

# QWEST CORP

## FORM 10-Q (Quarterly Report)

Filed 8/12/1996 For Period Ending 6/30/1996

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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## **FORM 10-Q**

**[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**For the Quarterly Period Ended June 30, 1996**

OR

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

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

*Commission File Number 1-3040*

## **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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**FORM 10-Q**  
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## CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended June 30. 1996	Three Months Ended June 30. 1995	Six Months Ended June 30, 1996	Six Months Ended June 30, 1995
Dollars in millions				
Operating revenues:				
Local service	\$ 1,179	\$ 1,076	\$ 2,324	\$ 2,126
Interstate access service	626	591	1,248	1,180
Intrastate access service	189	184	379	372
Long-distance network services	278	294	568	593
Other services	168	153	329	304
Total operating revenues	2,440	2,298	4,848	4,575
Operating expenses:				
Employee-related expenses	864	767	1,677	1,497
Other operating expenses	373	365	762	756
Taxes other than income taxes	97	104	192	207
Depreciation and amortization	513	498	1,024	992
Total operating expenses	1,847	1,734	3,655	3,452
Income from operations	593	564	1,193	1,123
Interest expense	101	95	204	186
Gains on sales of rural telephone exchanges	49	15	49	78
Other income (expense) - net	2	(20)	(15)	(33)
Income before income taxes and cumulative effect of change in accounting principle	543	464	1,023	982
Provision for income taxes	208	175	391	370
Income before cumulative effect of change in accounting principle	335	289	632	612
Cumulative effect of change in accounting principle - net of tax	-	-	34	-
See Notes to Consolidated Financial Statements. NET INCOME	\$ 335	\$ 289	\$ 666	\$ 612
	=====	=====	=====	=====

**CONSOLIDATED BALANCE SHEETS (Unaudited)**

	June 30,	December 31,
Dollars in millions	1996	1995
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 67	\$ 191
Accounts and notes receivable - net	1,507	1,546
Inventories and supplies	136	142
Deferred tax asset	202	240
Prepaid and other	74	43
	-----	-----
Total current assets	1,986	2,162
	-----	-----
Gross property, plant and equipment	31,522	30,988
Accumulated depreciation	17,863	17,540
	-----	-----
Property, plant and equipment - net	13,659	13,448
Other assets	790	740
	-----	-----
Total assets	\$ 16,435	\$ 16,350
	=====	=====
<b>LIABILITIES AND SHAREOWNER'S EQUITY</b>		
Current liabilities:		
Short-term debt	\$ 1,132	\$ 995
Accounts payable	674	864
Employee compensation	241	281
Current portion of restructuring charge	202	270
Other	1,222	1,081
	-----	-----
Total current liabilities	3,471	3,491
	-----	-----
Long-term debt	5,390	5,411
Postretirement and other postemployment benefit obligations	2,290	2,316
Deferred taxes, credits and other	1,385	1,386
Shareowner's equity:		
Common shares - one share without par value	7,516	7,348
Cumulative deficit	(3,617)	(3,602)
	-----	-----
Total shareowner's equity	3,899	3,746
	-----	-----
Total liabilities and shareowner's equity	\$ 16,435	\$ 16,350
	=====	=====

**Contingencies (See Note B to the Consolidated Financial Statements)**

See Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended June 30,	Six Months Ended June 30,
Dollars in millions	1996	1995
OPERATING ACTIVITIES		
Net income	\$ 666	\$ 612
Adjustments to net income:		
Depreciation and amortization	1,024	992
Gains on sales of rural telephone exchanges	(49)	(78)
Deferred income taxes and amortization of investment tax credits	(4)	56
Cumulative effect of change in accounting principle - net of tax	(34)	-
Changes in operating assets and liabilities:		
Restructuring payments	(74)	(172)
Postretirement medical and life costs - net of cash fundings	(30)	(211)
Accounts and notes receivable	45	(102)
Inventories, supplies and other	(23)	(41)
Accounts payable and accrued liabilities	(83)	41
Other - net	18	4
Cash provided by operating activities	1,456	1,101
INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(1,259)	(1,090)
Proceeds from sales of rural telephone exchanges	111	114
Payments on disposals of property, plant and equipment	(7)	(2)
Cash (used for) investing activities	(1,155)	(978)
FINANCING ACTIVITIES		
Net proceeds from issuance of short-term debt	302	569
Repayments of long-term debt	(245)	(132)
Dividends paid on common stock	(630)	(629)
Equity infusions from parent	148	-
Cash (used for) financing activities	(425)	(192)
CASH AND CASH EQUIVALENTS		
Decrease	(124)	(69)
Beginning balance	191	114
Ending balance	\$ 67	\$ 45

See Notes to Consolidated Financial Statements

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the Six Months Ended June 30, 1996 and 1995**

(Dollars in millions)

(Unaudited)

**A. Summary of Significant Accounting Policies**

**Consolidated Financial Statements**

U S WEST Communications, Inc. (the "Company") is incorporated under the laws of the State of Colorado and is an indirect wholly owned subsidiary of U S WEST, Inc. ("U S WEST").

The Consolidated Financial Statements have been prepared by the Company, pursuant to the interim reporting rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally accompanying financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the interim 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, 1995.

**New Accounting Standard**

Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." SFAS No. 121 requires that long-lived assets and associated intangibles be written down to fair value whenever an impairment review indicates that the carrying value cannot be recovered on an undiscounted cash flow basis. SFAS No. 121 also requires that a company no longer record depreciation expense on assets held for sale.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(Unaudited)

**New Accounting Standard (Continued)**

Adoption of SFAS No. 121 resulted in income of \$34 (net of tax of \$22) from the cumulative effect of reversing depreciation expense recorded in prior years related to rural telephone exchanges held for sale. Depreciation expense was reversed from the date the Company formally committed to a plan to dispose of the rural exchange assets through January 1, 1996. The income has been recorded as a cumulative effect of change in accounting principle in accordance with SFAS No. 121. The carrying value of the rural exchange assets was approximately \$338 at December 31, 1995. As a result of adopting SFAS No. 121, depreciation expense for the six months ended June 30, 1996 was reduced by \$16 (\$10 after tax). In 1996, depreciation expense will decrease approximately \$30 as a result of adopting SFAS No. 121. The combined effects of lower depreciation expense and the cumulative effect of adoption of the new standard will be directly offset by lower recognized gains on future rural exchange sales.

**B. Contingencies**

There are pending regulatory actions in local regulatory jurisdictions that call for price decreases, refunds or both. In one such instance, the Utah Supreme Court has remanded a Utah Public Service Commission ("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 PSC's initial order denied a refund request from interexchange carriers and other parties related to the Tax Reform Act of 1986. This action is still in the discovery process. If a formal filing - made in accordance with the remand from the Supreme Court - alleges that the exceptions apply, the range of possible risk is \$0 to \$155.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(Unaudited)

**B. Contingencies (Continued)**

On April 11, 1996, the Washington State Utilities and Transportation Commission ("WUTC" or the "Commission") acted on the Company's 1995 rate request. In February 1995, the Company sought to increase revenues by raising rates for basic residential services over a four-year period. The two major issues in this proceeding involve the Company's requests for improved capital recovery and elimination of the imputation of Yellow Pages revenue. Instead of granting the Company's request, the Commission ordered approximately \$91.5 in annual revenue reductions, effective May 1, 1996. Based on the above ruling, the Company filed a lawsuit with the King County Superior Court (the "Court") for an appeal of the order, a temporary stay of the ordered rate reduction and an authorization to implement a revenue increase.

On April 29, 1996, the Court stayed the rate decreases ordered by the WUTC. The Court granted the stay for a period of six months or until a decision is made on the Company's appeal. Effective May 1, 1996, the Company began collecting revenues subject to refund with interest. The Company expects its appeal to be successful and plans not to accrue any of the amounts subject to refund. However, an adverse judgment on the appeal would have a significant impact on the Company's future results of operations.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Dollars in millions)**

**Results of Operations**

Comparative details of income before cumulative effect of change in accounting principle for the six months ended June 30 follow:

	Six Months Ended June 30, 1996	Six Months Ended June 30, 1995	Percent Change
Income before cumulative effect of change in accounting principle	\$ 632	\$ 612	3.3
	-----	-----	-----

Adjusted to exclude certain nonoperating items, the Company's year-to-date 1996 income before cumulative effect of change in accounting principle was \$592, an increase of \$29, or 5.2 percent, compared with the same period in 1995. The nonoperating adjustments include the 1996 current year, after-tax impact of \$10 from adopting SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and after-tax gains of \$30 and \$49 on the sales of rural telephone exchanges during the first six months of 1996 and 1995, respectively.

Effective January 1, 1996, the Company adopted SFAS No. 121 (See Footnote A), which among other things, requires that companies no longer record depreciation expense on assets held for sale. Adoption of SFAS No. 121 resulted in a one-time gain of \$34 related to the cumulative effect of change in accounting principle.

Increased income at the Company is attributable to higher demand for services. Partially offsetting the effects of higher demand was an increase in costs incurred to address the requirements associated with accelerating business growth. Further offsetting the effects of higher demand were costs associated with continuing service-improvement initiatives, expenditures related to new business initiatives and flood conditions in the Pacific Northwest during the first quarter of 1996.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)****Results of Operations (Continued)**

Increased demand for the Company's services resulted in growth in earnings before interest, taxes, depreciation, amortization and other ("EBITDA") of 4.8 percent for the first half of 1996. EBITDA also excludes the gains on sales of certain rural telephone exchanges in 1996 and 1995. The Company believes EBITDA is an important indicator of the operational strength of its businesses. EBITDA, however, should not be considered as an alternative to operating or net income as an indicator of the performance of the Company's business or as an alternative to cash flows from operating activities as a measure of liquidity, in each case determined in accordance with generally accepted accounting principles.

**Operating Revenues**

An analysis of changes in the Company's operating revenues follows:

Six Months Ended June 30,	1996	1995	Higher (Lower) Prices	(Higher) Refunds	Demand	Other	Increase (Decrease) Dollars	Increase (Decrease) Percent
Local service	\$2,324	\$2,126	\$ 17	\$ (5)	\$ 194	\$ (8)	\$ 198	9.3
Interstate access	1,248	1,180	(33)	(7)	110	(2)	68	5.8
Intrastate access	379	372	(15)	-	24	(2)	7	1.9
Long-distance network	568	593	(5)	-	(15)	(5)	(25)	(4.2)
Other services	329	304	-	-	-	25	25	8.2
	-----	-----	-----	-----	-----	-----	-----	-----
Total	\$4,848	\$4,575	\$ (36)	\$ (12)	\$ 313	\$ 8	\$ 273	6.0
	=====	=====	=====	=====	=====	=====	=====	=====

Local service revenues increased principally as a result of higher demand for services. Total reported access lines increased 586,000, or 4.0 percent during the last 12 months, of which 228,000 is attributed to second lines. Second line installations increased 32 percent during the past year. Access line growth was 4.9 percent when adjusted for sales of approximately 124,000 rural telephone access lines during the last 12 months. Also contributing to the increase in local service revenues was expanded growth in new product and service offerings, such as caller identification and call waiting. Local service revenues from new product and service offerings were approximately \$80 in the first half of 1996, an increase of approximately 120 percent compared to the same period last year.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

**Operating Revenues (Continued)**

Higher revenues from interstate access services resulted from access line growth and an increase of 9.5 percent in interstate billed access minutes of use. The increased volume of business was partially offset by the effects of price reductions and refunds. Intrastate access revenues increased slightly due to higher demand, largely offset by the effects of price reductions.

Long-distance network revenues decreased primarily due to the effects of competition, rate reductions and the implementation of a multiple toll carrier plan (MTCP) in Iowa in May 1996. The MTCP allows independent telephone companies to act as toll carriers. The impact of the MTCP for the six months ended June 30, 1996 was long-distance revenue losses of \$6, offset by increases in intrastate access revenues of \$1 and decreases in other operating expenses (i.e. access expense) of \$6.

Excluding the effects of the MTCP, long-distance network revenues decreased 3.2 percent for six months ended June 30, 1996. Erosion of long-distance revenue will continue due to the loss of exclusivity of 1+ dialing in Minnesota, which became effective in February 1996, and in Arizona, effective in April 1996.

Revenues from other services increased primarily as a result of continued market penetration in voice messaging services and increases in inside wire services.

**Costs and Expenses**

	Six Months Ended June 30,	Six Months Ended June 30,	Percent Change
	1996	1995	
Employee-related expenses	\$ 1,677	\$ 1,497	12.0
Other operating expenses	762	756	0.8
Taxes other than income taxes	192	207	(7.2)
Depreciation and amortization	1,024	992	3.2
Interest expense	204	186	9.7
Other expense - net	15	33	(54.5)

Employee-related expenses increased \$180 compared to the prior year. This increase is primarily attributable to continued efforts to meet the requirements associated with accelerating business growth, service-improvement initiatives and new business initiatives.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

**Costs and Expenses (Continued)**

Salaries and wages increased employee-related expenses by approximately \$73 over the prior year, primarily due to inflation-driven base wage increases. The increase is also attributable to absorbing certain employee transfers from affiliate companies during 1995. Salaries and wages were reduced through restructuring; however, costs associated with employee transfers, along with other workforce additions needed to meet the increased business growth and service-improvement initiatives, have offset these benefits.

Overtime payments and contract labor increased approximately \$85 over the prior year. The increase in contract labor is primarily due to increased network operations costs incurred to meet accelerating business growth and marketing organization costs associated with the implementation of new products and services. Additionally, approximately \$15 of this increase is attributable to severe flooding in Washington and Oregon during the first quarter of 1996. Partially offsetting the increase in employee-related expenses was a reduction in the postretirement benefits accrual and lower travel and conference expenses.

The increase in other operating expenses is primarily due to increased uncollectibles, higher advertising costs and greater materials and supplies expense. Offsetting these increases were lower affiliate expenses and the effect of the MTCP implemented in Iowa in May of 1996. Taxes other than income taxes decreased primarily as a result of timing.

Increased depreciation and amortization expense was attributable to the effects of a higher depreciable asset base, partially offset by the effects of 1995 sales of rural telephone exchanges and the adoption of SFAS No. 121.

Interest expense increased due to equal effects of slightly higher debt levels, as well as higher interest rates associated with refinancing commercial paper in the latter part of 1995.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)****Restructuring Charge**

The Company's 1993 results reflected an \$880 restructuring charge (pretax). The related restructuring plan (the "Restructuring Plan") is designed to provide faster, more responsive customer services while reducing the costs of providing these services.

Following are schedules of the costs and planned workforce reductions included in the Restructuring Plan:

Restructuring Plan Costs	Actual 1994	Actual 1995	Estimate 1996	Estimate 1997	Total
Cash expenditures:					
Employee separation (1)<F1>	\$ 19	\$ 76	\$ 33	\$ 127	\$ 255
Systems development	118	129	113	-	360
Real estate	50	66	14	-	130
Relocation	21	21	20	13	75
Retraining and other	8	23	22	7	60
	-----	-----	-----	-----	-----
Total cash expenditures	216	315	202	147	880
Remaining 1991 plan employee costs (1)	56	-	-	-	56
	-----	-----	-----	-----	-----
Total	\$ 272	\$ 315	\$ 202	\$ 147	\$ 936
	=====	=====	=====	=====	=====

<F1>

(1) Employee separation costs, including the balance of the 1991 restructuring reserve at

December 31, 1993 aggregate \$311.

Workforce Reductions	Actual 1994	Actual 1995	Estimate(1)<F1> 1996	Estimate(1)<F1> 1997	Total
Employee separations					
Managerial	497	682	202	1,357	2,738
Occupational	1,683	1,643	798	3,138	7,262
	-----	-----	-----	-----	-----
Total	2,180	2,325	1,000	4,495	10,000
	=====	=====	=====	=====	=====

<F1>

(1) Certain of the workforce reductions scheduled for 1997 may occur in 1996. The Restructuring Plan is expected to be substantially complete by the end of 1997.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)****Restructuring Charge (Continued)**

Employee separation costs include severance payments, health-care coverage and postemployment education benefits associated with the planned reduction of 10,000 employees. System development costs include new systems and the application of enhanced system functionality to existing single-purpose systems to provide integrated, end-to-end customer service. Real estate costs include preparation costs for the new service centers. The Company has consolidated its 560 customer service centers into 26 centers in 10 cities. The relocation and retraining costs are related to moving employees to the new service centers and retraining employees on the methods and systems required in the new, restructured mode of operation. Progress Under The Restructuring Plan:

Following is a reconciliation of restructuring activity during the first six months of 1996:

	Reserve Balance December 31, 1995	First half 1996 Activity	Reserve Balance June 30, 1996
Employee separations			
Managerial	\$ 63	\$ 12	\$ 51
Occupational	97	9	88
	-----	-----	-----
Total separations		160	139
Systems development			
Service delivery	44	18	26
Service assurance	26	3	23
Capacity provisioning	42	17	25
All other	1	1	-
	-----	-----	-----
Total systems	113	39	74
Real estate	14	3	11
Relocation	33	2	31
Retraining and other	29	9	20
	-----	-----	-----
Total	\$ 349	\$ 74	\$ 275
	=====	=====	=====

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

**Restructuring Charge (Continued)**

**Progress Under The Restructuring Plan (Continued):**

	1994	1995	First half 1996	Cumulative Separations June 30, 1996
Employee separations	Separations	Separations	Separations	
Managerial	497	682	190	1,369
Occupational	1,683	1,643	261	3,587
	-----	-----	-----	-----
Total	2,180	2,325	451	4,956
	=====	=====	=====	=====

**Contingencies**

There are pending regulatory actions in local regulatory jurisdictions that call for price decreases, refunds or both. In one such instance, the Utah Supreme Court has remanded a Utah Public Service Commission ("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 PSC's initial order denied a refund request from interexchange carriers and other parties related to the Tax Reform Act of 1986. This action is still in the discovery process. If a formal filing - made in accordance with the remand from the Supreme Court - alleges that the exceptions apply, the range of possible risk is \$0 to \$155.

On April 11, 1996, the Washington State Utilities and Transportation Commission ("WUTC" or the "Commission") acted on the Company's 1995 rate request. In February 1995, the Company sought to increase revenues by raising rates for basic residential services over a four-year period. The two major issues in this proceeding involve the Company's requests for improved capital recovery and elimination of the imputation of Yellow Pages revenue. Instead of granting the Company's request, the Commission ordered approximately \$91.5 in annual revenue reductions, effective May 1, 1996. Based on the above ruling, the Company filed a lawsuit with the King County Superior Court (the "Court") for an appeal of the order, a temporary stay of the ordered rate reduction and an authorization to implement a revenue increase.



**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

**Contingencies (Continued)**

On April 29, 1996, the Court stayed the rate decreases ordered by the WUTC. The Court granted the stay for a period of six months or until a decision is made on the Company's appeal. Effective May 1, 1996, the Company began collecting revenues subject to refund with interest. The Company expects its appeal to be successful and plans not to accrue any of the amounts subject to refund. However, an adverse judgment on the appeal would have a significant impact on the Company's future results of operations.

**Regulatory Environment**

On August 1, 1996, the Federal Communications Commission ("FCC") established a framework of minimum national rules that will enable the states and the FCC to begin implementing the local competition provision of the Telecommunications Act of 1996. The FCC's order relies heavily on the states to develop specific rates and procedures consistent with the FCC's general rules. Included in the order are stipulations that require local exchange carriers ("LECs") to: a) provide interconnection to any requesting telecommunications carrier at any technically feasible point, equal in quality to that provided by the incumbent LEC; b) provide unrestricted access to network services on an unbundled basis; c) provide physical collocation of equipment necessary for interconnection at the incumbent LEC's premises, unless physical collocation is not practical for technical reasons or because of space limitations; and d) offer for resale any telecommunications services that the LEC provides at retail to subscribers who are not telecommunications carriers. The order also stipulates that commercial mobile radio service operators ("CMRS") are entitled to reciprocal compensation arrangements and that a LEC may not charge a CMRS provider for terminating LEC-originated traffic. The FCC's order continues to provide for access charge recovery by LECs from interexchange carriers until it further evaluates the issues of access charge reform and universal service. The Company is evaluating the effects of the order.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

**Other Items**

In connection with the Washington State Utilities and Transportation Commission's \$91.5 rate reduction order (See "Contingencies"), U S WEST Communications' debt securities have been placed on rating watch by Duff & Phelps. U S WEST Communications' senior unsecured debt and commercial paper ratings have also been lowered by Standard and Poor's in connection with a February 27, 1996, announcement by U S WEST, Inc. of a planned merger with Continental Cablevision, Inc. The senior unsecured debt was lowered to A-plus from AA-minus and the commercial paper was lowered to A-1 from A-1-plus. The credit rating of U S WEST Communications' debt securities was reaffirmed by Moody's and is under review by Fitch.

Some of the information presented in or in connection with this report constitutes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Although the Company believes that its expectations are based on reasonable assumptions within the bounds of its knowledge of its business and operations, there can be no assurance that actual results will not differ materially from its expectations. Factors that could cause actual results to differ from expectations include: (i) greater than anticipated competition from new entrants into the local exchange and intralata toll markets, (ii) changes in demand for products and services, including optional custom calling features, (iii) higher than anticipated employee levels, capital expenditures, and operating expenses as a result of unusually rapid in-region growth, (iv) the gain or loss of significant customers, and (v) regulatory changes affecting the telecommunications industry, including changes that could have an impact on the competitive environment in the local exchange market.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

On April 11, 1996, the Washington State Utilities and Transportation Commission ("WUTC" or the "Commission") acted on the Company's 1995 rate request. In February 1995, the Company sought to increase revenues by raising rates for basic residential services over a four-year period. The two major issues in this proceeding involve the Company's requests for improved capital recovery and elimination of the imputation of Yellow Pages revenue. Instead of granting the Company's request, the Commission ordered approximately \$91.5 in annual revenue reductions, effective May 1, 1996. Based on the above ruling, the Company filed a lawsuit with the King County Superior Court (the "Court") for an appeal of the order, a temporary stay of the ordered rate reduction and an authorization to implement a revenue increase.

On April 29, 1996, the Court stayed the rate decreases ordered by the WUTC. The Court granted the stay for a period of six months or until a decision is made on the Company's appeal. Effective May 1, 1996, the Company began collecting revenues subject to refund with interest. The Company expects its appeal to be successful and plans not to accrue any of the amounts subject to refund. However, an adverse judgment on the appeal would have a significant impact on the Company's future results of operations.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No.	
12	Statement regarding computation of earnings to fixed charges ratio of U S WEST Communications, Inc.
27	Financial Data Schedule
(b)	Reports on Form 8-K Filed During the Second Quarter of 1996:
(i)	Form 8-K report dated April 4, 1996, concerning changes in the registrant's certifying accountant.

**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**

*/s/ Allan R. Spies*

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*Allan R. Spies*  
*Vice President and Controller*

*August 12, 1996*

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

Quarter Ended	6/30/96	6/30/95
-----		
Income before income taxes and cumulative effect of change in accounting principle	\$543	\$464
Interest expense (net of amounts capitalized)	101	95
Interest factor on rentals (1/3)	15	16
	-----	-----
Earnings	\$659	\$575
Interest expense	116	105
Interest factor on rentals (1/3)	15	16
	-----	-----
Fixed charges	\$131	\$121
Ratio of earnings to fixed charges	5.03	4.75
-----		
	Year-to-Date	
	6/30/96	6/30/95
-----		
Income before income taxes and cumulative effect of change in accounting principle	\$1,023	\$982
Interest expense (net of amounts capitalized)	204	186
Interest factor on rentals (1/3)	29	31
	-----	-----
Earnings	\$1,256	\$1,199
Interest expense	232	205
Interest factor on rentals (1/3)	29	31
	-----	-----
Fixed charges	\$261	\$236
Ratio of earnings to fixed charges	4.81	5.08
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**ARTICLE 5**

CIK: 0000068622

NAME: US WEST COMMUNICATIONS, INC.

MULTIPLIER: 1,000,000

PERIOD TYPE	3 MOS	6 MOS
FISCAL YEAR END	DEC 31 1996	DEC 31 1996
PERIOD END	JUN 30 1996	JUN 30 1996
CASH	67	67
SECURITIES	0	0
RECEIVABLES	1,507	1,507
ALLOWANCES	0	0
INVENTORY	136	136
CURRENT ASSETS	1,986	1,986
PP&E	31,522	31,522
DEPRECIATION	17,863	17,863
TOTAL ASSETS	16,435	16,435
CURRENT LIABILITIES	3,471	3,471
BONDS	5,390	5,390
PREFERRED MANDATORY	0	0
PREFERRED	0	0
COMMON	7,516	7,516
OTHER SE	(3,617)	(3,617)
TOTAL LIABILITY AND EQUITY	16,435	16,435
SALES	2,440	4,848
TOTAL REVENUES	2,440	4,848
CGS	0	0
TOTAL COSTS	0	0
OTHER EXPENSES	1,847	3,655
LOSS PROVISION	0	0
INTEREST EXPENSE	101	204
INCOME PRETAX	543	1,023
INCOME TAX	208	391
INCOME CONTINUING	335	632
DISCONTINUED	0	0
EXTRAORDINARY	0	0
CHANGES	0	34
NET INCOME	335	666
EPS PRIMARY	0	0
EPS DILUTED	0	0

**End of Filing**

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