

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**  
SEC Accession No. [0000101839-94-000006](#)

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FILER

**UNITED TELEPHONE CO OF OHIO**

CIK: **101839** | IRS No.: **340971501** | State of Incorpor.: **OH** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **001-07014** | Film No.: **94528273**  
SIC: **4813** Telephone communications (no radiotelephone)

Business Address  
P O BOX 3555  
MANSFIELD OH 44907  
4197558011

United States  
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.....1-7014.....

UNITED TELEPHONE COMPANY OF OHIO

.....  
(Exact name of registrant as specified in its charter)

OHIO

34-0971501

.....  
(State or other jurisdiction of incorporation  
or organization)

.....  
(I.R.S. Employer  
Identification No.)

P.O. Box 3555, Mansfield, Ohio 44907

.....  
(Address of principal executive offices)

419/755-8011

.....  
(Registrant's telephone number, including area code)

.....  
(Former name, former address and former fiscal year,  
if changed since last report)

The registrant meets the conditions set forth in general Instruction H(1)(a)  
and (b) of Form 10-Q and is therefore filing this Form with the reduced  
disclosure format.

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

There are 509,480 shares of common stock, par value \$100, outstanding as of  
March 31, 1994 and as of the date of filing of this report.

(2)

UNITED TELEPHONE COMPANY OF OHIO  
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&lt;TABLE&gt;

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Part I.  
Item 1.

UNITED TELEPHONE COMPANY OF OHIO  
CONSOLIDATED BALANCE SHEETS  
(In Thousands)

&lt;CAPTION&gt;

March 31, 1994 ----- (Unaudited)	December 31, 1993 -----
---	-------------------------------

&lt;S&gt;

&lt;C&gt;

&lt;C&gt;

ASSETS

## CURRENT ASSETS

Cash	\$ 3,172	\$ 444
Receivables		
Customer and other, net of allowance for doubtful accounts of \$1,634 (\$1,744 at December 31, 1993)	33,431	39,882
Interexchange carriers, net of allowance for doubtful accounts of \$301 (\$391 at December 31, 1993)	18,219	17,243
Affiliated companies	26,647	21,439
Property tax	18,474	24,632
Inventories	5,905	4,427
Prepaid expenses and other	5,676	4,257
	-----	-----
	111,524	112,324

## PROPERTY, PLANT AND EQUIPMENT

Land and buildings	57,620	57,560
Telephone network equipment and outside plant	893,688	886,975
Other	73,216	70,113
Construction in progress	18,240	15,885
	-----	-----
	1,042,764	1,030,533
Accumulated depreciation	(577,524)	(563,015)
	-----	-----
	465,240	467,518

PREPAID PENSION COSTS	32,928	30,984
DEFERRED CHARGES AND OTHER ASSETS	16,560	18,013
	-----	-----
	\$ 626,252	\$ 628,839
	=====	=====

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(4)

Part I.  
Item 1.

UNITED TELEPHONE COMPANY OF OHIO  
CONSOLIDATED BALANCE SHEETS  
(In Thousands)

<CAPTION>

March 31, 1994	December 31, 1993
-----	-----
(Unaudited)	

<S>

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LIABILITIES AND STOCKHOLDER'S EQUITY

CURRENT LIABILITIES

Current maturities of long-term debt		\$ 1,587
Accounts payable:		
Affiliates	\$ 4,605	3,998
Interexchange carriers	14,712	17,283
Other	21,517	19,885
Advance billings	7,716	7,408
Accrued taxes	50,491	55,487
Accrued vacation pay	7,332	7,234
Other	11,982	12,159
	-----	-----
	118,355	125,041

LONG-TERM DEBT

163,755	163,705
---------	---------

DEFERRED CREDITS AND OTHER LIABILITIES

Income taxes	45,907	47,851
Investment tax credits	7,482	8,206
Other	24,997	20,723
	-----	-----
	78,386	76,780

COMMITMENTS

COMMON STOCK AND OTHER STOCKHOLDER'S EQUITY

Common stock		
Authorized 1,000,000 shares, stated value \$100 per share, issued and outstanding 509,480 shares	50,948	50,948
Capital in excess of stated value	20,801	20,801
Retained earnings	194,007	191,564
	-----	-----
	265,756	263,313
	-----	-----
	\$ 626,252	\$ 628,839
	=====	=====

See Notes to Consolidated Financial Statements.

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(5)

Part I.  
Item 1.

UNITED TELEPHONE COMPANY OF OHIO  
CONSOLIDATED STATEMENTS OF INCOME  
(In Thousands)

<CAPTION>

	Three Months Ended	
	1994	1993
	(Unaudited)	
<S>	<C>	<C>
<b>OPERATING REVENUES</b>		
Local service	\$ 42,573	\$ 39,861
Network access service	36,648	32,758
Long-distance service	16,173	14,597
Other	8,215	8,078
	103,609	95,294
<b>OPERATING EXPENSES</b>		
Plant expense	32,165	29,652
Depreciation	19,783	18,438
Customer operations	11,465	11,516
Corporate operations	13,015	10,568
Merger and integration costs		10,300
Other	1,719	2,131
Taxes:		
Federal income:		
Current	8,607	4,740
Deferred	(4,126)	(4,736)
Deferred investment tax credits	(724)	(824)
State, local and miscellaneous	8,658	8,414
	90,562	90,199
<b>OPERATING INCOME</b>	13,047	5,095
<b>INTEREST CHARGES</b>		
Long-term debt	2,684	3,059
Other	336	339
	3,020	3,398
<b>OTHER INCOME</b>		
Interest charged to construction	206	348
Other, net	54	78
	260	426
<b>NET INCOME</b>	\$ 10,287	\$ 2,123

See Notes to Consolidated Financial Statements.

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(6)

Part I.  
Item 1.

UNITED TELEPHONE COMPANY OF OHIO  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In Thousands)

<CAPTION>

	Three Months Ended	
	March 31,	
	1994	1993
	(Unaudited)	
<S>	<C>	<C>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 10,287	\$ 2,123

Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	19,783	18,438
Deferred income taxes and investment tax credits	(4,827)	(5,533)
Changes in operating assets and liabilities:		
Receivables	6,425	(3,565)
Inventories	(1,478)	(698)
Other current assets	(1,419)	1,741
Accounts payable	(332)	(1,985)
Accrued expenses and other current liabilities	(4,767)	(9,461)
Noncurrent assets and liabilities, net	3,028	4,343
Other, net	2,159	2,124
NET CASH PROVIDED BY OPERATING ACTIVITIES	28,859	7,527
INVESTING ACTIVITIES		
Capital expenditures	(17,439)	(19,581)
Net salvage (cost) from plant and equipment retired	(66)	114
Other, net	805	(821)
NET CASH USED BY INVESTING ACTIVITIES	(16,700)	(20,288)
FINANCING ACTIVITIES		
Proceeds from long-term debt		40,000
Retirements of long-term debt	(1,587)	
Decrease in advances from parent company		(30,000)
Dividends paid	(7,844)	
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(9,431)	10,000
INCREASE (DECREASE) IN CASH	2,728	(2,761)
CASH AT BEGINNING OF PERIOD	444	6,971
CASH AT END OF PERIOD	\$ 3,172	\$ 4,210

See Notes to Consolidated Financial Statements.

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Part I.  
Item 1.

UNITED TELEPHONE COMPANY OF OHIO  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

The information contained in this Form 10-Q for the three month interim periods ended March 31, 1994 and 1993 reflects all adjustments, consisting only of normal recurring and certain nonrecurring accruals (see Note 3), which are, in the opinion of management, necessary to a fair statement of the operations for such interim periods.

1. ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements include the accounts of United Telephone Company of Ohio and its wholly-owned subsidiaries, United Telecommunications Services of Ohio, Inc. and United Telephone Long Distance, Inc., collectively referred to as the "Company". All significant intercompany transactions have been eliminated.

Certain amounts in the accompanying consolidated financial statements for 1993 have been reclassified to conform to the presentation of amounts in the 1994 consolidated financial statements. These reclassifications had no effect on 1993 net income.

Earnings Per Share

Earnings per share information has been omitted because the Company is a wholly-owned subsidiary of Sprint Corporation (Sprint).

## 2. SPRINT/CENTEL MERGER

Effective March 9, 1993, Sprint consummated its merger with Centel Corporation (Centel), a telecommunications company with local exchange and cellular/wireless communications services operations. Centel's local exchange telephone businesses operate in six states: Florida, North Carolina, Virginia, Illinois, Texas and Nevada. The transaction costs associated with the merger (consisting primarily of investment banking and legal fees) and the estimated expenses of integration and restructuring the operations of the two companies (consisting primarily of employee severance and relocation expenses and costs of eliminating duplicative facilities) resulted in nonrecurring charges to Sprint during 1993. The portion of such charges attributable to the Company was \$12,816,000, of which \$10,300,000 was recorded during the 1993 first quarter. Such nonrecurring charges reduced first quarter 1993 net income by approximately \$6.7 million.

## 3. SUPPLEMENTAL CASH FLOW INFORMATION

The following are the supplemental disclosures required for the Consolidated Statements of Cash Flows (in thousands of dollars):

	Three Months Ended March 31,	
	1994	1993
	-----	-----
Cash paid for:		
Interest (net of amounts capitalized)	\$ 1,948	\$ 4,328
Income taxes	2,353	3,250

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Part I.  
Item 2.

### UNITED TELEPHONE COMPANY OF OHIO MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Sprint/Centel Merger

Effective March 9, 1993, Sprint consummated its merger with Centel Corporation (Centel), a telecommunications company with local exchange and cellular/wireless communications services operations. Centel's local exchange telephone businesses operate in six states: Florida, North Carolina, Virginia, Illinois, Texas and Nevada. The operations of the merged companies continue to be integrated and restructured to achieve efficiencies which have begun to yield operational synergies and cost savings. The transaction costs associated with the merger (consisting primarily of investment banking and legal fees) and the estimated expenses of integrating and restructuring the operations of the two companies (consisting primarily of employee severance and relocation expenses and costs of eliminating duplicative facilities) resulted in nonrecurring charges to Sprint during 1993. The portion of such charges attributable to the Company was \$12.8 million, of which \$10.3 million was recorded during the 1993 first quarter. Such nonrecurring charges reduced first quarter 1993 net income by approximately \$6.7 million.

#### Liquidity and Capital Resources

During the first three months of 1994, operating activities generated cash of \$28.9 million, an increase of \$21.3 million compared to the same period in 1993. The increase in cash flows was primarily due to an increase in net income adjusted for depreciation and deferred income taxes, as well as a decrease in receivables.

Capital expenditures for the first three months of 1994 totaled \$17.4 million, which was \$2.1 million less than the comparable 1993 period. Dividends paid this quarter were \$7.8 million.

The Company retired in the first three months of 1994, \$1,587,000 in long-term debt with interest rates of 4.75 percent and 4.97 percent.

The capital structure at March 31, 1994 was 61.9 percent common equity and 38.1 percent long-term debt. This compares to the 1993 year-end capital

structure of 61.4% equity and 38.6% debt.

#### Results of Operations

Net income increased \$8.2 million for the three months ended March 31, 1994 in comparison to the same period in 1993.

Local service revenues increased \$2.7 million or 6.8 percent for the three months ending March 31, 1994 compared to the same period in 1993. This increase was driven, in part, by a larger customer base as indicated by a gain of over 18,800 access lines for the twelve month period ended March 31, 1994. This access line growth generated \$2.2 million more in basic subscriber revenue. Other local service revenues reflected a slight increase for the first three months of 1994 compared to the same period in 1993.

Network access revenue increased \$3.9 million or 11.9 percent for the first three months of 1994 compared to the same period of 1993. Increased usage, as indicated by an 8.9 percent growth in minutes of use for the three months ended March 31, 1994, compared to the same period in 1993, accounted for this increase.

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Part I.  
Item 2.

UNITED TELEPHONE COMPANY OF OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATION

#### Results of Operations (continued)

Long-distance network revenue increased \$1.6 million or 10.8 percent in the first three months of 1994 compared to the same period in 1993. Increased usage, as reflected by a 15.4 percent increase in originated long distance messages, accounted for the increase.

Total operating expenses other than taxes for the first three months of 1994 decreased \$4.5 million or 5.4 percent over the same period of 1993. Decreased merger and integration costs combined with increases in plant expense, corporate operations expense, and other operating expense contributed to this decrease.

During the period ended March 31, 1994, plant expense, comprised primarily of maintenance and other related expenses, increased \$2.5 million or 8.5 percent from the same period in 1993 primarily due to a generic software expense increase of \$2,241,000 resulting from special purchases from Northern Telcom of software for central office switch conversions.

Corporate operations expense for the first three months of 1994 increased \$2.4 million, or 23.2 percent compared to the same period in 1993 primarily due to adjustments to employee benefits liabilities, as well as increases in external relations and information management expenses.

Other operating expenses for the first three months of 1994 decreased \$412,000 or 19.3 percent, when compared to the same period in 1993. This was due primarily to decreases in cost of equipment sold resulting from decreased sales volume.

Interest charges decreased \$378,000 or 11.1 percent in the first quarter of 1994 compared to the same period in 1993. This is reflecting the results of the refinancing activity of our long-term debt during 1993.

#### Other Matters

Consistent with most local exchange carriers, the Company accounts for the economic effects of regulation pursuant to Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." The application of SFAS No. 71 requires the accounting recognition of the rate actions of regulators where appropriate, including the recognition of depreciation based on estimated useful lives prescribed by regulatory commissions rather than those which might be utilized by non-regulated enterprises. The Company's management believes that the Company's operations meet the criteria for the continued application of the provisions of



SFAS No, 71. With increasing competition and the changing nature of regulation in the telecommunications industry, the ongoing applicability of SFAS No. 71 must, however, be constantly monitored and evaluated. Should the Company no longer qualify for the application of the provisions of SFAS No. 71 at some future date, the accounting impact could result in the recognition of a material, extraordinary, non-cash charge.

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Part II.

UNITED TELEPHONE COMPANY OF OHIO

Item 1 - Legal Proceedings

There were no reportable events during the quarter ended March 31, 1994.

Item 2 - Changes in Securities

Omitted under the provisions of General Instruction H.

Item 3 - Defaults Upon Senior Securities

Omitted under the provisions of General Instruction H.

Item 4 - Submission of Matters to a Vote of Security Holders

Omitted under the provisions of General Instruction H.

Item 5 - Other Information

The Company's ratios of earnings to fixed charges were 5.42 and 1.27 for the three months ended March 31, 1994 and 1993, respectively. These ratios have been computed by dividing fixed charges into the sum of (a) net income less capitalized interest included in income, (b) income taxes, and (c) fixed charges. Fixed charges consist of interest on all indebtedness (including amortization of debt issuance expense) and the interest factor of operating rents. In the absence of the Company's recognition of \$10,300,000 of nonrecurring charges related to the Sprint/Centel merger, the ratio of earnings to fixed charges for the first quarter of 1993 would have been 4.06.

Item 6 - Exhibits and Reports on Form 8-K

(a) The following exhibit is filed as part of this report.

(12) Computation of ratio of earnings to fixed charges.

(b) No reports on Form 8-K were filed during the three months ended March 31, 1994.

(11)

UNITED TELEPHONE COMPANY OF OHIO

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.

UNITED TELEPHONE COMPANY OF OHIO  
(Registrant)

By: /s/ Paul J. Weitzel  
Paul J. Weitzel  
Controller

Date: May 12, 1994

<TABLE>

(12)

EXHIBIT 12

UNITED TELEPHONE COMPANY OF OHIO  
COMPUTATIONS OF RATIOS  
OF EARNINGS TO FIXED CHARGES  
(In Thousands)

<CAPTION>

	Three Months Ended March 31,	
	1994	1993
	(Unaudited)	
<S>	<C>	<C>
Net income	\$ 10,287	\$ 2,123
Capitalized interest	(206)	(348)
Income tax provision (benefit)	3,718	(791)
Subtotal	13,799	984
Fixed charges:		
Interest charges	3,020	3,398
Interest factor of operating rents	104	229
Total fixed charges	3,124	3,627
Earnings, as adjusted	\$ 16,923	\$ 4,611
Ratio of earnings to fixed charges	5.42 (1)	1.27

(1) In the absence of the Company's recognition of \$10,300,000 of nonrecurring charges related to the Sprint/Centel merger, the ratio of earnings to fixed charges for the first quarter of 1993 would have been 4.06.

NOTE: The above ratios have been computed by dividing fixed charges into the sum of (a) net income less capitalized interest included in income, (b) income taxes, and (c) fixed charges. Fixed charges consist of interest on all indebtedness (including amortization of debt issuance expenses) and the interest factor of operating rents.

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