

QWEST CORP

FORM 10-Q (Quarterly Report)

Filed 5/14/1996 For Period Ending 3/31/1996

| | |
|-------------|---|
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| Fiscal Year | 12/31 |

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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 March 31, 1996

OR

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

For the transition period from _____ to _____

Commission File Number 1-3040

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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CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

| Three Months Ended March 31, Dollars in millions | 1996 | 1995 |
|---|---------|---------|
| Operating revenues: | | |
| Local service | \$1,145 | \$1,050 |
| Interstate access service | 622 | 589 |
| Intrastate access service | 190 | 188 |
| Long-distance network services | 290 | 299 |
| Other services | 161 | 151 |
| Total operating revenues | 2,408 | 2,277 |
| Operating expenses: | | |
| Employee-related expenses | 813 | 730 |
| Other operating expenses | 389 | 391 |
| Taxes other than income taxes | 95 | 103 |
| Depreciation and amortization | 511 | 494 |
| Total operating expenses | 1,808 | 1,718 |
| Income from operations | 600 | 559 |
| Interest expense | 103 | 91 |
| Gain on sales of rural telephone exchanges | - | 63 |
| Other expense - net | 17 | 13 |
| Income before income taxes and cumulative effect of change in accounting principle | 480 | 518 |
| Provision for income taxes | 183 | 195 |
| Income before cumulative effect of change in accounting principle | 297 | 323 |

| | | |
|---|--------|--------|
| Cumulative effect of change in accounting principle - net of tax | 34 | - |
| | ----- | ----- |
| NET INCOME | \$ 331 | \$ 323 |
| | ===== | ===== |
| See Notes to Consolidated Financial Statements. | | |

CONSOLIDATED BALANCE SHEETS (Unaudited)

| Dollars in millions | March 31, 1996 | December 31, 1995 |
|---|-------------------|----------------------|
| ----- | | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 47 | \$ 191 |
| Accounts and notes receivable - net | 1,454 | 1,546 |
| Inventories and supplies | 145 | 142 |
| Deferred tax asset | 230 | 240 |
| Prepaid and other | 81 | 43 |
| | ----- | ----- |
| Total current assets | 1,957 | 2,162 |
| | ----- | ----- |
| Gross property, plant and equipment | 31,472 | 30,988 |
| Accumulated depreciation | 17,772 | 17,540 |
| | ----- | ----- |
| Property, plant and equipment - net | 13,700 | 13,448 |
| Other assets | 703 | 740 |
| | ----- | ----- |
| Total assets | \$ 16,360 | \$ 16,350 |
| | ===== | ===== |
| LIABILITIES AND SHAREOWNER'S EQUITY | | |
| Current liabilities: | | |
| Short-term debt | \$ 912 | \$ 995 |
| Accounts payable | 775 | 864 |
| Employee compensation | 257 | 281 |
| Current portion of restructuring charge | 202 | 270 |
| Other | 1,267 | 1,081 |
| | ----- | ----- |
| Total current liabilities | 3,413 | 3,491 |
| | ----- | ----- |
| Long-term debt | 5,396 | 5,411 |
| Postretirement and other postemployment benefit obligations | 2,282 | 2,316 |
| Deferred taxes, credits and other | 1,430 | 1,386 |
| Shareowner's equity: | | |
| Common shares - one share without par value | 7,456 | 7,348 |
| Cumulative deficit | (3,617) | (3,602) |
| | ----- | ----- |
| Total shareowner's equity | 3,839 | 3,746 |
| | ----- | ----- |
| Total liabilities and shareowner's equity | \$ 16,360 | \$ 16,350 |
| | ===== | ===== |
| Contingencies (see Note B to the Consolidated Financial Statements) | | |
| See Notes to Consolidated Financial Statements. | | |

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

| Three Months Ended March 31, Dollars in millions | 1996 | 1995 |
|---|--------|--------|
| ----- | | |
| OPERATING ACTIVITIES | | |
| Net income | \$ 331 | \$ 323 |
| Adjustments to net income: | | |
| Depreciation and amortization | 511 | 494 |
| Gain on sales of rural telephone exchanges | - | (63) |
| Deferred income taxes and amortization of investment tax credits | 22 | 37 |
| Cumulative effect of change in accounting principle - net of tax | (34) | - |
| Changes in operating assets and liabilities: | | |
| Restructuring payments | (42) | (77) |
| Postretirement medical and life costs - net of cash fundings | (34) | (241) |
| Accounts and notes receivable | 93 | 28 |
| Inventories, supplies and other | (31) | (31) |
| Accounts payable and accrued liabilities | 19 | 38 |
| Other - net | 2 | (2) |
| | ----- | ----- |
| Cash provided by operating activities | 837 | 506 |
| | ----- | ----- |
| INVESTING ACTIVITIES | | |
| Expenditures for property, plant and equipment | (637) | (539) |
| Proceeds from sales of rural telephone exchanges | - | 88 |
| Proceeds from (payments on) disposals of property, plant and equipment | (7) | 5 |
| | ----- | ----- |
| Cash (used for) investing activities | (644) | (446) |
| | ----- | ----- |
| FINANCING ACTIVITIES | | |
| Net (repayments of) proceeds from issuance of short-term debt | (93) | 225 |
| Repayments of long-term debt | (24) | (18) |
| Dividends paid on common stock | (308) | (340) |
| Equity infusions from parent | 88 | - |
| | ----- | ----- |
| Cash (used for) financing activities | (337) | (133) |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS | | |
| Decrease | (144) | (73) |
| Beginning balance | 191 | 114 |
| | ----- | ----- |
| Ending balance | \$ 47 | \$ 41 |
| | ===== | ===== |
| See Notes to Consolidated Financial Statements. | | |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 31, 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 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 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, 1995.

Certain reclassifications within the Consolidated Financial Statements have been made to conform to the current year presentation.

New Accounting Standard

Effective January 1, 1996, U S WEST 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 carrying value of the rural exchange assets was approximately \$338 at December 31, 1995. The income has been recorded as a cumulative effect of change in accounting principle in accordance with SFAS No. 121. As a result of adopting SFAS No. 121, first-quarter depreciation expense was reduced by \$8 (\$5 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 \$150.

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 request 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 decrease 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 three months ended March 31 follow:

| Three Months Ended March 31, | 1996 | 1995 | Percent |
|--|--------|--------|---------|
| ----- | ----- | ----- | ----- |
| | | | Change |
| | | | ----- |
| Income before cumulative effect of change in accounting principle | \$ 297 | \$ 323 | (8.0) |

Adjusted to exclude nonrecurring items, the Company's first-quarter 1996 income before cumulative effect of change in accounting principle was \$292, an increase of \$8, or 2.8 percent, compared with first quarter 1995. The nonrecurring items include the 1996 current year, after-tax impact of \$5 from adopting SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and an after-tax gain of \$39 on the sales of rural telephone exchanges in first quarter 1995.

Effective January 1, 1996, the Company adopted SFAS No. 121, 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. The first-quarter, pretax effect of the SFAS No. 121 adoption resulted in a decrease to depreciation expense of \$8 (\$5 after tax).

Increased income at the Company is attributable to higher demand for services. Partially offsetting the effects of higher demand was an increase in operating costs to address customer service issues, expenditures related to development of new products and services, flood conditions in the Pacific Northwest, increased depreciation expense and higher interest expense.

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 5.5 percent for first quarter 1996. EBITDA also excludes the gain on sales of certain rural telephone exchanges in 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 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:

| Three Months Ended March 31, | 1996 | 1995 | Higher (Lower) Prices | (Higher) Lower Refunds | Demand | Other | Increase (Decrease) Dollars | Increase (Decrease) Percent |
|---------------------------------|---------|---------|-----------------------------|------------------------------|--------|--------|-----------------------------------|-----------------------------------|
| Local service | \$1,145 | \$1,050 | \$ 7 | \$ (4) | \$ 97 | \$ (5) | \$ 95 | 9.0 |
| Interstate access | 622 | 589 | (16) | - | 55 | (6) | 33 | 5.6 |
| Intrastate access | 190 | 188 | (7) | - | 11 | (2) | 2 | 1.1 |
| Long-distance network | 290 | 299 | (3) | - | (5) | (1) | (9) | (3.0) |
| Other services | 161 | 151 | - | - | - | 10 | 10 | 6.6 |
| Total | \$2,408 | \$2,277 | \$ (19) | \$ (4) | \$ 158 | \$ (4) | \$ 131 | 5.8 |

Local service revenues increased principally as a result of higher demand for services. Total reported access lines increased 647,000, or 4.5 percent during the last 12 months, of which 202,000 was attributed to second lines. Second line installations increased 30 percent during the past year. Access line growth was 4.8 percent when adjusted for sales of approximately 45,000 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 \$40 for first-quarter 1996, an increase of approximately 120 percent compared to the same period last year.

Higher revenues from interstate access services resulted from an increase of 9.5 percent in interstate billed access minutes of use, which more than offset the effects of price reductions. Intrastate access revenues increased slightly as higher demand was largely offset by the effects of price reductions.

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

Operating Revenues (Continued)

Long-distance network revenues decreased primarily due to the effects of competition and rate reductions. Erosion of long-distance revenue will continue due to the loss 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, partially offset by decreases in billing and collection revenues.

Costs and Expenses

| Three Months Ended March 31, | 1996 | 1995 | Percent Change |
|-------------------------------|--------|--------|----------------|
| ----- | ----- | ----- | ----- |
| Employee-related expenses | \$ 813 | \$ 730 | 11.4 |
| Other operating expenses | 389 | 391 | (0.5) |
| Taxes other than income taxes | 95 | 103 | (7.8) |
| Depreciation and amortization | 511 | 494 | 3.4 |
| Interest expense | 103 | 91 | 13.2 |
| Other expense - net | 17 | 13 | 30.8 |

Employee-related expenses increased \$83 compared to the prior year. The increase is attributable to continued efforts to improve customer service and to address business growth through expenditures on overtime, contract labor and workforce additions. Costs related to workforce additions will partially offset the benefits of employee separations achieved through restructuring.

Salaries and wages, overtime payments and contract labor increased employee-related expenses by approximately \$72 for the first quarter as compared with the same period last year. Approximately \$15 of the overtime and contract labor increase was attributed to severe flooding in Washington and Oregon. Additionally, current year employee-related expenses increased as a result of absorbing certain employee transfers from affiliate companies during 1995. Partially offsetting these increases was a reduction in the postretirement benefits accrual and lower travel and conference expenses.

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

Costs and Expenses (Continued)

The decrease in other operating expenses of \$2 is primarily due to lower affiliate expenses offset by increased uncollectibles and higher advertising costs. Taxes other than income taxes decreased \$8 compared to the prior year primarily as a result of lower than expected tax assessments and mill levies.

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 primarily due to higher interest rates associated with refinancing commercial paper in the latter part of 1995. Slightly higher debt levels also contributed to the increase in interest expense.

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

The Company's 1993 results reflected a \$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) | \$ 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 1996 | Estimate 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) A significant number of the employee reductions originally scheduled for 1996 will be delayed while the Company focuses on overtime and contract-labor expenses. 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 reserve activity during first quarter 1996:

| | Reserve Balance December 31, 1995 | 1996 Activity | Reserve Balance March 31, 1996 |
|-----------------------|--------------------------------------|---------------|-----------------------------------|
| Employee separations | | | |
| Managerial | \$ 63 | \$ 7 | \$ 56 |
| Occupational | 97 | 6 | 91 |
| Total separations | 160 | 13 | 147 |
| Systems development | | | |
| Service delivery | 44 | 8 | 36 |
| Service assurance | 26 | 1 | 25 |
| Capacity provisioning | 42 | 11 | 31 |
| All other | 1 | 1 | - |
| Total systems | 113 | 21 | 92 |
| Real estate | 14 | 2 | 12 |
| Relocation | 33 | 1 | 32 |
| Retraining and other | 29 | 5 | 24 |
| Total | \$ 349 | \$ 42 | \$ 307 |

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-Quarter | Cumulative |
|----------------------|-------------|-------------|---------------|----------------|
| | | | 1996 | |
| | ----- | ----- | ----- | ----- |
| | Separations | Separations | Separations | March 31, 1996 |
| | ----- | ----- | ----- | ----- |
| Employee separations | | | | |
| Managerial | 497 | 682 | 107 | 1,286 |
| Occupational | 1,683 | 1,643 | 142 | 3,468 |
| | ----- | ----- | ----- | ----- |
| Total | 2,180 | 2,325 | 249 | 4,754 |
| | ===== | ===== | ===== | ===== |

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

OTHER ITEMS

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 \$150.

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 request 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.

In connection with the WUTC's \$91.5 rate reduction order, the Company's debt securities have been placed on rating watch by Duff & Phelps. The credit rating of the Company's debt securities was not placed under review by Moody's and is under review by Fitch and Standard & Poors.

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 U S WEST Communications' 1995 rate request. In February 1995, U S WEST Communications sought to increase revenues by raising rates for basic residential services over a four-year period. The two major issues in this proceeding involve U S WEST Communications' requests for improved capital recovery and elimination of the imputation of Yellow Pages revenue. Instead of granting U S WEST Communications' request, the Commission ordered approximately \$91.5 in annual revenue reductions, effective May 1, 1996. Based on the above ruling, U S WEST Communications 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 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 U S WEST Communications' appeal. Effective May 1, 1996, U S WEST Communications began collecting revenues subject to refund with interest. U S WEST Communications 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 U S WEST Communications' 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 First Quarter of 1996:

No reports on Form 8-K have been filed for the Company during the first quarter of 1996.

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/ Barbara M. Japha

Barbara M. Japha
Vice President, Chief Financial
Officer and Treasurer

May 14, 1996

EXHIBIT 12

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

| | Three Months Ended | |
|--|--------------------|---------|
| | 3/31/96 | 3/31/95 |
| ----- | | |
| Income before income taxes and cumulative effect | | |
| of change in accounting principle | \$480 | \$518 |
| Interest expense (net of amounts capitalized) | 103 | 91 |
| Interest factor on rentals (1/3) | 13 | 15 |
| | ----- | ----- |
| Earnings | \$596 | \$624 |
| Interest expense | 116 | 99 |
| Interest factor on rentals (1/3) | 13 | 15 |
| | ----- | ----- |
| Fixed charges | \$129 | \$114 |
| Ratio of earnings to fixed charges | 4.62 | 5.47 |
| ----- | | |

ARTICLE 5

CIK: 0000068622

NAME: U S WEST COMMUNICATIONS, INC.

MULTIPLIER: 1,000,000

| | |
|----------------------------|-------------|
| PERIOD TYPE | 3 MOS |
| FISCAL YEAR END | DEC 31 1996 |
| PERIOD END | MAR 31 1996 |
| CASH | 47 |
| SECURITIES | 0 |
| RECEIVABLES | 1,454 |
| ALLOWANCES | 0 |
| INVENTORY | 145 |
| CURRENT ASSETS | 1,957 |
| PP&E | 31,472 |
| DEPRECIATION | 17,772 |
| TOTAL ASSETS | 16,360 |
| CURRENT LIABILITIES | 3,413 |
| BONDS | 5,396 |
| PREFERRED MANDATORY | 0 |
| PREFERRED | 0 |
| COMMON | 7,456 |
| OTHER SE | (3,617) |
| TOTAL LIABILITY AND EQUITY | 16,360 |
| SALES | 2,408 |
| TOTAL REVENUES | 2,408 |
| CGS | 0 |
| TOTAL COSTS | 0 |
| OTHER EXPENSES | 1,808 |
| LOSS PROVISION | 0 |
| INTEREST EXPENSE | 103 |
| INCOME PRETAX | 480 |
| INCOME TAX | 183 |
| INCOME CONTINUING | 297 |
| DISCONTINUED | 0 |
| EXTRAORDINARY | 0 |
| CHANGES | 34 |
| NET INCOME | 331 |
| EPS PRIMARY | 0 |
| EPS DILUTED | 0 |

End of Filing

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