

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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SOUTHERN NEW ENGLAND TELECOMMUNICATIONS CORP

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NEW HAVEN CT 06510
2037715200

CIK: **790650** | IRS No.: **061157778** | State of Incorporation: **CT** | Fiscal Year End: **1231**

Type: **10-Q** | Act: **34** | File No.: **001-09157** | Film No.: **94549963**

SIC: **4813** Telephone communications (no radiotelephone)

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

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 1-9157

SOUTHERN NEW ENGLAND TELECOMMUNICATIONS CORPORATION
(Exact name of registrant as specified in its charter)

Connecticut
(State or other jurisdiction of
incorporation or organization)

06-1157778
(I.R.S. Employer
Identification Number)

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

06510
(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 .

Common stock, par value \$1.00 per share: 64,267,669 shares
outstanding as of July 29, 1994

Form 10-Q - Part I Southern New England Telecommunications Corporation

PART I - FINANCIAL INFORMATION

Southern New England Telecommunications Corporation ("Corporation") was incorporated under the laws of the State of Connecticut on January 7, 1986 and has its principal executive office at 227 Church Street, New Haven, Connecticut 06510 (telephone number (203) 771-5200).

The condensed, consolidated 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, consisting of a normal recurring nature necessary for fair presentation for each period shown. The 1993 financial statements have been reclassified to conform to the current-year presentation. Certain information and footnote disclosures normally included in consolidated 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 condensed, consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Corporation's 1993 Annual Report on Form 10-K.

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Form 10-Q - Part I Southern New England Telecommunications Corporation

<TABLE>

CONDENSED, CONSOLIDATED STATEMENT OF INCOME
(Dollars in millions, except per share amounts)
(Unaudited)

<CAPTION>

	For the 3 Months Ended		For the 6 Months Ended	
	June 30,		June 30,	
<S>	1994	1993	1994	1993
	<C>	<C>	<C>	<C>
Revenues and Sales				
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	45.7	45.1	90.4	90.3
Sales and other	63.5	54.1	124.2	104.6
Total Revenues and Sales	427.8	410.7	851.0	813.0

Costs and Expenses				
Operating and maintenance	237.5	230.6	472.9	465.4
Depreciation and amortization	81.3	70.2	162.0	133.8
Taxes other than income	14.4	14.8	28.6	31.2
Total Costs and Expenses	333.2	315.6	663.5	630.4
Income Before Interest, Income Taxes and Accounting Changes				
	94.6	95.1	187.5	182.6
Interest	19.0	22.6	38.8	46.4
Income Before Income Taxes and Accounting Changes				
	75.6	72.5	148.7	136.2
Income taxes	30.3	31.6	59.9	58.8
Income Before Accounting Changes	45.3	40.9	88.8	77.4
Accounting changes	-	-	-	(220.2)
Consolidated Net Income (Loss)	\$ 45.3	\$ 40.9	\$ 88.8	\$ (142.8)
Weighted Average Common Shares Outstanding (in thousands)				
	64,134	63,638	64,058	63,580
Earnings (Loss) Per Common Share:				
Income Before Accounting Changes	\$.71	\$.64	\$ 1.39	\$ 1.22
Accounting changes	-	-	-	(3.47)
Earnings (Loss) Per Common Share	\$.71	\$.64	\$ 1.39	\$ (2.25)
Dividends Declared Per Common Share				
	\$.44	\$.44	\$.88	\$.88

<FN>

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

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Form 10-Q - Part I Southern New England Telecommunications Corporation

CONDENSED, CONSOLIDATED BALANCE SHEET
(Dollars in millions)

(Unaudited)

ASSETS June 30, 1994 Dec. 31, 1993

Current Assets

Cash and temporary cash investments	\$ 26.6	\$ 224.8
Accounts receivable, net of allowance for uncollectibles of \$27.7 and \$26.7, respectively	271.6	266.8
Materials, supplies and inventories	21.7	21.6
Prepaid publishing	39.5	40.5
Deferred income taxes, prepaid taxes and other assets	153.5	93.8
Total Current Assets	512.9	647.5
Telecommunications plant, property and equipment, at cost	4,344.6	4,298.4
Less: Accumulated depreciation and amortization	1,638.4	1,528.3
Telecommunications Plant, Property and Equipment, Net	2,706.2	2,770.1
Deferred charges, leases and other assets	323.8	343.9
Total Assets	\$3,542.9	\$3,761.5

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

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Form 10-Q - Part I Southern New England Telecommunications Corporation

CONDENSED, CONSOLIDATED BALANCE SHEET (continued)
(Dollars in millions)

(Unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY June 30, 1994 Dec. 31, 1993

Current Liabilities

Obligations maturing within one year	\$ 71.5	\$ 290.0
Accounts payable and accrued expenses	159.4	208.1
Restructuring charge - current	156.8	113.0
Advance billings and customer deposits	53.2	54.0
Accrued compensated absences	33.6	37.3
Other current liabilities	89.2	90.4
Total Current Liabilities	563.7	792.8
Long-term obligations	977.1	984.3
Deferred income taxes	366.0	321.0
Postretirement benefits other than pension	327.2	328.9
Restructuring charge - long-term	166.6	242.0
Unamortized investment tax credits	46.9	50.8
Other liabilities and deferred credits	191.6	187.1
Total Liabilities	2,639.1	2,906.9
Stockholders' Equity		
Common stock; \$1.00 par value;		
300,000,000 shares authorized;		
66,907,626 and 66,608,360 issued,		
respectively	66.9	66.6
Proceeds in excess of par value	666.2	656.7
Retained earnings	348.8	315.7
Less: Treasury stock; 2,758,512 shares, at cost	(104.7)	(104.7)
Unearned compensation related to ESOP	(73.4)	(79.7)
Total Stockholders' Equity	903.8	854.6
Total Liabilities and Stockholders' Equity	\$ 3,542.9	\$ 3,761.5

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

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Form 10-Q - Part I Southern New England Telecommunications Corporation

CONDENSED, CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollars in millions)

(Unaudited)

For the 3 Months Ended For the 6 Months Ended

	June 30,		June 30,	
	1994	1993	1994	1993
COMMON STOCK, PAR VALUE				
Balance at beginning of period	\$ 66.8	\$ 66.3	\$ 66.6	\$ 66.1
Common stock issued, at market	.1	.1	.3	.3
Balance at end of period	\$ 66.9	\$ 66.4	\$ 66.9	\$ 66.4
PROCEEDS IN EXCESS OF PAR VALUE				
Balance at beginning of period	\$ 661.9	\$ 645.5	\$ 656.7	\$ 639.6
Common stock issued, at market	4.3	3.8	9.5	9.7
Balance at end of period	\$ 666.2	\$ 649.3	\$ 666.2	\$ 649.3
RETAINED EARNINGS				
Balance at beginning of period	\$ 331.4	\$ 533.0	\$ 315.7	\$ 744.2
Consolidated net income (loss)	45.3	40.9	88.8	(142.8)
Dividends declared	(28.2)	(28.0)	(56.4)	(55.9)
Tax benefit of dividends declared on shares held in ESOP	.3	.4	.7	.8
Balance at end of period	\$ 348.8	\$ 546.3	\$ 348.8	\$ 546.3
TREASURY STOCK				
Balance at beginning and end of period	\$ (104.7)	\$ (104.7)	\$ (104.7)	\$ (104.7)
UNEARNED COMPENSATION RELATED TO EMPLOYEE STOCK OWNERSHIP PLAN				
Balance at beginning of period	\$ (77.8)	\$ (89.6)	\$ (79.7)	\$ (91.4)
Reduction of ESOP debt	-	-	6.6	6.2
ESOP earned compensation accrual	4.4	5.3	(.3)	.9
Balance at end of period	\$ (73.4)	\$ (84.3)	\$ (73.4)	\$ (84.3)
TOTAL STOCKHOLDERS' EQUITY	\$ 903.8	\$1,073.0	\$ 903.8	\$1,073.0

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

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Form 10-Q - Part I Southern New England Telecommunications Corporation

CONDENSED, CONSOLIDATED STATEMENT OF CASH FLOWS
(Dollars in millions)

(Unaudited)
For the 6 Months
Ended June 30,
1994 1993

CASH FLOWS FROM OPERATING ACTIVITIES

Consolidated net income (loss)	\$ 88.8	\$ (142.8)
Adjustments to reconcile consolidated net income (loss) to cash provided by operating activities:		

Cumulative effect of accounting changes	-	220.2
Depreciation and amortization	162.0	133.8
Discontinued operations	-	3.2
Effect of business restructuring	(31.6)	-
Change in operating assets and liabilities, net	(44.3)	(47.2)
Other, net	16.9	43.3
Net cash provided by operating activities	191.8	210.5

CASH FLOWS FROM INVESTING ACTIVITIES

Cash expended for capital additions	(126.3)	(141.8)
Repayment of loan made to ESOP	.4	.4
Discontinued operations	-	89.6
Other, net	6.8	7.1
Net cash used by investing activities	(119.1)	(44.7)

CASH FLOWS FROM FINANCING ACTIVITIES

Net proceeds of short-term borrowings	30.0	14.2
Repayments of long-term borrowings	(252.3)	(25.1)
Cash dividends	(48.5)	(48.2)
Discontinued operations	-	(54.2)
Other, net	(.1)	(.2)
Net cash used by financing activities	(270.9)	(113.5)

(Decrease) increase in cash and temporary cash investments	(198.2)	(52.3)
Cash and temporary cash investments at beginning of period	224.8	7.2
Cash and temporary cash investments at end of period	\$ 26.6	\$ 59.5
Income taxes paid	\$ 58.5	\$ 58.1
Interest paid	\$ 46.3	\$ 46.5

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

NOTES TO CONDENSED, CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(a) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Changes - The Corporation 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 these accounting changes as of January 1, 1993 resulted in a onetime, non-cash charge which reduced 1993 net income and earnings per common share reported in the condensed, consolidated statement of income by \$220.2 million and \$3.47, respectively.

(b) FINANCIAL DATA ON SUBSIDIARIES

Selected financial data on the Corporation's subsidiaries is provided below.

Dollars in millions	For the 3 Months Ended June 30,		For the 6 Months Ended June 30,	
	1994	1993	1994	1993
Revenues and Sales:				
The Southern New England Telephone Company	\$371.0	\$360.4	\$740.0	\$713.8
SNET Diversified Group, Inc.	24.7	28.3	49.3	59.9
Cellular operations(1)	23.3	17.2	44.6	32.0
All others (2)	9.4	5.6	18.4	10.3
Intercompany sales	(.6)	(.8)	(1.3)	(3.0)
Consolidated Revenues and Sales	\$427.8	\$410.7	\$851.0	\$813.0
Income From Operations Before Accounting Changes:				
The Southern New England Telephone Company	\$ 47.8	\$ 44.1	\$ 90.9	\$ 82.8
SNET Diversified Group, Inc.	(.3)	3.0	-	2.6
Cellular operations(1)	1.2	1.5	2.0	1.2
All others (2)	(3.4)	(7.7)	(4.1)	(9.2)
Income From Operations Before Accounting Changes	\$ 45.3	\$ 40.9	\$ 88.8	\$ 77.4

- (1) Cellular operations consists of the Corporation's wholesale and retail cellular businesses, SNET Cellular, Inc. and SNET Mobility, Inc., net of intercompany amounts.
- (2) All others include SNET America, Inc., SNET Real Estate, Inc., SNET Paging, Inc. and Parent Company operations.

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Form 10-Q - Part I Southern New England Telecommunications Corporation

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

Comparison of quarter ended June 30, 1994 vs. quarter ended
June 30, 1993

Revenues and Sales:

Local service revenues increased \$20.0 million, or 14.9%, due primarily to new rates implemented beginning on July 9, 1993 in accordance with The Southern New England Telephone Company's ("Telephone Company") 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 of 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 \$14.9 million, or 16.4%. 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. 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 3.5% reflecting the impact of the extension of the local-calling service areas. In addition, WATS revenues decreased \$3.8 million, or 33.8%, 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 \$2.0 million, or 2.3%, due primarily to an increase in interstate minutes of use of approximately 10.0%. Partially offsetting the increase in interstate minutes of use was a reduction, 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.

Sales and other revenues increased \$9.4 million, or 17.4%. Sales and other revenues include revenues from the Corporation's non-telephone businesses; billing and collections, and other non-access services rendered on behalf of interexchange carriers; provision for the Telephone

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Form 10-Q - Southern New England Telecommunications Corporation

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

Comparison of quarter ended June 30, 1994 vs. quarter ended
June 30, 1993

Revenues and Sales (continued):

Company's uncollectible accounts receivable; and net investment income. In total, sales from the Corporation's nontelephone businesses increased \$7.4 million, or 14.8%. Sales of the Corporation's cellular operations, which consist of wholesale and retail businesses through SNET Cellular, Inc. ("Cellular"), general partner in the Springwich partnership, and SNET Mobility, Inc. ("Mobility"), respectively, increased \$6.1 million, or 35.5%, due mainly to continued growth in the number of cellular customers and associated activation fees as well as strong revenues from roaming services. Sales for SNET Paging, Inc. ("Paging") increased \$3.5 million due primarily to the impact of the purchase and consolidation, in October 1993, of the remaining 50.5% interest in a paging partnership. Partially offsetting the impact of these items was a \$3.6 million, or 26.3%, decrease in equipment system sales of Business Communications, a division of SNET Diversified Group, Inc. The decline in system sales is expected to continue as the Telephone Company continues to concentrate on alternative

network-based centrex services.

Costs and Expenses:

Operating and maintenance expenses increased \$6.9 million, or 3.0%. Employee related costs decreased approximately \$11.0 million primarily as a result of a decrease in the average work force of 9.6% over the comparable 1993 period. This decrease is primarily the result of the initial implementation of the work force reduction portion of the Corporation's restructuring program announced in December 1993. As of June 30, 1994, approximately 950 employees, representing 16.0% of the total number of management employees and 5.5% of the total number of bargaining-unit employees, had left the Corporation as a result of the work force reduction plan. Partially offsetting the decrease in the 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. The net decrease in employee related costs was offset by higher costs of approximately \$18.0 million from the Corporation's non-telephone businesses. Specifically, Cellular and Mobility experienced increased costs due to an expanded customer base. Also contributing to the higher costs was the Corporation's increased marketing and operating efforts associated with new products and services, such as multimedia technology and SNET America, Inc. ("SNET America"), which offers interstate and international long distance services. To a lesser extent, the increase in costs was also attributable to Paging as a result of the impact of the purchase and consolidation as previously discussed.

Depreciation and amortization expense increased \$11.1 million, or, 15.8%. The increase in depreciation and amortization was attributable primarily to revised depreciation rate schedules for intrastate plant of the Telephone Company, as approved by the Connecticut Department of Public Utility Control ("DPUC"). The increase in depreciation expense relating to intrastate plant

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

Comparison of quarter ended June 30, 1994 vs. quarter ended

June 30, 1993

Costs and Expenses (continued):

was approximately \$10 million. An increase in the average depreciable telecommunications plant, property and equipment also contributed to the increase in depreciation and amortization expense.

Interest Expense:

Interest expense decreased \$3.6 million, or 15.9% due primarily to interest savings from previous debt refinancings as well as a \$97 million decrease in average debt outstanding for the quarter.

Income Taxes:

The effective tax rate in 1994 was 40.1% as compared with 43.6% in 1993. For 1993, income taxes includes an adjustment, calculated in accordance with SFAS No. 109, for a change in the enacted State of Connecticut Corporate income tax rate. The current State income tax rate of 11.5% will be gradually reduced to 10.0% by January 1, 1998.

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 of 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.

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

Revenues and Sales (continued):

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 previously. 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 FCC filing under price cap regulation.

Sales and other revenues increased \$19.6 million, or 18.7%. In total, sales from the Corporation's non-telephone businesses increased \$12.4 million, or 12.5%. Sales of the Corporation's cellular operations increased \$12.6 million, or 39.4%, due mainly to increased growth in the number of cellular customers and associated activation fees as well as strong revenues from roaming services. Sales for Paging increased \$6.6 million due primarily to the impact of the purchase and consolidation, in October 1993, of the remaining 50.5% interest in a paging partnership. Partially offsetting the impact of these items was a decrease in equipment system sales of \$11.2 million, or 35.8%, of Business Communications. The decline in system sales is expected to continue as the Telephone Company continues to concentrate on alternative network-based centrex services.

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 increased \$7.5 million, or 1.6%. Employee related costs decreased approximately \$20.0 million primarily as a result of a decrease in the average work force of 9.5% over the comparable 1993 period. This decrease is primarily the result of the initial implementation of the work force reduction portion of the Corporation's restructuring program announced in December 1993. As of June 30, 1994, approximately 950 employees, representing 16.0% of the total number of management employees and 5.5% of the total number of bargaining-unit employees, had left the Corporation as a result of the work force reduction plan. Also, in 1993 approximately 570 bargaining-unit employees accepted an early retirement incentive offer with most leaving the Corporation by March 19, 1993. Partially offsetting the decrease in the 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. The net decrease in employee related costs was offset by higher costs of approximately \$28.0 million from the Corporation's non-telephone businesses. Specifically, Cellular and Mobility experienced increased costs due to an expanded customer base. Also contributing to the higher costs was the Corporation's increased marketing and operating efforts associated with new products and services, such as multimedia technology and SNET America, which offers interstate and international long distance services. To a lesser extent, the increase in costs was also attributable to Paging as a result of the impact of the purchase and consolidation as previously discussed.

Depreciation and amortization expense increased \$28.2 million, or 21.1%. The increase in depreciation and amortization was attributable primarily to revised depreciation rate schedules for intrastate plant of the Telephone Company, as approved by the DPUC. The increase in depreciation expense relating to intrastate plant was approximately \$20 million. An increase in the average depreciable telecommunications plant, property and equipment also contributed to the increase in depreciation and amortization expense.

Interest Expense:

Interest expense decreased \$7.6 million, or 16.4% due primarily to interest savings from previous debt refinancings as well as a \$63 million decrease in average debt outstanding for the six month period.

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Form 10-Q - Part I Southern New England Telecommunications Corporation

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

Income Taxes:

The effective tax rate for the six months ending June 30, 1994 was 40.3% as compared with 43.2% for the comparable period in 1993. For 1993, income taxes includes an adjustment, calculated in accordance with SFAS No. 109, for a change in the enacted State of Connecticut Corporate income tax rate. The current State income tax rate of 11.5% will be gradually reduced to 10.0% by January 1, 1998.

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

Cash and temporary cash investments:

Cash and temporary cash investments decreased \$198.2 million due primarily to the repayment of Telephone Company debt [see Liquidity and Capital Resources] partially offset by timing of cash requirements for the Corporation.

Obligations maturing within one year:

Obligations maturing within one year decreased \$218.5 million due primarily to the repayment of Telephone Company debt [see Liquidity and Capital Resources] partially offset by a net increase in short-term debt outstanding of approximately \$30 million.

Liquidity and Capital Resources

The Corporation generated cash flows from operations of \$191.8 million during the six months ended June 30, 1994 as compared with \$210.5 million during the six months ended June 30, 1993. The primary use of cash flows from operations continued to be 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 Corporation's restructuring plan announced in December 1993 amounted to approximately \$32 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. The Corporation began implementing its restructuring program during the first half of 1994. All cash expenditures associated with the year to date charges were funded from cash flows from operations. The Corporation expects total 1994 cash expenditures related to the restructuring program to range between \$75 and \$95 million, pretax.

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Form 10-Q - Part I Southern New England Telecommunications Corporation

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

Liquidity and Capital Resources (continued)

The Corporation's ratio of debt to total capitalization decreased to 53.7% at June 30, 1994 as compared with 59.9% at December 31, 1993. The decrease in the debt ratio is due primarily to debt payments discussed previously. For the second quarter 1994, the Corporation's Board of Directors declared a dividend of \$.44 per share.

Management believes that the Corporation has adequate internal and external resources available to finance its business development, construction, reengineering and dividend programs. The Corporation maintains adequate credit facilities provided by a syndicate of banks to provide support for borrowings and general corporate purposes.

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 through virtual collocation, but exempted LECs from this mandatory virtual collocation requirement 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 colocation.

Currently, the Springwiche partnership, in which Cellular is the general partner and NYNEX Corp. ("NYNEX") is a minority partner, serves the combined Connecticut and Springfield, Massachusetts areas. On June 30, 1994, Bell Atlantic Corp. ("Bell Atlantic") and NYNEX announced plans to combine their cellular phone operations in order to jointly serve several U.S. markets, including Connecticut. The proposed combination of Bell Atlantic and NYNEX is expected to be finalized by the second quarter of 1995 pending Justice Department approval. The effect this combined business will have on Cellular's operations, if approved, is not presently quantifiable. Cellular has made and will continue to make investments in network expansion and enhancements in order to effectively meet the needs of its customers.

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Form 10-Q - Part I Southern New England Telecommunications Corporation

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

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 multimedia 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.

On April 13, 1994, the DPUC approved a joint marketing arrangement between the Telephone Company and SNET America enabling 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 Corporation 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, including the Telephone Company. 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 Corporation does not expect this decision to have a material effect on its revenues.

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Form 10-Q - Part I Southern New England Telecommunications Corporation

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

Regulatory Matters (continued)

Federal Regulatory Matters (continued)

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.

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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Form 10-Q - Part II Southern New England Telecommunications Corporation

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

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

On May 11, 1994, the Corporation held its Annual Meeting of Shareholders.

- (a) The following persons, having received the FOR votes set opposite their respective names, constituting in excess of a majority of the votes cast at the Annual Meeting for the election of Directors, were duly elected Class II Directors for a term of three years:

Directors	For	Withheld
Dr. Frederick G. Adams	51,342,073	2,687,159
Zoe Baird	49,429,923	4,599,309
Robert L. Bennett	51,408,156	2,621,076
James R. Greenfield	51,382,293	2,646,939

The terms of office of the following Directors continued after the Annual Meeting: William F. Andrews, Richard H. Ayers, Dr. Barry M. Bloom, Frank J. Connor, William R. Fenoglio, Dr. Claire L. Gaudiani, Dr. Burton G. Malkiel, Daniel J. Miglio, Frank R. O'Keefe, Jr.

- (b) Shareholders ratified the appointment of Coopers & Lybrand, as independent public accountants, to examine the consolidated financial statements of the Corporation for the current year ending December 31, 1994. The vote was 51,778,561 shares FOR and 1,538,333 shares AGAINST, with 712,338 shares abstaining.

Item 6. Exhibits and Reports on Form 8-K

- (b) Reports on Form 8-K

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

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.

Southern New England Telecommunications Corporation

August 11, 1994

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

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