

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

SOUTHERN NEW ENGLAND TELEPHONE CO

CIK: **92244** | IRS No.: **060542646** | State of Incorporation: **CT** | Fiscal Year End: **1231**
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SIC: **4813** Telephone communications (no radiotelephone)

Business Address
227 CHURCH ST
NEW HAVEN CT 06510
2037715200

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q

(Mark One)

X QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended June 30, 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 1-6654

THE SOUTHERN NEW ENGLAND TELEPHONE COMPANY
(Exact name of registrant as specified in its charter)

Connecticut 06-0542646
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)

227 Church Street, New Haven, CT 06510
(Address of principal executive offices) (Zip Code)

(203) 771-5200
(Registrant's telephone number,
including area code)

Not applicable
(Former name, former address and former fiscal
year, if changed since last report)

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 .

THE REGISTRANT, A WHOLLY OWNED SUBSIDIARY OF SOUTHERN NEW ENGLAND TELECOMMUNICATIONS CORPORATION, MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION H(1) (a) AND (b) OF FORM 10-Q AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION H(2).

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Form 10-Q - Part I The Southern New England Telephone Company

PART I - FINANCIAL INFORMATION

The Southern New England Telephone Company ("Telephone Company") is a wholly owned telephone operating subsidiary of the Southern New England Telecommunications Corporation ("Corporation") and has its principal executive office at 227 Church Street, New Haven, Connecticut 06510 (telephone number (203) 771-5200).

The condensed financial statements on the following pages have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and, in the opinion of management, include all adjustments of a normal recurring nature necessary for fair presentation for each period shown. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such SEC rules and regulations. Management believes that the disclosures made are adequate to make the information presented not misleading. Operating results for any interim periods, or comparisons between interim periods, are not necessarily indicative of the results that may be expected for full fiscal years. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the Telephone Company's 1993 Annual Report on Form 10-K.

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Form 10-Q - Part I The Southern New England Telephone Company

CONDENSED STATEMENT OF INCOME AND RETAINED EARNINGS

(Dollars in millions)

(Unaudited)

	For the 3 Months Ended		For the 6 Months Ended	
	June 30,		June 30,	
	1994	1993	1994	1993
Revenues				
Local service	\$ 154.3	\$ 134.3	\$ 306.3	\$ 265.7
Intrastate toll	75.9	90.8	154.9	180.2
Network access	88.4	86.4	175.2	172.2
Publishing and other	52.4	48.9	103.6	95.7
Total Revenues	371.0	360.4	740.0	713.8
Costs and Expenses				
Operating and maintenance	189.6	195.7	385.0	394.9
Depreciation and amortization	74.0	64.2	147.7	122.3
Taxes other than income	13.6	14.0	27.2	29.6
Total Costs and Expenses	277.2	273.9	559.9	546.8
Operating Income	93.8	86.5	180.1	167.0
Other (expense) income, net	(.2)	.4	(.3)	.2
Income Before Interest, Income Taxes and Accounting Change	93.6	86.9	179.8	167.2
Interest	13.4	16.7	27.5	34.6
Income Before Income Taxes and Accounting Change	80.2	70.2	152.3	132.6
Income Taxes	32.4	26.1	61.4	49.8
Income Before Accounting Change	47.8	44.1	90.9	82.8
Accounting change	-	-	-	(6.5)
Net Income	\$ 47.8	\$ 44.1	\$ 90.9	\$ 76.3
Retained Earnings -				
Beginning of period	\$ 592.3	\$ 770.1	\$ 572.2	\$ 763.7
Net income	47.8	44.1	90.9	76.3
Dividends declared to parent	(27.0)	(35.2)	(50.0)	(61.0)
End of Period	\$ 613.1	\$ 779.0	\$ 613.1	\$ 779.0

The accompanying notes are an integral part of these financial statements.

CONDENSED BALANCE SHEET
(Dollars in millions)

	(Unaudited) June 30, 1994	Dec. 31, 1993
ASSETS		
Current Assets		
Cash and temporary cash investments	\$ 7.6	\$ 214.5
Accounts receivable, net of allowance for uncollectibles of \$21.8 and \$20.4, respectively	248.9	251.0
Prepaid publishing	39.5	40.5
Materials and supplies	5.7	8.0
Deferred income taxes, prepaid taxes and other	121.6	80.2
Total Current Assets	423.3	594.2
Telephone plant, at cost	4,075.4	4,039.8
Less: Accumulated depreciation and amortization	1,530.8	1,429.2
Net Telephone Plant	2,544.6	2,610.6
Deferred charges and other assets	254.0	265.7
Total Assets	\$3,221.9	\$3,470.5

The accompanying notes are an integral part of these financial statements.

CONDENSED BALANCE SHEET (continued)
(Dollars in millions)

LIABILITIES AND STOCKHOLDERS EQUITY	(Unaudited) June 30, 1994	Dec. 31, 1993
Current Liabilities		
Accounts payable and accrued expenses	\$ 139.9	\$ 192.7
Obligations maturing within one year	-	240.0
Restructuring charge - current	146.0	103.0
Advance billings and customer deposits	41.2	41.0
Accrued compensated absences	30.4	33.9
Other current liabilities	82.3	70.4
Total Current Liabilities	439.8	681.0
Long-term obligations		
Deferred income taxes	746.2	746.1
Restructuring charge - long-term	454.0	424.2
Unamortized investment tax credits	159.3	232.0
Other liabilities and deferred credits	46.9	50.8
	231.5	233.1
Total Liabilities	2,077.7	2,367.2
Stockholder's Equity		
Common stock; \$12.50 par value; 30,428,596 shares issued and 30,385,900 outstanding at each period end	380.4	380.4
Proceeds in excess of par value	152.1	152.1
Retained earnings	613.1	572.2
Less: Treasury stock (42,696 shares at each period end)	(1.4)	(1.4)
Total Stockholder's Equity	1,144.2	1,103.3
Total Liabilities and Stockholder's Equity	\$3,221.9	\$3,470.5

The accompanying notes are an integral part of these financial statements.

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Form 10-Q - Part I The Southern New England Telephone Company

CONDENSED STATEMENT OF CASH FLOWS
(Dollars in millions)

	(Unaudited)	
	For the 6	
	Months Ended	
	June 30,	
	1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$90.9	\$76.3
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	147.7	122.3
Cumulative effect of accounting change	-	6.5
Effect of business restructuring	(29.6)	-
Change in operating assets and liabilities, net	(50.4)	(55.3)
Other, net	31.6	38.8
Net cash provided by operating activities	190.2	188.6
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash expended for capital additions	(111.6)	(121.2)
Other, net	(.5)	.1
Net cash used by investing activities	(112.1)	(121.1)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends	(45.0)	(43.0)
Net proceeds (payments) of short-term borrowings from affiliate	.1	(23.8)
Repayment of long-term borrowings	(240.0)	-
Other, net	(.1)	(.3)
Net cash used by financing activities	(285.0)	(67.1)

(Decrease) increase in cash and temporary cash investments	(206.9)	.4
Cash and temporary cash investments at beginning of period	214.5	6.4
Cash and temporary cash investments at end of period	\$ 7.6	\$ 6.8
Income taxes paid	\$62.0	\$70.5
Interest paid	\$35.0	\$34.6

The accompanying notes are an integral part of these financial statements.

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Form 10-Q-Part I The Southern New England Telephone Company

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

(a) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Changes - The Telephone Company implemented Statement of Financial Accounting Standards ("SFAS") No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions", SFAS No. 112 "Employers' Accounting for Postemployment Benefits" and SFAS No. 109 "Accounting for Income Taxes" effective January 1, 1993. The cumulative effect of the accounting change for SFAS No. 112 as of January 1, 1993 resulted in a one-time, non-cash charge which reduced net income reported in the condensed statement of income by \$6.5 million. For SFAS No. 106, the Telephone Company elected to amortize the transition obligation over the average remaining service period, therefore a cumulative effect was not recorded. In addition, a cumulative effect was not recorded for the adoption of SFAS No. 109 in compliance with the methods of adoption for regulated entities.

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Form 10-Q-Part I The Southern New England Telephone Company

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

Comparison of six months ended June 30, 1994 vs. six months
ended June 30, 1993

Revenues and Sales:

Local service revenues increased \$40.6 million, or 15.3%, due primarily to new rates implemented beginning on July 9, 1993 in accordance with the Telephone Company's 1993 general rate award. The primary services affected by the increase in rates were directory assistance, coin telephone and basic local service. Also contributing to the increase in local service revenues was an increase in access lines in service and an expansion of the local-calling service area in several exchanges during September of 1993, which resulted in a shift in revenue from intrastate toll to local service. Access lines in service grew 1.9% from approximately 1,947,000 at June 30, 1993 to approximately 1,984,000 at June 30, 1994. In addition, growth experienced in subscriptions to premium services, such as Totalphone [sm] and SmartLink [sm] also contributed to the increase in local service revenues, as well as increased Totalphone [sm] rates resulting from the 1993 general rate award.

Intrastate toll revenues, which includes revenues from toll and WATS services, decreased \$25.3 million, or 14.0%. A portion of this decrease was due to the shift of revenues to local service caused by the extension of the local-calling service area in several exchanges as discussed above. Also contributing to the decrease was a reduction in intrastate toll rates, including several toll discount plans, which were implemented in accordance with the 1993 general rate award, as well as the increasingly competitive toll and WATS market. Toll message volumes decreased 3.2% reflecting the impact of the extension of the local-calling service areas. In addition, WATS revenues decreased \$7.3 million, or 31.7%, due primarily to lower WATS message volumes resulting from customers migrating to lower priced services offered by the Telephone Company and the impact competitive providers have had on this market.

Network access revenues increased \$3.0 million, or 1.7%, due primarily to an increase in interstate minutes of

use of approximately 8.0%. Partially offsetting the increase in interstate minutes of use was a decrease, effective July 2, 1993, in interstate access tariff rates in accordance with the Telephone Company's 1993 annual Federal Communications Commission ("FCC") filing under price cap regulation.

Publishing and other revenues increased \$7.9 million, or 8.3%. Publishing and other revenues include revenues from publishing operations; billing and collection, and other non-access services rendered on behalf of interexchange carriers; and provision for uncollectible accounts receivable. Miscellaneous revenues associated with the 1993 general rate award and a decrease in the provision for uncollectible accounts receivable for residence, business and directory customers account for the majority of the variance.

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Form 10-Q-Part I The Southern New England Telephone Company

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS
(Continued)

Comparison of six months ended June 30, 1994 vs. six months
ended June 30, 1993

Costs and Expenses:

Operating and maintenance expenses decreased \$9.9 million, or 2.5%. Employee related costs decreased approximately \$9.0 million primarily as a result of a decrease in the average work force of 6.7% over the comparable 1993 period. This decrease is primarily the result of the initial implementation of the work force reduction portion of the restructuring program announced in December 1993. As of June 30, 1994, approximately 850 employees, representing 16.6% of the total number of management employees and 5.3% of the total number of bargaining-unit employees, had left the Telephone Company as a result of the work force reduction plan. Partially

offsetting the decrease in average work force was a 3.0% wage increase for bargaining-unit employees effective October 1993 and, to a lesser extent, an average wage increase of approximately 4.0% for management employees effective April 1994.

Depreciation and amortization expense increased \$25.4 million, or 20.8%. The increase in depreciation and amortization was attributable primarily to revised depreciation rate schedules for intrastate plant, as approved by the Connecticut Department of Public Utility Control ("DPUC"). The increase in depreciation expense relating to intrastate plant was approximately \$20 million. An increase in the average depreciable telephone plant, property and equipment also contributed to the increase in depreciation and amortization expense.

Interest Expense:

Interest expense decreased \$7.1 million, or 20.5% due primarily to interest savings from previous debt refinancings and a decrease in average debt outstanding.

Income Taxes:

The effective tax rate in 1994 was 40.3% as compared with 37.6% in 1993. For 1993, income taxes include an adjustment reflecting the settlement of certain tax matters.

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Form 10-Q-Part I The Southern New England Telephone Company

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS
(Continued)

Comparison of balances at June 30, 1994 vs. December 31, 1993

Cash and temporary cash investments:

Cash and temporary cash investments decreased \$206.9 million due primarily to the repayment of debt [see Liquidity and Capital Resources].

Obligations maturing within one year:

Obligations maturing within one year decreased \$240.0 million due primarily to the repayment of debt [see Liquidity and Capital Resources].

Liquidity and Capital Resources

The Telephone Company generated cash flows from operations of \$190.2 million during the six months ended June 30, 1994 as compared with \$188.6 million during the six months ended June 30, 1993. The primary use of cash flows from operations continued to be capital expenditures. The Telephone Company believes that cash flows from operations will be sufficient to fund all of its anticipated capital expenditures.

In January 1994, the proceeds of \$200.0 million of Telephone Company 6.125% unsecured notes issued in December 1993 were used to redeem \$200.0 million of 8.625% debentures called irrevocably on December 14, 1993. In addition, \$40.0 million of Telephone Company notes, effectively tendered in December 1993, were liquidated in January 1994.

As of June 30, 1994, total charges, pre-tax, relating to the Telephone Company's restructuring plan announced in December 1993 amounted to approximately \$30 million. Substantially all of the expenditures related to severance and other employee related payments associated with work force reductions and to a lesser extent systems reengineering. Implementation of the restructuring program began during the first half of 1994. All cash expenditures associated with the year to date charges were funded from cash flows from operations. The Telephone Company expects total 1994 cash expenditures related to the restructuring program to range between \$70 and \$90 million, pre-tax.

CONDITION AND RESULTS OF OPERATIONS
(Continued)

Competition

On June 10, 1994, the U.S. Court of Appeals ("Court") overturned a 1992 FCC decision requiring local exchange carriers (LECs), including the Telephone Company, to provide expanded special access (private line) interconnection to permit carriers and others to terminate their own transmission facilities and physically collocate in LEC central offices. In response to the Court's action, the FCC, on July 14, 1994, directed the LECs to provide expanded interconnection in central offices in which the LECs chose to provide physical collocation. Prior to the Court's decision, the Telephone Company had begun to allow physical collocation for applications received from competitive access providers for special access interconnection in selected central offices of the Telephone Company. The Telephone Company will continue to review and evaluate each application and determine the most effective method of collocation.

Regulatory Matters

State Regulatory Matters

On June 30, 1994, the DPUC issued a final decision on the Telephone Company's request to develop and provide electronic information services ("EIS"), including electronic publishing services. The DPUC's decision will allow the Telephone Company to offer several new services, such as SNET Access, Consumer Tips, and Electronic Yellow Pages through its SNET Publishing division, as well as other information and multi-media services through a non-telephone business of the Corporation.

On May 26, 1994 the Governor of the State of Connecticut signed into law (Public Act 94-83) legislation which provides a new regulatory model framework for Connecticut telecommunications. The law, which resulted from recommendations submitted by a telecommunications task force in February 1994 and which took effect July 1, opens Connecticut telecommunication services to full competition, including local phone service currently provided primarily by the Telephone Company and encourages the DPUC to adopt alternative forms of regulation for telephone companies' "noncompetitive" and "emerging competitive" services. As a result of the new legislation, the DPUC has opened a number of dockets to address the implementation of Public Act 94-83, including an initial docket to determine the

appropriate vision for the Connecticut telecommunications infrastructure. In addition, subject to federal restraints, the law permits any entity, including a telecommunications company, to apply to the DPUC to offer competing cable TV service within existing franchise areas and permits cable TV companies to seek certification to compete with LECs within their franchise areas. The Corporation is not currently able to quantify the effect that this legislation will have on its operations.

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Form 10-Q-Part I The Southern New England Telephone Company

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS
(Continued)

Regulatory Matters (continued)

State Regulatory Matters (continued)

On April 13, 1994, the DPUC approved a marketing arrangement between the Telephone Company and SNET America, Inc. ("SNET America"), a wholly owned subsidiary of the Corporation offering long distance services. The marketing arrangement enables the Telephone Company to sell SNET America's interstate and international products and SNET America to sell the Telephone Company's intrastate products and services. This arrangement will enable the Telephone Company to satisfy its customer's complete long distance calling needs with a single point of contact.

As of June 30, 1994, the Telephone Company's intrastate rate of return on common equity was below the 11.65% authorized by the DPUC in the 1993 general rate award.

Federal Regulatory Matters

On July 12, 1994, the Court reversed and remanded to the FCC a ruling affecting the exogenous treatment of certain incremental postretirement costs incurred by price cap carriers. The Telephone Company's tariffs which took effect on July 2, 1993 and were subject to FCC further investigation could be affected by the Court's decision. The Telephone Company does not expect this decision to have a material effect on its revenues.

On April 1, 1994, the Telephone Company filed with the FCC

its 1994 annual interstate access tariff under price cap regulation for effect on July 1, 1994. The Telephone Company maintained its selection of the 3.3% productivity factor and will be allowed to earn up to a 12.25% interstate rate of return annually before any sharing mechanism is invoked. The filing, which was approved by the FCC effective July 1, 1994, incorporated rate reductions which will result in decreased annual interstate network access revenues of approximately \$7.0 million for the period July 1, 1994 to June 30, 1995.

As of June 30, 1994, the Telephone Company's interstate rate of return was below the 12.25% authorized under price cap regulation.

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Form 10-Q-Part I The Southern New England Telephone Company

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS
(Continued)

Regulatory Matters (continued)

Effects of Regulatory Accounting

The Telephone Company currently gives accounting recognition to the actions of regulators where appropriate, as prescribed by SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation". Under SFAS No. 71, the Telephone Company records certain assets and liabilities because of actions of regulators. More significantly, amounts charged to operations for depreciation expense reflect estimated lives and methods prescribed by regulators rather than those consisting of useful and economic lives that might otherwise apply to unregulated enterprises. In the event the Telephone Company no longer meets the criteria for following SFAS No. 71, the accounting impact to the Company would be an extraordinary non-cash charge to operations of a material amount. In light of the new regulatory model framework for Connecticut telecommunications (see "State Regulatory Matters"), the Telephone Company reviewed the criteria set forth in SFAS No. 71 and determined that the continuing application of the regulatory accounting standard is appropriate.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

There were no material developments in the second quarter of 1994.

Item 6. Exhibits and Reports on Form 8-K

(b) Reports on Form 8-K

On April 21, 1994, the Telephone Company filed a report on Form 8-K, dated April 21, 1994 announcing the Corporation's financial results for the first quarter of 1994.

On July 21, 1994, the Telephone Company filed a report on Form 8-K, dated July 21, 1994 announcing the Corporation's financial results for the second quarter of 1994.

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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.

The Southern New England Telephone Company

August 11, 1994

/s/ J. A. Sadek
J. A. Sadek
Vice President and Comptroller

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