million of special termination benefit costs related to the early retirement of associate employees of the Network Services companies. The special termination benefit costs and the net effect of changes in plan provisions, certain actuarial assumptions, and the amortization of actuarial gains and losses related to demographic and investment experience increased pension cost in 1992. A change in the expected long-term rate of return on plan assets resulted in a $75.0 million reduction in pension cost (which reduced operating expenses by $68.0 million after the capitalization of amounts related to the construction program) and substantially offset the 1992 cost increase.

The following table sets forth the plans' funded status and amounts recognized in the Company's Consolidated Balance Sheets as of December 31:

	1993	1992
	(Dollars in Millions)	
Actuarial present value of benefit obligations:		
Benefits based on service to date and present salary levels		
Vested	$ 7,993.1	$ 7,428.8
Nonvested	2,176.1	2,263.1
Accumulated benefit obligation	10,169.2	9,691.9
Additional benefits related to estimated future salary levels	1,293.9	1,134.6
Projected benefit obligation	11,463.1	10,826.5
Fair value of plan assets	12,368.7	11,487.0
Plan assets in excess of projected benefit obligation	(905.6)	(660.5)
Unrecognized net gain	1,173.5	1,256.8
Unamortized prior service cost	121.5	(371.3)
Unamortized net transition asset	211.6	231.2
Additional minimum liability for nonqualified plans	52.5	54.0
Accrued pension obligation	$ 653.5	$ 510.2

The assumed discount rate used to measure the projected benefit obligation was 7.25% at December 31, 1993 and 7.75% at December 31, 1992. The assumed rate of future increases in compensation levels was 5.25% at December 31, 1993 and 1992. The expected long-term rate of return on plan assets was 8.25% for 1993 and 1992, and 7.5% for 1991. The vested benefit obligation represents the actuarial present value of vested benefits to which employees are currently entitled based on the employees' expected dates of separation or retirement.

The Company has in the past entered into collective bargaining agreements with the unions representing certain employees and expects to do so in the future. Pension benefits have been included in these agreements and improvements in benefits have been made from time to time. Additionally, the Company has amended the benefit formula under pension plans maintained for its management employees. Expectations with respect to future amendments to the Company's pension plans have been reflected in determining the Company's pension cost under Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" (Statement No. 87). Since the projected benefit obligation, as calculated under Statement No. 87, relies on assumptions concerning future events, a comparison of the projected benefit obligation to the fair value of plan assets at December 31, 1993 and 1992 may not be meaningful.

Postretirement Benefits Other Than Pensions

Effective January 1, 1991, the Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (Statement No. 106). Statement No. 106 requires accrual accounting for all postretirement benefits other than pensions. Under the prescribed accrual method, the Company's obligation for these postretirement benefits is fully accrued by the date employees attain full eligibility for such benefits.

In conjunction with the adoption of Statement No. 106, the Company elected, for financial reporting purposes, to recognize immediately the accumulated postretirement benefit obligation for current and future retirees, net of the fair value of plan assets and recognized accrued postretirement benefit cost (transition obligation), in the amount of $1,554.3 million, net of a deferred income tax benefit of $945.6 million.

For purposes of measuring the interstate rate of return achieved by the telephone subsidiaries, the Federal Communications Commission (FCC) permits recognition of postretirement benefit costs, including amortization of the transition obligation, in accordance with the prescribed accrual method included in Statement No. 106. In

January 1993, the FCC denied adjustments to the interstate price cap formula which would have permitted tariff increases to reflect the incremental postretirement benefit cost resulting from the adoption of Statement No. 106.

Accrued postretirement benefit cost, including amortization of the transition obligation, has generally been recognized for purposes of measuring the intrastate rate of return achieved by the telephone subsidiaries. In Maryland, Delaware, and the District of Columbia, the postretirement benefit cost recognized for intrastate rate of return measurement purposes is not in accordance with the prescribed amortization method in Statement No. 106. New Jersey, Pennsylvania, and West Virginia have not authoritatively approved the recognition of postretirement benefit cost in excess of pay-as-you-go amounts. In Virginia, recognition of postretirement benefit cost, including the amortization of the transition obligation, is permitted for rate of return measurement purposes, so long as recognition of such costs does not cause the company to seek a rate increase. Tariff increases for substantially all of the incremental intrastate postretirement benefit cost resulting from the adoption of Statement No. 106 have not been permitted.

Pursuant to Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (Statement No. 71), a regulatory asset associated with the recognition of the transition obligation was not recorded because of uncertainties as to the timing and extent of recovery given the Company's assessment of its long-term competitive environment.

Substantially all of the Company's management and associate employees are covered under postretirement health and life insurance benefit plans. The determination of benefit cost for postretirement health benefit plans is based on comprehensive hospital, medical, surgical, and dental benefit plan provisions. The postretirement life insurance benefit formula used in the determination of postretirement benefit cost is primarily based on annual basic pay at retirement.

The Company funds the postretirement health and life insurance benefits of current and future retirees. Plan assets consist principally of investments in domestic and foreign corporate equity securities, and U.S. Government and corporate debt securities.

Postretirement benefit cost is composed of the following:

	Year Ended December 31, 1993			Year Ended December 31, 1992			Year Ended December 31, 1991		
	Health	Life Insurance	Total	Health	Life Insurance	Total	Health	Life Insurance	Total
					(Dollars in Millions)				
Benefits earned during the year	$ 64.9	$ 8.4	$ 73.3	$ 55.4	$ 8.7	$ 64.1	$ 50.5	$ 7.2	$ 57.7
Interest on accumulated postretirement benefit obligation	270.1	32.0	302.1	234.1	32.8	266.9	221.5	30.5	252.0
Actual return on plan assets	(77.4)	(86.3)	(163.7)	(21.7)	(35.4)	(57.1)	(64.6)	(99.8)	(164.4)
Net amortization and deferral	55.7	47.0	102.7	1.4	(2.5)	(1.1)	45.5	68.1	113.6
Postretirement benefit cost	$313.3	$ 1.1	$ 314.4	$269.2	$ 3.6	$272.8	$252.9	$ 6.0	$ 258.9

As a result of the 1992 collective bargaining agreements, the Company amended the postretirement medical benefit plan for associate employees and certain associate retirees of the Network Services subsidiaries. The increase in the postretirement benefit cost between 1993 and 1991 was primarily due to the change in benefit levels and claims experience. Also contributing to this increase were changes in actuarial assumptions and demographic experience.

The following table sets forth the plans' funded status and the amounts recognized in the Company's Consolidated Balance Sheets as of December 31:

	1993			1992		
	Health	Life Insurance	Total	Health	Life Insurance	Total
	(Dollars in Millions)					
Accumulated postretirement benefit obligation attributable to:						
Retirees	$2,218.0	$ 295.0	$2,513.0	$1,893.7	$247.6	$2,141.3
Fully eligible plan participants	319.8	.3	320.1	450.1	79.2	529.3
Other active plan participants	1,362.1	174.0	1,536.1	1,074.4	139.5	1,213.9
Total accumulated postretirement benefit obligation	3,899.9	469.3	4,369.2	3,418.2	466.3	3,884.5
Fair value of plan assets	676.9	600.9	1,277.8	512.8	537.1	1,049.9
Accumulated postretirement benefit obligation in excess of (less than) plan assets	3,223.0	(131.6)	3,091.4	2,905.4	(70.8)	2,834.6
Unrecognized net gain (loss)	(528.8)	101.5	(427.3)	(233.8)	41.4	(192.4)
Unamortized prior service cost	(65.3)	(7.4)	(72.7)	(84.5)	(9.2)	(93.7)
Accrued (prepaid) postretirement benefit obligation	$2,628.9	$ (37.5)	$2,591.4	$2,587.1	$ (38.6)	$2,548.5

The assumed discount rate used to measure the accumulated postretirement benefit obligation was 7.25% at December 31, 1993 and 7.75% at December 31, 1992. The assumed rate of future increases in compensation levels was 5.25% at December 31, 1993 and 1992. The expected long-term rate of return on plan assets was 8.25% for 1993 and 1992 and 7.5% for 1991. The medical cost trend rate in 1993 was approximately 13.0%, grading down to an ultimate rate in 2003 of approximately 5.0%. The dental cost trend rate in 1993 and thereafter is approximately 4.0%. A one percentage point increase in the assumed health care cost trend rates for each future year would have increased the aggregate of the service and interest cost components of 1993 net periodic postretirement benefit cost by $48.0 million and would have increased the accumulated postretirement benefit obligation as of December 31, 1993 by $493.7 million.

Postretirement benefits other than pensions have been included in collective bargaining agreements and have been modified from time to time. The Company has periodically modified benefits under plans maintained for its management employees. Expectations with respect to future amendments to the Company's postretirement benefit plans have been reflected in determining the Company's postretirement benefit cost under Statement No. 106.

Postemployment Benefits

Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" (Statement No. 112). Statement No. 112 requires accrual accounting for the estimated cost of benefits provided to former or inactive employees after employment but before retirement. This change principally affects the Company's accounting for disability and workers' compensation benefits, which previously were charged to expense as the benefits were paid.

The cumulative effect at January 1, 1993 of adopting Statement No. 112 reduced net income by $85.0 million, net of a deferred income tax benefit of $50.6 million. The adoption of Statement No. 112 did not have a significant effect on the Company's ongoing level of operating expense in 1993.

Savings Plans and Employee Stock Ownership Plans

The Company has established savings plans to provide opportunities for eligible employees to save for retirement on a tax-deferred basis and encourage employees to acquire and maintain an equity interest in the Company. Under these plans, the Company matches a certain percentage of eligible employee contributions with shares of the Company's common stock. Two leveraged employee stock ownership plans (ESOPs) were established to purchase the Company's common stock and fund the Company's matching contribution. Common stock is allocated from the ESOP trusts based on the proportion of principal and interest paid on ESOP debt in a year to the remaining principal and interest due over the term of the debt.

The ESOP trusts were funded by the issuance of $790.0 million in ESOP Senior Notes. Effective January 1, 1993, the annual interest rate on the ESOP Senior Notes was reduced from 8.25% to 8.17%. The ESOP Senior Notes are payable in semiannual installments, which began on January 1, 1990 and end in the year 2000. The ESOP trusts will repay the notes, including interest, with funds from the Company's contributions to the ESOP trusts, as well as dividends received on unallocated shares of common stock and interest earned on the cash balances of the ESOP trusts.

Total ESOP cost and trust activity consists of the following:

	Years Ended December 31,		
	1993	1992	1991
	(Dollars in Millions)		
Compensation	$ 45.0	$ 42.2	$ 39.7
Interest incurred	52.9	57.7	61.3
Dividends	(33.3)	(35.7)	(37.6)
Other trust earnings and expenses, net	.1	.1	(.1)
Net leveraged ESOP cost	64.7	64.3	63.3
Additional ESOP cost	.9	26.0	27.5
Total ESOP cost	$ 65.6	$ 90.3	$ 90.8
Dividends received for debt service	$ 43.4	$ 43.4	$ 42.2
Total company contributions to trusts	$ 80.3	$ 88.1	$ 92.2

9. INCOME TAXES

Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (Statement No. 109). Statement No. 109 requires the determination of deferred taxes using the liability method. Under the liability method, deferred taxes are provided on book and tax basis differences and deferred tax balances are adjusted to reflect enacted changes in income tax rates. Prior to 1993, the Company accounted for income taxes based on the provisions of Accounting Principles Board Opinion No. 11.

Statement No. 109 has been adopted on a prospective basis and amounts presented for prior years have not been restated. As of January 1, 1993, the Company recorded a tax benefit of $65.2 million, which has been reflected in the Consolidated Statement of Income as the cumulative effect of a change in accounting principle. This tax benefit is principally attributable to net operating loss (NOL) carryforwards of the Metro Mobile CTS, Inc. (Metro Mobile) subsidiaries that the Company expects to realize based on projections of future taxable income.

Upon adoption of Statement No. 109, the effects of required adjustments to deferred tax balances of the telephone subsidiaries were primarily deferred on the balance sheet as regulatory assets and liabilities in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (Statement No. 71). At January 1, 1993, the telephone subsidiaries recorded income tax-related regulatory assets totaling $976.6 million in Other Assets. These regulatory assets represent the anticipated future regulatory recognition of the Statement No. 109 adjustments to recognize (i) temporary differences for which deferred taxes had not been provided and (ii) the increase in the deferred state tax liability which resulted from increases in state income tax rates subsequent to the dates the deferred taxes were recorded. In addition, income tax-related regulatory liabilities totaling $1,043.8 million were recorded in Deferred Credits and Other Liabilities—Other. These regulatory liabilities represent the anticipated future regulatory recognition of the Statement No. 109 adjustments to recognize (i) a reduced deferred tax liability resulting from decreases in federal income tax rates subsequent to the dates the deferred taxes were recorded and (ii) a deferred tax benefit required to recognize the effects of the temporary differences attributable to the Company's policy of accounting for investment tax credits using the deferred method. These deferred taxes and regulatory assets and liabilities have been increased for the tax effect of future revenue requirements. These regulatory assets and liabilities are amortized at the time the related deferred taxes are recognized in the ratemaking process.

Prior to the adoption of Statement No. 109, the telephone subsidiaries had income tax timing differences for which deferred taxes had not been provided pursuant to the ratemaking process of approximately $615 million and $522 million at December 31, 1992 and 1991, respectively. These timing differences principally related to the allowance for funds used during construction and certain taxes and payroll-related construction costs capitalized for financial statement purposes, but deducted currently for income tax purposes, net of applicable depreciation. At December 31, 1992 and 1991, deferred state taxes had not been provided on an additional $2,057 million and $1,999 million, respectively, of income tax timing differences, principally related to accelerated tax depreciation.

The Omnibus Budget Reconciliation Act of 1993, which was enacted in August 1993, increased the federal corporate income tax rate from 34% to 35%, effective January 1, 1993. In the third quarter of 1993, the Company recorded a net charge to the tax provision of approximately $3 million, which included an approximate $20 million charge for the nine month effect of the 1% rate increase, largely offset by a one-time net benefit of approximately $17 million related to adjustments to deferred tax assets associated with the postretirement benefit obligation of the telephone subsidiaries and the deferred tax liabilities and assets of the nonregulated subsidiaries (including the recorded benefit of the Metro Mobile pre-acquisition NOLs).

Pursuant to Statement No. 71, the effect of the income tax rate increase on the deferred tax balances of the telephone subsidiaries was primarily deferred through the establishment of regulatory assets of $23.9 million and the reduction of regulatory liabilities of $94.1 million. The telephone subsidiaries did not recognize regulatory assets and liabilities related to the postretirement benefit obligation or the associated deferred income tax asset.

The components of income tax expense from continuing operations are as follows:

	Years Ended December 31,		
	1993	1992	1991
	(Dollars in Millions)		
Current:			
Federal	$ 814.0	$614.9	$588.1
State and local	150.0	134.7	124.5
	964.0	749.6	712.6
Deferred:			
Federal	(107.9)	(35.5)	28.6
State and local	2.1	9.4	(8.4)
	(105.8)	(26.1)	20.2
	858.2	723.5	732.8
Investment tax credits	(66.2)	(80.0)	(68.0)
Total	$ 792.0	$643.5	$664.8

For the years ended December 31, 1992 and 1991, deferred income tax expense resulted from timing differences in the recognition of revenue and expense for financial and income tax accounting purposes. The sources of these timing differences and the tax effects of each were as follows:

	Years Ended December 31,	
	1992	1991
	(Dollars in Millions)	
Leveraged lease transactions	$ 58.4	$ 82.0
Accelerated depreciation	(3.4)	43.0
Direct financing and operating lease transactions	(26.5)	(25.3)
Alternative Minimum Tax	41.8	33.6
Employee benefits	(41.8)	(72.5)
Other, net	(54.6)	(40.6)
Total	$(26.1)	$ 20.2

The provision for uncollectibles, expressed as a percentage of total Network Services revenue, was 1.4% in 1993, 1.1% in 1992, and 1.0% in 1991.

Other Communications and Related Services includes revenues from the Company's domestic and international operations in wireless communications, computer maintenance, software development and support, systems integration, and telecommunications consulting. These revenues grew $78.9 million or 6.5% in 1993 compared with $81.9 million or 7.2% in 1992. The continued growth of the Company's cellular customer base was the primary reason for increases in cellular revenues of $187.3 million or 32.0% in 1993 and $103.0 million or 21.3% in 1992. Revenues in both years also reflected increases in business volumes in the Company's third-party computer maintenance business. These increases were offset in 1993 by a revenue decrease of approximately $177 million due to the effect of the transfer, effective December 31, 1992, of the Bell Atlanticom Systems, Inc. (Atlanticom) business to a partnership in which the Company owns a minority interest. Revenue growth in 1992 was reduced by $58.5 million due to the effect of the July 1991 transfer of the Company's European computer maintenance business to a joint venture.

Financial, Real Estate, and Other Services includes revenues from the Company's domestic and international operations in diversified leasing, computer leasing, real estate, and liquefied petroleum gas distribution. The decreases in these revenues were due principally to the Company's decreased emphasis on computer leasing and real estate operations. The decreasing revenue trend is expected to continue throughout 1994. In line with its continuing de-emphasis of financial services businesses over the past years and its intensified focus on core telecommunications and information services strategies, the Company announced that it has begun evaluating possible strategies for exiting its financial services businesses. The Company has filed a registration statement for an initial public offering to dispose of a significant portion of its diversified leasing business. Assuming successful completion of the initial public offering, future periods will no longer include a significant portion of revenues from this business. Revenues related to the business covered in the registration statement were $245.3 million for the twelve months ended December 31, 1993. The disposition is not expected to have a material impact on the Company's net income in 1994.

Operating Expenses

Employee costs consist of salaries, wages and other employee compensation, employee benefits, and payroll taxes. Employee costs increased $86.1 million or 2.2% in 1993. Higher employee costs from salary and wage increases and overtime at the telephone subsidiaries were offset in part by savings of approximately $160 million resulting from workforce reduction programs implemented in 1992 at the Network Services companies. Workforce increases at certain nonregulated subsidiaries also contributed to higher employee costs, which were offset in part by a reduction attributable to the Atlanticom transaction.

Employee costs decreased $51.1 million or 1.3% in 1992, which reflected savings of over $150 million resulting from a 1991 retirement incentive program and a reduction of $68.0 million in pension expense resulting from a modification of the expected long-term rate of return on plan assets. These reductions were partially offset by salary and wage increases for management and associate employees and expenses of approximately $73 million associated with the 1992 workforce reduction programs.

The Company continues to evaluate ways to streamline and restructure its operations and reduce its workforce requirements in an effort to improve its cost structure.

Depreciation and amortization expense increased $127.7 million or 5.3% in 1993 due primarily to approximately $135 million of additional expense resulting from represcribed depreciation rates at three of the telephone subsidiaries. Also contributing to the increase was growth in the level of depreciable plant at the telephone and cellular subsidiaries in 1993. Partially offsetting these increases was a reduction in depreciation and amortization expense at the financial services and real estate companies of approximately $59 million due to the de-emphasis of computer leasing and real estate operations.

Depreciation and amortization expense increased $78.6 million or 3.4% in 1992. Depreciation and amortization expense at the telephone subsidiaries increased by approximately $180 million, of which approximately $150 million was attributable to represcribed depreciation rates. Also contributing to the increase was growth in the level of depreciable telephone plant, offset in part by the discontinuance of certain regulator-approved amortizations. These increases were partially offset by a reduction in depreciation and amortization

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS

Net income in 1993 and 1992 was $1,403.4 million or $3.22 per share and $1,340.6 million or $3.13 per share, respectively, compared with a loss of $324.4 million or $.72 per share for 1991. Results for 1993 included the cumulative effects of adopting Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" (Statement No. 112) and Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (Statement No. 109). The loss in 1991 reflected a charge of $1,554.3 million, or $3.63 per share, for the adoption of Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (Statement No. 106). Results for 1993 represented increases of 4.7% in net income and 2.9% in earnings per share over 1992, attributable to operating income growth of 11.6%, fueled by improved business volumes and expense controls, and lower interest costs, partially offset by higher income taxes. Results for 1992 represented increases of 9.0% in net income and 7.6% in earnings per share over 1991, excluding the cumulative effect of the adoption of Statement No. 106.

Other items affecting the comparison of operating results are discussed in the following sections.

OPERATING REVENUES

Local service revenues are earned by the telephone subsidiaries from the provision of local exchange, local private line, and public telephone services. Local service revenues increased $163.8 million or 3.3% and $134.3 million or 2.8% in 1993 and 1992, respectively. The increase in both years resulted primarily from growth in network access lines and higher demand for value-added central office services such as Custom Calling and Caller ID. Access lines in service at December 31, 1993 and 1992 increased 2.6% and 2.4%, respectively, over the prior year. Revenues from value-added central office services offered by the telephone subsidiaries increased $51.3 million or 14.1% in 1993 compared with $42.1 million or 13.1% growth in 1992.

Network access revenues are received from interexchange carriers (IXCs) for their use of the Company's local exchange facilities in providing long-distance services to IXCs' customers and from end-user subscribers. Switched access revenues are derived from usage-based charges paid by IXCs for access to the Company's network. Special access revenues arise from access charges paid by customers who have private lines, and end-user access revenues are earned from local exchange carrier customers who pay for access to the network.

Network access revenues increased $117.8 million or 4.0% in 1993 and $31.0 million or 1.1% in 1992. Growth in access minutes of use was 7.2% and 4.3% in the respective periods. Revenue increases related to this volume growth were partially offset in both years by the effect of interstate rate reductions filed by the Company with the Federal Communications Commission (FCC), which became effective on July 2, 1993 and July 1, 1992, and by related estimated price cap sharing liabilities.

Toll service revenues increased $1.8 million or 0.1% in 1993 and $17.5 million or 1.1% in 1992. Toll message volume growth was 3.4% in 1993 compared with 2.9% in 1992. Volume-related message toll service revenue increases were partially offset in 1993 and 1992 by declines in revenues from WATS and private line services, principally due to competitive pressures. In 1993, revenue growth was offset further by the effects of rate reductions at one of the telephone subsidiaries.

Other Network Services revenues include amounts earned from directory advertising, billing and collection services provided to IXCs, premises services such as inside wire installation and maintenance, and certain nonregulated enhanced network services. Directory advertising revenues in 1993 increased $27.1 million or 2.7% compared to a $25.3 million or 2.5% increase in 1992. Revenue growth was adversely impacted in both years by decreasing sales volume attributable primarily to competition. In addition, the rate of economic recovery as it pertains to this line of business continues to be mixed within the Network Services operating region. Premises services revenues increased $25.2 million or 9.6% and $10.9 million or 4.3% in 1993 and 1992, respectively, principally as a result of higher business volumes. Revenues from Answer Call, a nonregulated enhanced network service, were $50.6 million, $27.9 million, and $13.0 million in 1993, 1992, and 1991, respectively. Billing and collection revenues decreased $23.0 million in 1993 primarily as a result of the effect of favorable claim adjustments recorded in 1992. Billing and collection revenues were also reduced in 1993 as a result of reductions in services provided under long-term contracts with certain IXCs.

expense at the financial services and real estate companies of approximately $119 million due to the de-emphasis of computer leasing and real estate operations.

Other operating expenses decreased $233.4 million or 6.1% in 1993. This reduction was largely the result of a decrease of approximately $184 million due to the transfer of the Atlanticom business to a partnership. The decrease also included the effect of the recognition in 1992 of approximately $47 million of one-time costs associated with the Company's merger with Metro Mobile CTS, Inc. (Metro Mobile). Additional decreases resulting from lower expenses at the financial services and real estate companies and Network Services companies were largely offset by increases related to higher business volumes at the Company's cellular and computer maintenance subsidiaries.

Other operating expenses increased $157.9 million or 4.3% in 1992 due primarily to higher business volumes at the Company's cellular subsidiaries, recognition of approximately $47 million of one-time costs associated with the Metro Mobile merger, and increased deployment of advanced switching software at the telephone subsidiaries. These increases were offset in part by decreased expenses at the financial services companies, primarily as a result of lower interest costs associated with reduced debt levels in 1992, and the effect of the July 1991 transfer of the Company's European computer maintenance business to a joint venture. Company-wide cost containment efforts also reduced expenses during 1992.

Assuming successful completion of the initial public offering to dispose of a significant portion of the Company's diversified leasing business, future periods will no longer include a significant portion of expenses from this business. Operating expenses related to the business covered in the registration statement were $191.6 million for the twelve months ended December 31, 1993.

Other Income and Expense

Other income and expense includes equity income from the Company's investment in unconsolidated businesses, interest and dividend income, and gains and losses from the disposition of assets and investments. Other income, net of expense, was $88.1 million in 1993, $214.4 million in 1992, and $176.2 million in 1991.

The 1993 decrease is primarily the result of gains on the sale of certain assets recorded in 1992 and approximately $32 million of interest income recognized in 1992 in connection with the settlement of various federal income tax matters related to prior periods. Other income and expense for 1993 included approximately $42 million representing the Company's share of restructuring charges taken by Telecom Corporation of New Zealand Limited (Telecom), a pretax gain of approximately $65 million related to the private sales of a portion of the Company's investment in Telecom, and a pretax charge of approximately $26 million associated with a planned disposition of certain non-strategic businesses.

The increase in 1992 reflects gains on sales of shares in HCA–Hospital Corporation of America (HCA) and real estate. The aggregate amount of these gains was virtually the same as the 1991 gains related to the Company's sales of shares in Telecom and real estate and the transfer of the Company's European computer maintenance business to a joint venture. The increase in 1992 also included approximately $32 million of interest income recognized in connection with the settlement of various federal income tax matters related to prior periods.

Other income and expense, net, in 1994 is expected to decrease significantly due to goodwill amortization associated with the Company's equity investment in Grupo Iusacell, S.A. de C.V. (Iusacell), a Mexican telecommunications company.

Interest Expense, Excluding Financial Services

Interest expense decreased $82.8 million or 11.9% and $111.9 million or 13.9% in 1993 and 1992, respectively, principally due to the effects of lower short-term interest rates and long-term debt refinancings. Decreases also resulted from lower interest costs associated with the Telecom investment, as proceeds from the Company's sale of Telecom shares in 1993 and 1991 were used to reduce a portion of the acquisition-related debt. The effect of a $16.9 million write-off of deferred financing costs at Metro Mobile in 1991 also contributed to the decrease in 1992.

Income Taxes

The provision for income taxes increased $148.5 million or 23.1% in 1993 compared to a decrease of $21.3 million or 3.2% in 1992.

The Company's effective income tax rate was 34.8% in 1993, 31.8% in 1992, and 35.1% in 1991. The 1993 effective tax rate reflects the effect of federal tax legislation enacted in 1993, which increased the federal corporate tax rate from 34% to 35%. The lower effective tax rate in 1992 resulted from certain adjustments to deferred taxes and the recognition in 1992 of consolidated tax benefits attributable to operations of the Metro Mobile business. These tax benefits were not recognized in previous years. A reconciliation of the statutory federal income tax rate to the effective rate for each period is provided in Note 9 of Notes to Consolidated Financial Statements.

Extraordinary Item

The Company called $1,525.0 million in 1993 and $1,081.0 million in 1992 of long-term debentures of several of the telephone subsidiaries, which were refinanced at more favorable interest rates. As a result of these early retirements, the Company incurred after-tax charges of $58.4 million in 1993 and $41.6 million in 1992. These debt refinancings will reduce interest costs on the refinanced debt by approximately $47 million annually over the next ten years.

Cumulative Effect of Changes in Accounting Principles

In connection with the adoption of Statement No. 109, effective January 1, 1993, the Company recorded a one-time, cumulative effect tax benefit of $65.2 million in 1993 (see Note 9 of Notes to Consolidated Financial Statements).

In connection with the adoption of Statement No. 112, effective January 1, 1993, the Company recorded a one-time, cumulative effect after-tax charge of $85.0 million in 1993 (see Note 8 of Notes to Consolidated Financial Statements).

The adoption of Statement No. 109 and Statement No. 112 did not have a significant effect on the Company's ongoing level of expense in 1993 and is not expected to have a significant effect in future periods.

COMPETITION AND REGULATORY ENVIRONMENT

The telecommunications industry is currently undergoing fundamental changes which may have a significant impact on future financial performance of all telecommunications companies. These changes are driven by a number of factors, including the accelerated pace of technology change, customer requirements, a changing industry structure characterized by strategic alliances and the convergence of telecommunications and cable television, and a changing regulatory environment in which traditional regulatory barriers are being lowered and competition encouraged.

The convergence of cable television, computer technology, and telecommunications can be expected to dramatically increase competition in the future. The Company's existing telecommunications business is already subject to competition from numerous sources, including competitive access providers for network access services (and in some jurisdictions for intraLATA toll services), competing cellular telephone companies and others.

During 1993, a number of business alliances were announced that have the potential to significantly increase competition both within the industry and the areas currently served by Bell Atlantic. Over the past several years, the Company has taken a number of actions in anticipation of the increasingly competitive environment. Cost reductions have been achieved, giving the Company greater pricing flexibility for services exposed to competition. A new lines of business organization structure was adopted. Narrowband network modernization programs were largely completed, permitting a greater proportion of existing capital resources to be reallocated to the deployment of broadband network platforms to address the opportunities afforded by the emerging multimedia market. On the regulatory front, alternative regulation plans have been approved or are pending in all seven state jurisdictions. Moreover, all telephone subsidiaries have been afforded some degree of pricing flexibility for products and services subject to competition. Initiatives such as the Company's challenge to the 1984 Cable Act and the formation of an Information Services business unit staffed by experienced people from the video and entertainment industry have created opportunities for the Company in the information services and video markets.

In October 1993, the Company announced its intention to invest up to a total of $1.04 billion to acquire a 42% (or, under certain circumstances, up to a 46%) economic interest in Grupo Iusacell, S.A. de C.V. (Iusacell), the second largest telecommunications company in Mexico. In November 1993, the Company acquired a 23% economic interest in Iusacell through the purchase of $520.0 million of newly issued Iusacell stock. The Company's acquisition of additional interests is expected to occur in mid-1994. This investment will substantially increase the size of the Company's cellular holdings. As a result of its investment in Iusacell, the Company expects earnings dilution for the first several years due to the amortization of goodwill and financing costs. Earnings dilution is expected to be approximately $.14 per share in 1994. In the longer term, this investment should substantially increase the contribution that the wireless business makes to the Company's earnings growth.

In October 1993, the Company also announced the execution of a letter of intent regarding a stock-for-stock merger among the Company, Tele-Communications Inc. and Liberty Media Corporation. On February 23, 1994, the parties announced that they had been unable to reach final agreement on their proposed merger and had terminated negotiations. The parties continue to discuss other ways of working together, including possible joint ventures to build full-service networks and joint investment in programming.

The Company conducts ongoing evaluations of its accounting practices, many of which have been prescribed by regulators. These evaluations include the assessment of whether costs that have been deferred as a result of actions of regulators and the cost of the Company's telephone plant will be recoverable in the future. In the event recoverability of costs becomes unlikely due to decisions by the Company to accelerate deployment of new technology in response to specific regulatory actions or increasing levels of competition, the Company may no longer apply the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (Statement No. 71). The discontinued application of Statement No. 71 would require the Company to write off its regulatory assets and liabilities and may require the Company to adjust the carrying amount of its telephone plant should it determine that such amount is not recoverable. The Company believes that it continues to meet the criteria for continued financial reporting under Statement No. 71. A determination in the future that such criteria are no longer met may result in a significant one-time, noncash, extraordinary charge, if the Company determines that a substantial portion of the carrying value of its telephone plant may not be recoverable.

In October 1993, the FCC issued a report and order allocating radio spectrum to be licensed for use in providing personal communications services (PCS). Under the order, seven separate bandwidths of spectrum, ranging in size from 10 MHz to 30 MHz, would be auctioned to potential PCS providers in each geographic area of the United States. The geographical units by which the licenses would be allocated will be "basic trading areas" or larger "major trading areas." Five of the spectrum blocks are to be auctioned on a basic trading area basis, and the remaining two are to be auctioned by major trading area. Local exchange carriers such as the Company are eligible to bid for PCS licenses, except that cellular carriers (such as the Company) are limited to obtaining 10 MHz of PCS bandwidth in areas where they provide cellular service. Bidders other than cellular providers may obtain multiple licenses aggregating up to 40 MHz of bandwidth in any area. Bell Atlantic has stated that it intends to pursue PCS licenses in the auctions, which are expected to be held in 1994.

In August 1993, the United States District Court for the Eastern District of Virginia ruled unconstitutional the 1984 Cable Act's limitation on in-territory provision of programming by local exchange carriers such as the Company. The Cable Act currently prohibits local exchange carriers from owning more than 5% of any company that provides cable programming in their local service area. In a case originally brought by two Bell Atlantic subsidiaries, the court ruled that this prohibition violates the First Amendment's freedom of speech protections, and enjoined enforcement of the prohibition against the Company and its telephone subsidiaries. The ruling has been appealed by the federal government.

OTHER MATTERS

Four of the telephone subsidiaries have been designated as potentially responsible parties by the U.S. Environmental Protection Agency in connection with eight Superfund sites. Designation as a potentially responsible party subjects the named company to potential liability for costs relating to cleanup of the affected sites. Management believes that the aggregate amount of any potential liability would not have a material effect on the Company's financial condition or results of operations.

FINANCIAL CONDITION

Management believes that the Company has adequate internal and external resources available to meet ongoing operating requirements, including network expansion and modernization, business development, and the payment of dividends. Management expects that presently foreseeable capital requirements will be financed primarily through internally generated funds. Additional long-term debt or equity financing may be needed to fund development activities to maintain the Company's capital structure within management's guidelines.

of credit and shelf registrations for the issuance of up to $2.3 billion of unsecured debt securities.

During 1993, as in prior years, the Company's primary source of funds continued to be cash generated from operations. Revenue growth, cost containment measures and savings on interest costs contributed to cash provided from operations of $4.23 billion for the year ended December 31, 1993, compared to $3.91 billion in 1992. In addition, in 1993, the sale of a portion of the Company's interest in Telecom provided cash proceeds from investing activities of $253.7 million. In 1992, sales of real estate and HCA stock, and the disposition of businesses, provided net cash proceeds from investing activities of approximately $393 million.

In March 1994, the Company expects to receive a payment of approximately $65 million in connection with a capital reduction plan by Telecom in which 20% of Telecom's outstanding shares will be canceled on a pro rata basis and shareholders will receive one New Zealand Dollar for each share canceled. Telecom's capital reduction will not change the Company's ownership percentage of Telecom.

The primary use of capital resources continued to be capital expenditures. The Company invested approximately $2.1 billion in 1993, $2.2 billion in 1992, and $2.3 billion in 1991 in the telephone subsidiaries' network. This level of investment is expected to continue in 1994. The Company plans to reallocate capital resources to the deployment of broadband network platforms, as capital requirements for the narrowband network modernization are reduced. During 1993, the Company funded $289.1 million of postretirement health care and pension benefit costs compared to $348.6 million in 1992. In 1993, the Company used $674.4 million of cash in connection with its investment in Iusacell and the acquisition of two directory sales companies and certain cellular properties.

The Company reduced long-term debt (including capital leases) and short-term debt by $168.2 million in 1993 and $764.4 million in 1992. Approximately $1.7 billion and $1.8 billion of debt was refinanced at more favorable interest rates during 1993 and 1992, respectively. The Company's debt ratio was 54.6% as of December 31, 1993, compared to 56.3% at December 31, 1992.

The Company issued shares of its common stock for cash, in satisfaction of liabilities and in connection with acquisitions (see Note 6 of Notes to Consolidated Financial Statements).

REPORT OF MANAGEMENT

The management of Bell Atlantic Corporation is responsible for the consolidated financial statements and the information and representations contained in this report. Management believes that the financial statements have been prepared in conformity with generally accepted accounting principles and that the information in this report is consistent with those statements. Management is required to include in the financial statements amounts, primarily related to matters not concluded by year-end, that are based on management's best estimates and judgments.

In meeting its responsibility for the financial statements of the Company, management maintains a strong internal control structure, including the appropriate control environment, accounting systems, and control procedures. The internal control structure is designed to provide reasonable assurance that assets are safeguarded from unauthorized use or disposition, that transactions are properly recorded and executed in accordance with management's authorizations, and that the financial records permit the preparation of reliable financial statements. There are, however, inherent limitations that should be recognized in considering the assurances provided by the internal control structure. The concept of reasonable assurance recognizes that the costs of the internal control structure should not exceed the benefits to be derived. The internal control structure is reviewed and evaluated on a regular basis. Compliance is monitored by the internal auditors through an annual plan of internal audits.

The Board of Directors pursues its review and oversight role for the financial statements through an Audit Committee composed of four outside directors. The duties of the Audit Committee include recommending to the Board of Directors the appointment of an independent accounting firm to audit the financial statements of the Company and its subsidiaries. The Audit Committee meets periodically with management and the Board of Directors. It also meets with representatives of the internal auditors and independent accountants and reviews the work of each to ensure that their respective responsibilities are being carried out and to discuss related matters. Both the internal auditors and independent accountants have direct access to the Audit Committee.

The financial statements of the Company have been audited by Coopers & Lybrand, independent accountants, whose report is included on page 14.

Raymond W. Smith
Chairman of the Board and Chief Executive Officer

William O. Albertini
Vice President and Chief Financial Officer

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareowners of
Bell Atlantic Corporation

We have audited the accompanying consolidated balance sheets of Bell Atlantic Corporation and subsidiaries as of December 31, 1993 and 1992, and the related consolidated statements of income and cash flows for each of the three years in the period ended December 31, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 Bell Atlantic Corporation and subsidiaries as of December 31, 1993 and 1992, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1993 in conformity with generally accepted accounting principles.

As discussed in Notes 1, 8 and 9 to the consolidated financial statements, the Company changed its method of accounting for income taxes and postemployment benefits in 1993 and postretirement benefits other than pensions in 1991.

Coopers & Lybrand

2400 Eleven Penn Center
Philadelphia, Pennsylvania
February 7, 1994

BELL ATLANTIC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31

(Dollars in Millions, Except Per Share Amounts)

	1993	1992	1991
OPERATING REVENUES			
Communications and Related Services			
Network Services			
Local service	$ 5,055.9	$ 4,892.1	$ 4,757.8
Network access	3,070.9	2,953.1	2,922.1
Toll service	1,558.0	1,556.2	1,538.7
Directory advertising, billing services, and other	1,704.6	1,658.9	1,599.2
Provision for uncollectibles	(155.4)	(117.6)	(107.6)
Other Communications and Related Services	1,300.8	1,221.9	1,140.0
Financial, Real Estate, and Other Services	455.4	553.8	701.9
	12,990.2	12,718.4	12,552.1
OPERATING EXPENSES			
Employee costs, including benefits and taxes	4,027.6	3,941.5	3,992.6
Depreciation and amortization	2,545.1	2,417.4	2,338.8
Other	3,619.9	3,853.3	3,695.4
	10,192.6	10,212.2	10,026.8
OPERATING INCOME	2,797.6	2,506.2	2,525.3
Other Income and Expense, Net	88.1	214.4	176.2
Interest Expense, excluding Financial Services	612.1	694.9	806.8
INCOME BEFORE PROVISION FOR INCOME TAXES, EXTRAORDINARY ITEM, AND CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	2,273.6	2,025.7	1,894.7
Provision for Income Taxes	792.0	643.5	664.8
INCOME BEFORE EXTRAORDINARY ITEM AND CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	1,481.6	1,382.2	1,229.9
EXTRAORDINARY ITEM			
Early Extinguishment of Debt, Net of Tax	(58.4)	(41.6)	—
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES			
Income Taxes	65.2	—	—
Postemployment Benefits, Net of Tax	(85.0)	—	—
Postretirement Benefits Other Than Pensions, Net of Tax	—	—	(1,554.3)
	(19.8)	—	(1,554.3)
NET INCOME (LOSS)	$ 1,403.4	$ 1,340.6	$ (324.4)
PER COMMON SHARE			
INCOME BEFORE EXTRAORDINARY ITEM AND CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	$ 3.39	$ 3.23	$ 2.91
EXTRAORDINARY ITEM	(.13)	(.10)	—
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	(.04)	—	(3.63)
NET INCOME (LOSS)	$ 3.22	$ 3.13	$ (.72)
Weighted average number of common shares and equivalent shares outstanding (in millions)	436.3	433.0	429.1

See Notes to Consolidated Financial Statements.

BELL ATLANTIC CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in Millions)

	December 31, 1993	December 31, 1992
Assets		
CURRENT ASSETS		
Cash and cash equivalents	$ 146.1	$ 296.0
Short-term investments	8.5	33.7
Accounts receivable, net of allowances of $192.6 and $170.4	2,135.7	2,036.8
Finance lease and notes receivable, net	626.6	592.0
Inventories	250.9	266.0
Prepaid expenses	452.4	391.7
Deferred charges and other	250.6	375.1
	3,870.8	3,991.3
PLANT, PROPERTY AND EQUIPMENT	32,329.9	31,046.2
Less accumulated depreciation	11,964.0	10,716.2
	20,365.9	20,330.0
EQUIPMENT UNDER OPERATING LEASES, NET	199.3	262.7
FINANCE LEASE AND NOTES RECEIVABLE, NET	1,888.4	1,872.7
INVESTMENTS IN AFFILIATES	1,394.7	987.5
OTHER ASSETS	1,825.1	655.3
TOTAL ASSETS	$29,544.2	$28,099.5
Liabilities and Shareowners' Investment		
CURRENT LIABILITIES		
Debt maturing within one year	$ 2,677.3	$ 2,703.5
Accounts payable	2,134.9	1,939.5
Accrued taxes	190.9	126.1
Advance billings and customer deposits	443.0	420.4
Accrued vacation pay	244.0	228.4
Dividend payable	292.2	282.1
Other	141.6	172.2
	6,123.9	5,872.2
LONG-TERM DEBT	7,206.2	7,348.2
EMPLOYEE BENEFIT OBLIGATIONS	3,396.0	3,058.7
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred income taxes	2,913.5	3,094.3
Unamortized investment tax credits	447.2	513.4
Other	1,233.0	396.4
	4,593.7	4,004.1
COMMITMENTS (NOTES 5 AND 6)		
SHAREOWNERS' INVESTMENT		
Preferred and Preference stock ($1 par value; none issued)	—	—
Common stock ($1 par value; 436,130,185 shares and 434,155,077 shares issued)	436.1	434.2
Common stock issuable (142,068 shares and 185,797 shares)	.1	.2
Contributed capital	5,415.2	5,356.9
Reinvested earnings	3,093.6	2,853.4
Foreign currency translation adjustment	(83.9)	(140.1)
	8,861.1	8,504.6
Less common stock in treasury, at cost	2.4	9.1
Less deferred compensation—employee stock ownership plans	634.3	679.2
	8,224.4	7,816.3
TOTAL LIABILITIES AND SHAREOWNERS' INVESTMENT	$29,544.2	$28,099.5

See Notes to Consolidated Financial Statements.

BELL ATLANTIC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31

(Dollars in Millions)

	1993	1992	1991
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ 1,403.4	$ 1,340.6	$ (324.4)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	2,545.1	2,417.4	2,338.8
Extraordinary item related to early extinguishment of debt, net of tax benefit	58.4	41.6	—
Cumulative effect of changes in accounting principles	19.8	—	1,554.3
Other items, net	(12.5)	(56.5)	(58.0)
Changes in certain assets and liabilities, net of effects from acquisition/disposition of businesses:			
Accounts receivable	(87.8)	(13.8)	63.9
Inventories	(48.9)	(43.7)	(15.2)
Other assets	3.8	157.0	(57.3)
Accounts payable and accrued taxes	340.9	(64.4)	58.4
Deferred income taxes, net	(105.8)	(26.1)	54.4
Unamortized investment tax credits	(66.2)	(80.0)	(68.0)
Employee benefit obligations	193.3	63.6	216.5
Other liabilities	(9.5)	172.0	(2.4)
Net cash provided by operating activities	4,234.0	3,907.7	3,761.0
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of short-term investments	(8.5)	(159.3)	(202.0)
Proceeds from sale of short-term investments	34.0	241.3	113.6
Additions to plant, property and equipment	(2,448.6)	(2,488.1)	(2,501.0)
Proceeds from sale of plant, property and equipment	2.6	315.0	86.5
Additions to equipment under operating leases	(68.8)	(72.3)	(86.3)
Proceeds from sale of equipment under operating leases	44.7	111.9	107.6
Additions to finance lease and notes receivable	(1,862.5)	(1,467.0)	(1,373.1)
Proceeds from sales related to finance lease and notes receivable	233.2	318.5	317.6
Principal payments received under finance lease and notes receivable	1,568.0	1,156.2	1,092.0
Acquisition of businesses, less cash acquired	(146.9)	(.3)	(2.0)
Investment in Grupo Iusacell, S.A. de C.V.	(520.0)	—	—
Investment in Telecom Corporation of New Zealand Limited	—	—	(189.7)
Proceeds from sale of ownership interest in Telecom Corporation of New Zealand Limited	253.7	—	395.5
Investment in joint ventures	(7.5)	(.8)	(10.9)
Proceeds from disposition of businesses	—	26.5	4.2
Proceeds from sale of investment	—	58.9	—
Other, net	(9.7)	(36.3)	(27.0)
Net cash used in investing activities	(2,936.3)	(1,995.8)	(2,275.0)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	2,148.1	1,340.7	750.2
Principal repayments of borrowings and capital lease obligations	(949.0)	(1,875.5)	(796.1)
Early extinguishment of debt and related call premium	(1,658.7)	(987.5)	—
Net change in short-term borrowings with original maturities of three months or less	186.7	700.4	(485.2)
Dividends paid	(1,156.5)	(1,069.7)	(976.2)
Proceeds from sale of treasury stock	2.0	122.1	112.7
Proceeds from sale of common stock	31.7	—	—
Purchase of common stock for treasury	—	(.1)	(15.3)
Net change in outstanding checks drawn on controlled disbursement accounts	(51.9)	22.0	(42.4)
Net cash used in financing activities	(1,447.6)	(1,747.6)	(1,452.3)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(149.9)	164.3	33.7
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	296.0	131.7	98.0
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 146.1	$ 296.0	$ 131.7

See Notes to Consolidated Financial Statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION

The consolidated financial statements include the accounts of Bell Atlantic Corporation (Bell Atlantic) and its majority-owned subsidiaries (together with Bell Atlantic, the Company). Investments in less-than-majority-owned businesses, including the Company's investments in Telecom Corporation of New Zealand Limited (Telecom), Grupo Iusacell, S.A. de C.V., a one-seventh interest in Bell Communications Research, Inc., several cellular mobile communications and real estate partnerships, and several other domestic and international joint ventures, are accounted for using the equity method. The portion of the Company's investment in Telecom that was required to be sold was accounted for using the cost method. All significant intercompany accounts and transactions have been eliminated.

Network Services consists of the Company's seven telephone subsidiaries and subsidiaries that provide centralized management, financing, and technical services. Financial Services consists of the Company's lease financing subsidiaries.

The telephone subsidiaries are included in the consolidated financial statements using generally accepted accounting principles applicable to regulated entities.

REVENUE RECOGNITION

Revenues are recognized as earned on the accrual basis.

The telephone subsidiaries recognize revenues when services are rendered based on usage of the Company's local exchange network and facilities. For Other Communications and Related Services, revenue is recognized when products are delivered or services are rendered to customers. Cellular operations revenue includes access and usage, equipment, and gross roamer revenue into and out of the Company's markets.

Financial, Real Estate, and Other Services revenues primarily result from leasing transactions, which are recorded in accordance with Statement of Financial Accounting Standards No. 13, "Accounting for Leases."

Direct finance lease receivables consist of the gross minimum lease payments receivable under the leases plus the estimated residual value of the leased property less the unearned income. Unearned income represents the excess of the gross minimum lease payments receivable plus the estimated residual value over the cost of the equipment leased. Unearned income is amortized to income over the term of the lease by methods that provide an approximately level rate of return on the net investment in the lease.

Leveraged lease receivables consist of the aggregate minimum rentals receivable under the leases, net of related nonrecourse debt, plus the estimated residual value of the leased property less unearned income. The unearned income represents the estimated pretax lease income and unamortized investment tax credits.

Accumulated deferred income taxes arising from leveraged leases are deducted from leveraged lease receivables to determine the net investment in leveraged leases. Unearned income is recognized at a rate that will distribute income to years in which the net investment in the leveraged lease is positive.

Operating lease income is recognized in equal monthly amounts over the term of the lease.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents. Cash equivalents are stated at cost, which approximates market value.

SHORT-TERM INVESTMENTS

Short-term investments consist of investments that mature 91 days to 12 months from the date of purchase. Short-term investments are stated at cost, which approximates market value.

Inventories

New and reusable materials of the telephone subsidiaries are 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. Inventories of other subsidiaries are carried at the lower of cost (determined principally on either an average or first-in, first-out basis) or market.

Prepaid Directory

Costs of directory production and advertising sales are deferred until the directory is published. Such costs are amortized to expense and the related advertising revenues are recognized over the average life of the directory, which is generally 12 months.

Plant and Depreciation

The telephone subsidiaries' provision for depreciation is based principally on the remaining life method of depreciation and straight-line composite rates. The provision for depreciation is based on the following estimated remaining service lives: buildings, 25 to 35 years; central office equipment, 2 to 12 years; cable, wiring, and conduit, 9 to 45 years; and other equipment, 2 to 20 years. This method provides for the recovery of the remaining net investment in telephone plant, less anticipated net salvage value, over the remaining service lives authorized by regulatory commissions. Depreciation expense also includes amortization of certain classes of telephone plant (and certain identified depreciation reserve deficiencies) over periods authorized by regulatory commissions.

When depreciable plant of the telephone subsidiaries is replaced or retired, the amounts at which such plant has been carried in plant, property and equipment are removed from the respective accounts and charged to accumulated depreciation, and any gains or losses on disposition are amortized over the remaining service lives of the remaining net investment in telephone plant.

Plant, property and equipment of other subsidiaries is depreciated principally on a straight-line basis over the following estimated useful lives: buildings, 15 to 40 years; and other equipment, 2 to 16 years. When the depreciable assets of these subsidiaries are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gains or losses on disposition are recognized in income.

Maintenance and Repairs

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

Allowance for Funds Used During Construction

Regulatory commissions allow the telephone subsidiaries to record an allowance for funds used during construction, which includes both interest and equity return components, as a cost of plant and as an item of other income. Such income is not recovered in cash currently, but will be recoverable over the service life of the plant through higher depreciation expense recognized for regulatory purposes.

Equipment Under Operating Leases

Equipment under operating leases is depreciated to estimated residual value principally by using a sum-of-the-years-digits method.

Cost in Excess of Net Assets Acquired

The excess of the acquisition cost over the fair value of net assets of businesses acquired, which is included in noncurrent other assets, is amortized by the straight-line method over periods not exceeding 40 years.

Foreign Currency Translation

Assets and liabilities of foreign subsidiaries for which the functional currency is the local currency are translated at current exchange rates. Revenues and expenses are translated using average rates during the year. Resulting cumulative translation adjustments are recorded as a separate component of Shareowners' Investment. Exchange gains and losses on certain balances of a long-term investment nature between consolidated subsidiaries also are recorded in the separate component of Shareowners' Investment. Other transaction gains and losses that arise from exchange rate changes on transactions denominated in a currency other than the local currency are included in results of operations as incurred.

Exhibit 4

Financial Qualification Documents

Bell Atlantic

Bell Atlantic Corporation
One Bell Atlantic Plaza
1310 N. Courth House Road
Arlington, VA 22201
(703) 351-4504
FAX (703) 351-4557

Brian D. Oliver
Vice President
Corporate Development

November 16, 1994

Mr. Bruce D. Kraselsky, Chairman
Constellation Communications, Inc.
10530 Rosehaven Street, Suite 410
Fairfax, Virginia 22030

Dear Mr. Kraselsky:

The attached financial statements show Bell Atlantic Corporation (BAC) assets of $29.544 billion and stockholders' equity of $8.224 billion. In addition, BAC has credit lines of $2.1 billion. Annual funds from operations exceeded $4.2 billion for 1993. These available funds are well in excess of the amount which we understand is necessary to construct, launch and operate for one year the CCI LEO satellite system.

BAC has completed an initial review of CCI's FCC application and its business plans for satellite system construction and operation. It is BAC's intent to provide financial support for that satellite project subject to normal business reviews of market conditions and the project's progress to assure acceptable levels of risk and return.

Actual BAC financial commitments would be subject to negotiation of satisfactory agreements; and our customary internal business approval procedures, including, if applicable, approval by the Board of Directors.

Sincerely,

Brian D. Oliver

Vice President Corporate Development

E-SYSTEMS

Senior Vice President

November 11, 1994

64000/4-155

Mr. Bruce D. Kraselsky, Chairman
Constellation Communications, Inc.
10530 Rosehaven Street, Suite 410
Fairfax, VA 22030

Dear Mr. Kraselsky:

E-Systems, Inc. is an equity owner in Constellation Communications, Inc. ("CCI"). The enclosed financial statements show E-Systems current assets of $750 million and stockholders' equity of $770 million. In addition, E-Systems has credit lines of $350 million. Annual operating income exceeded $180 million for 1993.

E-Systems has reviewed CCI's FCC application and its business plans for satellite system construction and operation. E-Systems intends to provide the necessary financial support for that satellite project subject to normal business reviews of market conditions.

I understand that this letter is to be provided to the Federal Communications Commission to demonstrate CCI's financial qualifications.

Sincerely,

Peter A. Marino

/lc

Enclosure

Exhibit 6

Bell Atlantic 1993 Annual Report

NEWS RELEASE

Bell Atlantic

Contact: Cynthia M. Ciangio
(215) 963-6306

For Release: Immediately
October 19, 1994

BELL ATLANTIC REPORTS STRONG THIRD-QUARTER 1994 RESULTS WITH RECORD WIRELESS GROWTH

PHILADELPHIA, October 19, 1994 -- Bell Atlantic Corporation (NYSE: BEL) today said that solid 1994 third-quarter results before previously announced charges reflect strong demand in its network business and record customer growth in its wireless operations.

The company reported a 1994 third-quarter loss of $4.29 per share, including previously announced non-cash charges of $5.20 per share. Earnings for the quarter, excluding these charges, were $.91 per share. For purposes of comparability, reported earnings of $.87 per share for the third quarter of 1993 should be reduced to $.86 per share to reflect $.03 per share for the effect in the current quarter of the company's recent investments in Grupo Iusacell, S.A. de C.V., partially offset by an extraordinary charge of $.02 per share for the early retirement of debt. After adjustments in both years, earnings for the third quarter of 1994 were 5.8 percent higher than the same period in 1993 and year-to-date earnings were 9.5 percent higher than the first nine months of 1993.

"The sound fundamentals of our core businesses give us confidence that, excluding these special charges, we will meet our target for earnings growth in 1994," said Bell Atlantic Chairman and Chief Executive Officer Raymond W. Smith. "Our recently announced strategic initiatives are major steps in an aggressive, multi-year campaign to respond to competition in our traditional markets and to improve our position to pursue opportunities in new high-growth markets to enhance shareowner value."

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These initiatives support plans to aggressively deploy new technology, reduce costs while improving customer service levels, and adopt accounting methodology appropriate for a competitive rather than a regulated industry environment. These charges included: $4.92 per share (or $2.15 billion) related to the discontinuance of accounting for the effects of certain types of regulation and the revaluation of telephone plant; $.23 per share (or $99.5 million) for costs associated with the separation of employees who are entitled to benefits under existing separation pay plans, including those who are part of a workforce reduction of 5,600 employees over a three-year period; and $.05 per share (or $22.3 million) related to the disposition of certain non-strategic investments.

After comparability adjustments in both periods, net income was $397.4 million in the third quarter of 1994, an increase of 5.8 percent over the third quarter of 1993. Total operating revenues for the third quarter of 1994 were $3.42 billion, an increase of 3.8 percent compared with $3.29 billion for the same period last year. Excluding the company's financial services businesses which have been de-emphasized, revenues increased by 6.0 percent.

The company's wireless business had its third consecutive quarter of record growth, with the customer base increasing 57.5 percent over the same date last year for a total of 1.45 million subscribers at September 30, 1994. Revenue in the wireless business increased 45.6 percent over the third quarter of 1993.

"Our wireless business continues to show very strong results and accelerated growth patterns," Smith said. "We have set an objective for domestic customer growth of between 55 percent and 60 percent for the calendar year, and we are confident that we can achieve this growth. In August, we completed the final stage of our acquisition of a 42 percent economic interest and 44 percent voting interest in Grupo Iusacell, S.A. de C.V., Mexico's largest independent cellular company. This is further demonstration of our plans to be a leading wireless carrier in the North American marketplace."

Total operating expenses were $2.82 billion for the third quarter of 1994, compared with $2.57 billion for the third quarter of 1993. Excluding the charge in the third quarter of 1994 for costs associated with the separation of employees, operating expenses increased by 3.6 percent, or $94 million.

Total minutes of use increased by 9.0 percent over the third quarter of 1993. Access lines at the end of the quarter totalled 19.0 million, an increase of 514,100 lines, or 2.8 percent, versus the end of the third quarter of 1993. Business and Centrex access lines increased 3.6 percent and 5.4 percent, respectively, over totals at the end of the third quarter of 1993.

Smith said that he sees significant opportunities in enhanced entertainment and interactive multimedia on the horizon, and the company continues to pursue these higher growth markets. "We have had a very successful technical trial of our video-on-demand product and are anticipating FCC approval for a market trial in northern Virginia. We're continuing to pursue both national and global affiliations and partnerships that will create the content, establish the standards, and develop the operating platforms that will drive market acceptance of interactive multimedia," Smith said. "We are seeking ways to extend our market reach and range of expertise, as well as spread the development costs of the new businesses, leveraging our existing strengths and putting us on a higher growth curve in the future."

Bell Atlantic Corporation, based in Philadelphia, is the parent of companies which provide a full array of local exchange telecommunications services in New Jersey, Pennsylvania, Delaware, Maryland, Virginia, West Virginia, and Washington, D.C. The corporation is at the forefront of developing a variety of new products, including video, entertainment, and information services.

Bell Atlantic also is the parent of one of the nation's largest cellular carriers and has an ownership position in cellular properties internationally, including a 42 percent economic interest in Grupo Iusacell, S.A. de C.V., Mexico's largest independent cellular company. In addition, Bell Atlantic owns an interest in Telecom Corporation of New Zealand and is the parent of companies that provide business systems services for customer-based information technology throughout the U.S. and internationally.

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BELL ATLANTIC CORPORATION AND SUBSIDIARIES

,ndensed Consolidated Statements of Income (unaudited)

(In millions, except per-share amounts)

	Three months ended September 30		Nine months ended September 30	
	1994*	1993	1994*	1993**
Operating Revenues				
Communications and Related Services	$3,374.6	$3,181.1	$9,966.0	$9,340.3
Financial, Real Estate, and Other Services	40.7	108.5	216.6	332.7
Total operating revenues	3,415.3	3,289.6	10,182.6	9,673.0
Operating Expenses				
Employee costs, including benefits and taxes	1,236.2	1,036.6	3,312.9	3,008.6
Depreciation and amortization	674.7	657.1	1,972.4	1,895.3
Other	913.4	875.2	2,760.0	2,578.7
Total operating expenses	2,824.3	2,568.9	8,045.3	7,482.6
Operating Income	591.0	720.7	2,137.3	2,190.4
Other income and expense, net	2.5	25.2	69.1	59.0
Interest expense, excluding Financial Services	153.6	151.4	437.4	470.8
Income before provision for income taxes, extraordinary items, and cumulative effect of changes in accounting principles	439.9	594.5	1,769.0	1,778.6
Provision for income taxes	164.2	207.8	682.0	634.2
Income before extraordinary items and cumulative effect of changes in accounting principles	275.7	386.7	1,087.0	1,144.4
Extraordinary items:				
Discontinuation of regulatory accounting principles, net of tax	(2,150.0)	--	(2,150.0)	--
Early extinguishment of debt, net of tax	--	(8.2)	(6.7)	(54.3)
Total extraordinary items	(2,150.0)	(8.2)	(2,156.7)	(54.3)
Cumulative effect of changes in accounting principles:				
Income taxes	--	--	--	65.2
Post-employment benefits, net of tax	--	--	--	(85.0)
Total cumulative effect of changes in accounting principles	--	--	--	(19.8)
Net Income (Loss)	$(1,874.3)	$ 378.5	$(1,069.7)	$ 1,070.3

* Effective August 1, 1994, the company's telephone subsidiaries discontinued application of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation."

** Restated in the fourth quarter of 1993 to reflect the cumulative effect of the adoption of Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Post-employment Benefits," effective January 1, 1993.

BELL ATLANTIC CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Income (unaudited) - continued

(In millions, except per-share amounts)

	Three months ended September 30		Nine months ended September 30	
	1994*	1993	1994*	1993**
Per Common Share Amounts				
Income before extraordinary items and cumulative effect of changes in accounting principles	$.63	$.89	$2.49	$2.62
Extraordinary items	(4.92)	(.02)	(4.94)	(.12)
Cumulative effect of changes in accounting principles	--	--	--	(.04)
Net Income (Loss)	$(4.29)	$.87	$(2.45)	$2.46
Dividends declared per common share	$.69	$.67	$2.07	$2.01
Weighted average number of common and equivalent shares outstanding	437.3	436.4	437.3	435.9

Other Selected Data

	September 30	
	1994	1993
Return on Average Common Equity		
Three months ended	(10.1)%	18.6%
Nine months ended	(8.3)%	18.0%
Total Assets (millions)	$24,517.9	$28,776.3
Total Employees	72,900	73,200

* Effective August 1, 1994, the company's telephone subsidiaries discontinued application of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation."

** Restated in the fourth quarter of 1993 to reflect the cumulative effect of the adoption of Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Post-employment Benefits," effective January 1, 1993.

BELL ATLANTIC CORPORATION AND SUBSIDIARIES

ondensed Consolidated Statements of Cash Flows (unaudited)

(In millions)

	Nine Months Ended September 30, 1994	1993
Cash Flows from Operating Activities		
Net income (loss)	$(1,069.7)	$1,070.3
Depreciation and amortization	1,972.4	1,895.3
Extraordinary items	2,156.7	54.3
Cumulative effect of changes in accounting principles	--	19.8
Other, net	(514.6)	5.8
Net Cash Provided by Operating Activities	2,544.8	3,045.5
Net Cash Used in Investing Activities	(956.6)	(1,433.0)
Net Cash Used in Financing Activities	(1,508.2)	(1,637.4)
Increase (Decrease) in Cash and Cash Equivalents	80.0	(24.9)
Cash and Cash Equivalents, Beginning of Period	146.1	296.0
Cash and Cash Equivalents, End of Period	$ 226.1	$ 271.1

BELL ATLANTIC MOBILE

Selected Operating Statistics (unaudited)

(Reflects restructure of NYSMSA partnership on May 1, 1994)
(In thousands, except percentages and revenue per subscriber)

	September 30		
	1994	1993	Percent Change
Total Owned POPs(1)	35,064	35,071	0.0
Controlled MSA POPs(1)	32,519	27,883	16.6
Controlled RSA POPs(1)	3,875	3,539	9.5
Controlled Penetration(1)(3)	3.98%	2.64%	50.9
Total Subscribers(2)	1,449.7	892.7	62.4 [57.5% normalized]
Third-Quarter Cellular Operations Revenue(4)	$267,577	$201,005	33.1 [45.6% normalized]
Third-Quarter Cellular Operations Revenue per Subscriber per Month(4)	$72	$78	(7.7) [(5.9%) normalized]

Uncollectibles for the quarter ended September 30, 1994, were less than 2 percent of total revenue, and average monthly churn for the quarter remained below 2 percent of the total customer base.

1 1994 population data source is different from 1993 source. 1994 Controlled MSA POPs include approximately 5 million Northern New Jersey POPs managed by Bell Atlantic Mobile pursuant to the restructured NYSMSA partnership arrangement, effective May 1, 1994.

2 1994 includes subscribers managed by Bell Atlantic Mobile pursuant to the restructured NYSMSA partnership arrangement. Some of these customers were managed by NYNEX Mobile prior to 1994. 1993 includes subscribers from Bell Atlantic Mobile's Northern New Jersey reseller operation that, effective May 1, 1994, are part of the NYSMSA partnership. Excluding 1994 customers previously managed by NYNEX, the normalized growth rate would have been 57.5 percent.

3 1993 Controlled Penetration is calculated using controlled subscribers over total controlled POPs.

4 Includes Northern New Jersey reseller operation for three months in 1993. Normalized growth rates for revenue and revenue per subscriber would have been 45.6 percent and -5.9 percent respectively.

Bell Atlantic

BELL ATLANTIC 1993 ANNUAL REPORT

Directors & Executive Officers

Bell Atlantic Corporation
Board of Directors

William W. Adams
Chairman of the Board
Armstrong World Industries. Inc.

Thomas E. Bolger
Chairman of the Executive Committee
of the Board of Directors
Bell Atlantic Corporation

Frank C. Carlucci
Chairman
The Carlyle Group

William G. Copeland
Chairman of the Board
Providentmutual Holding Company

James H. Gilliam, Jr.
Executive Vice President and General Counsel
Beneficial Corporation

Thomas H. Kean
President
Drew University

John C. Marous, Jr.
Retired Chairman
Westinghouse Electric Corporation

John F. Maypole
Managing Partner
Peach State Real Estate Holding Company

Thomas H. O'Brien
Chairman and Chief Executive Officer
PNC Bank Corp.

Rozanne L. Ridgway
Co-Chair
The Atlantic Council of the United States

Raymond W. Smith
Chairman of the Board and Chief Executive Officer
Bell Atlantic Corporation

Shirley Young
Vice President, Consumer Market Development
General Motors Corporation

Executive Officers

Raymond W. Smith
Chairman of the Board and Chief Executive Officer

James G. Cullen
President

William O. Albertini
Vice President and Chief Financial Officer

Joseph T. Ambrozy
Vice President-Strategic Planning

Lawrence T. Babbio, Jr.
Chairman, President, and Chief Executive Officer
Bell Atlantic Enterprises International, Inc.

P. Alan Bulliner
Vice President-Corporate Secretary and Counsel

Barbara L. Connor
Vice President-Finance and Controller and Treasurer

Charles W. Crist
Vice President-Human Resources

John F. Gamba
Group President
Network Technologies and Systems
Bell Atlantic Network Services, Inc.

Bruce S. Gordon
Group President-Consumer and
Small Business Services
Bell Atlantic Network Services, Inc.

Stuart C. Johnson
Group President
Large Business and Information Services
Bell Atlantic Network Services, Inc.

Brian J. Kelly*
Group President
Network Operations
Bell Atlantic Network Services, Inc.

Robert M. Valentini
President and Chief Executive Officer
Bell Atlantic – Pennsylvania, Inc.

James R. Young
Vice President and General Counsel

**Retires April 7, 1994*

A Message from the Chairman

TO OUR SHAREOWNERS:

1993 was another very successful year for Bell Atlantic in terms of solid financial results, landmark public policy decisions that improve our outlook, and strategic initiatives that clearly increase our long-term growth prospects. It also was a year of great transformation in the basic structure of our industry, as our enabling technologies and the markets we serve continued to undergo fundamental change.

We believe this transformation creates tremendous growth opportunities for Bell Atlantic, and we made significant strides in implementing our strategies for capitalizing on them. These strategies—and our 1993 accomplishments—are outlined below.

It appears, however, that our future will not include a merger with Tele-Communications Inc. (TCI) and Liberty Media Corporation. As many of you know, we announced our merger intentions in October 1993. Unfortunately, the market and regulatory uncertainties surrounding this course of action made reaching agreement on the final terms and conditions of a transaction of this magnitude impossible. While we regret that we were unable to bring this merger to fruition, we believe that the decision to terminate negotiations is in the best long-term interests of our shareowners. Further, we are confident that there are many viable opportunities for making our vision of being a leading communications, information, and entertainment company a reality—some of which may involve joint ventures with TCI and Liberty.

In the meanwhile, we have moved ahead aggressively in equipping Bell Atlantic to be a major player in our industry, and will continue to seek out growth opportunities that will add to the value of your investment.

Financial Review

1993 was a year of strong operating earnings growth. As the U.S. economy continued its recovery, growth in our basic telephone volumes improved, we surpassed one million cellular customers, and our cellular subscriber growth approached 50 percent. Moreover, we registered our one-millionth Answer Call customer, symbolic of strong demand for value-added services.

> This edition of the *Annual Report* is once again presented in the cost-effective, environmentally friendly format endorsed by 95 percent of shareowners we polled.

Earnings for the year were reported at $3.22 per share, versus $3.13 in 1992, a 2.9 percent increase. However, the earnings-per-share increase was nearly 9 percent if certain one-time and extraordinary items reported in both years were excluded. 1993 results were affected by the early adoption of a new accounting standard for post-employment benefits (FAS 112) and the effect of 1993 tax legislation. Excluding one-time items, net income grew 10.5 percent in 1993.

We achieved another year of growth also in terms of revenues. Reported revenues—which reflect our decreased strategic emphasis on computer leasing and the disposition of most of our customer premises equipment business—increased 2.1 percent in 1993. Operating revenues in our *ongoing* businesses (excluding these effects) were up 4.5 percent over 1992.

The core network businesses accounted for more than one-half of Bell Atlantic's earnings growth. Underpinning our bottom-line accomplishments were healthy increases in telephone volumes. Access minutes of use for 1993 were up 7.2 percent over 1992, while message toll volumes grew 3.4 percent, and total access lines in service, 2.6 percent. The business market showed signs of strength, with business access lines and Centrex lines both achieving better than 4 percent growth.

The demand for new services also continued to improve. Revenues from IQ® Services and other value-added services totaled $414 million, up more than 14 percent over 1992 totals.

Beyond the core network, Bell Atlantic Enterprises International—which includes Bell Atlantic Mobile, our overseas entities and Bell Atlantic Business Systems Services—also made strong contributions to our revenue and earnings growth in 1993.

At Bell Atlantic Mobile, we added 340,700 subscribers, an increase of almost 49 percent, bringing the total number of cellular customers to just over 1 million. By comparison, the customer base grew 37.5 percent in 1992. 1993 cellular revenues were up 32 percent over 1992 levels.

On the international scene, the value of Telecom Corporation of New Zealand shares has more than doubled in the three years since we invested in the company. Bell Atlantic recorded after-tax gains of $44.7 million resulting from 1993 sales of the stock, as we reduced our interest in the company to just under 25 percent per our agreement with the New Zealand government.

Bell Atlantic Business Systems Services, our computer service subsidiary, added several prestigious national and international companies—such as AMR Corporation, parent of American Airlines Inc.—to its list of accounts and posted strong gains in both revenues and cash flow for the year.

Expense management continued to be the watchword at Bell Atlantic during 1993, as growth in total operating expenses from the prior year was essentially flat. Excluding depreciation and amortization, expenses actually fell 1.9 percent from 1992 totals. Moreover, we continued to take advantage of low interest rates by refinancing approximately $1.7 billion in long-term debt in 1993 and $1.8 billion in 1992. Refinancings in both years will result in annual interest savings of approximately $47 million over the next 10 years.

Aside from our successful financial story in 1993, we made fundamental progress in molding Bell Atlantic into a company poised for market leadership and solid growth in an environment of increasing competition, changing technology and rapidly emerging market opportunities.

1993 Highlights

Transforming ourselves into a company that can achieve high growth as well as improved earnings and cash flow growth involves more than entering new businesses. It also involves changing our *current* business—improving the way we operate, achieving legislative and regulatory incentives, and preparing to compete across all lines of business. In those terms, we made significant progress on six key strategic fronts.

- *First, we announced our intention to lead the country in the deployment of the information highway.*

In December, we issued our technology requirements to potential suppliers for a new video-capable technology platform that will accelerate our entry into attractive markets for entertainment and interactive multimedia services. We expect Bell Atlantic's enhanced network will be ready to serve 8.75 million homes by the end of the year 2000. By the end of 1998, we plan to wire the top 20 markets in our Mid-Atlantic region. These investments will help establish Bell Atlantic as a world leader in what is clearly the high-growth opportunity for the 1990s and beyond—interactive, multimedia communications, entertainment and information services that address the vast, unfulfilled demand for customer choice, convenience and control.

We will spend $11 billion over the next five years to rapidly build full-service networks capable of providing these services within the Bell Atlantic region. What's more, we will expand Bell Atlantic's global presence by developing attractive investment opportunities in Europe, Mexico and the Pacific Rim.

- *Second, we have restructured ourselves by market segments in order to focus our business on the needs of our customers.*

Our various lines of business—such as Consumer Services, Small Business Services and Carrier Services—will help us respond more quickly to customers and to meet their requirements better than our competitors. In staffing several of these businesses—for example, Consumer Services and Large and Small Business Services—we recruited extensively from outside the company to increase our marketing strength in this critical initiative.

- *Third, we continued to make major strides in the public policy arena toward achieving the freedoms necessary to compete.*

Last summer, the state legislatures in Pennsylvania and Delaware authorized new regulatory frameworks that, when implemented, will give us the incentives to invest in new technology and services that will meet customer needs and provide long-term growth opportunities in a competitive environment. Plans for similar alternative regulation have been approved or are pending in all seven state jurisdictions. Moreover, all telephone subsidiaries have been afforded some degree of pricing flexibility for products and services subject to competition.

Perhaps the most significant public policy development last year was our successful challenge to the provision of the 1984 Cable Act that prohibits Bell Atlantic from providing video programming in its traditional service territories. The District Court ruling opens lucrative new markets for Bell Atlantic as it expands consumer choice. It may prove to be a forerunner of even more change, as legislation proposing to lift remaining barriers to our full participation in the information marketplace makes its way through Congress.

- *Fourth, during 1993, we further improved our competitive posture by making our core businesses more cost-efficient and market-focused.*

Recognizing that competition is here to stay, we continued to re-vamp service-delivery processes to increase provisioning speed and reduce cost. We demonstrated our network reliability and provisioning speed in Northern New Jersey, where, by virtue of the synchronous optical network (SONET) fiber ring system in Jersey City, we were able to connect more than 2,400 telephone lines and 90 high-capacity data circuits in temporary facilities for businesses affected by the bombing of the

World Trade Center. Currently, we're partnering with other companies to build ultra-high-speed fiber rings between New Jersey and New York City.

Within the business itself, we plan to increase efficiency and reduce total network costs even further by developing and deploying state-of-the-art operating systems.

- *Fifth, we continued to innovate within our existing core businesses by introducing new value-added services.*

Innovative network products such as IQ Services and Answer Call have made strong contributions to positive revenue growth in our traditional markets. In 1993, we posted close to $300 million in recurring revenues from products introduced since 1989. In the future, we will continue our steady stream of service introductions, which will include CritiCall^{SM} emergency notification and monitoring service and voice-activated services.

In the wireless arena, 1993 saw us introduce TraveLink^{SM}, a service that automatically delivers incoming cellular calls to roaming customers, and we announced upcoming trials of Spoken Caller Identification, which identifies callers to a mobile phone by name or number with a digitized voice. In 1993, we introduced the AirBridge^{SM} family of services that provide a range of wireless data applications, including mobile fax, electronic mail, mobile computing connections, package tracking, and remote device monitoring and control.

In the business market, we will continue to strengthen our presence by meeting data transport needs for large and small businesses with a basket of high-bandwidth services, such as Switched Multi-megabit Data Service (SMDS) and Frame Relay.

- *Sixth, and finally, we're expanding both within and beyond our region by choosing the appropriate markets and technology platforms to establish Bell Atlantic as the full-service network provider of choice for entertainment, communication and multimedia services.*

In some areas, the point of entry to these new market opportunities might be our existing telephone network. We recently announced plans to expand our Stargazer^{SM} video-on-demand trial over existing telephone lines to a full market trial involving tens of thousands of customers in the Maryland and Virginia suburbs of Washington, D.C.

In other places, the entry point might be cellular, or other wireless technologies such as personal communications services. In 1994, we expect to participate in the FCC spectrum auctioning process for an opportunity to establish a national wireless footprint. Still another option is to team with cable television operators to establish a market presence outside of our region.

On the international front, our agreement to acquire up to a 46 percent interest in Grupo Iusacell, S.A. de C.V., the second-largest telecommunications company in Mexico, represents the most significant overseas wireless investment in our history.

While it is focused primarily on cellular today, Iusacell plans to use non-cellular radio spectrum to provide basic telephone service in Mexico, where there is currently a huge, unfulfilled demand. Moreover, the company is well positioned to compete in the long-distance business after Mexico opens up that business to full competition in August of 1996.

Maximizing Value

In implementing each of these strategies, our focus will be on prudent capital investing in opportunities that provide value to our customers and growth to our shareowners. Along the way, we will continue to emphasize our single most important financial imperative—to increase capital efficiency, maximizing our return from every dollar spent. In the network, for example, we're re-allocating investment dollars to broadband technologies without significantly expanding our capital budget. What's more, we continue to accelerate capital recovery and target investments at new markets that promise high returns or where there are attractive opportunities for expansion.

Our business opportunity for 1994 and beyond is straightforward—enhance the value of our core businesses by expanding our customer and service base, and develop high-growth businesses in the video entertainment, cable transport, cable television, and information services markets.

In summary, transforming ourselves for long-term growth has been a deliberate, ongoing process at Bell Atlantic. In 1993, we were highly successful not only at achieving strong operating results, but more important, at changing our methods, sharpening our customer focus, and preparing ourselves for a leading role in creating a new age in telecommunications.

I could not be more confident about where we're headed.

Raymond W. Smith
Chairman of the Board and
Chief Executive Officer
February 24, 1994

BELL ATLANTIC CORPORATION AND SUBSIDIARIES

SELECTED FINANCIAL AND OPERATING DATA

(Dollars in Millions, Except Per Share Amounts)

	1993	1992	1991	1990	1989
For the Year					
Operating Revenues*	$12,990.2	$12,718.4	$12,552.1	$12,547.4	$11,594.7
Operating Income	$ 2,797.6	$ 2,506.2	$ 2,525.3	$ 2,614.3	$ 2,007.8
Income Before Extraordinary Item and Cumulative Effect of Changes in Accounting Principles	$ 1,481.6	$ 1,382.2	$ 1,229.9	$ 1,230.5	$ 1,023.9
Net Income (Loss)	$ 1,403.4	$ 1,340.6	$ (324.4)	$ 1,230.5	$ 1,023.9
Per Common Share					
Income Before Extraordinary Item and Cumulative Effect of Changes in Accounting Principles	$ 3.39	$ 3.23	$ 2.91	$ 2.92	$ 2.38
Net Income (Loss)	$ 3.22	$ 3.13	$ (.72)	$ 2.92	$ 2.38
Cash Dividends Declared	$ 2.68	$ 2.60	$ 2.52	$ 2.36	$ 2.20
At Year–End					
Total Assets	$29,544.2	$28,099.5	$28,305.8	$28,391.8	$26,603.6
Long-Term Debt	$ 7,206.2	$ 7,348.2	$ 7,984.0	$ 8,928.5	$ 8,243.9
Employee Benefit Obligations	$ 3,396.0	$ 3,058.7	$ 2,985.1	$ 216.0	$ 74.2
Shareowners' Investment	$ 8,224.4	$ 7,816.3	$ 7,367.6	$ 8,531.5	$ 8,423.0
Debt Ratio	54.6%	56.3%	59.5%	57.5%	54.2%
Book Value Per Common Share	$ 18.85	$ 18.00	$ 17.12	$ 19.96	$ 19.64
Network Access Lines (in thousands)	18,645	18,181	17,750	17,484	17,056
Number of Employees	73,600	71,400	76,900	82,700	80,000
Other Data					
Return on Average Common Equity	17.3%	17.4%	(4.4)%	14.4%	11.3%
Additions to Plant, Property and Equipment	$ 2,519.0	$ 2,546.8	$ 2,644.1	$ 2,692.1	$ 2,720.9

*Certain amounts have been reclassified to conform to 1993 classifications.

4 - PARTICIPAÇÕES SOCIETÁRIAS EM CONTROLADAS

Em 31/12/1993 e 1992 (em moeda de 31/12/93), os investimentos são os seguintes:

(Em milhares de cruzeiros reais)

	Correção Integral e Legislação Societária 1993	Correção Integral 1992
Controladas		
- Empresas auditadas por KPMG - Peat Marwick	3 483 880.187	2.829 761 707
- Empresas auditadas por outros audit. independentes	594.474 616	641 704 512
Outros investimentos	180 853 233	21 584 288
TOTAL	**4.259.208.036**	**3.493.050.507**

Os detalhes dos investimentos em controladas estão apresentados no quadro anexo às Notas Explicativas.

5 - TRANSAÇÕES COM EMPRESAS DO SISTEMA TELEBRÁS

As demonstrações contábeis da controladora incluem os saldos decorrentes de transações com empresas controladas e coligadas, conforme segue:

a - Valores a receber

(Em milhares de cruzeiros reais)

	Correção Integral e Legislação Societária 1993	Correção Integral 1992
Emprest /financ em moeda nac	282 083 786	342.314.920
Repasse-emprest /financ		
Moeda nacional	207 661 786	80 070.506
Moeda estrangeira	232 173 280	209.550.919
Dividendos	69 373 379	78.260.023
Aplic capitalizaveis	110 493 396	131 166 936
Outros valores a receber	2 421 046	2.262 390
TOTAL	**904.206.673**	**843.625.694**
Parcela de Curto Prazo	400 002 087	251.456.810
Parcela de Longo Prazo	504 204 586	592.168.884

A controladora é remunerada pelos repasses, a uma taxa de 0,0625% a 0,5% ao semestre sobre os saldos devedores, além do ressarcimento dos encargos incorridos, exceto no caso dos repasses das fibras ópticas importadas da Philips Export (Holanda) sobre as quais houve uma taxa de administração (flat) de 25%.

Pelos empréstimos concedidos, a controladora é remunerada por uma taxa variável acima da UFIR, de até 1% a.m.

b - Valores a pagar (Em milhares de cruzeiros reais)

	Correção Integral e Legislação Societária 1993	Correção Integral 1992
Materiais e serviços	1 757 383	317 590
Repasse-emp. moeda nacional	16 371 405	21 029 970
Outros	20 165	119 096
TOTAL	**18.148.953**	**21.466.656**
Parcela a Curto Prazo	18 148.953	21.466 656
Parcela a Longo Prazo	-	-

Outros valores a receber e a pagar decorrem, principalmente de despesas efetuadas correspondentes a serviços técnicos prestados a empresas do Sistema TELEBRÁS (ESTB), vencíveis a prazos inferiores a 30 dias.

6 - BENS E INSTALAÇÕES EM SERVIÇOS

As principais contas e as respectivas taxas de depreciação são as seguintes:

Imobilizado (Em milhares de cruzeiros reais)

GRUPOS DE CONTAS	CONTROLADORA		CONSOLIDADO		Taxa Anual de Depreciação
	Correção Integral e Legislação Societária 1993	Correção Integral 1992	Correção Integral Legislação Societária 1993	Correção Integral 1992	
Equip de comut automáticos			2 833 263 737	2 708 889 108	7 69
Equip de transmissão, cabos aéreos, subterrâneos de prédios, teleimpressoras central privada de comutação telefônica automática, equipamento de energia e mobiliários	23 986.909	21 618 710	3 633 988 629	3 394 094 441	10 00
Cabo enter , postes e torres			201 519 467	157 353 187	5 00
Cabo submerso			23 407 227	23 020 162	6 67
Eq de comutação manual, rádio analog. e apar telefôn			946 765 647	602.801 081	12 50
Equip de computação	12.031 382	11 907 101	108 544 348	102.059 231	20.00
Predios e canaliz. subterrânea	37 446 081	36 851 097	1 620 864 336	1 552 705 761	4 00
Veiculos	433 600	418 459	56 142 971	49 694 881	20 00
Terrenos	1 024 852	1 117 995	106 996 956	104 748 536	-
Outros	2 213 712	1 912 464	86 889 450	33 288 447	-
TOTAL	**77.136.536**	**73.825.826**	**9.618.382.768**	**8.728.654.835**	-
Taxa Média - Depreciação Anual	7,1%	5%	6.2%		

Depreciação e amortização acumulada **(Em milhares de cruzeiros reais)**

GRUPOS DE CONTAS	CONTROLADORA		CONSOLIDADO	
	Correção Integral e Legislação Societária 1993	Correção Integral 1992	Correção Integral e Legislação Societária 1993	Correção Integral 1992
Equip de comutação automáticos			1 694 134.587	1 597 470 834
Equip. de transmissão, cabos aéros. subterrâneos. de prédios. teleimpressoras. central privada de comutação telefônica automática. equipamento de energia e mobiliários	16 587 338	14.731 036	2.118 673.505	2.060 999 513
Cabo enterrado. postes e torres			86.946.379	74 263 911
Cabo submerso			4 602 281	3 078 380
Eq de comutação manual. rádio analog e aparelhos telefônicos			632.989 780	402 832 620
Equip de computação	10 296 060	8 869 011	83 816 089	75 881 397
Prédios e canalização subterrânea	18 269 729	17 244 152	627 906 282	595 075 869
Veículos	413 004	358 197	40 857.373	35 171 452
Outros	767 899	168 388	41 536 888	17 407 048
TOTAL	**46.334.030**	**41.370.784**	**5.331.463.164**	**4.862.181.024**

7 - IMPOSTOS, TAXAS E CONTRIBUIÇÕES

Exigíveis **(Em milhares de cruzeiros reais)**

DESCRIÇÃO	CONTROLADORA		CONSOLIDADO	
	Correção Integral e Legislação Societária 1993	Correção Integral 1992	Correção Integral e Legislação Societária 1993	Correção Integral 1992
ICMS	578	427	68 297 582	57 331 749
Imposto de renda a pagar			24.537 838	76 626 686
Imposto de renda diferido	1.016 080		252 446 229	597 377 432
Imposto de renda - parcelado			660.023	
Cofins			3 880 724	3 200 030
Contribuição social		2 579 379	42 587 159	69 039 838
PIS/PASEP	17 446	35 558	1 664 302	1 396 274
Outros	9 908	5 834	2 202 262	1 752 438
Parcela a Curto Prazo	27 932	2 621 198	104 392 152	158 960 443
Parcela a Longo Prazo	1.016 080		291 883 967	647 764 004

8 - DEBÊNTURES

As debêntures, todas nominativas, estão emitidas em 5 (cinco) etapas e os respectivos registros na CVM foram feitos nas seguintes datas:

Emissão		Registro na CVM	
Ordem	Data	Nº	Data
1ª	01/10/88	SEP/GER/DCA 88/011	01/12/88
2ª	01/09/89	SEP/GER/DCA 89/010	21/11/89
3ª	01/09/92	GERER/DERER/DEB 92/023	13/10/92
4ª	01/07/93	SEP/GER/DEB 93/030	03/09/93
5ª	14/12/93	SEP/GER/DEB 93/117	22/12/93

A composição do saldo contábil engloba os valores do principal, correção monetária, juros e prêmios e está distribuída conforme a seguir:

Emissao	Qtde	Início	Término	Em Circulaçao	Saldo em 31 de Dezembro 1993	1992
1ª	493 900	1 988	1 998	3 551	1 561 040	23 426 033
2ª	154 454	1 989	1 999	3 232	1 269 281	1 928 922
3ª	103 693	1 992	2 004	103 693	33 268 222	33 672 005
4ª	167 100	1 993	2 005	167 100	105 186 723	-
5ª	200 000	1 993	2 005	200 000	66 376 520	-
			SOMA	477 575	207 661 786	59 026 960

Direitos assegurados:

Juros flutuantes

- 1º e 2º emissões: TR + 8% a.a. ou ANBID -1% (o que for maior)
- 3º e 4º emissões: TR + 12% a.a.
- 5º emissão IGPM + 15% a.a.

Prêmio (se maior que os juros flutuantes)

- 1º e 2º emissões. Taxa ANBID - 1%
- 3º emissão: Taxa ANBID - 4% ou IGP-M + 14,7% (o que for maior)
- 4º emissão: Taxa ANBID + 2% ou IGP-M + 17,5% (o que for maior)
- 5º emissão: Taxa ANBID + 1%

- Conversão em ações preferenciais nominativas (1º e 2º emissões);
- Resgate das debêntures, no encerramento de cada periodo de juros;
- Prêmio a ser estabelecido em cada periodo de juros, de forma a adequar a rentabilidade dos títulos às condições de mercado da época da repactuação;
- Garantia flutuante conforme Artigo 58, Parágrafo 1º, da Lei 6404/76 nos casos da 1º, 2º e 4º emissões; e de espécie subordinada na 3º e 5º emissões, conforme parágrafo 4º

O produto da captação das debêntures está totalmente repassado às empresas do STB, para aplicação nos projetos de expansão e modernização dos sistemas de telecomunicações e nas mesmas condições da remuneração dos debenturistas.

9 - TÍTULOS DE RENDA - "EURONOTES/IENENOTES"

Foram lançados 6 emissões de "Euronotes" e 1 de "Ienenotes", assim caracterizados:

Emissão	Agente	Data	Valor US$	Prazo	Carência	Amortizado em	Juros
Euronotes							
1	Merril Lynch	16.10.91	200.000.000	5 anos	2 anos	7 parc sem.	10% a.a.-PAG. SEM
3	Salomon Brothers	31.03.92	90.000.000	5 anos	-	31.03.97	10% a.a -PAG. SEM
4	Salomon Brothers	16.06.92	100.000.000	5 anos	-	16 06 97	10% a a.-PAG SEM
5	Merril Lynch	09.09.92	100.000.000	5 anos	-	09 09.97	10.375%a a -PAG SEM
6	Nomura Int	22.10 92	40.000.000	5 anos	-	22 10 97	10% a.a -PAG. SEM.
Ienenotes			**Valor Ienes mil**				
1º	Nomura Int.	28 10 93	20 000 000	3 anos	-	28 10 96	7 2% a.a. (1)

(1) Pagamento anual a partir da 2ª parcela.

O saldo contábil apresenta a seguinte posição (principal, variação e juros):

(Em milhares de cruzeiros reais)

VENCIMENTO	CONTROLADORA Correção Integral e Legislação Societária 31/12/93	Correção Integral 31/12/92
1993	-	43.774 322
1994	52.446 198	45.970 408
1995	18.634 571	17 852 586
1996	77 053 372	17 852 586
1997	78 265 200	74 980 859
TOTAL	**226.399.341**	**200.430.761**
Parcela a Curto Prazo	52.446 198	43 774 322
Parcela a Longo Prazo	173 953.143	156.656 439

O produto da captação dos "Euronotes/Ienenotes" está totalmente repassado às empresas do STB, para aplicação na expansão e modernização dos Sistemas de Telecomunicações. Os encargos estão repassados nas mesmas condições da remuneração do "Euronotes/Ienenotes".

10 - EMPRÉSTIMOS E FINANCIAMENTOS

Em 31/12/1993 e 1992 (em moeda de 31/12/93), apresentam as seguintes posições:

a) Controladora

(Em milhares de cruzeiros reais)

DESCRIÇÃO	Moeda Estrangeira	
	Correção Integral e Legislação Societária 1993	Correção Integral 1992
EMPRÉSTIMOS - INSTITUIÇÕES FINANCEIRAS		
Vencimentos		
1993		3.605.124
1994	1.875.222	-
Parcela a Curto Prazo	1.875.222	3.605.124
Parcela a Longo Prazo	-	-
FINANC. BENS E SERVIÇOS / FORNECEDORES		
Vencimentos		
1993	-	2.105.998
1994	1.671.175	1.450.983
1995	486.200	624.811
1996	321.916	456.917
1997	321.915	404.033
1998 em diante	2.035.865	1.397.435
Parcela a Curto Prazo	1.671.175	2.105.998
Parcela a Longo Prazo	3.165.896	4.334.179
TOTAL GERAL	**6.712.293**	**10.045.301**
Parcela a Curto Prazo	3.546.397	5.711.122
Parcela a Longo Prazo	3.165.896	4.334.179

b) Consolidado

(Em milhares de cruzeiros reais)

VENCIMENTOS	Moeda Nacional		Moeda Estrangeira	
	Correção Integral e Legislação Societária 1993	Correção Integral 1992	Correção Integral e Legislação Societária 1993	Correção Integral 1992
1993	-	70.052.504	-	45.850.464
1994	118.492.240	15.577.765	44.599.099	56.364.336
1995	25.953.893	7.373.146	59.497.674	22.625.634
1996	23.748.081	808.088	19.907.436	16.171.079
1997	14.215.217	407.469	16.282.493	8.233.175
1998 em diante	15.782.968	444.618	60.245.292	42.351.374
TOTAL GERAL	**198.192.399**	**94.663.590**	**200.531.994**	**191.596.062**
Parcela a Curto Prazo	118.492.240	70.052.504	44.599.099	45.850.464
Parcela a Longo Prazo	79.700.159	24.611.086	155.932.895	145.745.598

Os empréstimos em moeda estrangeira estão sujeitos a juros anuais de 0,8125% acima da "Libor" e estão convertidos às taxas oficiais de câmbio em vigor na data do balanço. Os financiamentos de bens e serviços em moeda estrangeira estão sujeitos a juros fixos que variam de 3% a 11,55% a.a. e de 0,75% a 1,50% acima da "Libor". Os financiamentos de bens e serviços/fornecedores da controladora contam com a garantia de fiança do Banco do Brasil S.A. A controladora concedeu aval a suas controladas, cuja posição em 31/12/93, apresenta-se como segue:

(Em milhares de cruzeiros reais)

TELESP	31.237.666
TELERJ	31.808.020
TELEMIG	13.126.214
TELEBAHIA	13.165.457
EMBRATEL	15.290.846
	104.628.203

11 - CAPITAL SOCIAL, RESERVAS, LUCROS ACUMULADOS E DIVIDENDOS

a) Capital Social

O capital autorizado em 31/12/1993 é de CR$ 400.000.000 mil, (CR$ 20.000.000 mil em 1992, valor histórico). O capital social subscrito e integralizado em 31 de dezembro de 1993 compõe-se de 285.023.786 mil ações, (276.174.191 mil ações em 1992), sem valor nominal, assim distribuídas:

(Em milhares de ações)

	1993	1992
Ações Ordinárias	116.713 260	108 031.578
Ações Preferenciais	168 310 526	168 142.613
TOTAL	**285.023.786**	**276.174.191**

As ações preferenciais não têm direito a voto, sendo a elas assegurada prioridade de reembolso do capital e no pagamento de dividendos mínimos não cumulativos de 6% a.a. sobre o valor do capital social. Em 31/12/1993, o Valor Patrimonial de cada ação é de CR$ 16,058813 (CR$ 14,381499 em 1992, em moeda de 31/12/93).

b) Reserva de lucros a realizar

Corresponde aos resultados apurados e ainda não realizados, provenientes do saldo credor da correção monetária e dos acréscimos dos investimentos em controladas, avaliados pelo método da equivalência patrimonial.

O valor realizado decorrente de depreciações, amortizações, recebimentos de dividendos e baixa do ativo permanente é transferido para a conta de lucros acumulados.

A reserva de lucros a realizar na Controladora apresenta a serguinte movimentação:

(Em milhares de cruzeiros reais)

MOVIMENTAÇÃO	P/ Correção Integral e Legislação Societária 1993	P/ Correção Integral 1992
(+) Saldo inicial		
Saldo Credor C. Monetária	11 322 045	9 188 253
Ganhos Líq. Equivalência Patrimonial	1 249 033 223	1 462.058 741
(+) Constituição		
Saldo Credor C. Monetária	32 352 200	11.322.045
Ganhos Líq. Equivalência Patrimonial	438 255 037	149 088 429
(-) Reversão		
Saldo Credor C. Monetária	11 322 045	9 188 253
Ganhos Líq. Equivalência Patrimonial	62 818 044	362 113.948
(=) Saldo Final	1 656 822 416	1 260 355 267
Saldo Credor C. Monetária	32 352 200	11 322 045
Ganhos Líq. Equivalência Patrimonial	1 624 470 216	1 249 033 222

A reserva de lucros a realizar está constituída obedecendo aos seguintes limites:

(Em milhares de cruzeiros reais)

LIMITE DE CONSTITUIÇÃO	P/ Correção Integral e Legislação Societária 1993	P/ Correção Integral 1992
(+) Saldo Credor C. Monetária	36 078 094	12 041 912
(+) Ganhos Líq. Equivalência Patrimonial	488 727 390	158 567 619
(-) Reserva legal	24 768 802	10 199 057
(=) Limite Constituição Reserva Lucros a Realizar	500 036 682	160 410 474
Reserva de lucros constituída	470 007 237	160.410 474

c) Lucros acumulados

O saldo remanescente do lucro líquido do exercício, ajustado nos termos do artigo 202 da Lei 6404/76, no montante de CR$ 55.605.067 mil (CR$ 303.505.351 mil em 1992, em moeda de 31/12/93), está compondo o saldo da conta lucros acumulados, que será utilizado para futuro aumento de capital, visando sua aplicação na modernização e expansão do sistema de telecomunicações.

d) Dividendos

Em cumprimento ao disposto no artigo 65 do Estatuto Social da Companhia, a Administração propõe a distribuição da quantia de CR$ 10.950.001 mil (CR$ 62.053.821 mil em 1992, em moeda de 31/12/93) para pagamento de dividendos aos possuidores de ações preferenciais e de CR$ 7.585.021 mil (CR$ 39.114.629 mil em 1992, em moeda 31/12/93) aos possuidores de ações ordinárias. A proposta está sujeita à aprovação da Assembléia Geral Ordinária. O montante do dividendo por ação foi calculado "pro-rata-temporis", sendo que o valor do dividendo integral é de CR$ 0,065058 por ação (CR$ 0,3691 em 1992, em moeda de 31/12/93). O lucro líquido ajustado, que serviu de base para o cálculo dos dividendos, está assim constituído:

(Em milhares de cruzeiros reais)

	Correção Integral e Legislação Societária 1993	Correção Integral 1992
Lucro líquido do exercício	495.376.039	203.981.130
Reversão reserva lucros a realizar	74.140.089	371.302.201
Destinação reserva legal	(24.768.802)	(10.199.056)
Destinação reserva lucros a realizar	(470.607.237)	(160.410.474)
Lucro líquido ajustado (LLA)	74.140.089	404.673.801
Dividendos -25% do LLA	18.535.022	101.168.450

Os dividendos mínimos correspondentes às ações preferenciais estão calculados com base no Capital Social nominal. A distribuição de dividendos está baseada na Lei n° 6.404/76 e disposições estatutárias não considerando a interpretação da CVM contida no Parecer de Orientação CVM, n° 16/86. Caso houvesse sido adotada a interpretação da CVM, o valor dos dividendos seria de CR$ 0,065058 por ação para ações ordinárias e CR$ 0,383589 por ação para ações preferenciais, perfazendo um total de CR$ 72.146.884 mil.

12 - GANHOS LÍQUIDOS NOS ITENS MONETÁRIOS NÃO REMUNERADOS (Correção Integral)

Os ganhos (perdas) nos itens monetários não remunerados estão distribuídos pelas respectivas contas de resultado a que se vinculam.

O valor líquido apurado está ajustado como segue:

(Em milhares de cruzeiros reais)

AJUSTE NO RESULTADO	CONTROLADORA		CONSOLIDADO	
	1993	1992	1993	1992
Receita serviços telecomunicações			(554.001.233)	(326.526.846)
ICMS, PASEP e COFINS			202.268.026	139.761.282
Custos dos serviços			86.332.258	114.157.089
Comercialização dos serviços			31.475.865	38.528.174
Despesas gerais e administrativas	9.486.224	7.038.190	58.268.155	79.682.084
Outras despesas/receitas operacionais	1.698.357	582.971	33.852.693	(11.114.578)
TOTAL DESTINAÇÃO	**11.184.581**	**7.621.161**	**(141.804.236)**	**34.487.205**

O valor líquido apurado antes da distribuição está assim composto:

(Em milhares de cruzeiros reais)

ORIGENS DOS GANHOS / PERDAS	CONTROLADORA		CONSOLIDADO	
	1993	1992	1993	1992
Caixa e bancos	(1.540.547)	(952.886)	(28.705.908)	(12.967.263)
Contas a receber de serviços	-	-	(548.718.467)	(315.835.053)
Transações c/ ESTB	79.236	17.751	-	-
Valores a recuperar	(416.969)	(120.797)	(28.246.287)	(78.088.170)
Ajuste efeitos inflacionários	-	(742.287)	(28.998.649)	(45.059.765)
Outros direitos s/ rendimentos	(805.871)	(230.365)	(34.713.068)	(43.725.162)
Pessoal, encargos, benefícios sociais	6.882.839	5.029.023	107.164.828	199.158.278
Fornecedores de materiais e serviços	2.603.385	2.009.167	168.191.712	139.126.480
Impostos, taxas e contribuições	114.405	163.306	204.440.527	144.338.421
Consignação a favor de terceiros	453.437	788.983	23.447.875	24.121.692
Participação nos resultados	3.791.956	1.529.984	6.629.995	4.861.889
Outras obrigações s/ encargos	22.710	129.282	17.703.206	18.555.858
TOTAL ORIGEM	**11.184.581**	**7.621.161**	**(141.804.236)**	**34.487.205**

13 - CONCILIAÇÃO ENTRE O LUCRO LÍQUIDO DA CONTROLADORA E O CONSOLIDADO

Em 31/12/93, a conciliação entre o lucro líquido da controladora e o consolidado, é a seguinte:

(Em milhares de cruzeiros reais)

	1993	1992
Lucro líquido da controladora	495.376.039	203.981.130
Juros durante a construção	(89.226.857)	(104.486.699)
Ajustes tributos - Lei 8.200/91	(17.287.621)	-
Doações e Outros	(16.047.250)	(4.494.951)
Lucro líquido consolidado	**372.814.311**	**94.999.480**

Os juros durante a construção, ajustes e tributos - Lei 8.200/91, doações e outros são acréscimos patrimoniais registrados diretamente em reservas de capital e de lucros nas empresas controladas, que representam receitas de equivalência patrimonial, na controladora.

14 - FUNDAÇÃO DE SEGURIDADE SOCIAL

As empresas controladas e a Telecomunicações Brasileiras S.A. - TELEBRÁS são patrocinadoras de fundações de seguridade social, que tem por objetivos principais a complementação de aposentadoria e o amparo social dos empregados do Sistema TELEBRÁS. No exercício, a TELEBRÁS contribuiu a favor da Fundação TELEBRÁS de Seguridade Social - SISTEL o valor CR$ 1.452.988 mil (CR$ 2.249.978 mil, em 1992).

O regime atual de determinação de custeio é o de capitalização. Não existem outras obrigações calculadas, a não ser aquela já considerada na taxa normal de contribuição. Do ponto de vista patrimonial, a SISTEL não apresentou insuficiência de recursos na data de 31.12.93. A última avaliação atuarial aprovada ocorreu em junho/92. A relação patrocinadora/participante está consubstanciada nos seguintes parâmetros:

PATROCINADORA	PARTICIPANTE (SOMATÓRIO DE:)
14,793% sobre a folha de pagamento	a) de 0,5% a 1,5% sobre o salário de contribuição (de acordo com a idade do participante); b) 1% sobre o salário de contribuição que ultrapassar a metade do teto de contribuição para o INSS; c) 8% sobre o valor que ultrapassar o teto de contribuição para o INSS (participantes inscritos até 30.04.92); d) 10% sobre o valor que ultrapassar o teto de contribuição para o INSS (participante inscrito a partir de 01.05.92)

15 - REMUNERAÇÃO DOS ADMINISTRADORES E EMPREGADOS

As remunerações pagas aos Administradores e empregados, no mês de dezembro, foram: Adminstradores - Maior CR$ 1.568 mil; Menor CR$ 1.469 mil; Empregados - Maior CR$ 1.333 mil; Menor CR$ 58 mil e médio CR$ 389 mil. Nos valores citados estão considerados o reajuste decorrente do acordo coletivo de trabalho, vigente a partir de 01/12/1993. As remunerações mensais pagas obedecem ao limite estabelecido para Ministro de Estado, conforme Decreto n° 753, de 16/02/93, publicado no DOU de 17/02/93.

16 - REMUNERAÇÃO DO INVESTIMENTO

Segundo o Código Brasileiro de Telecomunicações, as tarifas são estabelecidas pelo poder público, com base no conceito de serviços do custo acrescido de justa remuneração. Entende-se que a justa remuneração seria o equivalente a 12% a.a. sobre o investimento remunerável, apurado conforme disposições da Resolução 43/66 do Conselho Nacional de Telecomunicações (sucedido pelo Ministério das Comunicações) com a redação dada pela Portaria 1381/78, do Senhor Ministro de Estado das Comunicações. Tais disposições determinam que anualmente seja apurado o excesso ou insuficiência de resultado decorrente de tarifas em vigor. A remuneração do investimento das empresas controladas em 1993, correspondeu a 0,65% (-1,01% em 1992), dos investimentos remuneráveis. A insuficiência tarifária em 31/12/93, que poderá ser recuperada em exercícios subsequentes, é a seguinte:

(Em milhares de cruzeiros reais)

	1993	1992
Acumulado início exercício	(85.289.982)	(5.040.464)
Ajuste exercícios anteriores	428.559	22.090
CM da insuficiência acumulada ajustada	(2.055.395.040)	(56.675.619)
Insuficiência tarifária no exercício	(589.546.990)	(23.595.989)
Acumulado final exercício	(2.729.803.453)	(85.289.982)

17 - SEGUROS

Em 31/12/1993 todos os ativos e responsabilidades de valores relevantes e de alto risco estão cobertos por seguros.

18 - OUTROS RECURSOS CAPITALIZÁVEIS

Aumento de capital impugnado
Encontra-se contabilizado na conta "outros recursos capitalizáveis" o valor de CR$ 13.872.415 mil (13.718.349 mil ações preferenciais) correspondente ao subscritores que exerceram direito de preferência quando do aumento de capital em 07 de julho de 1990 impugnado pela Justiça Federal. Foi interposto recurso junto ao Tribunal Regional Federal, aguardando parecer da Procuradoria Geral da República.

31 de dezembro de 1993 e 1992

EMPRESAS	Capital Social	Patrimônio Líquido	Valor Patrimonial da Ação	Lucro Líquido do Exercício	Quantidade de Ações Possuídas (mil)	
					ordinárias	preferenciais
a) Empresas auditadas por nossos auditores independentes						
TELEBAHIA (1)	38.893.737	195.023 839	25.496325	(5 513 933)	2.565.165	4.742.589
TELEMIG (2)	21.671.447	273.008.291	13.640376	34.703.133	7.147.297	11.209 766
TELEST	1.768.984	59.689.348	36.864993	7.937 120	643 146	877.335
TELERJ (3)	16.047.298	473.090.821	22.680849	9.959.631	9.329.507	8.454 425
TELESP (4)	45.542.894	1.582.783 199	99.915326	164 836 284	7 726.941	4 401 595
CTBC (5)	3.488.905	133.786 037	81.960876	12.360.091	138.324	248 750
TELEBRASÍLIA (6)	4.744.597	137 345.739	80.625731	18.051.527	711.288	690 039
TELEPAR (7)	10.625.320	277 082 507	97.888601	28 412.266	1.108 446	972 687
TELESC	3.506.897	141 514.380	68.646323	18.332.510	832.718	1.029 198
CTMR	273.920	11 571.844	83.136867	817.217	66 432	49 980
EMBRATEL	20.000.000	975.859.417	206.581642	126.517.652	4.308.267	
SUBTOTAL		**4.260.755.422**		**416.413.498**	**34.577.531**	**32.676.364**
b) Empresas auditadas por outros auditores independentes						
TELERON	631.843	28.850.522	46.831200	636.009	198.333	375 462
TELEACRE	477 921	6 892.287	6.995779	(182 303)	323.692	596 641
TELEAMAZON	1 437.615	42.124.570	62.155547	(2.395.624)	244.234	313.981
TELAIMA	167 818	4 299 349	11 277933	(142 289)	121 946	228 316
TELEPARA	1.312 385	55 832 006	35 523570	3 737 596	434 498	785 723
TELEAMAPA	191 190	5 831 232	10.534891	91.424	175 597	336 840
TELMA	1 225.545	39 573.631	18 609757	727.493	545.439	1.015 626
TELEPISA	863.979	24.681 952	17 520902	1.338.330	398.744	792 297
TELECEARA	2.592.143	80.564.464	45.136785	(996.931)	531 078	834 770
TELERN	887 052	33.548 721	40.469614	3 889 476	266.157	376 531
TELPA	985.870	33.615.833	32.566667	1.441 094	354.176	411 025
TELPE	2.540 123	95.663.869	16.896769	5 536 192	1.828.713	3 283 233
TELASA	838 298	25 864 941	7 591116	(1.715 578)	1.118.026	2.120 806
TELERGIPE	606.910	19 738 627	25 278586	(732 082)	207 335	418.544
TELEGOIAS	2.232.443	95.110 755	30.185403	20 442 454	1.049.141	1.883 273
TELEMS	1.244.899	55 405 284	58 417127	5.399 643	333.124	581 596
TELEMAT	1.238 934	45.847 633	97.899204	6.350.278	188.121	246.410
SUBTOTAL		**693.445.676**		**43.425.182**	**8.318.354**	**14.601.074**
TOTAL GERAL		**4.954.201.098**		**459.838.680**	**42.895.885**	**47.277.438**

EMPRESAS CONTROLADAS

(Em milhares de cruzeiros reais)

Percentual de Participação	Ganho / Perda Decorrente da Equivalência Patrimonial em 1993		Valor Patrimonial dos Investimentos	
	operacional	não operacional	em 1993	em 1992*
95,5375	(4.957.930)	2	186.320.900	129.839.987
91,7178	35.217.300	(39.136)	250.397.198	190.636.741
93,9071	8.310.727	2.584	56.052.536	47.469.661
85,2595	20.472.810	8.873	403.354.868	377.435.923
76,5630	169.059 426	5.705	1.211.826.301	1.003.395.401
23,7132	4.183.197	33	31.724.951	24.247.697
82.2618	16.862.821	(57.553)	112.983.077	84.424.910
73.5230	27.200.398	6.242	203.719.372	172.667.891
90,3185	19 570.719	(62)	127.813.665	105.668.681
83.6354	857.937	(3)	9.678 158	8.603.310
91,2026	147.240.087	(10)	890.009.161	791.051.753
	444.017.492	**(73.325)**	**3.483.880.187**	**2.935.441.955**
93,1404	1.713.458	(24)	26.871.492	25.157.979
93,4152	(91.779)	(104.926)	6.438.444	6.303.634
82,3656	(1.117.608)	(287.825)	34.696.155	35.275.786
91,8796	(162.659)	6.495	3.950.225	4.039.897
77,6375	3.746.799	(227.177)	43.346.573	39.585.935
92,5786	143.482	4	5.398.473	5.221.912
73,4101	962.055	3	29.051.042	28.222.515
84,5481	1.381.169	20	20.868.121	18.775.200
76,5226	790 244	(10.965)	61 650.023	56.439.099
77,5270	3.531.679	60	26.009.317	20.817.063
74,1319	1.717.760	(6.817)	24.920.056	22.065.161
90,2905	7.912.597	224	86.375.385	78.779.731
95,0567	(1.688.001)	157	24.586.360	25.660.657
80,1541	(333.025)	(10)	15.821.319	16.145.762
93,0663	20.660.290	(10.099)	88 516.061	68.684.782
96,4444	5.394.433	13	53.435.294	48.685.722
92,7862	7.880.985	(462.454)	42.540.277	36.177.619
	52.441.879	**(1.103.321)**	**594.474.617**	**536.038.454**
	496.459.371	**(1.176.646)**	**4.078.354.804**	**3.471.480.409**

c) Valor de mercado das ações em 31 de dezembro de 1993 (em cruzeiros reais)

(1) ON 10,00 (2) ON 12,00 (3) ON 14,18 (4) ON 96,00 (5) ON 58,50 (6) ON 76,50 (7) ON 92,00
(1) PN - (2) PN 11,00 (3) PN 14,11 (4) PN 111,00 (5) PN 85,00 (6) PN 80,00 (7) PN 81,50
* a preço de 31 de dezembro de 1993

PARECER DOS AUDITORES INDEPENDENTES

Aos
Administradores e Acionistas da
Telecomunicações Brasileiras S.A. - TELEBRÁS
Brasília - DF

Examinamos os balanços patrimoniais da Telecomunicações Brasileiras S.A. - TELEBRÁS e os balanços patrimoniais consolidados dessa Empresa e controladas levantados em 31 de dezembro de 1993 e 1992 na versão "Correção Integral" e as respectivas demonstrações de resultados, das mutações do patrimônio líquido e das origens e aplicações de recursos, correspondentes aos exercícios findos naquelas datas, elaboradas sob responsabilidade de sua administração. Nossa responsabilidade é a de expressar uma opinião sobre essas demonstrações financeiras.

Nossos exames foram conduzidos de acordo com as normas de auditoria e compreenderam: (a) o planejamento dos trabalhos, considerando a relevância dos saldos, o volume de transações e os sistemas contábil e de controles internos da Empresa; (b) a constatação, com base em testes, das evidências e dos registros que suportam os valores e as informações contábeis divulgadas; e (c) a avaliação das práticas e das estimativas contábeis mais representativas adotadas pela administração da Empresa e controladas, bem como da apresentação das demonstrações financeiras tomadas em conjunto.

Em nossa opinião, as demonstrações financeiras acima referidas representam, adequadamente, em todos os aspectos relevantes, a posição patrimonial e financeira da Telecomunicações Brasileiras S.A. - TELEBRÁS e a posição patrimonial e financeira consolidada dessa Empresa e controladas em 31 de dezembro de 1993 e 1992, os resultados de suas operações, as mutações de seu patrimônio líquido e as origens e aplicações de seus recursos, correpondentes aos exercícios findos naquelas datas, de acordo com os princípios fundamentais de contabilidade.

As demonstrações financeiras apresentadas na versão "Legislação Societária", correspondentes ao exercício findo em 31 de dezembro de 1993, foram por nós examinadas e submetidas aos mesmos procedimentos descritos no segundo parágrafo acima e, em nossa opinião, essas demonstrações financeiras representam, adequadamente, em todos os aspectos relevantes, a posição patrimonial e financeira da Telecomunicações Brasileiras S.A. - TELEBRÁS e a posição patrimonial e financeira consolidada dessa Empresa e controladas em 31 de dezembro de 1993, o resultado de suas operações, as mutações de seu patrimônio líquido e as origens e aplicações de seus recursos, correspondentes ao exercício findo naquela data, de acordo com os princípios de contabilidade emanados da legislação societária.

18 de março de 1994

KPMG Peat Marwick CRC. SP - 14.428	Odair Correa da Silva Contador CRC.SP - 85.454 - "S" DF

PARECER DO CONSELHO FISCAL

O Conselho Fiscal da Telecomunicações Brasileiras S.A. - TELEBRÁS, cumprindo o que determina os ítens II e VII do artigo 163 da Lei 6.404/76, e ítem VII do artigo 59 do Estatuto Social da Empresa, examinou as Demonstrações Financeiras referentes ao exercício social encerrado em 31 de dezembro de 1993 compreendendo: Balanços Patrimoniais, Demonstrações dos Resultados, Demonstrações das Mutações do Patrimônio Líquido, Demonstrações das Origens e Aplicações de Recursos, complementadas por notas explicativas bem como Relatório Anual da Administração e a Proposta de Destinação do Resultado. No exame das referidas peças, o Conselho Fiscal levou em consideração as análises realizadas nos balancetes, nas práticas adotadas para encerramento das demonstrações financeiras, nos principais procedimentos contábeis, na legislação específica pertinente e no parecer dos auditores independentes, complementado por exposição feita pela Diretoria Econômico-Financeira. O resultado desse trabalho e ainda o Parecer dos Auditores Independentes conduz o Conselho Fiscal à opinião de que as referidas peças representam adequadamente, a posição patrimonial e financeira da Telecomunicações Brasileiras S/A - TELEBRÁS.

Brasília, 18 de março de 1994.

Adélio Resende Araújo — Laura Maria dos Santos Arrochela Monteiro

Devanir da Silva — Leonel José Carvalho de Castro

DEMONSTRAÇÕES FINANCEIRAS

Exercícios findos em 31 de dezembro de 1993 e 1992

Brasília, 18 de março de 1994

JORGE DE MORAIS JARDIM FILHO
Presidente do Conselho de Administração

ADYR DA SILVA
Presidente da Empresa e
Conselheiro de Administração

DJALMA BASTOS DE MORAIS
Conselheiro de Administração

REGINALDO OSCAR DE CASTRO
Conselheiro de Administração

LEIVI ABULEAC
Conselheiro de Administração

DILSON GABRIEL DOS SANTOS
Conselheiro de Administração

ROBERTO NUNES DE MIRANDA
Vice-Presidente da Empresa

ACYR PITANGA SEIXAS FILHO
Diretor de Planejamento e Engenharia

PAULO EDUARDO TASSANO SIGAUD
Diretor de Administração, no exercício do cargo de Diretor
Econômico-Financeiro e de Relações com o Mercado

PAULO POSPISSIL MOUTINHO
Diretor de Pesquisa e Desenvolvimento

JUAREZ MARTINHO QUADROS DO NASCIMENTO
Diretor de Coordenação de Operações e Serviços

EUGENIO CONCEIÇÃO BAROBOSKIN
Contador CRC SP 82058 T DF

ROGÉRIO ALBERTO BENTO
Gerente do
Departamento de Contabilidade e
Planejamento Econômico-Financeiro

BRASIL
UNIAO DE TODOS

TELEBRÁS

Fern J. Jarmulnek, Chief*
Satellite Policy Branch
Federal Communications Commission
2025 M Street, N.W., Room 6324
Washington, DC 20554

Scott Blake Harris, Chief*
International Bureau
Federal Communications Commission
1919 M Street, N.W., Room 658
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William Kennard, General Counsel*
Federal Communications Commission
1919 M Street, N.W., Room 614
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Mr. Robert M. Pepper*
Office of Planning and Policy
Federal Communications Commission
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(Counsel for MCHI)

Mr. Gerald Helman
MCHI
1120 - 19th St., N.W., Suite 480
Washington, DC 20036

CERTIFICATE OF SERVICE

I, Robert A. Mazer, hereby certify that the foregoing "Amendment and Application for Launch Authorization and License of Constellation Communications, Inc." was served by hand or first-class mail, postage prepaid, this 16th day of November, 1994, on the following persons:

Chairman Reed E. Hundt*
Federal Communications Commission
1919 M Street, N.W., Room 814
Washington, DC 20554

Commissioner James H. Quello*
Federal Communications Commission
1919 M Street, N.W., Room 802
Washington, DC 20554

Commissioner Andrew C. Barrett*
Federal Communications Commission
1919 M Street, N.W., Room 826
Washington, DC 20554

Commissioner Rachelle B. Chong*
Federal Communications Commission
1919 M Street, N.W., Room 844
Washington, DC 20554

Commissioner Susan Ness*
Federal Communications Commission
1919 M Street, N.W., Room 832
Washington, DC 20554

Karen Brinkman, Special Assistant*
Office of the Chairman
Federal Communications Commission
1919 M Street, N.W., Room 814
Washington, DC 20554

Thomas Tycz, Chief*
Satellite & Radiocommunications Division
Federal Communications Commission
2025 M Street, N.W., Room 6010
Washington, DC 20554

Cecily Holiday, Deputy Chief*
Satellite & Radiocommunications Division
Federal Communications Commission
2025 M Street, N.W., Room 6324
Washington, DC 20554

Exhibit 7

E-Systems 1993 Annual Report

News Release

ESY: 9437
CONTACT: John E. Kumpf
Tele: (214) 392-4923
FAX: (214) 392-4918
FOR IMMEDIATE RELEASE

E-SYSTEMS REPORTS THIRD QUARTER, NINE MONTHS RESULTS

DALLAS, TX (Oct. 19) – E-Systems, Inc. today reported record third quarter bookings of new orders and a growing backlog. One-time pre-tax charges reduced third quarter earnings compared to a year ago.

Earnings were lowered primarily by special charges resulting in third quarter net income of $8.2 million, or 24 cents a share, compared to 1993 third quarter net income of $32.6 million, or 95 cents a share. Nine month net income was $66.0 million, or $1.92 a share, versus $90.0 million or $2.65 a share last year.

Sales for the third quarter amounted to $492.0 million compared to sales of $508.6 million at the end of September a year ago. Nine month sales were $1.475 billion, compared to 1993 nine month sales of $1.574 billion.

Third quarter new order bookings climbed 51 percent to $1.364 billion, up from 1993 third quarter bookings of $905 million. Higher bookings raised the third quarter ending backlog to $2.481 billion compared to $2.216 billion for the same period last year.

Reflecting on the results for the quarter, Lowell Lawson, Chairman and Chief Executive Officer said, "We are extremely pleased with our success in acquiring new

(more)

orders during this last quarter. As a result of this strong bookings trend and our desire to continue to grow the nontraditional parts of our business, we felt it was time to reassess the investments we had made in several nontraditional areas such as mass storage, medical and others. As the result of this assessment, we felt it was necessary to write-off certain productization costs associated with some of these new ventures at this time resulting in the special charges". Additionally, the quarter included a charge of $8 million to reflect a lawsuit judgement and associated legal expenses recently rendered in the Air Sea Forwarders Case.

E-Systems is a worldwide developer and producer of electronics systems and products in the areas of intelligence, reconnaissance and surveillance systems, command and control, specialized aircraft maintenance and modification, guidance, navigation and control, communications and data systems.

(table follows)

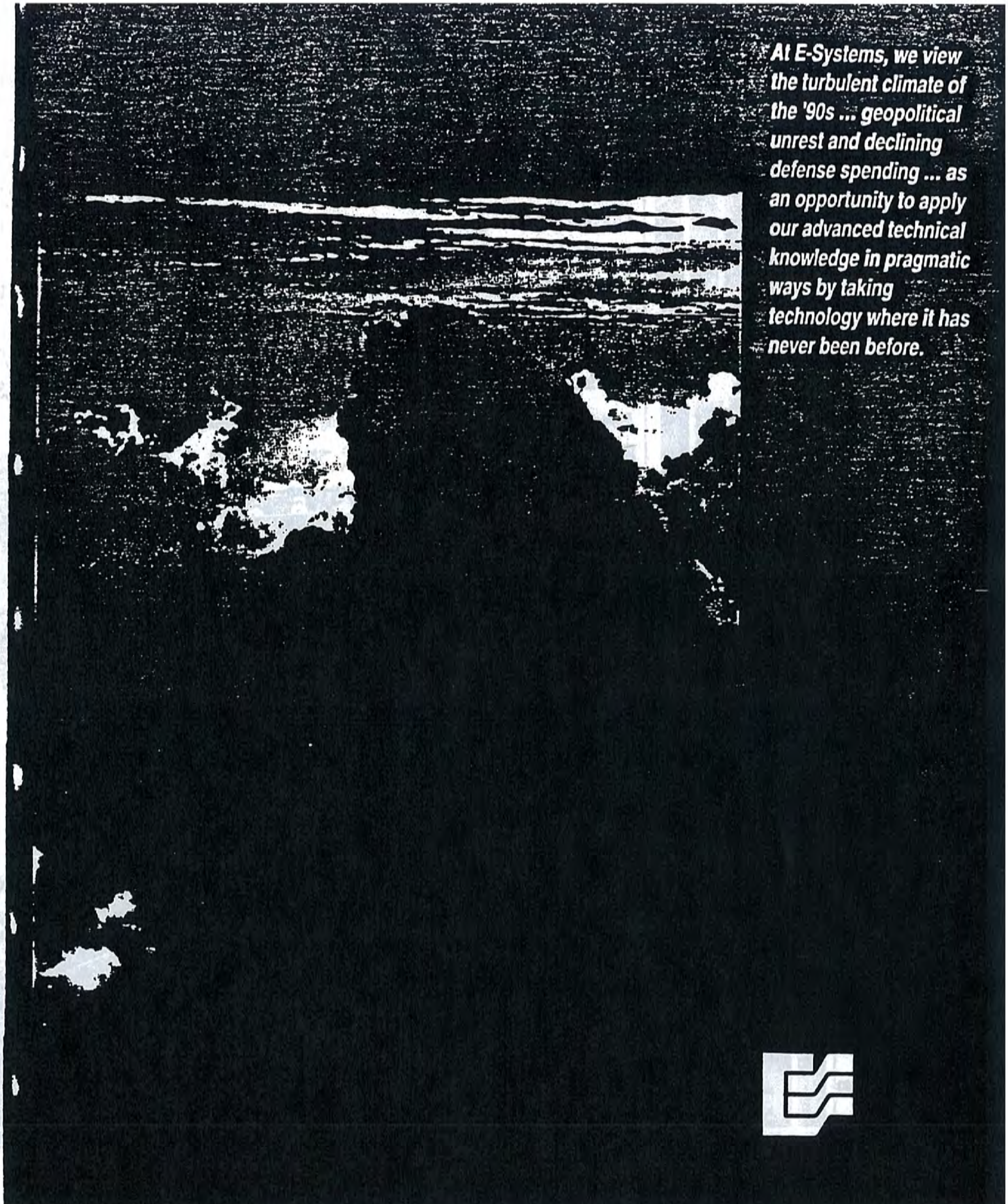
E-SYSTEMS, INC.
Statement of Operating Results
($ Thousands except per share data)

	(Unaudited) Three Months Ended in September	
	1994	1993
Sales	$492,024	$508,616
Operating profit	45,767	45,489
Investment income	1,610	3,423
Interest expense	(552)	(1,497)
Special Charges	(24,495)	—
Other expense	(10,047)	(1,377)
Income before tax	12,283	46,038
Net Income	8,229	32,558
Earnings per share*	$0.24	$0.95
Bookings	1,363,586	904,643
Backlog	$2,480,515	$2,215,574

	Nine Months Ended in September	
	1994	1993
Sales	$1,475,253	$1,573,531
Operating profit	133,186	133,260
Investment income	3,662	7,730
Interest expense	(1,594)	(5,468)
Special Charges	(24,495)	—
Other expense	(12,587)	(3,777)
Income before tax	98,172	131,745
Net Income	65,775	89,982
Earnings per share*	$1.92	$2.65
Bookings	1,822,727	1,469,482
Common equivalent shares	34,331	33,942

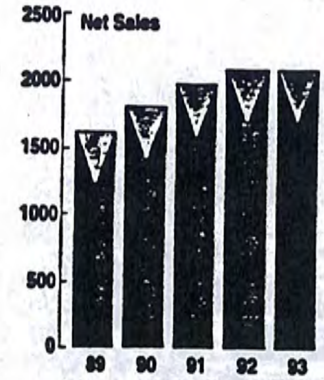
* Earnings per share include average shares outstanding and the effect of dilutive options outstanding.

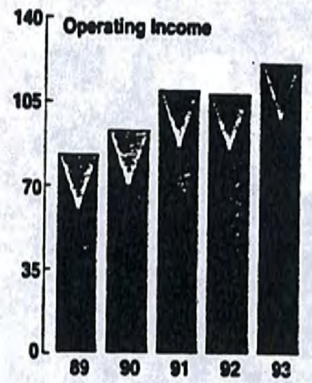
End

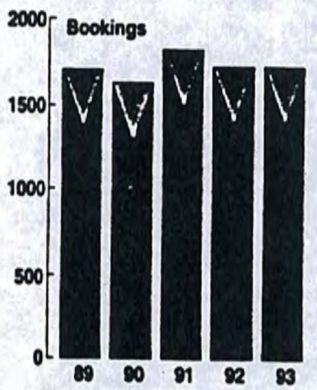

At E-Systems, we view the turbulent climate of the '90s ... geopolitical unrest and declining defense spending ... as an opportunity to apply our advanced technical knowledge in pragmatic ways by taking technology where it has never been before.

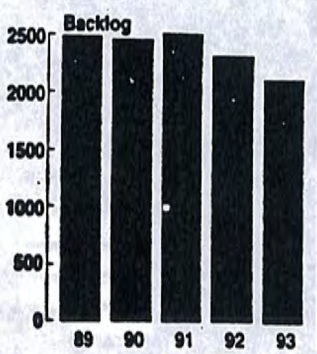
Operating Highlights

From Operations









For Year Ended December 31
(In thousands except per share data)

	1993	1992
Net Sales	$2,097,114	$2,094,913
Operating Income	180,656	170,736
Income Before Tax	180,275	162,472
Income From Operations	121,866	109,019
Earnings Per Share From Operations	$3.58	$3.31
Bookings (New Orders)	$1,910,532	$1,905,319
Backlog	$2,133,041	$2,319,623

E-Systems team-winners of the 1993 U.S. First National Engineering and Science Competition

During 1993 we continued to adjust to our changing business environment at home and abroad. Throughout the year, priorities and requirements were being defined under the new administration while on the international scene political and economic uncertainty and instability prevailed. Our primary challenge was, and still is, to adapt to this dynamic scenario.

Although results were mixed, our performance record for our core businesses (reconnaissance, surveillance, intelligence and communications) continued to be solid when compared to other companies serving the defense industry.

Our various nontraditional activities are beginning to show results. In fact, about 10 percent of our 1993 orders were identified as nontraditional business. We expect many of these business segments, described elsewhere in this report, to represent a growing share of our 1994 overall business.

The bottom line for 1993 is that, although we are not completely satisfied with our performance, **we could not be prouder of our people** who worked so faithfully and diligently to respond to the myriad of challenges. We sincerely appreciate the outstanding efforts of the men and women of E-Systems throughout the world.

FINANCIAL SUMMARY

Despite all the uncertainty of the past year, we set a record in net income: $122 million, or $3.58 a share, compared to $109 million, or $3.31 a share in 1992 before the cumulative effect of a change in an accounting principle. This accounting principle (SFAS 106), related to retiree health benefits, reduced 1992 results by $179 million to a net loss of $69 million, or $2.11 a share.

Total sales were up slightly—$2.097 billion, as compared to last year's $2.095 billion.

New order booking and backlog of unfilled orders failed to meet our expectations. Several key programs were lost competitively, canceled or delayed because of budget funding pressures.

We also responded positively to our ongoing drive for performance improvement. Our pre-tax margins improved from 7.8 to 8.6 percent, and sales per employee were up 11 percent, to $126 thousand.

We are constantly assessing skill mix requirements and staffing levels to ensure our capabilities balance with the needs of the business. Our total employment in 1993 declined by 10 percent, to 16,700.

All divisions are involved in an ongoing effort to reduce overhead , implement productivity improvements and enhance our competitive edge.

E. GENE KEIFFER
Chairman of the Board

A. LOWELL LAWSON
Chief Executive Officer and President

DIVIDEND INCREASE

At its January 1994 meeting, the Board of Directors declared a quarterly dividend of $.30 a share. This amounted to $1.20 on an annualized basis and represents a nine percent increase from the annual rate of $1.10 which was set by the Board a year ago.

BUSINESS ENVIRONMENT

Uncertainty would seem to be the watchword in 1994.

Peace movements in some areas of the world seem to teeter in the balance of conflicts elsewhere. Geopolitical situations seem to be ever shifting, never settling.

The administration and Congress continue to struggle with the federal budget. Defense spending continues to decline. However, we do not expect to see decreases in the total intelligence budget as severe as the reduction in the overall defense budget.

The number and diversity of global conflicts—or potential conflicts—along with decreasing forces to deal with these conflicts, make the intelligence function more important than ever. Future systems architectures will emphasize rapid collection and dissemination, common tactical interfaces, interoperability and a general merging of the traditional tactical and strategic functions. These are areas in which we excel.

Our traditional business has grown over the years and will still be the major part of our base for the foreseeable future. We will continue to concentrate on this business and nurture it.

Our non-traditional business activities have begun to show promise. For instance, our mass storage systems business, EMASS®, has made significant progress over the past two years, and we have taken this strong product line to worldwide markets. This business should begin to have a positive impact in 1994.

But, we cannot afford to focus on one business area to the detriment of others. All business areas are important to us, and we are paying close attention to each of them in order to achieve our growth goals.

We are confident about the future. We certainly have the technological capabilities, the talented people and the financial strength needed to meet and overcome these challenges and thereby achieve our growth objectives.

EXECUTIVE CHANGES

In late January, as this report was being prepared, we announced several changes in our executive structure:

Mr. E. Gene Keiffer, Chairman of the Board and Chief Executive Officer since 1989, will remain Chairman of the Board until his retirement in August of this year. After that time, he will continue as a Director of the company.

Mr. A. Lowell Lawson, President and Chief Operating Officer, has been elected to the additional position of Chief Executive Officer.

Mr. Brian D. Cullen was named Senior Vice President, in addition to his title of Vice President and General Manager of our largest division in Greenville, Texas. Mr. Cullen shares operational responsibilities with Senior Vice Presidents Dr. Terry W. Heil and Mr. Peter A. Marino.

The addition of the third Senior Vice President allows the streamlining of the President's office, dividing the Chief Operating Officer function three ways. Consequently, various divisions, groups and units of the company now have a Senior Vice President with primary operating responsibility for each.

The goal of these changes is to shorten the lines of reporting responsibility and make better use of executive management's special talents and capabilities. This will enable us to effectively serve the needs of our traditional customers, primarily in the defense and intelligence communities, and make the company even more responsive to new business opportunities in our non-traditional areas.

Each of our divisions and subsidiaries has entered new commercial and non-defense government markets with programs and projects in areas such as mass storage, medical electronics, telecommunications security, language translation, seismic technology and systems for the Federal Aviation Administration and Department of Education.

We now have an **even stronger executive management team** to serve our present customers, to move forward aggressively in order to capitalize on emerging opportunities outside our traditional business, and to foster the company's growth through appropriate acquisitions.

Several other key appointments took place during 1993.
Dr. J. Robert "Bob" Collins was named to the position of Vice President, Strategic Planning and Development at the corporate office. Dr. Collins replaced Mr. Eaton Adams, Jr., who served in that position admirably until his untimely death.

Mr. Marshall D. Williamson was promoted to Vice President and General Manager of our Garland (Texas) Division.

Dr. L. F. "Larrie" Judd was promoted to Vice President and General Manager of the Melpar Division located near Washington, D.C.

Sadly, our company had to bid a final farewell this past year to two of our exceptionally capable and visionary supporters. As we mentioned, our Vice President - Strategic Planning and Development, and thirty-three year employee of the company, Eaton Adams, Jr., was taken from us in June. Then Dr. LeVan Griffis, a member of our Board of Directors since 1966, passed away in December. We are greatly indebted for their unselfish years of service.

CHALLENGES FOR 1994

The main challenge for 1994 will still be to ensure we meet our growth goals.

To be most effective, however, we are applying our strengths to markets we understand.

We also intend to grow through acquisition and/or merger. We are in a healthy cash position, and the right acquisition could provide both near-term and long-term growth.

Over recent history, our business strategy has consisted of four basic elements:

1. Continuous improvement in performance.
2. Renewed emphasis and commitment to our traditional business and its customers.
3. Judicious expansion into non-traditional business.
4. The continued search for suitable acquisitions.

We believe this set of strategies is still appropriate.

In summary, our company will continue to preserve and pursue business in our traditional areas and intensify our search for quality acquisitions.

We are focused on all aspects of our growth strategy.

And, since change is the keynote in the prevailing environment, we will continue to examine our strategies and make the appropriate changes.

E. Gene Keiffer
Chairman of the Board

A. Lowell Lawson
Chief Executive Officer
and President

March 3, 1994

CORPORATE CITIZENSHIP

We are committed to wide-ranging efforts to be responsible corporate citizens. For instance, our people have pledged to work with customers, suppliers and each other to ensure the highest degree of ethical standards.

Likewise, we are committed to assuring equal opportunity to qualified individuals regardless of race, color, religion, sex, age, national origin or disability. And we are committed to operating all our facilities in an environmentally responsible and sensitive manner.

We provide financial support to college engineering and computer science schools from which we recruit the majority of our engineering new hires.

Local community involvement is widespread with emphasis on improving education. One of the most visible programs involved a group of E-Systems engineers who teamed with high school students to win first place in the U.S. First National Engineering and Science Competition (related photo, inside front cover).

Working together, the engineers and students designed a robotic machine that competed against similar machines built by teams representing other Fortune 500 companies. The E-Systems team was invited to the White House and recognized by the President.

And in 1993, for the 2[illegible] consecutive year, E-Systems led the nation in employee purchase of U.S. Savings Bonds. We salute our employees for this unprecedented record.

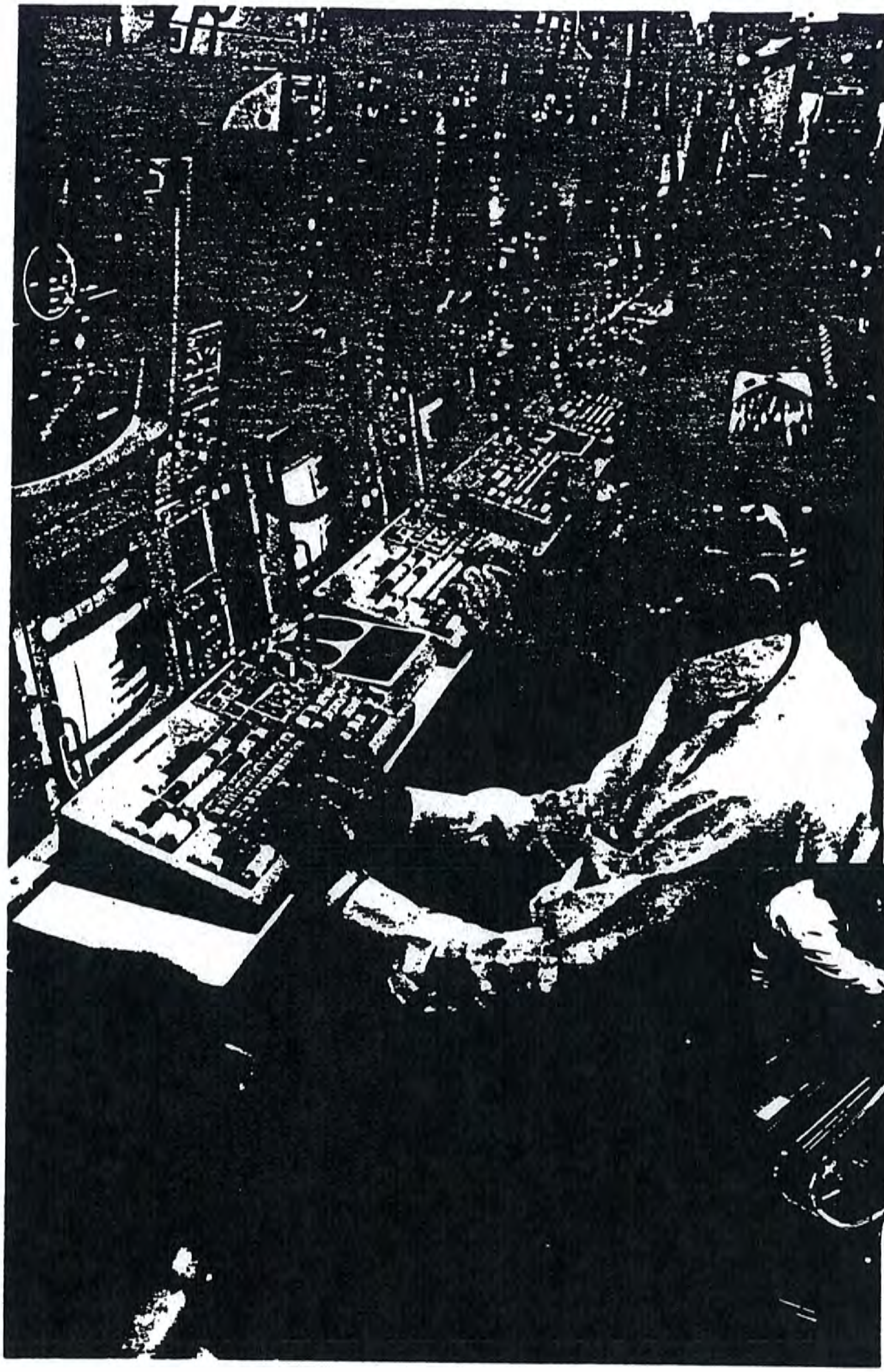
At E-Systems, we view the turbulent climate of the '90s ... geopolitical unrest and declining defense spending ... as an opportunity to apply our advanced technical knowledge in pragmatic ways by taking technology where it has never been before.

While some in today's environment may choose to look at our business as unstable and unpredictable, we prefer to see this dynamic scenario as a catalyst for change.

Providing collection, processing and exploitation systems; specialized aircraft modification and support services; command, control, communications and intelligence systems; navigation and control; and systems integration and information technology products, E-Systems has a long heritage of creating real-world electronic systems and solutions for unique and complex problems.

As world situations unfold and instability prevails, the solid reputation and international leadership of E-Systems remain constant.

With an unmatched collection of core competencies, E-Systems has consistently been a major player in the defense industry. The company has fashioned a reputation as one of the preeminent contributors to our nation's intelligence effort. This traditional business will continue to provide the foundation on which we build.



◀ *Real-time air, land and sea situation awareness systems are developed at the Greenville facility.*

▲ *The Navy Battle Group Passive Horizon Extension System, developed at Melpar, provides the task force commander the ability to monitor signal activity well beyond shipboard line-of-sight.*