FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**
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FILER

CAROLINA TELEPHONE & TELEGRAPH CO

CIK:**275177**| IRS No.: **560931189** | State of Incorp.:**NC** | Fiscal Year End: **1231**
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SIC: **4813** Telephone communications (no radiotelephone)

Business Address
14111 CAPITAL BLVD
WAKE FOREST NC 27587
9195547900

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, 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: 1-6469

CAROLINA TELEPHONE AND TELEGRAPH COMPANY

(Exact name of registrant as specified in its charter)

North Carolina	56-0931189
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

14111 Capital Boulevard, Wake Forest, N.C.	27587
(Address of principal executive offices)	(Zip Code)

919-554-7900

(Registrant's telephone number, including area code)

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

This 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 3,626,510 shares of common stock, par value $20, outstanding as of March 31, 1994 and as of the date of filing of this report.

CAROLINA TELEPHONE AND TELEGRAPH COMPANY

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Form 10-Q Part I.
Item 1.

CAROLINA TELEPHONE AND TELEGRAPH COMPANY

CONSOLIDATED BALANCE SHEETS
(Thousands of Dollars)

	March 31, 1994 (Unaudited)	December 31, 1993
ASSETS		
CURRENT ASSETS		
Cash	$ 1	$ 1
Receivables, net of allowance for		

doubtful accounts of $1,850 ($1,895 at December 31, 1993):		
Customer and other	62,942	63,090
Interexchange carriers	22,584	20,238
Affiliates	4,659	4,699
Inventories	9,077	9,807
Prepayments and other	548	870
	99,811	98,705
PROPERTY, PLANT AND EQUIPMENT		
Land and buildings	129,677	128,635
Telephone network equipment and outside plant	1,396,448	1,370,948
Other	79,945	78,455
Construction in progress	26,405	17,228
	1,632,475	1,595,266
Less accumulated depreciation	697,221	673,839
	935,254	921,427
DEFERRED CHARGES AND OTHER ASSETS	61,522	58,778
	$1,096,587	$1,078,910

(Continued)

CAROLINA TELEPHONE AND TELEGRAPH COMPANY

CONSOLIDATED BALANCE SHEETS (CONTINUED)
(Thousands of Dollars)

	March 31, 1994 (Unaudited)	December 31, 1993
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Outstanding checks in excess of cash balances	$ 3,830	$ 9,303
Current maturities of long-term debt	573	568
Short-term borrowings:		
Commercial paper	24,739	41,100
Accounts payable:		
Interexchange carriers	22,235	22,950
Affiliates	19,032	10,866
Vendors and other	36,221	20,742
Advance billings	12,048	11,653
Accrued taxes	21,250	13,298
Accrued merger and integration costs	11,718	17,035
Accrued vacation pay	7,869	10,550
Other	21,245	20,484
	180,760	178,549
LONG-TERM DEBT	269,111	269,087
DEFERRED CREDITS AND OTHER LIABILITIES		
Income taxes	113,427	113,399
Investment tax credits	5,845	6,790
Regulatory liability	25,754	26,338
Postretirement and other benefit obligations	26,035	22,542
Other	10,784	11,919
	181,845	180,988
COMMON STOCK AND OTHER STOCKHOLDER'S EQUITY		
Common stock, authorized 5,000,000 shares, par value $20 per share, issued and outstanding 3,626,510 shares	72,530	72,530
Capital in excess of par value	71,991	71,991
Retained earnings	320,350	305,765

	464,871	450,286
	$1,096,587	$1,078,910

See Notes to Consolidated Financial Statements.

CAROLINA TELEPHONE AND TELEGRAPH COMPANY

CONSOLIDATED STATEMENTS OF INCOME
(Thousands of Dollars)

	Three Months Ended March 31,	
	1994	1993
	(Unaudited)	
OPERATING REVENUES		
Local service	$ 67,104	$ 61,464
Network access	48,730	44,598
Long-distance network	27,462	24,623
Miscellaneous	25,292	21,597
	168,588	152,282
OPERATING EXPENSES		
Plant expense	51,388	46,104
Depreciation	29,907	28,168
Customer operations	23,153	20,518
Corporate operations	17,368	15,152
Merger and integration costs	-	41,700
Other operating expenses	4,836	5,135
Taxes:		
Federal income:		
Current	11,123	10,641
Deferred	(642)	(14,989)
Deferred investment tax credit	(945)	(1,108)
State, local and miscellaneous	6,785	2,830
	142,973	154,151

OPERATING INCOME (LOSS)	25,615	(1,869)
INTEREST CHARGES		
Interest on long-term debt	4,791	4,989
Other interest	500	668
	5,291	5,657
OTHER INCOME		
Interest charged to construction	37	16
Other, net	209	46
	246	62
NET INCOME (LOSS)	$ 20,570	$ (7,464)

See Notes to Consolidated Financial Statements.

Form 10-Q Part I.
Item 1.

CAROLINA TELEPHONE AND TELEGRAPH COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Thousands of Dollars)

	Three Months Ended March 31, 1994	1993
	(Unaudited)	
OPERATING ACTIVITIES		
Net income (loss)	$ 20,570	$ (7,464)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	29,907	28,168
Deferred income taxes and investment tax credits	(1,208)	(19,627)
Changes in operating assets and liabilities:		

Receivables, net	(2,158)	716
Inventories	730	(1,072)
Other current assets	322	(46)
Accounts payable	22,930	7,801
Other current liabilities	(4,439)	35,018
Noncurrent assets and liabilities, net	1,434	14,749
Other, net	(523)	5,684
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NET CASH PROVIDED BY OPERATING ACTIVITIES	67,565	63,927
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INVESTING ACTIVITIES

Additions to property, plant and equipment	(43,248)	(39,926)
Net salvage (cost) from plant and equipment retired	(486)	30
Additions to investments	(1,393)	(311)
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NET CASH USED BY INVESTING ACTIVITIES	(45,127)	(40,207)
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(Continued)

CAROLINA TELEPHONE AND TELEGRAPH COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(Thousands of Dollars)

Three Months Ended

	March 31, 1994	March 31, 1993
	(Unaudited)	
FINANCING ACTIVITIES		
Retirements of long-term debt	$ (51)	$ (6,679)
Decrease in commercial paper	(16,361)	(3,000)
Decrease in advances from parent company	-	(804)
Dividends paid	(5,985)	(13,237)
Other	(41)	-
NET CASH USED BY FINANCING ACTIVITIES	(22,438)	(23,720)
CHANGE IN CASH	-	-
CASH AT BEGINNING OF PERIOD	1	1
CASH AT END OF PERIOD	$ 1	$ 1

See Notes to Consolidated Financial Statements.

CAROLINA TELEPHONE AND TELEGRAPH COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. ACCOUNTING POLICIES

The information contained in this Form 10-Q for the three month periods ended March 31, 1994 and 1993 reflects all adjustments, consisting only of normal recurring and certain nonrecurring accruals (see note 2) which are, in the opinion of management, necessary to a fair statement of the results of operations for such interim periods.

Basis of Presentation

The consolidated financial statements reflect the operations of Carolina Telephone and Telegraph Company and its wholly-owned subsidiary, Carolina 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 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 $46,382,000, of which $41,700,000 was recorded during the first quarter of 1993. Such nonrecurring charges reduced the first quarter 1993 net income by approximately $25,346,000.

CAROLINA TELEPHONE AND TELEGRAPH COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

3. SUPPLEMENTAL CASH FLOW INFORMATION

The following are the supplemental cash flow disclosures for the three months ended March 31:

Cash Paid For:	1994	1993
	(Thousands of Dollars)	
Interest (net of amounts capitalized)	$5,187	$2,177
Income taxes	$ 400	$2,190

CAROLINA TELEPHONE AND TELEGRAPH COMPANY

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

Liquidity and Capital Resources

Cash flows from operating activities are the Company's primary source of liquidity. Net cash provided by operating activities increased $3,638,000 for the three months ending March 31, 1994 compared to the same period in 1993. The increase was primarily attributable to an increase in accounts payable due to expenses from the recently formed service company and increased purchase activity as a result of the consolidation of the Company and four of its affiliates.

Net cash used by investing activities increased $4,920,000 for the three months ending March 31, 1994 compared to the same period in 1993. This increase was impacted by a $3,322,000 increase in telecommunications plant additions, as well as increases in non-regulated investment additions. The Company's planned construction expenditures for 1994 are $143,131,000.

The primary source of financing for the Company has been long-term debt. In addition, the Company periodically receives cash advances from Sprint and issues commercial paper and notes payable to banks.

Net cash used by financing activities decreased $1,282,000 for the three months ending March 31, 1994 compared to the same period in 1993 due primarily to reduced dividend payments and a decrease in retirements of long-term borrowings, partially offset by increased payments to reduce commercial paper.

As of March 31, 1994, the Company had a total of $60,000,000 in one year bank commitments. The bank lines provide for short-term borrowings at market rates of interest and require annual commitment fees based on the unused portion. Such lines of credit, which support commercial paper, may be withdrawn by the banks if there is a material adverse change in the financial condition of Sprint or the Company. As of March 31, 1994, no amounts were borrowed against this credit facility; however, $24,739,000 of the bank line supports the commercial paper outstanding at March 31, 1994.

The Company is also authorized to issue and sell an additional $75,000,000 in debentures. The debentures must be due within thirty years of the date of issue and cannot exceed an interest rate of 7.25 percent. The new debentures, which may be issued and sold in two or more offerings, will be used primarily to refinance existing debt at lower interest rates.

CAROLINA TELEPHONE AND TELEGRAPH COMPANY

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

Liquidity and Capital Resources (continued)

The Company's ratio of common equity to total capital was 61.2 percent at March 31, 1994 and 59.2 percent at December 31, 1993. The Company's ratio of long-term debt to total capital was 35.5 percent at March 31, 1994 and 35.4 percent at December 31, 1993. The Company's ratio of short-term debt to total capital was 3.3 percent at March 31, 1994 and 5.4 percent at December 31, 1993.

Operating Results

Local service revenues increased $5,640,000 or 9.2 percent for the three month period ending March 31, 1994 compared to the same period in 1993. Basic area service revenues contributed $2,199,000 due primarily to a 5.0 percent and 9.1 percent growth in residence and business access lines, respectively. Custom calling, telephone instrument leases, and touch tone features added $2,203,000 as a result of access line gains and increased marketing promotions.

Network access revenues increased $4,132,000 or 9.3 percent for the three month period ending March 31, 1994 compared to the same period in 1993. The increase was due primarily to a 14.7 percent growth in intrastate access minutes and an 11 percent growth in interstate access minutes.

Long distance network revenues increased $2,839,000 or 11.5 percent for the three month period ending March 31, 1994 compared to the same period in 1993. The increase was due primarily to a change in intrastate intralata settlement methodologies in North Carolina effective January 1, 1994. Effective January 1, 1994, toll revenues are settled under an originating responsibility plan rather than paid to a pool. The impact of this change will result in toll revenues increasing approximately $6.5 million and private line revenues increasing approximately $4.5 million for the year ending December 31, 1994 compared the same period in 1993.

Miscellaneous revenues increased $3,695,000 or 17.1 percent for the three month period ending March 31, 1994 compared to the same period in 1993. Rent revenues increased $2,178,660 due primarily to the leasing of the Company's building and other assets to a recently formed affiliated service company which provides services to the Company and four of its affiliates. North Carolina Utility Services (NCUS), a non-regulated business venture specializing in locating underground utility lines, contributed $1,650,000 due to the expansion of the service area and an increase of the customer base in existing service areas. These increases were partially offset by decreased revenues related to a reduction of the rate of return for interexchange leases to 11.25 percent.

CAROLINA TELEPHONE AND TELEGRAPH COMPANY

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

Operating Results (continued)

Plant expenses increased $5,284,000 or 11.5 percent for the three month period ending March 31, 1994 compared to the same period in 1993. The land and building rent expense increased $1,070,000 due primarily to the Company's expenses for the use of a portion of the service company's leased land and buildings. The generic software expense increased $3,665,000 due to upgrades of digital switches to provide enhanced services.

Customer operations expenses increased $2,635,000 or 12.8 percent for the three month period ending March 31, 1994 compared to the same period in 1993. As a result of continued expansions of its customer base, NCUS experienced an increase of $1,819,000. Sales, product management, and advertising expenses increased as the Company continues to intensify its efforts to achieve an increased market share and gain knowledge of its customer expectations.

Corporate operations expenses increased $2,216,000 or 14.6 percent for the three month period ending March 31, 1994 compared to the same period in 1993. An increase in the network operations expense of $1,010,000 was due primarily to the increased needs for programming, data applications, and development of software for mainframes and personal computers to support the consolidation of the Company and four affiliated companies within the service company. Also contributing to the increase were adjustments to employee benefit expenses.

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 $46,382,000, of which $41,700,000 was recorded during the first quarter of 1993. Such nonrecurring charges reduced first quarter 1993 net income by approximately $25,346,000.

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.

Form 10-Q Part II.

CAROLINA TELEPHONE AND TELEGRAPH COMPANY

OTHER INFORMATION

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 6.32 and (0.69) for the three months ending March 31, 1994 and 1993, respectively. These ratios have been computed by dividing fixed charges into the sum of (a) net income (loss) 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. In the absence of the nonrecurring merger and integration costs of $41,700,000 recorded during the three months ending March 31, 1993, the ratio of earnings to fixed charges would have been 5.95.

Item 6. Exhibits and Reports on Form 8-K

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

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

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

CAROLINA TELEPHONE AND TELEGRAPH COMPANY

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.

Carolina Telephone and Telegraph Company
Registrant

Date 05-13-94 By s/F. E. Westmeyer

F. E. Westmeyer, Vice President-Finance
(Principal Financial Officer)

Date 05-13-94 By s/T. J. Geller

T. J. Geller, Controller
(Principal Accounting Officer)

Exhibit 12

CAROLINA TELEPHONE AND TELEGRAPH COMPANY
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Thousands of Dollars)

	Three Months Ended March 31, (Unaudited) 1994	1993	
Net income (loss)	$ 20,570	$ (7,464)	
Capitalized interest	(37)	(16)	
Income tax provision (benefit)	9,751	(3,125)	
Subtotal	30,284	(10,605)	
Fixed charges			
Interest charges	5,291	5,657	
Interest factor of operating rents	400	627	
Total fixed charges	5,691	6,284	
Earnings, as adjusted	$ 35,975	$ (4,321)	
Ratio of earnings to fixed charges	6.32	(0.69)	(1)

NOTE: The above ratios have been computed by dividing fixed charges into the sum of (a) net income (loss) 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 component of operating rents.

(1) Earnings as computed for the ratio of earnings to fixed charges were inadaquate to cover the fixed charges for the three months ended March 31, 1993. The amount of the coverage deficiency was $10,605,000. In the absence of the nonrecurring merger and integration costs of $41,700,000 recorded during the period, the ratio of earnings to fixed charges would have been 5.95.