

# QWEST CORP

## FORM 10-Q (Quarterly Report)

Filed 5/12/1994 For Period Ending 3/31/1994

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Fiscal Year	12/31

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

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

For the Quarterly Period Ended March 31, 1994

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

*Commission File Number 1-3040*

## U S WEST Communications, Inc.

A Colorado Corporation IRS Employer No.  
84-0273800

1801 California Street, Denver, Colorado 80202

**Telephone Number (303) 896-3099**

THE REGISTRANT, A WHOLLY-OWNED SUBSIDIARY OF U S WEST, INC., MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION H(1) OF FORM 10-Q AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION H(2).

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

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U S WEST Communications, Inc. Form 10-Q  
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**Form 10-Q - Part I U S WEST Communications, Inc.**

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(Dollars in millions)	Three Months Ended March 31,	
	1994	1993
<hr/>		
OPERATING REVENUES		
Local service	\$985	\$937
Interstate access service	562	538
Intrastate access service	174	170
Long distance network service	351	356
Other services	146	140
	-----	-----
Total operating revenues	2,218	2,141
	-----	-----
OPERATING EXPENSES		
Employee-related costs	717	696
Other operating expenses	398	408
Taxes other than income taxes	97	96
Depreciation and amortization	465	442
	-----	-----
Total operating expenses	1,677	1,642
	-----	-----
Income from operations	541	499
Interest expense	80	99
Other income	14	-
	-----	-----
Income before income taxes	475	400
Provision for income taxes	178	133
	-----	-----
NET INCOME	\$297	\$267
	=====	=====

See Notes to Consolidated Financial Statements.

**Form 10-Q - Part I U S WEST Communications, Inc.**

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(Dollars in millions)	March 31, 1994	December 31, 1993
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$45	\$67
Accounts receivable	1,360	1,391
Materials and supplies	105	108
Other	386	351
	-----	-----
Total current assets	1,896	1,917
	-----	-----
Property, plant and equipment	28,249	28,012
Less: Accumulated depreciation	15,731	15,465
	-----	-----
Net property, plant and equipment	12,518	12,547
	-----	-----
Other	914	698
	-----	-----
Total assets	\$15,328	\$15,162
	=====	=====

See Notes to Consolidated Financial Statements.

**Form 10-Q - Part I U S WEST Communications, Inc.**

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(Dollars in millions)	March 31, 1994	December 31, 1993
<b>LIABILITIES AND SHAREOWNER'S EQUITY</b>		
Current liabilities		
Short-term debt	\$1,240	\$1,260
Accounts payable	689	935
Employee compensation	257	303
Other	1,509	1,314
	-----	-----
Total current liabilities	3,695	3,812
	-----	-----
Long-term debt	4,272	4,092
Postretirement benefit obligation	2,323	2,593
Deferred taxes and credits	1,642	1,525
Shareowner's equity		
Common shares - one share without par value	6,998	6,742
Accumulated deficit	(3,602)	(3,602)
	-----	-----
Total shareowner's equity	3,396	3,140
	-----	-----
Total liabilities and shareowner's equity	\$15,328	\$15,162
	=====	=====

See Notes to Consolidated Financial Statements.

**Form 10-Q - Part I U S WEST Communications, Inc.**

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Dollars in millions)	Three Months Ended March 31,	
	1994	1993
<b>OPERATING ACTIVITIES</b>		
Net income	\$297	\$267
Adjustments		
Depreciation and amortization	465	442
Deferred income taxes and amortization of investment tax credit	26	10
Changes in operating assets and liabilities		
Accounts receivable	31	(18)
Materials, supplies and other	(41)	(50)
Accounts payable and accrued liabilities	33	40
Funding of postretirement benefit obligation	(288)	(246)
Other - net	(32)	86
	-----	-----
Cash provided by operating activities	491	531
	-----	-----
<b>INVESTING ACTIVITIES</b>		
Expenditures for property, plant and equipment	(605)	(594)
Other - net	18	22
	-----	-----
Cash used for investing activities	(587)	(572)
	-----	-----
<b>FINANCING ACTIVITIES</b>		
Net proceeds from short-term debt	71	330
Proceeds from long-term debt	182	111
Repayments of long-term debt	(116)	(229)
Dividends paid	(319)	(226)
Equity infusions from parent	256	49
	-----	-----
Cash provided by financing activities	74	35
	-----	-----
<b>CASH AND CASH EQUIVALENTS</b>		
Decrease	(22)	(6)
Beginning balance	67	53
	-----	-----
Ending balance	\$45	\$47
	=====	=====

See Notes to Consolidated Financial Statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

(Dollars in millions)

**A. Condensed Financial Statements**

The consolidated financial statements have been prepared by U S WEST Communications, Inc. (the "Company") pursuant to the rules and regulations of the SEC (Securities and Exchange Commission). Certain information and footnote disclosures normally accompanying financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such SEC rules and regulations. In the opinion of the Company's management, the consolidated financial statements include all adjustments, consisting of only normal recurring adjustments, necessary to present fairly the financial information set forth therein. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 1993.

Certain reclassifications within the financial statements have been made to conform to the current year presentation.

**B. Contingencies**

There are pending regulatory actions in local regulatory jurisdictions which call for price decreases, refunds or both. In one such instance, the Utah Supreme Court has remanded a Utah Public Service ("PSC") order to the PSC for reconsideration, thereby establishing two exceptions to the rule against retroactive ratemaking: 1) unforeseen and extraordinary events and 2) misconduct. The Commission's initial order denied a refund request from interexchange carriers and other parties related to the Tax Reform Act of 1986. If the Commission finds that either of the exceptions apply, the Company could be liable for refunds, although at this time any such amount is not reasonably estimable since the case is still in the discovery process.



**Item 2. Management's Analysis (Dollars in millions)**

## RESULTS OF OPERATIONS

Details of operations for the first three months of 1994, including a comparison to the prior year, are presented in the following table:

	1994	1993	% Change
Operating revenues	\$2,218	\$2,141	3.6
Operating expenses			
Employee-related costs	717	696	3.0
Other operating expenses	398	408	(2.5)
Taxes other than income taxes	97	96	1.0
Earnings before interest, taxes, depreciation and amortization, and other (EBITDA)	1,006	941	6.9
Depreciation and amortization	465	442	5.2
Interest expense	80	99	(19.2)
Other income	14	-	-
Income before income taxes	475	400	18.8
Provision for income taxes	178	133	33.8
Net income	\$297	\$267	11.2

Revenue growth and continued cost controls in the first quarter of 1994 resulted in a 6.9% increase in the Company's earnings before interest, taxes, depreciation and amortization, and other income ("EBITDA"). The Company considers EBITDA an indicator of the operational strength of its business. Net income, excluding the effects of the sale of certain rural telephone exchanges increased 5.6%.

**OPERATING REVENUES**

Total operating revenues were \$2,218 for the first three months of 1994, a \$77 or 3.6% increase over the same period in 1993. In the tables below, price changes primarily represent the aggregate effects of regulatory proceedings and growth represents increased market penetration through both increased access lines and additional sales to existing customers. Different regulatory commissions govern the interstate and intrastate jurisdictions, resulting in varying price and refund impacts.

**Item 2. Management's Analysis (Dollars in millions)****OPERATING REVENUES (continued)**

## Local Service

Price Changes	Higher Refunds	Growth	Other	\$	Increase %
\$ 1	\$ (5)	\$ 52	\$ 0	\$ 48	5.1

Local service increased primarily due to business growth. The Company added 490,000 customer access lines, net of the sale of 20,000 access lines associated with rural telephone exchange sales, during the last twelve months, a 3.6% increase over the March 31, 1993 level.

## Access Services

Price Changes	Higher Refunds	Growth	Other	\$	Increase %
Interstate \$ (15)	\$ (2)	\$ 43	\$ (2)	\$ 24	4.5
Intrastate \$ (3)	\$ (2)	\$ 9	\$ 0	\$ 4	2.4

The increase in access services was a result of growth, partially offset by the effects of price reductions. Total minutes of use increased 9.1% over the same period in 1993.

## Long Distance Network Service

Price Changes	Lower Refunds	Growth	Other	\$	Decrease %
\$ (1)	\$ 1	\$ (5)	\$ 0	\$ (5)	(1.4)

Long distance network service decreased due to the ongoing impacts of competition. IntraLATA toll, wide area telephone service ("WATS") and 800 markets continue to be impacted by competition.

**Other Services**

Revenues from other services increased primarily due to growth in voice messaging services as a result of continued market penetration.

**OPERATING EXPENSES**

Operating expenses, exclusive of depreciation and amortization, increased \$12 or 1.0% over the prior year.

**Item 2. Management's Analysis (Dollars in millions)**

**OPERATING EXPENSES (continued)**

Employee-related costs increased over the prior year due to the elimination of the pension credit (resulting from changes in actuarial assumptions) and additional costs associated with customer service initiatives in the current year. Partially offsetting this increase was a reduction in postretirement benefits expense.

Other operating expenses decreased over the same period last year due to a reduction in general operating expenses including access charges paid to independent companies. Taxes other than income taxes remained essentially flat compared to the same period last year. Depreciation and amortization expense increased primarily due to the aggregate effects of a higher depreciable plant base and the discontinuance of Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation."

**Restructuring Charges**

The Company's September 1993 restructuring plan of \$880 (pre-tax) is designed to provide faster, more responsive customer services while reducing the costs of providing these services. As part of the plan, the Company is developing new systems that will enable it to monitor networks to reduce the risk of service interruptions, activate telephone service on demand, provide automated inventory systems and centralize its service centers so that customers can have their telecommunications needs resolved with one phone call. The Company will also reduce its work force by approximately 8,000 employees (in addition to the remaining employee reductions pursuant to the restructuring plan announced in 1991) by the end of 1996.

The Company has begun the time intensive staffing process necessary to consolidate the operations of its existing 560 customer centers into 26 customer centers in ten cities. Charges amounting to \$2 and \$8 for center moves and systems development, respectively, have been charged against the reserve. These charges will accelerate over the remainder of 1994 as the Company continues consolidation of the customer service centers and the development of the new systems.

The Company's 1991 restructuring plan was established to partially offset the effects of future wage, salary and benefit increases. The plan will result in a workforce reduction of approximately 6,000 employees, of which approximately 5,200 employees have left the Company as of March 31, 1994. The 1991 restructuring charge was \$240, of which approximately \$45 is unused at March 31, 1994. The remaining balance of the restructuring reserve will be used by the end of 1994.

**INTEREST EXPENSE AND OTHER**

Interest expense decreased as a result of the refinancing of debt in the prior year to take advantage of lower interest rates. A reclassification of capitalized interest costs also contributed to the decrease. Pursuant to the discontinuance of SFAS No. 71, interest capitalized as a component of plant construction is being offset against interest expense.

**Item 2. Management's Analysis (Dollars in millions)**

**INTEREST EXPENSE AND OTHER (continued)**

Other income increased as a result of a pre-tax gain of \$24 from the sale of certain rural telephone exchanges in the first quarter of 1994. Partially offsetting this gain was the reclassification of capitalized interest as a component of interest expense.

**PROVISION FOR INCOME TAXES**

The effective tax rate was 37.5 percent in the first quarter compared to 33.3 percent in the same period last year. This increase is primarily a result of the effects of discontinuing the application of SFAS No. 71 in the third quarter of 1993, the 1993 federally-mandated increase in income tax rates and an increase in income before income taxes.

**OTHER ITEMS**

There are pending regulatory actions in local regulatory jurisdictions which call for price decreases, refunds or both. In one such instance, the Utah Supreme Court has remanded a Utah Public Service ("PSC") order to the PSC for reconsideration, thereby establishing two exceptions to the rule against retroactive ratemaking: 1) unforeseen and extraordinary events and 2) misconduct. The Commission's initial order denied a refund request from interexchange carriers and other parties related to the Tax Reform Act of 1986. If the Commission finds that either of the exceptions apply, the Company could be liable for refunds, although at this time any such amount is not reasonably estimable since the case is still in the discovery process.

**PART II - OTHER INFORMATION**

**Item 6. Exhibits and Reports on Form 8-K**

(a) Exhibits

Exhibits identified in parentheses below, on file with the Securities and Exchange Commission, are incorporated by reference as exhibits hereto.

Exhibit  
Number

12 Statement regarding computation of earnings to fixed charges ratio of U S WEST Communications, Inc.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the first quarter of 1994.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**U S WEST Communications, Inc.**

*May 12, 1994*

*/s/ David R. Laube*

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*David R. Laube  
Vice President-Controller  
and Treasurer*



U S WEST COMMUNICATIONS, Inc.  
RATIO OF EARNINGS TO FIXED CHARGES  
(Dollars in Millions)

	Quarter Ended	
	3/31/94	3/31/93
Income before income taxes	\$475	\$400
Interest expense (net of amounts capitalized)	80	99
Interest factor on rentals (1/3)	18	17
Earnings	\$573	\$516
Interest expense	86	99
Interest factor on rentals (1/3)	18	17
Fixed charges	\$104	\$116
Ratio of earnings to fixed charges	5.51	4.44

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End of Filing

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