

# QWEST CORP

## FORM 10-K (Annual Report)

Filed 3/28/1996 For Period Ending 12/31/1995

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UNITED STATES SECURITIES AND EXCHANGE  
COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 1995

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

*Commission file number 1-3040*

U S WEST COMMUNICATIONS, INC.

A Colorado Corporation    IRS Employer No.  
84-0273800

1801 California Street, Denver, Colorado 80202  
Telephone Number (303) 896-3099

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Securities registered pursuant to Section 12 (b) of the Act:

Title of each class -----	Name of each exchange on which registered -----
Forty Year      3 1/4% Debentures due February 1, 1996	New York Stock Exchange

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Securities registered pursuant to Section 12 (g) of the Act: None.

THE REGISTRANT, AN INDIRECT, WHOLLY OWNED SUBSIDIARY OF U S WEST, INC., MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION J(1) (a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION J(2).

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No\_

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrants knowledge in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. \*\*\*

\*\*\* Not applicable in that registrant is an indirect, wholly owned subsidiary.

The total number of pages contained in this report, including exhibits, is 62 and the exhibit index is on page 40.

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**FORM 10-K**  
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**U S WEST COMMUNICATIONS, INC.**  
**FORM 10-K**

**PART I**

**ITEM 1. BUSINESS**

**General**

U S WEST Communications, Inc. ("U S WEST Communications" or the "Company") is incorporated under the laws of the State of Colorado and has its principal offices at 1801 California Street, Denver, Colorado 80202, telephone number (303) 896-3099. The Company is an indirect, wholly owned subsidiary of U S WEST, Inc. ("U S WEST").

**Company Operations**

The Company provides telecommunications services to more than 25 million residential and business customers in the states of Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming (collectively, the "Region"). The Company serves approximately 80 percent of the Region's population and approximately 40 percent of its geographic area.

The principal types of telecommunications services offered by the Company are

(i) local service, (ii) exchange access service (which connects customers to the facilities of interLATA service providers), and (iii) intraLATA long-distance network service. For the year ended December 31, 1995, local service, exchange access service and intraLATA long-distance network service accounted for 47%, 34% and 13%, respectively, of the sales and other revenues of the Company. At December 31, 1995, the Company had approximately 14,847,000 telephone network access lines in service, a 3.6% increase over year-end 1994. Excluding the effect of the sale of approximately 95,000 rural telephone access lines during 1995, access lines increased 4.2% over year-end 1994. In 1995, revenues from a single customer, AT&T, accounted for approximately 12% of the sales and other revenues of the Company. The Company expensed

\$14 million, \$23 million and \$42 million for research and development costs in 1995, 1994 and 1993, respectively.

The Company incurred capital expenditures of approximately \$2.7 billion in 1995 and expects to incur approximately \$2.5 billion in 1996. The 1995 capital expenditures of the Company were substantially devoted to the continued modernization of telephone plant, to improve customer services and to accommodate additional line capability in several states.

ITEM 2. PROPERTIES

The properties of the Company do not lend themselves to description by character and location of principal units. At December 31, 1995, the percentage distribution of total net telephone plant by major category for the Company was as follows:

a.	Connecting lines not on customers' premises . . . . .	35%
b.	Telephone network equipment . . . . .	38%
c.	Land and buildings (occupied principally by central offices) . . . . .	14%
d.	General purpose computers and other. . . . .	13%

At December 31, 1995, substantially all of the installations of central office equipment were located in buildings owned by the Company situated on land which it owns in fee, while many garages, and administrative and business offices were in leased quarters.

Total investment in telephone plant increased to \$31.0 billion at December 31, 1995, from \$29.4 billion at December 31, 1994, after giving effect to retirements, but before deducting accumulated depreciation. The Company's 1995 capital expenditures of \$2.7 billion were substantially devoted to the continued modernization of telephone plant, including investments in fiber optic cable, to improve customer services and network productivity. 1996 capital expenditures are anticipated to be \$2.5 billion and the majority of these are expected to be financed through internally generated funds.

### ITEM 3. LEGAL PROCEEDINGS

With respect to lawsuits, proceedings and other claims pending at year-end, it is the opinion of management that after final disposition, any monetary liability or financial impact to the Company beyond that provided at year-end, would not be material to the consolidated financial position of the Company.

U S WEST COMMUNICATIONS, INC. FORM 10-K

### PART II

MANAGEMENT'S DISCUSSION. (Dollars in millions)

#### Results of Operations

Comparative details of income before extraordinary items for 1995 and 1994 follow:

	1995 (1)	1994 (2)	Increase (Decrease) Dollars	Increase (Decrease) Percentage
Income before extraordinary items	\$ 1,219	\$ 1,175	\$ 44	3.7
Extraordinary items	(8)	-	(8)	-
Net income	\$ 1,211	\$ 1,175	\$ 36	3.1
	=====	=====	=====	=====

<F1>

(1) 1995 income before extraordinary items includes a gain of \$85 on the sales of certain rural telephone exchanges and \$8 for costs associated with U S WEST, Inc.'s November 1, 1995 recapitalization.

<F2>

(2) 1994 income before extraordinary items includes a gain of \$51 on the sales of certain rural telephone exchanges.

The Company's 1995 income before extraordinary items, excluding the effects of one-time items described in Note (1) to the table above, was \$1,142, an increase of \$18, or 1.6 percent, compared with \$1,124 in 1994, also excluding the effects of one-time items. Total revenue growth of 3.2 percent was largely offset by significantly higher costs incurred to improve customer service and meet greater than expected business growth. Net income growth will also be limited in 1996 while the Company continues to commit significant resources to meet customer service objectives and broaden its range of product and service offerings.

During 1995, the Company refinanced \$145 of long-term debt. Expenses associated with the refinancings resulted in extraordinary charges of \$8, net of tax benefits of \$5.

Increased demand for the Company's services resulted in growth in earnings before interest, taxes, depreciation, amortization and other ("EBITDA") of 5.2 percent as compared with 1994. The Company believes EBITDA is an important indicator of the operational strength of its businesses. EBITDA, however, should not be considered as an alternative to operating or net income as an indicator of performance or as an alternative to cash flows from operating activities as a measure of liquidity, in each case determined in accordance with generally accepted accounting principles ("GAAP").

## Operating Revenues

An analysis of changes in operating revenues follows:

	1995	1994	Price Changes	Lower (Higher) Refunds	Demand	Other	Incr. (Decr.) Dollars	Incr. (Decr.) Percent
Local service	\$4,344	\$4,067	\$ 35	\$ (10)	\$ 273	\$ (21)	\$ 277	6.8
Interstate access	2,378	2,269	(66)	(2)	191	(14)	109	4.8
Intrastate access	747	729	(31)	8	36	5	18	2.5
Long-distance network	1,189	1,329	(23)	(1)	(54)	(62)	(140)	(10.5)
Other services	626	604	-	-	-	22	22	3.6
Total	\$9,284	\$8,998	\$ (85)	\$ (5)	\$ 446	\$ (70)	\$ 286	3.2
	=====	=====	=====	=====	=====	=====	=====	=====

Approximately 59 percent of the revenues of the Company are derived from the states of Arizona, Colorado, Minnesota and Washington. Approximately 29 percent of the access lines in service are devoted to providing services to business customers. The access line growth rate for business customers, who tend to be heavier users of the network, has consistently exceeded the growth rate of residential customers. During 1995, business access lines grew 5.4 percent while residential access lines increased 2.8 percent.

The primary factors that influence changes in revenues are customer demand for products and services, price changes (including those related to regulatory proceedings) and refunds. During 1995, revenues from new product and service offerings were \$491, an increase of 57 percent as compared with 1994. These revenues primarily consist of caller identification, voice messaging, call waiting and high-speed data network transmission services.

Local service revenues include local telephone exchange, local private line and public telephone services. In 1995, local service revenues increased principally as a result of higher demand for new and existing services, and demand for second lines. Local service revenues from new services increased \$92, or 78 percent, as compared with 1994. Reported total access lines increased 511,000, or 3.6 percent, of which 161,000 were second lines. Second line installations increased 25.5 percent as compared with 1994. Access line growth was 4.2 percent adjusted for the sale of approximately 95,000 rural telephone access lines during the last 12 months.

## **Operating Revenues (continued)**

Access charges are collected primarily from interexchange carriers for their use of the local exchange network. For interstate access services there is also a fee collected directly from telephone customers. Approximately 33 percent of access revenues and 12 percent of total revenues are derived from providing access service to AT&T.

Higher revenues from interstate access services were driven by an increase of 9.2 percent in interstate billed access minutes of use. The increased business volume more than offset the effects of price reductions and refunds. The Company reduced prices for interstate access services in both 1995 and 1994 as a result of Federal Communications Commission ("FCC") orders and competitive pressures. Intrastate access revenues increased primarily due to the impacts of increased business volume and the multiple toll carrier plans, partially offset by the impacts of rate changes.

Long-distance revenues are derived from calls made within the LATA boundaries of the Region. During 1995 and 1994, long-distance revenues were impacted by the implementation of multiple toll carrier plans ("MTCPs") in Oregon and Washington in May and July 1994, respectively. The MTCPs essentially allow independent telephone companies to act as toll carriers. The 1995 impact of the MTCPs was long-distance revenue losses of \$62, partially offset by increases in intrastate access revenues of \$12 and decreases in other operating expenses (i.e. access expense) of \$42 as compared with 1994. These regulatory arrangements have decreased annual net income by approximately \$10. Similar changes in other states could occur, though the impact on 1996 net income would not be material.

Excluding the effects of the MTCPs, long-distance revenues decreased by 5.9 percent in 1995, primarily due to the effects of competition and rate reductions. Long-distance revenues have declined over the last several years as customers have migrated to interexchange carriers that have the ability to offer these services on both an intraLATA and interLATA basis. A portion of revenues lost to competition, however, are recovered through access charges paid by the interexchange carriers. Erosion in long-distance revenue will continue due to the loss of 1+ dialing in Minnesota, effective in February 1996, and in Arizona, effective in April 1996. Annual long-distance revenue losses could approximate \$30 as a result of these changes. The Company is partially mitigating competitive losses through competitive pricing of intraLATA long-distance services.

Revenues from other services primarily consist of billing and collection services provided to interexchange carriers, voice messaging services, high-speed data transmission services, and sales of service agreements related to inside wiring .



## Operating Revenues (continued)

During 1995, revenues from other services increased \$22, primarily as a result of continued market penetration in voice messaging services and sales of high-speed data transmission services. Revenue growth from other services is also attributable to maintenance contracts for inside wire services. These increases were partially offset by a decrease of \$20 in revenues from billing and collection services. The decline in billing and collection revenues is primarily related to lower contract prices and a decrease in the volume of services provided to AT&T.

## Costs and Expenses

	1995	1994	Increase (Decrease) Dollars	Increase (Decrease) Percentage
	-----	-----	-----	-----
Employee-related expenses	\$3,079	\$2,930	\$ 149	5.1
Other operating expenses	1,587	1,653	(66)	(4.0)
Taxes other than income taxes	371	378	(7)	(1.9)
Depreciation and amortization	2,022	1,887	135	7.2
Interest expense	386	331	55	16.6
Other expense - net	58	20	38	-

Employee-related expenses include basic salaries and wages, overtime, benefits (including pension and health care), payroll taxes and contract labor. During 1995, improving customer service was the Company's first priority. Overtime payments and contract labor expense associated with customer service initiatives increased employee-related costs by approximately \$178 compared with 1994. Expenses related to the addition of approximately 2,800 employees in 1995 (including the absorption of certain employee transfers from affiliate companies) also increased employee-related costs. These expenses were incurred to handle the higher than anticipated volume of business and to meet new business opportunities. Partially offsetting these increases was a \$32 reduction in the accrual for postretirement benefits, a \$19 decrease in travel expense and reduced expenses related to employee separations under reengineering and streamlining initiatives. The Company will continue to add employees to address customer service issues and growth in the core business. Costs related to these work-force additions will partially offset the benefits of employee separations achieved through restructuring. (See "Restructuring Charge.")

## Costs and Expenses (continued)

Other operating expenses include access charges (incurred for the routing of long-distance traffic through the facilities of independent companies), network software expenses and other general and administrative costs. During 1995, other operating expenses decreased primarily due to the effects of the multiple toll carrier plans and a reduction in expenses related to project funding at Bell Communications Research, Inc. ("Bellcore"), of which U S WEST Communications has a one-seventh ownership interest. These decreases in other operating expenses were partially offset by increases in costs associated with increased sales of products and services, including bad debt expense.

Taxes other than income taxes, which consist primarily of property taxes, decreased 1.9 percent in 1995, primarily due to favorable property tax valuations and mill levies as compared with 1994. As a result of these valuations and mill levies, 1995 fourth-quarter accruals decreased by \$20 as compared with fourth-quarter 1994.

Increased depreciation and amortization expense was attributable to the effects of a higher depreciable asset base, partially offset by the effects of the sales of certain rural telephone exchanges.

Interest expense increased primarily as a result of an increased use of debt financing. The increase in other expense is largely attributable to \$8 of costs associated with U S WEST, Inc.'s November 1, 1995 recapitalization.

### Provision for Income Taxes

	1995	1994	Decrease Dollars	Decrease Percentage
	-----	-----	-----	-----
Provision for income taxes	\$ 698	\$ 706	\$ (8)	(1.1)
Effective tax rate	36.4%	37.5%	-	-

The decrease in the effective tax rate resulted primarily from the effects of a research and experimentation credit and adjustments for prior periods.

## **Restructuring Charge**

The Company's 1993 results reflected an \$880 restructuring charge (pretax). The related restructuring plan (the "Restructuring Plan") is designed to provide faster, more responsive customer services while reducing the costs of providing these services. As part of the Restructuring Plan, the Company is developing new systems and enhanced system functionality that will enable it to monitor networks to reduce the risk of service interruptions, activate telephone service on demand, rapidly design and engineer products and services for customers, and centralize its service centers. The Company has consolidated its 560 customer service centers into 26 centers in 10 cities and plans on reducing its work force by approximately 10,000 employees. All service centers are operational and supported by new systems and system functionality.

The Restructuring Plan is expected to be substantially completed by the end of 1997. Implementation of the Restructuring Plan has been impacted by growth in the business and related service issues, new business opportunities, revisions to system delivery schedules and productivity issues caused by the major rearrangement of resources due to restructuring. These issues will continue to affect the timing of employee separations.

The Company estimates that full implementation of the 1993 Restructuring Plan will reduce employee-related expenses by approximately \$400 per year. These savings related to work-force reductions will be offset by the effects of inflation and a variety of other factors. These factors include costs related to the achievement of customer service objectives, and increased demand for existing services. (See "Costs and Expenses.")

Following is a schedule of the costs included in the Restructuring Plan:

	1994	1995	1996	1997	
	Actual	Actual	Estimate	Estimate	Total
Employee separation (1)	\$ 19	\$ 76	\$ 33	\$ 127	\$ 255
Systems development	118	129	113	-	360
Real estate	50	66	14	-	130
Relocation	21	21	20	13	75
Retraining and other	8	23	22	7	60
	-----	-----	-----	-----	-----
Total 1993 Restructuring Plan	216	315	202	147	880
Remaining 1991 plan employee costs (1)	56	-	-	-	56
	-----	-----	-----	-----	-----
Total	\$ 272	\$ 315	\$ 202	\$ 147	\$ 936
	=====	=====	=====	=====	=====

<F1>

(1) Employee separation costs, including the balance of a 1991 restructuring reserve at December 31, 1993, aggregate \$311.

## Restructuring Charge (continued)

Employee separation costs include severance payments, health-care coverage and postemployment education benefits. Systems development costs include new systems and the application of enhanced system functionality to existing, single-purpose systems to provide integrated, end-to-end customer service. Real estate costs include preparation costs for the new service centers. The relocation and retraining costs are related to moving employees to the new service centers and retraining employees on the methods and systems required in the new, restructured mode of operation.

Employee Separation Under the Restructuring Plan, the Company anticipates the separation of 10,000 employees. Approximately 1,000 employees that were originally expected to relocate have chosen separation or other job assignments and have been replaced. This increased the number of employee separations to 10,000 from 9,000, and increased the estimated total cost for employee separations to \$311 from \$281, as compared with the original estimate. The \$30 cost associated with these additional employee separations was reclassified from relocation to the reserve for employee separations during 1995.

Annual employee separations and employee-separation amounts under the Restructuring Plan follow:

	1994 (1) Estimate	1994 (1) Actual	1995 Estimate	1995 Actual	1996 Estimate(2)	1997 Estimate(2)	Total
Employee separations:							
Managerial	1,061	497	612	682	202	1,357	2,738
Occupational	1,887	1,683	1,638	1,643	798	3,138	7,262
	-----	-----	-----	-----	-----	-----	-----
Total	2,948	2,180	2,250	2,325	1,000	4,495	10,000
	=====	=====	=====	=====	=====	=====	=====
	1994 (1) Estimate	1994 (1) Actual	1995 Estimate	1995 Actual	1996 Estimate (2)	1997 Estimate(2)	Total
Employee-separation amounts:							
Managerial	\$ 22	\$ 5	\$ 21	\$ 30	\$ 9	\$ 54	\$ 98
Occupational	15	14	54	46	24	73	157
	-----	-----	-----	-----	-----	-----	-----
Total	37	19	75	76	33	127	255
Remaining 1991 reserve	56	56	-	-	-	-	56
	-----	-----	-----	-----	-----	-----	-----
Total	\$ 93	\$ 75	\$ 75	\$ 76	\$ 33	\$ 127	\$ 311
	=====	=====	=====	=====	=====	=====	=====

<F1>

(1) Includes the remaining employees and the separation amounts associated with the balance of a 1991 restructuring reserve at December 31, 1993.

<F2>

(2) A significant number of the employee reductions originally scheduled for 1996 will be delayed while the Company focuses on overtime and contract-labor expenses. The Restructuring Plan is expected to be substantially complete by the end of 1997.

Compared with the original estimates, employee reductions and separation amounts shown above have been reduced by 1,600 employees and \$53, respectively, in 1996, and increased by 4,495 employees and \$127, respectively, in 1997.

## **Restructuring Charge (continued)**

**Systems Development** The existing information management systems were largely developed to support a monopoly environment. These systems were inadequate due to the effects of increased competition, new forms of regulation and changing technology that have driven consumer demand for new products and services that can be delivered quickly, reliably and economically. The Company believes that improved customer service, delivered at lower cost, can be achieved by a combination of new systems and introducing new functionality to existing systems. This is a change from the initial strategy which placed more emphasis on the development of new systems.

The systems development program involves new systems and enhanced system functionality for systems that support the following core processes:

**Service Delivery** - to support service on demand for all products and services. These new systems and enhanced system functionality permit customer calls to be directed to those service representatives who can meet their requirements. This process will provide enhanced information to the service representatives regarding the customer requests and the ability of the Company to fulfill them.

**Service Assurance** - for performance monitoring from one location and remote testing in the new environment, including identification and resolution of faults prior to customer impact.

**Capacity Provisioning** - for integrated planning of future network capacity, including the installation of software controllable service components.

Certain of the new systems and enhanced system functionality have been implemented in the service centers and have simplified the labor-intensive interfaces between systems processes in existence prior to the Restructuring Plan. Enhanced system functionality introduced under the Restructuring Plan since its inception includes the following:

- -- The ability to determine facilities' availability while the customer is placing an order;
- -- Automated engineering of central office facilities and automated updating of central office facilities' records;
- -- The ability to track the status of complex network design jobs from the customer's perspective; and

**Restructuring Charge (continued)**

- -- Systems that accurately diagnose network problems and prepare repair packages to correct the problems identified.

The direct, incremental and nonrecurring costs of providing new systems and enhanced system functionality follow:

	1994	1994	1995	1995	1996	
	Estimate	Actual	Estimate	Actual	Estimate	Total
	-----	-----	-----	-----	-----	-----
Service delivery	\$ 35	\$ 21	\$ 21	\$ 19	\$ 44	\$ 84
Service assurance	45	12	24	22	26	60
Capacity provisioning	17	57	92	85	42	184
All other	8	28	8	3	1	32
	-----	-----	-----	-----	-----	-----
Total	\$ 105	\$ 118	\$ 145	\$ 129	\$ 113	\$ 360
	=====	=====	=====	=====	=====	=====

Systems expenses charged to current operations consist of costs associated with the information management function, including planning, developing, testing and maintaining databases for general purpose computers, in addition to systems costs related to maintenance of telephone network applications. Other systems expenses are for administrative (i.e. general purpose) systems which include customer service, order entry, billing and collection, accounts payable, payroll, human resources and property records. Ongoing systems costs comprised approximately six percent of total operating expenses in 1995, 1994 and 1993. The Company expects systems costs charged to current operations as a percent of total operating expenses to approximate the current level throughout 1996. Systems costs could increase relative to other operating costs as the business becomes more technology dependent.

## Restructuring Charge (continued)

### Progress Under the Restructuring Plan

Following is a reconciliation of restructuring reserve activity since December 1993:

	Reserve Balance 12/31/93	1994 Activity	Reserve Balance 12/31/94	1995 Activity	Change in Estimates	Reserve Balance 12/31/95
Employee separation:						
Managerial	\$ 75	\$ 5	\$ 70	\$ 30	\$ 23	\$ 63
Occupational	150	14	136	46	7	97
Total employee separation	225	19	206	76	30	160
Systems development:						
Service delivery	73	21	52	19	11	44
Service assurance	64	12	52	22	(4)	26
Capacity provisioning	179	57	122	85	5	42
All other	44	28	16	3	(12)	1
Total systems development	360	118	242	129	-	113
Real estate	130	50	80	66	-	14
Relocation	105	21	84	21	(30)	33
Retraining and other	60	8	52	23	-	29
Total 1993 Restructuring Plan	880	216	664	315	-	349
Remaining 1991 plan expenditures	56	56	-	-	-	-
Total	\$ 936	\$ 272	\$ 664	\$ 315	\$ -	\$ 349

	1994 Separations	1995 Separations	Cumulative Separations at Dec. 31, 1995
Employee separation:			
Managerial	497	682	1,179
Occupational	1,683	1,643	3,326
Total	2,180	2,325	4,505



## Regulatory Issues

On February 1, 1996, the House and Senate approved the Telecommunications Act of 1996 (the "1996 Act") which is intended to promote competition between local telephone companies, long-distance carriers and cable television operators. The 1996 Act was signed into law on February 8, 1996, and replaces the antitrust consent decree that broke up the "Bell System" in 1984. A major provision of the legislation includes the preemption of state regulations that govern competition by allowing local telephone companies, long-distance carriers and cable television companies to enter each other's lines of business. Consequently, the Regional Bell Operating Companies ("RBOCs") are immediately permitted to offer wireline interLATA toll services out of their regions. However, to participate in the interLATA long-distance market within their regions, the RBOCs must first open their local networks to facilities-based competition by satisfying a detailed checklist of requirements, including requirements related to interconnection and number portability.

Other key provisions of the 1996 Act: (1) eliminate most of the regulation of cable television rates within three years and eliminate the ban on cross-ownership between cable television and telephone companies in small communities; (2) permit the RBOCs to develop new, competitive cable systems within their regions and to acquire or build wireless cable systems; (3) provide partial relief from the ban against manufacturing telecommunications equipment by the RBOCs; and (4) permit wireless operators to provide interLATA toll service in and out of region without a separate subsidiary and to jointly market or resell cellular service.

The FCC and state regulators have been given latitude in interpreting and overseeing the implementation of this legislation, including developing universal service funding policy. The extent and timing of future competition, including the Company's ability to offer in-region interLATA long-distance services, will depend in part on the implementation guidelines determined by the FCC and state regulators, and how quickly the Company can satisfy requirements of the checklist. The Company estimates that fulfillment of the checklist requirements could occur in the majority of its states within 12 to 18 months.

## **Regulatory Issues (continued)**

The Company's interstate services have been subject to price cap regulation since January 1991. Price caps are an alternative form of regulation designed to limit prices rather than profits. However, the FCC's price cap plan includes sharing of earnings in excess of authorized levels. In March 1995, the FCC issued an interim order on price cap regulation. The price cap index for most services is annually adjusted for inflation, productivity level and exogenous costs and has resulted in reduced access prices paid by interexchange carriers to local telephone companies. The interim order also provides for three productivity options, including a no-sharing option, and for increased flexibility for adjusting prices downward in response to competition. In 1995, the Company selected the lowest productivity option, while prior to this interim order, the Company used an optional higher productivity factor in determining its prices. Consequently, the Company expects the order to have no significant near-term impact.

There are pending regulatory actions in local regulatory jurisdictions that call for price decreases, refunds or both. In one such instance, the Utah Supreme Court has remanded a Utah Public Service Commission ("PSC") order to the PSC for reconsideration, thereby establishing two exceptions to the rule against retroactive ratemaking: 1) unforeseen and extraordinary events, and 2) misconduct. The PSC's initial order denied a refund request from interexchange carriers and other parties related to the Tax Reform Act of 1986. This action is still in the discovery process. If a formal filing - made in accordance with the remand from the Supreme Court - alleges that the exceptions apply, the range of possible risk is \$0 to \$150.

The Company is subject to varying degrees of federal and state regulation. The Company's regulatory strategy includes working to:

- -- Achieve accelerated capital recovery;
- -- Reprice local services to cover costs and ensure these services are subsidy free, while lowering toll and access rates to meet competition; and
- -- Ensure that the new rules associated with the Telecommunications Act of 1996 concerning the unbundling of interconnection, resale of services and universal service do not advantage one competitor over another.

The Company is currently working with state regulators to gain approval of these initiatives.

## **Interest Rate Risk Management**

The Company is exposed to market risks arising from changes in interest rates.

Derivative financial instruments are used to manage this risk. The Company does not use derivative financial instruments for trading purposes.

The objective of the interest rate risk management program is to minimize the total cost of debt. Interest rate swaps are used to adjust the ratio of fixed- to variable-rate debt. The market value of the debt portfolio including interest rate swaps, is monitored and compared with predetermined benchmarks to evaluate the effectiveness of the risk management program.

Notional amounts of interest rate swaps outstanding were \$784 and \$781 at December 31, 1995 and 1994, respectively, with various maturities extending to 2001. The estimated effect of the Company's interest rate derivative transactions was to adjust the level of fixed-rate debt from 89 percent to 98 percent of the total debt portfolio at December 31, 1995 and from 74 percent to 86 percent of the total debt portfolio at December 31, 1994.

In conjunction with the 1993 debt refinancing, the Company executed forward contracts to sell U.S. Treasury bonds to lock in the U.S. Treasury rate component of \$1.5 billion of the future debt issue. At December 31, 1995, deferred credits of \$8 and deferred charges of \$51 on closed forward contracts are included as part of the carrying value of the underlying debt. The deferred credits and charges are being recognized as a yield adjustment over the life of the debt, which matures at various dates through 2043. The net deferred charge is directly offset by the lower coupon rate achieved on the new debt.

## **Other Items**

In connection with U S WEST's February 27, 1996 announcement of a planned merger with Continental Cablevision, U S WEST, Inc.'s credit rating is being reviewed by credit rating agencies, which may result in a downgrading. The credit rating of the Company was not placed under review by Moody's, has been reaffirmed by Duff and Phelps, and is under review by Fitch and Standard & Poors.

## Other Items (continued)

On October 2, 1995, union members approved a new three-year contract with U S WEST. The contract provides for salary increases of 10.6 percent over three years effective January 1 of each year. The contract also provides employees with a lump sum payment of \$1,500 in lieu of wage increases becoming effective in August of each year. This lump sum payment is being recognized over the life of the contract. The agreement covers approximately 30,000 Communications Workers of America members who work for the Company.

### U S WEST COMMUNICATIONS, INC. FORM 10-K

## PART II

### ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

#### REPORT OF INDEPENDENT ACCOUNTANTS

##### To the Shareowner and Board of Directors of U S WEST Communications, Inc.

We have audited the consolidated financial statements and the consolidated financial statement schedule of U S WEST Communications, Inc. listed in the index on page 40 of this Form 10-K. The financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of U S WEST Communications, Inc. as of December 31, 1995 and 1994, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information required to be included therein.

As discussed in Note 4 of the Notes to Consolidated Financial Statements, the Company discontinued accounting for its operations in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," in 1993.

##### Coopers & Lybrand L.L.P.

Denver, Colorado  
February 12, 1996

### U S WEST COMMUNICATIONS, INC.

#### CONSOLIDATED STATEMENTS OF OPERATION

----- Dollars in millions -----	----- Year Ended December 31, -----		
	1995	1994	1993
Operating revenues:			
Local service	\$ 4,344	\$ 4,067	\$ 3,829
Interstate access service	2,378	2,269	2,147
Intrastate access service	747	729	682
Long-distance network services	1,189	1,329	1,442
Other services	626	604	556
Total operating revenues	9,284	8,998	8,656
Operating expenses:			
Employee-related expenses	3,079	2,930	2,870
Other operating expenses	1,587	1,653	1,646
Taxes other than income taxes	371	378	380
Depreciation and amortization	2,022	1,887	1,806
Restructuring charge	-	-	880

Total operating expenses	7,059	6,848	7,582
	-----	-----	-----
Income from operations	2,225	2,150	1,074
Interest expense	386	331	374
Gains on sales of rural telephone exchanges	136	82	-
Other expense - net	58	20	13
	-----	-----	-----
Income before income taxes and extraordinary items	1,917	1,881	687
Provision for income taxes	698	706	252
	-----	-----	-----
Income before extraordinary items	1,219	1,175	435
Extraordinary items:			
Discontinuance of SFAS No. 71, net of tax	-	-	(3,041)
Early extinguishment of debt, net of tax	(8)	-	(77)
	-----	-----	-----
NET INCOME (LOSS)	\$ 1,211	\$ 1,175	\$ (2,683)
	=====	=====	=====

The accompanying notes are an integral part of the Consolidated Financial Statements.

# U S WEST COMMUNICATIONS, INC.

## CONSOLIDATED BALANCE SHEETS

Dollars in millions	December 31, 1995	December 31, 1994
-----		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 191	\$ 114
Accounts and notes receivable, less allowance for credit losses of \$30 and \$28, respectively	1,546	1,450
Materials and supplies	142	120
Deferred tax asset	240	280
Prepaid and other	43	48
	-----	-----
Total current assets	2,162	2,012
	-----	-----
Property, plant and equipment, net	13,448	12,962
Other assets	740	726
	-----	-----
Total assets	\$ 16,350	\$ 15,700
	=====	=====
LIABILITIES AND SHAREOWNER'S EQUITY		
Current liabilities:		
Short-term debt	\$ 995	\$ 1,485
Accounts payable	864	883
Employee compensation	281	283
Dividends payable	299	125
Current portion of restructuring charge	270	317
Advanced billing and customer deposits	223	211
Other	559	547
	-----	-----
Total current liabilities	3,491	3,851
	-----	-----
Long-term debt	5,411	4,242
Postretirement and other postemployment benefit obligations	2,316	2,393
Deferred income taxes	749	599
Unamortized investment tax credits	199	231
Deferred credits and other	438	700
	-----	-----
Shareowner's equity		
Common shares - one share without par value, owned by parent	7,348	7,286
Cumulative deficit	(3,602)	(3,602)
	-----	-----
Total shareowner's equity	3,746	3,684
	-----	-----
Total liabilities and shareowner's equity	\$ 16,350	\$ 15,700
	=====	=====

### Contingencies (see Note 11 to the Consolidated Financial Statements)

The accompanying notes are an integral part of the Consolidated Financial Statements.

# U S WEST COMMUNICATIONS, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31, Dollars in millions	1995	1994	1993
<hr/>			
<b>OPERATING ACTIVITIES</b>			
Net income (loss)	\$ 1,211	\$ 1,175	\$(2,683)
Adjustments to net income (loss):			
Discontinuance of SFAS No. 71	-	-	3,041
Restructuring charge	-	-	880
Depreciation and amortization	2,022	1,887	1,806
Gains on sales of rural telephone exchanges	(136)	(82)	-
Deferred income taxes and amortization of investment tax credits	158	223	(204)
Changes in operating assets and liabilities:			
Postretirement medical and life costs, net of cash fundings	(93)	(198)	(132)
Restructuring payments	(315)	(272)	(104)
Accounts receivable	(96)	(59)	(67)
Materials, supplies and other	(45)	(53)	(76)
Accounts payable and accrued liabilities	24	(116)	130
Other - net	27	(4)	112
	<hr/>	<hr/>	<hr/>
Cash provided by operating activities	2,757	2,501	2,703
	<hr/>	<hr/>	<hr/>
<b>INVESTING ACTIVITIES</b>			
Expenditures for property, plant and equipment	(2,437)	(2,230)	(2,190)
Proceeds from (payments on) disposals of property, plant and equipment	(18)	3	42
Proceeds from sale of rural telephone exchanges	214	93	-
	<hr/>	<hr/>	<hr/>
Cash (used for) investing activities	(2,241)	(2,134)	(2,148)
	<hr/>	<hr/>	<hr/>
<b>FINANCING ACTIVITIES</b>			
Net (repayments of) proceeds from issuance of short-term debt	(778)	342	708
Proceeds from issuance of long-term debt	1,647	251	2,282
Repayments of long-term debt	(327)	(285)	(2,948)
Dividends paid on common stock	(1,037)	(1,172)	(852)
Equity infusions from parent	56	544	269
	<hr/>	<hr/>	<hr/>
Cash provided by (used for) financing activities	(439)	(320)	(541)
	<hr/>	<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS</b>			
Increase	77	47	14
Beginning balance	114	67	53
	<hr/>	<hr/>	<hr/>
Ending balance	\$ 191	\$ 114	\$ 67
	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of the Consolidated Financial Statements.

# U S WEST COMMUNICATIONS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions)

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation** The Consolidated Financial Statements include the accounts of U S WEST Communications, Inc., and its wholly owned subsidiaries (the "Company"). The Company is an indirect, wholly owned subsidiary of U S WEST, Inc. ("U S WEST"). The Company was formed as a result of the January 1, 1991, merger of The Mountain States Telephone and Telegraph Company, Northwestern Bell Telephone Company and Pacific Northwest Bell Telephone Company. The merger was accounted for as a transfer of assets among entities under common control similar to that of a pooling-of-interests.

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

**Industry Segment** The Company primarily provides regulated communications services to more than 25 million residential and business customers in the Company's region (the "Region"). The Region includes the states of Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming. Services offered by the Company include local telephone services, exchange access services (which connect customers to the facilities of carriers, including long-distance providers and wireless operators), and long-distance services within Local Access and Transport Areas ("LATAs") in the Region. The Company provides other products and services, including custom calling, voice messaging, caller identification and high-speed data applications.

Approximately 59 percent of the Company's revenues are derived from the states of Arizona, Colorado, Minnesota and Washington.

**Significant Concentrations** The largest volume of the Company's services are provided to AT&T. During 1995, 1994 and 1993, revenues related to those services provided to AT&T were \$1,085, \$1,130 and \$1,159, respectively. Related accounts receivable at December 31, 1995 and 1994 totaled \$91 and \$98, respectively. As of December 31, 1995, the Company is not aware of any other significant concentration of business transacted with a particular customer, supplier or lender that could, if suddenly eliminated, severely impact operations.

**Use of Estimates** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Cash and Cash Equivalents** Cash and cash equivalents include highly liquid investments with original maturities of three months or less that are readily convertible into cash and are not subject to significant risk from fluctuations in interest rates.



## **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Materials and Supplies** New and reusable materials of the Company are carried at average cost, except for significant individual items that are valued based on specific costs. Nonreusable material is carried at its estimated salvage value.

**Property, Plant and Equipment** The investment in property, plant and equipment is carried at cost, less accumulated depreciation. Additions, replacements and substantial betterments are capitalized. Costs for normal repair and maintenance of property, plant and equipment are expensed as incurred.

The Company's provision for depreciation of property, plant and equipment is based on various straight-line group methods using remaining useful (economic) lives based on industry-wide studies. In third quarter 1993, the Company discontinued accounting for its regulated telephone operations under Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation." (See Note 4 to the Consolidated Financial Statements.) Prior to discontinuing SFAS No. 71, depreciation was based on lives specified by regulators.

When the depreciable property, plant and equipment of the Company is retired or sold, the original cost less the net salvage value is generally charged to accumulated depreciation.

Interest related to qualifying construction projects is capitalized and is reflected as a reduction of interest expense. Prior to discontinuing SFAS No. 71, capitalized interest was included as an element of other income. Amounts capitalized by the Company were \$39, \$36 and \$19 in 1995, 1994 and 1993, respectively.

**Revenue Recognition** Local telephone service revenues are generally billed monthly, in advance, and revenues are recognized the following month when services are provided. Revenues derived from exchange access and long-distance services are billed and recorded monthly as services are provided.

**Financial Instruments** Net interest received or paid on interest rate swaps is recognized over the life of the swaps as an adjustment to interest expense. Gains and losses on forward contracts are deferred and recognized as an adjustment to interest expense over the life of the underlying debt. Currency swaps entered into to convert foreign debt to dollar-denominated debt are combined with the foreign currency debt and accounted for as if fixed-rate, dollar-denominated debt were issued directly.

## **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Computer Software** The cost of computer software, whether purchased or developed internally, is charged to expense with two exceptions. Initial operating systems software is capitalized and amortized over the life of the related hardware, and initial network applications software is capitalized and amortized over three years. Subsequent upgrades to capitalized software are expensed. Capitalized computer software of \$181 and \$146 at December 31, 1995 and 1994, respectively, is recorded in property, plant and equipment. Amortization of capitalized computer software costs totaled \$69, \$61 and \$37 in 1995, 1994 and 1993, respectively.

**Income Taxes** The provision for income taxes consists of an amount for taxes currently payable and an amount for tax consequences deferred to future periods in accordance with SFAS No. 109. The Company implemented SFAS No. 109, "Accounting for Income Taxes," in 1993. Adoption of the new standard did not have a material effect on the financial position or results of operations, primarily because of the Company's earlier adoption of SFAS No. 96.

For financial statement purposes, investment tax credits are being amortized over the economic lives of the related property, plant and equipment in accordance with the deferred method of accounting for such credits.

**New Accounting Standards** In 1996, the Company will adopt SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." SFAS No. 121 requires that long-lived assets and associated intangibles be written down to fair value whenever an impairment review indicates that the carrying value cannot be recovered on an undiscounted cash flow basis. SFAS No. 121 also requires that a company no longer record depreciation expense on assets held for sale. The Company expects that the adoption of SFAS No. 121 will not have a material effect on its financial position or results of operations.

## **NOTE 2: RELATED PARTY TRANSACTIONS**

The Company purchases various services, as noted, from affiliated companies. The amount paid by the Company for these services is determined in accordance with FCC and state cost allocation rules, which prescribe various cost allocation methodologies that are dependent upon the service provided. Management believes that such cost allocation methods are reasonable. The cost of those services are billed to the regulated company.

It is not practicable to provide a detailed estimate of the expenses which would be recognized on a stand-alone basis. However, the Company believes that corporate services, including those related to shareholder relations, procurement, tax, legal and human resources, are obtained more economically through affiliates than they would be on a stand-alone basis, since the Company absorbs only a portion of the total costs. Additionally, through its one-seventh ownership interest in Bellcore (see footnote (1) below), the Company obtains benefits associated with research and development activities which exceed the Company's share of the total costs.

## NOTE 2: RELATED PARTY TRANSACTIONS (CONTINUED)

The Company's operations include the following charges for these services:

Year Ended December 31,	1995	1994	1993
- - - - -	- - - - -	- - - - -	- - - - -
Research and development (1)	\$ 178	\$ 266	\$ 177
Procurement	120	114	107
Corporate services	117	97	101
Marketing services	74	66	66
Telecommunications	10	13	16
Leased office space	10	12	11
Other	18	36	34
	- - - - -	- - - - -	- - - - -
Total	\$ 527	\$ 604	\$ 512
	=====	=====	=====

<F1>

(1) Includes charges related to research, development and maintenance of existing technologies performed by Bellcore, a telecommunications research entity in which the Company has a one-seventh ownership interest.

## NOTE 3: RESTRUCTURING CHARGE

The Company's 1993 results reflected an \$880 restructuring charge (pretax). The related restructuring plan (the "Restructuring Plan") is designed to provide faster, more responsive customer services while reducing the costs of providing these services. As part of the Restructuring Plan, the Company is developing new systems and enhanced system functionality that will enable it to monitor networks to reduce the risk of service interruptions, activate telephone service on demand, rapidly design and engineer new products and services for customers, and centralize its service centers. The Company has consolidated its 560 customer service centers into 26 centers in 10 cities and plans on reducing its work force by approximately 10,000 employees. Approximately 1,000 employees that were originally expected to relocate have chosen separation or other job assignments and have been replaced. This increased the number of employee separations to 10,000 from 9,000, and increased the estimated total cost for employee separations to \$311, compared with \$281 in the original estimate. The \$30 cost associated with these additional employee separations was reclassified from relocation to the reserve for employee separations during 1995.

**NOTE 3: RESTRUCTURING CHARGES (CONTINUED)**

Following is a schedule of the costs included in the 1993 restructuring charge:

	1993 Restructuring Charge	Change in Estimate	December 31, 1995 Estimate
	-----	-----	-----
Employee separation (1)	\$ 225	\$ 30	\$ 255
Systems development	360	-	360
Real estate	130	-	130
Relocation	105	(30)	75
Retraining and other	60	-	60
	-----	-----	-----
Total	\$ 880	\$ -	\$ 880
	=====	=====	=====

<F1>

(1) Employee-separation costs, including the balance of a 1991 restructuring reserve at December 31, 1993, aggregate \$311.

Employee separation costs include severance payments, health-care coverage and postemployment education benefits. System development costs include new systems and the application of enhanced systems functionality to existing single-purpose systems to provide integrated end-to-end customer service. Real estate costs include preparation costs for the new service centers. The relocation and retraining costs are related to moving employees to the new service centers and retraining employees on the methods and systems required in the new, restructured mode of operation.

The following table shows amounts charged to the restructuring reserve:

	1993 Restructuring Charge	1994 Activity	1995 Activity	Change in Estimate	December 31, 1995 Balance
Employee separation (1)	\$ 281	\$ 75	\$ 76	\$ 30	\$ 160
Systems development	360	118	129	-	113
Real estate	130	50	66	-	14
Relocation	105	21	21	(30)	33
Retraining and other	60	8	23	-	29
Total	\$ 936	\$ 272	\$ 315	\$ -	\$ 349
	=====	=====	=====	=====	=====

<F1>

(1) Includes \$56 associated with work-force reductions under a 1991 restructuring plan.

### NOTE 3: RESTRUCTURING CHARGES (CONTINUED)

Employee separations under the Restructuring Plan in 1995 and 1994 were as follows:

	1994 Separations	1995 Separations	Cumulative Separations At December 31, 1995
Employee separations:			
Managerial	497	682	1,179
Occupational	1,683	1,643	3,326
Total	2,180	2,325	4,505

The Restructuring Plan is expected to be substantially completed by the end of 1997. Implementation of the Restructuring Plan has been impacted by growth in the business and related service issues, new business opportunities, revisions to system delivery schedules and productivity issues caused by the major rearrangement of resources due to restructuring. These issues will continue to affect the timing of employee separations.

### NOTE 4: PROPERTY, PLANT AND EQUIPMENT

The composition of property, plant and equipment follows:

December 31,	1995	1994
Land and buildings	\$ 2,413	\$ 2,438
Telephone network equipment	12,019	11,622
Telephone outside plant	12,353	11,897
General purpose computers and other	3,437	2,858
Construction in progress	766	591
	30,988	29,406
Less accumulated depreciation		
Buildings	675	655
Telephone network equipment	7,221	6,733
Telephone outside plant	7,851	7,442
General purpose computers and other	1,793	1,614
	17,540	16,444
Property, plant and equipment - net	\$13,448	\$12,962

In 1995, the Company sold certain rural telephone exchanges with a cost basis of \$258. The Company received consideration for the sales of \$388, including \$214 in cash. In 1994, the Company sold certain rural telephone exchanges with a cost basis of \$122 and received consideration for the sales of \$204, including \$93 in cash.

#### NOTE 4: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

##### DISCONTINUANCE OF SFAS NO. 71

The Company incurred a noncash, extraordinary charge of \$3.0 billion, net of an income tax benefit of \$2.3 billion, in conjunction with its decision to discontinue accounting for its operations in accordance with SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," as of September 30, 1993. SFAS No. 71 generally applies to regulated companies that meet certain requirements, including a requirement that a company be able to recover its costs, notwithstanding competition, by charging its customers at prices established by its regulators. The Company's decision to discontinue application of SFAS No. 71 was based on the belief that competition, market conditions and technological advances, more than prices established by regulators, will determine the future cost recovery by the Company. As a result of this change, the remaining asset lives of the Company's plant were shortened to more closely reflect the useful (economic) lives of such plant.

Following is a list of the major categories of telephone property, plant and equipment and the manner in which depreciable lives were affected by the discontinuance of SFAS No. 71:

Category	Average Life (years)	
	Before Discontinuance	After Discontinuance
Digital switch	17-18	10
Digital circuit	11-13	10
Aerial copper cable	18-28	15
Underground copper cable	25-30	15
Buried copper cable	25-28	20
Fiber cable	30	20
Buildings	27-49	27-49
General purpose computers	6	6

The Company employed two methods to determine the amount of the extraordinary charge. The "economic life" method assumed that a portion of the plant-related effect is a regulatory asset that was created by the under-depreciation of plant under regulation. This method yielded the plant-related adjustment that was confirmed by the second method, a discounted cash flows analysis.

**NOTE 4: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

Following is a schedule of the nature and amounts of the after-tax charge recognized as a result of the Company's discontinuance of SFAS No. 71:

Plant related	\$3,124
Tax-related regulatory assets and liabilities	(208)
Other regulatory assets and liabilities	125
	-----
Total	\$3,041
	=====

**NOTE 5: DEBT****SHORT-TERM DEBT**

The components of short-term debt follow:

December 31,	1995	1994
	-----	-----
Commercial paper	\$ 542	\$1,321
Current portion of long-term debt	453	164
	-----	-----
Total	\$ 995	\$1,485
	=====	=====

The weighted average interest rate on commercial paper was 5.79 percent and 5.92 percent at December 31, 1995 and 1994, respectively.

The Company maintains a commercial paper program to finance short-term cash flow requirements, as well as to maintain a presence in the short-term debt market. Additionally, the Company, which conducts its own borrowing activities, is permitted to borrow up to \$600 under short-term formal lines of credit, all of which was available at December 31, 1995.



**NOTE 5: DEBT (CONTINUED)****LONG-TERM DEBT**

Interest rates and maturities of long-term debt at December 31 follow:

Interest rates	Maturities					Total	Total
	1997	1998	1999	2000	Thereafter	1995	1994
Up to 5%	\$ -	\$ 35	\$ -	\$ 90	\$ 150	\$ 275	\$ 275
Above 5% to 6%	-	300	-	-	261	561	561
Above 6% to 7%	-	-	71	257	1,916	2,244	1,361
Above 7% to 8%	16	-	-	-	1,646	1,662	1,282
Above 8% to 9%	-	-	-	-	250	250	250
Above 9% to 10%	-	-	-	175	-	175	320
Variable rate debt indexed to two- and ten-year constant maturity Treasury rates	25	-	155	-	-	180	180
	\$ 41	\$ 335	\$ 226	\$ 522	\$ 4,223	5,347	4,229
	=====	=====	=====	=====	=====		
Capital lease obligations and other Unamortized discount - net						187 (123)	135 (122)
						-----	-----
Total						\$5,411	\$4,242
						=====	=====

Long-term debt consists principally of debentures and medium-term notes.

During 1995, the Company refinanced \$1.5 billion of commercial paper to take advantage of favorable long-term interest rates. In addition to the commercial paper, the Company refinanced \$145 of long-term debt. Expenses associated with the refinancing of long-term debt resulted in extraordinary charges to income of \$8, net of tax benefits of \$5.

During 1993, the Company refinanced long-term debt issues aggregating \$2.7 billion in principal amount. Expenses associated with the refinancing resulted in an extraordinary charge to income of \$77, net of a tax benefit of \$48.

Interest payments, net of amounts capitalized, were \$367, \$344 and \$386 in 1995, 1994 and 1993, respectively.

**INTEREST RATE RISK MANAGEMENT**

The Company enters into interest rate swap agreements to effectively convert existing commercial paper to fixed-rate debt. This allows the Company to achieve interest savings over issuing fixed-rate debt directly.

## NOTE 5: DEBT (CONTINUED)

Under an interest rate swap, the Company agrees with another party to exchange interest payments at specified intervals over a defined term. Interest payments are calculated by reference to the notional amount based on the fixed- and variable-rate terms of the swap agreements. The net interest received or paid as part of the interest rate swap is accounted for as an adjustment to interest expense.

During 1995 and 1994, the Company entered into currency swaps to convert Swiss franc-denominated debt to dollar-denominated debt. This allowed the Company to achieve interest savings over issuing fixed-rate, dollar-denominated debt. The currency swap and foreign currency debt are combined and accounted for as if fixed-rate, dollar-denominated debt were issued directly.

The following table summarizes terms of swaps pertaining to the Company as of December 31, 1995 and 1994. Variable rates are indexed to two- and ten-year constant maturity treasury and 30-day commercial paper rates.

		1995				1994			
		-----				-----			
Notional				Weighted Average Rate	Weighted Average Rate	Notional		Weighted Average Rate	Weighted Average Rate
		-----		-----	-----			-----	-----
Amount		Maturities		Receive	Pay	Amount	Maturities	Receive	Pay
-----		-----		-----	-----	-----		-----	-----
Variable to fixed	\$ 580	1996-1999		5.70	6.56	\$ 710	1995-1999	6.14	6.19
Currency	204	1999-2001		-	6.55	71	1999	-	6.53

In 1993, the Company executed forward contracts to sell U.S. Treasury bonds to lock in the U.S. Treasury rate component of the future debt issue. At December 31, 1995, deferred credits of \$8 and deferred charges of \$51 on closed forward contracts are included as part of the carrying value of the underlying debt. The deferred credits and charges are being recognized as a yield adjustment over the life of the debt, which matures at various dates through 2043. The net deferred charge is directly offset by the lower coupon rate achieved on the debt issuance. At December 31, 1995, there were no open forward contracts.

The counterparties to these interest rate contracts are major financial institutions. The Company is exposed to credit loss in the event of nonperformance by these counterparties. The Company manages this exposure by monitoring the credit standing of the counterparty and establishing dollar and term limitations which correspond to the respective credit rating of each counterparty. The Company does not have significant exposure to an individual counterparty and does not anticipate nonperformance by any counterparty.

NOTE 6: FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair values of cash equivalents, other current amounts receivable and payable, and short-term debt approximate carrying values due to their short-term nature.

The fair values of interest rate swaps are based on estimated amounts the Company would receive or pay to terminate such agreements taking into account current interest rates and creditworthiness of the counterparties.

The fair values of long-term debt are based on quoted market prices where available or, if not available, are based on discounting future cash flows using current interest rates.

	1995	1995	1994	1994
- -----	Carrying	Fair	Carrying	Fair
	Value	Value	Value	Value
Debt (includes short-term portion)	\$ 6,406	\$6,700	\$ 5,727	\$5,215
Interest rate swap agreements - assets	-	(19)	-	(15)
Interest rate swap agreements - liabilities	-	17	-	-
Debt - net	\$ 6,406	\$6,698	\$ 5,727	\$5,200
	=====	=====	=====	=====

**NOTE 7: LEASING ARRANGEMENTS**

The Company has entered into operating leases for office facilities, equipment and real estate. Rent expense under operating leases was \$179, \$194 and \$184 in 1995, 1994 and 1993, respectively. Minimum future lease payments as of December 31, 1995, under noncancelable operating leases, follow:

Year	
- - - - -	
1996	\$ 83
1997	83
1998	77
1999	68
2000	65
Thereafter	365
	- - - -
Total	\$741
	====

## NOTE 8: COMMON SHAREOWNER'S EQUITY

Transactions affecting shareowner's equity follow:

	Common Shares	Cumulative Deficit	Total
Balance at December 31, 1992	\$ 6,457	\$ -	\$ 6,457
Net loss		(2,683)	(2,683)
Dividend declared	-	(919)	(919)
Equity infusions	285	-	285
Balance at December 31, 1993	6,742	(3,602)	3,140
Net income	-	1,175	1,175
Dividends declared	-	(1,175)	(1,175)
Equity infusions	544	-	544
Balance at December 31, 1994	7,286	(3,602)	3,684
Net income	-	1,211	1,211
Dividends declared	-	(1,211)	(1,211)
Equity infusions	62	-	62
Balance at December 31, 1995	\$ 7,348	(\$3,602)	\$ 3,746

## NOTE 9: EMPLOYEE BENEFITS

### PENSION PLAN

The Company participates in a defined benefit pension plan sponsored by U S WEST, which covers substantially all management and occupational employees. Benefits for management employees are based on a final pay formula, while occupational benefits are based on a flat benefit formula. The projected unit credit method is used for financial reporting purposes and the aggregate cost method for funding purposes. No funding was required in 1995, 1994 or 1993. Net pension costs for 1995, 1994 and 1993 were \$(2), \$0 and \$(66), respectively.

**NOTE 9: EMPLOYEE BENEFITS (CONTINUED)****POSTRETIREMENT BENEFITS OTHER THAN PENSIONS**

The Company participates in plans sponsored by U S WEST which provide certain health care and life insurance benefits to retired employees. In conjunction with the Company's 1992 adoption of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," U S WEST elected to immediately recognize the accumulated postretirement benefit obligation for current and future retirees. However, the Federal Communications Commission and certain state jurisdictions permit amortization of the transition obligation over the average remaining service period of active employees for regulatory accounting purposes with most jurisdictions requiring funding as a stipulation for rate recovery.

The Company used the projected unit credit method for the determination of postretirement medical and life costs for financial reporting purposes. Net postretirement benefit costs for 1995, 1994 and 1993 were \$183, \$220 and \$248, respectively. The amount funded by the Company is based on regulatory accounting requirements.

**NOTE 10: INCOME TAXES**

The components of the provision for income taxes follow:

Year Ended December 31,	1995	1994	1993
-----	-----	-----	-----
Federal			
Current	\$ 467	\$ 415	\$ 394
Deferred	157	228	(122)
Investment tax credits - net	(38)	(47)	(56)
	-----	-----	-----
	586	596	216
	-----	-----	-----
State and local			
Current	73	68	62
Deferred	39	42	(26)
	-----	-----	-----
	112	110	36
	-----	-----	-----
Provision for income taxes	\$ 698	\$ 706	\$ 252
	=====	=====	=====

The unamortized balance of investment tax credits at December 31, 1995 and 1994, was \$199 and \$231, respectively.

Amounts paid for income taxes were \$530, \$551 and \$338 in 1995, 1994 and 1993, respectively.

**NOTE 10: INCOME TAXES (CONTINUED)**

The effective tax rate differs from the statutory tax rate as follows:

Year Ended December 31, In percent	1995	1994	1993
-----	-----	-----	-----
Federal statutory tax rate	35.0	35.0	35.0
Investment tax credit amortization	(1.3)	(1.6)	(3.3)
State income taxes - net of federal effect	3.8	3.8	3.9
Rate differential on reversing temporary differences	-	-	(2.4)
Depreciation on capitalized overheads - net	-	-	1.5
Tax law change - catch-up adjustment	-	-	3.5
Restructuring charge	-	-	(1.5)
Other	(1.1)	0.3	(0.1)
	-----	-----	-----
Effective tax rate	36.4	37.5	36.6
	=====	=====	=====

The components of the net deferred tax liability follow:

December 31,	1995	1994
-----	-----	-----
Property, plant and equipment	\$1,431	\$1,380
State deferred taxes - net of federal effect	186	181
Other	64	74
	-----	-----
Deferred tax liabilities	1,681	1,635
	-----	-----

Postemployment benefits, including pension	664	692
Restructuring and other	119	229
Unamortized investment tax credit	70	81
State deferred taxes - net of federal effect	130	146
Other	189	167
	-----	-----
Deferred tax assets	1,172	1,315
	-----	-----
Net deferred tax liability	\$ 509	\$ 320
	=====	=====

The current portion of the deferred tax asset was \$240 and \$280 at December 31, 1995 and 1994, respectively, resulting primarily from restructuring charges and compensation related items.

On August 10, 1993, federal legislation was enacted which increased the corporate tax rate from 34 percent to 35 percent retroactive to January 1, 1993. The cumulative effect on deferred taxes of the 1993 increase in income tax rates was \$54.

#### **NOTE 11: CONTINGENCIES**

There are pending regulatory actions in local regulatory jurisdictions that call for price decreases, refunds or both. In one such instance, the Utah Supreme Court has remanded a Utah Public Service Commission ("PSC") order to the PSC for reconsideration, thereby establishing two exceptions to the rule against retroactive ratemaking: 1) unforeseen and extraordinary events, and 2) misconduct. The PSC's initial order denied a refund request from interexchange carriers and other parties related to the Tax Reform Act of 1986. This action is still in the discovery process. If a formal filing - made in accordance with the remand from the Supreme Court - alleges that the exceptions apply, the range of possible risk to U S WEST Communications is \$0 to \$150.

**NOTE 12: QUARTERLY FINANCIAL DATA (UNAUDITED)**

	First Quarter -----	Second Quarter -----	Third Quarter -----	Fourth Quarter -----
1995				
Operating revenues	\$ 2,277	\$ 2,298	\$ 2,334	\$ 2,375
Income before income taxes and extraordinary item	518	464	478	457
Net income	323	289	300	299
1994				
Operating revenues	\$ 2,218	\$ 2,243	\$ 2,267	\$ 2,270
Income before income taxes	475	472	457	477
Net income	297	295	285	298

1995 first-quarter net income includes \$39 for a gain on the sales of certain rural telephone exchanges. 1995 second-quarter net income includes \$10 for a gain on the sales of certain rural telephone exchanges. 1995 third-quarter net income includes \$21 for a gain on the sales of certain rural telephone exchanges and \$5 for expenses associated with U S WEST, Inc.'s November 1, 1995 recapitalization. 1995 third-quarter net income also includes \$5 for the early extinguishment of debt. 1995 fourth-quarter net income includes \$15 for a gain on the sales of certain rural telephone exchanges and other charges of \$6 including an extraordinary charge of \$3 for the early extinguishment of debt and \$3 for costs associated with the recapitalization.

1994 first-quarter net income includes \$15 for a gain on the sales of certain rural telephone exchanges. 1994 second-quarter net income includes a gain of \$16 for the sales of certain rural telephone exchanges. 1994 fourth-quarter net income includes a gain of \$20 for the sales of certain rural telephone exchanges.



## ITEM 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.

Coopers & Lybrand L.L.P. has served as the Company's independent auditor, and Arthur Andersen L.L.P. has served as the primary auditing firm for certain major subsidiaries of U S WEST, since 1984. In view of the targeted stock structure adopted by U S WEST in 1995, U S WEST determined, following a recommendation of its Audit Committee, that it will be more efficient and effective for U S WEST to have a single firm perform the auditing function for its entire business, including the Company.

During the Company's two most recent fiscal years ended December 31, 1995 and December 31, 1994, the reports of Coopers & Lybrand L.L.P. on the Company's financial statements contained no adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles. In addition, during such fiscal years and the interim periods thereafter: (1) no disagreements with Coopers & Lybrand L.L.P. have occurred on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Coopers & Lybrand L.L.P., would have caused it to make reference to the subject matter of the disagreement in connection with its report on the Company's financial statements; (2) no reportable events involving Coopers & Lybrand L.L.P. have occurred that must be disclosed under applicable securities laws; and (3) the Company has not consulted with Arthur Andersen L.L.P. on items that concerned the application of accounting principles to a specific transaction, either completed or proposed, or on the type of audit opinion that might be rendered on the Company's financial statements.

### U S WEST COMMUNICATIONS, INC. FORM 10-K

#### PART IV

#### Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) Documents filed as a part of this report:	Page
(1) Report of Independent Accountants	19
(2) Consolidated Financial Statements and Supplementary Data	
Consolidated Statements of Income for the years ended December 31, 1995, 1994 and 1993	20
Consolidated Balance Sheets as of December 31, 1995 and 1994	21
Consolidated Statements of Cash Flows for the years ended December 31, 1995, 1994 and 1993	22
Notes to Consolidated Financial Statements	23
Supplementary Financial Data (Unaudited)	38
(3) Consolidated Financial Statement Schedules:	
II - Valuation and Qualifying Accounts	44

Financial statement schedules other than those listed above have been omitted because the required information is contained in the Consolidated Financial Statements and notes thereto, or because such schedules are not required or applicable.

#### (b) Reports on Form 8-K

(i) report dated June 20, 1995, relating to a press release issued June 19, 1995 announcing key executive changes;

(ii) report dated September 14, 1995, filing a Form of Note concerning the Company's \$50,000,000 6<sup>5</sup>/<sub>8</sub>% Notes due 2005 and a Form of Debenture concerning the Company's \$50,000,000 7-1<sup>4</sup>/<sub>4</sub>% Debentures due 2025;

(iii) report dated October 13, 1995, filing a Form of Debenture concerning the Company's 7-1<sup>4</sup>/<sub>4</sub>% Debentures due October 15, 2035 and a Form of Note concerning the Company's 6-3<sup>5</sup>/<sub>5</sub>% Notes due October 15, 2002;

(iv) report dated October 27, 1995, reporting a change in the Company's certifying accountant; and

(v) report dated November 9, 1995, filing a Form of Debenture concerning the Company's 7.20% Debentures due November 10, 2026.

**Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.**

(c) Exhibits

Exhibits identified in parentheses below, on file with the United States Securities and Exchange Commission ("SEC"), are incorporated herein by referenced as exhibits hereto.

Exhibit  
Number

(2a) Articles of Merger including the Plan of Merger between The Mountain States Telephone and Telegraph Company (renamed U S WEST Communications, Inc.) and Northwestern Bell Telephone Company. (Incorporated herein by this reference to Exhibit 2a to Form SE filed on January 8, 1991, File No. 1-3040.)

(2b) Articles of Merger including the Plan of Merger between The Mountain States Telephone and Telegraph Company (renamed U S WEST Communications, Inc.) and Pacific Northwest Bell Telephone Company. (Incorporated herein by this reference to Exhibit 2b to Form SE filed on January 8, 1991, File No. 1-3040.)

3a Restated Articles of Incorporation of the Registrant as filed with the Colorado Secretary of State on December 19, 1995.

3b Bylaws of the Registrant as adopted July 1, 1995.

(4) No instrument which defines the rights of holders of long and intermediate term debt of the Registrant is filed herewith pursuant to Regulation S-K, Item 601(b) (4) (iii) (A). Pursuant to this regulation, the Registrant hereby agrees to furnish a copy of any such instrument to the SEC upon request.

(10a) Reorganization and Divestiture Agreement dated as of November 1, 1983, between American Telephone and Telegraph Company, U S WEST Inc., and certain of their affiliated companies, including The Mountain States Telephone and Telegraph Company, Northwestern Bell Telephone Company, Pacific Northwest Bell Telephone Company and NewVector Communications, Inc. (Exhibit 10a to Form 10-K for the period ended December 31, 1983, File No. 1-3040.)

(10b) Shared Network Facilities Agreement dated as of January 1, 1984, between American Telephone and Telegraph Company, AT&T Communications of the Midwest, Inc. and The Mountain States Telephone and Telegraph Company. (Exhibit 10b to Form 10-K for the period ended December 31, 1983, File No. 1-3040.)

(10c) Agreement Concerning Termination of the Standard Supply Contract effective December 31, 1983, between American Telephone and Telegraph Company, Western Electric Company, Incorporated, The Mountain States Telephone and Telegraph Company and Central Services Organization. (Exhibit 10d to Form 10-K for the period ended December 31, 1983, File No. 1-3040.)

**Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.**

(c) Exhibits (continued)

(10d) Agreement Concerning Certain Centrally Developed Computer Systems effective December 31, 1983, between American Telephone and Telegraph Company, Western Electric Company, Incorporated, The Mountain States Telephone and Telegraph Company and Central Services Organization (Exhibit 10e to Form 10-K for the period ended December 31, 1983, File No. 1-3040).

(10e) Agreement Concerning Patents, Technical Information and Copyrights effective December 31, 1983, between American Telephone and Telegraph Company and U S WEST, Inc. (Exhibit 10f to Form 10-K for the period ended December 31, 1983, File No. 1-3040).

(10f) Agreement Concerning Liabilities, Tax Matters and Termination of Certain Agreements dated as of November 1, 1983, between American Telephone and Telegraph Company, U S WEST, Inc., The Mountain States Telephone and Telegraph Company and certain of their affiliates (Exhibit 10g to Form 10-K for the period ended December 31, 1983, File No. 1-3040).

(10g) Agreement Concerning Trademarks, Trade Names and Service Marks effective December 31, 1983, between American Telephone and Telegraph Company, American Information Technologies Corporation, Bell Atlantic Corporation, BellSouth Corporation, Cincinnati Bell, Inc., NYNEX Corporation, Pacific Telesis Group, The Southern New England Telephone Company, Southwestern Bell Corporation and U S WEST, Inc. (Exhibit 10i to Form 10-K for the period ended December 31, 1984, File No. 1-3040).

(10h) Shareholders' Agreement dated as of January 1, 1988, between Ameritech Services, Inc., Bell Atlantic Management Services, Inc., BellSouth Services, Incorporated, NYNEX Service Company, Pacific Bell, Southwestern Bell Telephone Company, The Mountain States Telephone and Telegraph Company, Northwestern Bell Telephone Company and Pacific Northwest Bell Telephone Company (Exhibit 10h to Form SE dated March 5, 1992, File No. 1-3040).

12 Computation of Ratio of Earnings to Fixed Charges.

23 Consent of Independent Accountants.

24 Powers of Attorney.

27 Financial Data Schedule.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Denver, State of Colorado, on March 28, 1996.

**U S WEST COMMUNICATIONS, INC.**

/s/ BARBARA M. JAPHA\*  
By \_\_\_\_\_  
Barbara M. Japha  
Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in capacities and on the date indicated.

Principal Executive Officer:  
Solomon D. Trujillo, President and Chief Executive Officer

Principal Financial Officer:  
Barbara M. Japha, Vice President and Chief Financial Officer

Directors:

/s/ James T. Anderson\*  
/s/ Barbara M. Japha\*  
/s/ Solomon D. Trujillo\*

/s/ STEPHEN E. BRILZ  
\*By \_\_\_\_\_  
Stephen E. Brilz  
(for himself and as Attorney-in-Fact)

*Dated: March 28, 1996*

**U S WEST COMMUNICATIONS, INC.**

**SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS**  
(DOLLARS IN MILLIONS)

	Balance at beginning of period -----	Charged to expense -----		Charged to other accounts -----	Deductions -----		Balance at end of period -----
ALLOWANCE FOR CREDIT LOSSES							
Year 1995	\$ 28	\$ 66 (a)	-	\$ 64 (b)	\$ 30		
Year 1994	27	55 (a)	-	54 (b)	28		
Year 1993	27	55 (a)	-	55 (b)	27		
RESERVES RELATED TO 1993 BUSINESS RESTRUCTURING, INCLUDING FORCE AND FACILITY CONSOLIDATION							
Year 1995	\$ 664	-	-	\$ 315	\$ 349		
Year 1994	880	-	-	216	664		
Year 1993	-	\$ 880	-	-	880		
RESERVES RELATED TO 1991 BUSINESS RESTRUCTURING, INCLUDING FORCE REDUCTIONS							
Year 1995	-	-	-	-	-		
Year 1994	\$ 56	-	-	\$ 56	\$ 0		
Year 1993	160	-	-	104	56		

<F1>

Note: Certain reclassifications within the schedule have been made to conform to the current year presentation.

<F2>

(a) Does not include amounts charged directly to expense. These amounts were \$6, \$10 and \$10 for 1995, 1994 and 1993, respectively.

<F3>

(b) Represents credit losses written off during the period, less collection of amounts previously written off.

**RESTATED ARTICLES OF INCORPORATION**

**OF**

**U S WEST COMMUNICATIONS, INC.**

Pursuant to Section 7-110-107 of the Colorado Business Corporation Act, U S WEST COMMUNICATIONS, INC. a corporation organized and existing under the laws of Colorado, hereby restates its Articles of Incorporation and certifies as follows:

FIRST:           The name of the corporation is U S WEST COMMUNICATIONS, INC. The date of filing of its original Certificate of Incorporation with the Secretary of State was July 17, 1911.

SECOND:         That pursuant to Section 7-110-107 of the Colorado Business Corporation Act, these Restated Articles of Incorporation were adopted by the sole shareholder of the corporation on December 7, 1995, in the manner prescribed by the Colorado Business Corporation Act.

THIRD:          That the text of the Restated Articles of Incorporation as heretofore amended and supplemented is hereby restated and further

amended to read in its entirety as follows:

ARTICLE ONE. The name of the Corporation is U S WEST COMMUNICATIONS, INC. ("the Corporation).

ARTICLE TWO. The Corporation shall have and may exercise all of the rights, powers, and privileges now or hereafter conferred upon corporations organized under the laws of Colorado; provided, however, that the Corporation shall not engage in any act or activity which could violate the Modification of Final Judgment entered August 24, 1982, in United States v. Western Electric, et al., Case No. 82-0192, United District Court, District of Columbia, as amended, modified, supplemented or interpreted by a court of competent jurisdiction from time to time. In addition, the Corporation may do everything necessary, suitable or proper for the accomplishment of any of its corporate purposes. The Corporation may conduct part or all of its business in any part of Colorado, the United States, or the world and may hold, purchase, mortgage, lease, and convey real and personal property in any of such places.

ARTICLE THREE. (a) The aggregate number of shares of stock which the Corporation shall have authority to issue is one (1) share of common stock without par value. The share of this class of common stock shall have unlimited voting rights and shall constitute the sole voting group of the Corporation, except to the extent any additional voting group or groups may hereafter be established in accordance with the Colorado Business Corporation Act. The share of this class of common stock shall also be entitled to receive the net assets of the Corporation upon dissolution.

(b) Each shareholder of record shall have one vote for each share of stock standing in his name on the books of the Corporation and entitled to vote, except that in the election of directors, each shareholder shall have as many votes for each share held by him as there are directors to be elected and for whose election the shareholder has the right to vote. Cumulative voting shall not be permitted in the election of directors or otherwise.

(c) Unless otherwise ordered by a court of competent jurisdiction, at all meetings of the shareholders, one-third of the shares of a voting group entitled to vote at such meeting, represented in person or by proxy, shall constitute a quorum of that voting group.

ARTICLE FOUR. The number of directors of the Corporation shall be fixed by the Bylaws. The number of directors constituting the current Board of Directors of the Corporation is three (3).

ARTICLE FIVE. The address of the Corporation's principal office is 1801 California Street, Denver, Colorado 80202.

ARTICLE SIX. The address of the Corporation's registered office in the State of Colorado is 1675 Broadway, Denver, Colorado 80202. The name of the Corporation's registered agent at such address is C T Corporation System.

ARTICLE SEVEN. The provisions as to the management of the business and the conduct of the affairs of the Corporation shall be set forth in the Bylaws of the Corporation or as approved by the Board of Directors of the Corporation from time to time, and the same shall be in furtherance of and not in limitation or exclusion of the powers conferred by the law.

ARTICLE EIGHT. In furtherance and not in limitation of the powers conferred by the Colorado Business Corporation Act, the Board of Directors of the Corporation is expressly authorized and empowered to adopt, amend and repeal the Bylaws of the Corporation. Election of a Director need not be by written ballot.

ARTICLE NINE. These Restated Articles of Incorporation correctly set forth the provisions of the Articles of Incorporation, as amended.

FOURTH:            That the number of shares of the Corporation outstanding at the  
   time of such adoption was one, and the number of shares entitled to  
   vote thereon was one.

FIFTH:            That the number of shares voted for the Restated Articles of  
   Incorporation was sufficient for approval.

SIXTH:            That upon the issuance of the Restated Certificate of Incorporation  
   by the Colorado Secretary of State, these Restated Articles of  
   Incorporation shall supersede the original Articles of Incorporation  
   and all amendments thereto.

IN WITNESS WHEREOF, said U S WEST COMMUNICATIONS, INC. has caused these Restated Articles of Incorporation to be signed by Stephen E. Brilz, its Assistant Secretary, this 19th day of December, 1995.

*/S/ STEPHEN E. BRILZ*

*Stephen E. Brilz - Assistant Secretary*

**RESTATED BYLAWS**  
**OF**  
**U S WEST COMMUNICATIONS, INC.**

**Adopted July 1, 1995**

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**RESTATED BYLAWS**  
**of**  
**U S WEST COMMUNICATIONS, INC.**

**ARTICLE ONE**

**Offices**

The principal office of the corporation shall be designated from time to time by the corporation and may be within or outside of Colorado.

The corporation may have such other offices, either within or outside of Colorado, as the Board of Directors may designate or as the business of the corporation may require from time to time.

The registered office of the corporation required by the Colorado Business Corporation Act to be maintained in Colorado may be, but need not be, identical with the principal office, and the address of the registered office may be changed from time to time by the Board of Directors.

**ARTICLE TWO**

**Shareholders**

Section 1. Annual Meeting. The annual meeting of the shareholders shall be held on the first Friday in April in each year beginning in 1996, at an hour to be named in the notice of the meeting, or at such other date and time as the Board of Directors shall determine, for the purpose of electing Directors of the corporation and for the transaction of such other business as may come before the meeting. If the annual meeting is not held on the day designated, or at any adjournment thereof, the Board of Directors shall cause a meeting in lieu thereof to be held as soon thereafter as is convenient.

Section 2. Special Meetings. Special meetings of the shareholders may be called for any purpose. Such meetings may be called by the President or by the Board of Directors, and shall be called by the President at the request of holders of shares representing at least ten percent (10%) of all of the votes entitled to be cast on any issue proposed to be considered at the meeting.

Section 3. Place of Meeting. The Board of Directors may designate any place either within or outside Colorado as the place of meeting for any annual meeting or for any special meeting. If no designation is made, or if a special meeting is called other than by the Board of Directors, the place of the meeting shall be the principal office of the corporation.

Section 4. Notice of Meeting. Written notice stating the place, date, and hour of the meeting shall be given delivered not less than ten (10) days nor more than sixty (60) days before the date of the meeting, except that, (i) if the authorized shares are to be increased, at least thirty (30) days' notice shall be given, or (ii) any other longer notice period is required by the Colorado Business Corporation Act. Notice of a special meeting shall include a description of the purpose or purposes of the meeting. Notice shall be given personally or by U.S. mail (postage prepaid), private carrier, telegraph, teletype, electronically transmitted facsimile or other form of wire or wireless communication by or at the direction of the President, the Secretary, or the officer or persons calling the meeting, to each shareholder of record entitled to vote at such meeting.

Section 5. Record Date. For the purpose of determining shareholders entitled to (i) notice of or to vote at any meeting of shareholders or any adjournment thereof, (ii) receive distributions or share dividends, or (iii) demand a special meeting, or to make a determination of shareholders for any other proper purpose, the Board of Directors shall fix, in advance, a date as the record date for the determination of shareholders. Such date shall be not more than seventy (70) days, and for a meeting of shareholders, not less than ten (10) days prior to the date on which the particular action requiring such determination of shareholders is to be taken. When a determination of shareholders entitled to vote at any meeting of shareholders is made as provided in this Section, such determination shall apply to any adjournment thereof unless the Board of Directors fixes a new record date, which it must do if the meeting is adjourned to a date more than one hundred twenty (120) days after the date



fixed for the original meeting.

Notwithstanding the above, the record date for determining the shareholders entitled to take action without a meeting or entitled to be given notice of action so taken shall be the date a writing upon which the action is taken is first received by the corporation.

Section 6. Quorum. One-third of the votes entitled to be cast on a matter by a voting group shall constitute a quorum of that voting group for action on that matter. If a quorum is present, the affirmative vote of the majority of the shares represented at the meeting and entitled to vote on the subject matter shall be the act of the shareholders, unless the vote of a greater proportion or number is required by law or the Articles of Incorporation. If a quorum is not represented at any meeting of the shareholders, such meeting may be adjourned for a period not to exceed one hundred twenty (120) days for any one adjournment.

Section 7. Proxies. At all meetings of shareholders, a shareholder may vote by proxy by signing an appointment form or similar writing, either personally or by his duly authorized attorney\_in\_fact. The proxy appointment form or similar writing shall be filed with the Secretary of the corporation before or at the time of the meeting. The appointment of a proxy is effective when received by the corporation and is valid for eleven (11) months unless a different period is expressly provided in the appointment form or similar writing.

Section 8. Informal Action by Shareholders. Any action required or permitted to be taken at a meeting of the shareholders may be taken without a meeting if a written consent (or counterparts thereof) that sets forth the action so taken is signed by all of the shareholders entitled to vote with respect to the subject matter thereof and received by the corporation. Such consent shall have the same force and effect as a unanimous vote of the shareholders and may be stated as such in any document. Action taken under this Section 8 is effective as of the date the last writing necessary to effect the action is received by the corporation, unless a different effective date is specified, in which case such specified date shall be the effective date for such action.

## **ARTICLE THREE**

### **Board of Directors**

**Section 1. General Powers.** All corporate powers shall be exercised by or under the authority of, and the business and affairs of the corporation shall be managed under the direction of its Board of Directors, except as otherwise provided in the Colorado Business Corporation Act or the Articles of Incorporation.

**Section 2. Number, Tenure and Qualifications.** The Board of Directors shall consist of three (3) persons of the age of eighteen years or older who need not be shareholders of the corporation or residents of Colorado. A Director of the corporation shall be elected at the annual meeting of the shareholders and shall serve until the next succeeding annual meeting and thereafter until his successor shall have been elected and qualified.

**Section 3. Vacancies.** A vacancy occurring in the Board of Directors may be filled by the affirmative vote of a majority of the shareholders or the Board of Directors. If the Directors remaining in office constitute fewer than a quorum of the Board, the Directors may fill the vacancy by the affirmative vote of a majority of all the Directors remaining in office. Whether elected by the Directors or the shareholders, a Director shall hold office until the next annual shareholders' meeting at which Directors are elected.

**Section 4. Regular Meetings.** A regular meeting of the Board of Directors shall be held without notice immediately after and at the same place as the annual meeting of shareholders and at such other times as shall be fixed by the Board. The Board of Directors may designate any place, either within or outside Colorado, as the place of meeting for any regular meeting.

**Section 5. Special Meetings.** Special meetings of the Board of Directors may be called at any time by or at the request of the President or any of the Directors. The person or persons authorized to call special meetings of the Board may fix any place, either within or outside Colorado, as the place for holding any special meeting.

**Section 6. Notice.** Notice need not be given of regular meetings of the Board of Directors, nor need notice be given of adjourned meetings. Notice of special meetings shall be given at least two (2) days prior to the meeting by written notice either personally delivered or mailed to each Director at his business address, or by notice transmitted by telegraph, telex, electronically transmitted facsimile or other form of wire or wireless communication. If mailed, such notice shall be deemed to be given and to be effective on the earlier of (i) three (3) days after such notice is deposited in the U.S. mail (postage prepaid), or (ii) the date shown on the return receipt, if mailed by registered or certified mail return receipt requested. If notice is given by telex, electronically transmitted facsimile or other similar form of wire or wireless communication, such notice shall be deemed to be given and to be effective when sent.

A Director may waive notice of a meeting before or after the time and date of the meeting by a writing signed by such Director. Such waiver shall be delivered to the corporation for filing with the corporate records. Further, attendance of the Director at a meeting shall constitute a waiver of notice of that meeting, except when the Director attends for the express purpose of objecting to the transaction of any business at that the meeting because the meeting was not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice of such meeting.

**Section 7. Quorum and Voting.** A majority of the number of Directors fixed by these Bylaws shall constitute a quorum for the transaction of business, and the acts of a majority of Directors present at a meeting at which a quorum is present shall constitute the acts of the Board of Directors.

If, at any meeting of the Board of Directors, less than a quorum is present, a majority of those present may adjourn the meeting from time to time without further notice, for a period not to exceed sixty (60) days at any one adjournment.

**Section 8. Compensation.** Directors shall be entitled to receive from the corporation such compensation and reimbursement for expenses as the Board of Directors may determine from time to time.

**Section 9. Committees.** The Board of Directors may, by resolution adopted by a majority of the Board in office when the action is taken, designate from among its members an executive committee and one or more other committees, each of which, to the extent provided in the resolution, shall have all the authority of the Board of Directors; except that no such committee shall have the authority to (i) declare dividends or distributions,

(ii) approve or propose to shareholders actions or proposals required by the Colorado Business Corporation Act to be approved by shareholders, (iii) fill vacancies on the Board of Directors or any committee thereof, (iv) amend the Articles of Incorporation, (v) adopt, amend or repeal the Bylaws, (vi) approve a plan of merger not requiring shareholder approval, (vii) reduce earned or capital surplus, (viii) authorize or approve the reacquisition of shares unless pursuant to a general formula or method specified by the Board of Directors, or (ix) authorize or approve the issuance or sale of, or any contract to issue or sell, shares or designate the terms of a series of a class of shares. The Board of Directors shall have the power at any time to fill vacancies in, to change the size or membership of, and to discharge any such committee.

Neither the designation of any such committee, the delegation of authority to such committee, nor any action by such committee pursuant to its authority shall alone constitute compliance by any member of the Board of Directors or a member of the committee in question with his responsibility to conform to the standard of care set forth in Article Three, Section 12 of these Bylaws.

Section 10. Informal Action by Directors. Any action required or permitted to be taken at a meeting of the Directors or any committee designated by the Board of Directors may be taken without a meeting if a written consent (or counterparts there) that sets forth the action so taken is signed by all of the Directors entitled to vote with respect to the action taken. Such consent shall have the same force and effect as a unanimous vote of the Directors or committee members and may be stated as such in any document. Unless the consent specifies a different effective date, action taken under this Section 10 is effective at the time the last Director signs a writing describing the action taken, unless, before such time, any Director has revoked his consent by a writing signed by the Director and received by the President or the Secretary of the corporation.

Section 11. Telephonic Meetings. Members of the Board of Directors or any committee designated by such Board may participate in a meeting of the Board or committee by means of communication by which all persons participating in the meeting can hear each other during the meeting. Such participation shall constitute presence at the meeting.

Section 12. Standard of Care. A Director shall perform his duties as a Director, including, without limitation, his duties as a member of any committee of the Board, in good faith, in a manner he reasonably believes to be in the best interests of the corporation, and with the care an ordinarily prudent person in a like position would exercise under similar circumstances. In performing his duties, a Director shall be entitled to rely on information, opinions, reports or statements, including financial statements and other financial data, in each case prepared or presented by the persons herein designated. However, he shall not be considered to be acting in good faith if he has knowledge concerning the matter in question that would cause such reliance to be unwarranted. A Director shall not be liable to the corporation or its shareholders for any action he takes or omits to take as a Director, if, in connection with such action or omission, he performs his duties in compliance with this Section 12.

The designated persons on whom a Director is entitled to rely are (i) one or more officers or employees of the corporation whom the Director reasonably believes to be reliable and competent in the matters presented, (ii) legal counsel, public accountant, or other person as to matters which the Director reasonably believes to be within such person's professional or expert competence, or (iii) a committee of the Board of Directors on which the Director does not serve if the Director reasonably believes the committee merits confidence.

## **ARTICLE FOUR**

### **Officers**

Section 1. Enumeration of Offices. The corporation shall have as officers a President, one or more Vice Presidents, a Secretary, and a Treasurer, each of whom shall be elected by the Board of Directors. The corporation may also have a Chief Financial Officer, a General Counsel, and a Controller as the Board may elect. Such other officers as may be deemed necessary may also be elected by the Board of Directors. One person may hold more than one office. In all cases where the duties of any officer is not prescribed by the Bylaws or by the Board of Directors, such officer shall follow the orders and instruction of the President of the corporation.

Section 2. Term of Office. The officers of the corporation shall be elected by the Board of Directors at each annual meeting of the Board held after each annual meeting of the shareholders or as soon thereafter as conveniently may be. Each officer shall hold office until a successor is elected and qualified or until such officer's resignation, death or removal.

Section 3. Removal. Any officer may be removed at any time with or without cause by action of the shareholders, the Board of Directors or an officer(s) authorized by the Board.

Section 4. Vacancies. A vacancy in any office because of death, resignation, removal or otherwise may be filled by the Board of Directors, or by an officer(s) authorized by the Board, for the unexpired portion of the officer's term.

Section 5. President; Powers and Duties. Subject to the direction and supervision of the Board of Directors, the President shall be the chief executive officer of the corporation, and shall have general and active control of its affairs and business and general supervision of its officers, agents and employees. The President shall preside at all meetings of the shareholders and the Board of Directors. Any document may be signed by the President or any other person who may be thereunto authorized by the President or the Board of Directors (said authorization to be in writing and filed with the Secretary of the corporation).

Section 6. Vice Presidents; Powers and Duties. Each Vice President shall have such powers and perform such duties as may be assigned by the Board of Directors or the President. In case of the absence or disability of the President, or a vacancy in the office, a Vice President designated by the President or the Board of Directors shall exercise all the powers and perform all the duties of the President.

Section 7. Secretary and Assistant Secretaries. The Secretary shall attend all meetings of the shareholders and the Board of Directors and shall keep the minutes for such meetings in one or more books provided for that purpose. The Secretary shall be custodian of the corporate records, except those required to be in the custody of the Treasurer or the Controller, shall keep the seal of the corporation and shall execute and affix the seal of the corporation to all documents duly authorized for execution under seal on behalf of the corporation, and shall perform all of the duties incidental to the office of Secretary, as well as such other duties as may be assigned by the President or the Board of Directors.

The Assistant Secretaries shall perform such of the Secretary's duties as the Secretary shall from time to time direct. In case of the absence or disability of the Secretary, or a vacancy in the office, an Assistant Secretary designated by the President or the Board of Directors, if the office is not vacant, shall perform the duties of the Secretary.

Section 8. Treasurer and Assistant Treasurers; Powers and Duties. The Treasurer shall have care and custody of the funds and securities of the corporation, shall deposit such funds in the name and to the credit of the corporation with such depositories as the Treasurer shall approve, shall disburse the funds of the corporation for proper expenses and dividends, and as may be ordered by the Board of Directors, taking proper vouchers for such disbursements. The Treasurer shall perform all of the duties incident to the office of Treasurer, as well as such other duties as may be assigned by the President or the Board of Directors. In the event there is no Chief Financial Officer, the Treasurer shall perform the duties of Chief Financial Officer. In the event there is no Controller, the Treasurer shall also be the principal accounting officer of the corporation and shall perform the duties incident to the office of Controller.

The Assistant Treasurers shall perform such of the Treasurer's duties as the Treasurer shall from time to time direct. In case of the absence or disability of the Treasurer, or a vacancy in the office, an Assistant Treasurer designated by the President or the Board of Directors, if the office is not vacant, shall perform the duties of the Treasurer.

Section 9. Chief Financial Officer; Powers and Duties. The Chief Financial Officer shall be responsible for maintaining the financial integrity of the corporation, shall prepare the financial plans for the corporation and shall monitor the financial performance of the corporation and its subsidiaries, as well as performing such other duties as may be assigned by the President or the Board of Directors.

Section 10. General Counsel; Powers and Duties. The General Counsel shall be a licensed attorney at law and shall be the chief legal officer of the corporation. The General Counsel shall have such power and exercise such authority and provide such counsel to the corporation as deemed necessary or desirable to enforce the rights and protect the property and integrity of the corporation, shall also have the power, authority, and responsibility for securing for the corporation all legal advice, service and counseling, and shall perform all of the duties incident to the office of General Counsel, as well as such other duties as may be assigned by the President or the Board of Directors.

Section 11. Controller and Assistant Controllers; Powers and Duties. The Controller shall be the chief accounting officer of the corporation and shall keep and maintain in good and lawful order all accounts required by law and shall have sole control over, and ultimate responsibility for, the accounts and accounting methods of the corporation and the compliance of the corporation with all systems of accounts and accounting regulations prescribed by law. The Controller shall audit, to such extent and at such times as may be required by law or as the Controller may think necessary, all accounts and records of corporate funds or property, by whomsoever kept, and for such purposes shall have access to all such accounts and records. The Controller shall make and sign all necessary and proper accounting statements and financial reports of the corporation, and shall perform all of the duties incident to the office of Controller, as well as such other duties as may be assigned by the President or the Board of Directors.

The Assistant Controllers shall perform such of the Controller's duties as the Controller shall from time to time direct. In case of the absence or disability of the Controller, or a vacancy in the office, an Assistant Controller designated by the President or the Board of Directors, if the office is not vacant, shall perform the duties of the Controller.

Section 12. Salaries. The salaries of all officers of the corporation shall be fixed by or in the manner provided by the Board of Directors. If authorized by a resolution of the Board, the salary of any officer other than the President may be fixed by the President or a committee of the Board. No officer shall be disqualified from receiving a salary by reason of also being a Director of the corporation.

## **ARTICLE FIVE**

### **Stock Certificates**

The shares of the corporation shall be represented by certificates in such form and shall contain such information consistent with law as shall be approved by the Board of Directors. Such certificates shall be signed by the President or a Vice President and by the Treasurer or an Assistant Treasurer or by the Secretary or an Assistant Secretary of the corporation and may be sealed with the seal of the corporation or a facsimile thereof. Any or all of the signatures upon a certificate may be facsimiles if the certificate is countersigned by a transfer agent or registered by a registrar other than the corporation itself or an employee of the corporation. If any officer who has signed or whose facsimile signature has been placed upon such certificate has ceased to be such officer before the certificate is issued, it may be issued by the corporation with the same effect as if such person were such officer at the date of its issue.

## ARTICLE SIX

### Indemnification of Directors, Officers, and Employees

#### Section 1. Scope of Indemnification.

(a) The corporation shall indemnify an indemnified representative against any liability incurred in connection with any proceeding in which the indemnified representative may be involved as a party or otherwise, by reason of the fact that such person is or was serving in an indemnified capacity, except to the extent that any such indemnification against a particular liability is expressly prohibited by applicable law or where a judgment or other final adjudication adverse to the indemnified representative establishes, or where the corporation determines, that his or her acts or omissions (i) were in breach of such person's duty of loyalty to the corporation or its shareholders, (ii) were not in good faith or involved intentional misconduct or a knowing violation of law, or (iii) resulted in receipt by such person of an improper personal benefit. The rights granted by this Article shall not be deemed exclusive of any other rights to which those seeking indemnification, contribution, or advancement of expenses may be entitled under any statute, certificate or articles of incorporation, agreement, contract of insurance, vote of shareholders or disinterested directors, or otherwise. The rights of indemnification and advancement of expenses provided by or granted pursuant to this Article shall continue as to a person who has ceased to be an indemnified representative in respect of matters arising prior to such time and shall inure to the benefit of the heirs, executors, administrators, and personal representatives of such a person.

(b) If an indemnified representative is not entitled to indemnification with respect to a portion of any liabilities to which such person may be subject, the corporation shall nonetheless indemnify such indemnified representative to the maximum extent for the remaining portion of the liabilities.

(c) The termination of a proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the indemnified representative is not entitled to indemnification.

(d) To the extent permitted by law, the payment of indemnification provided for by this Article, including the advancement of expenses pursuant to Section 2, with respect to proceedings other than those brought by or in the right of the corporation, shall be subject to the conditions that the indemnified representative shall give the corporation prompt notice of any proceeding, that the corporation shall have complete charge of the defense of such proceeding and the right to select counsel for the indemnified representative, and that the indemnified representative shall assist and cooperate fully in all matters respecting the proceeding and its defense or settlement. The corporation may waive any or all of the conditions set forth in the preceding sentence. Any such waiver shall be applicable only to the specific payment for which the waiver is made and shall not in any way obligate the corporation to grant such waiver at any future time. In the event of a conflict of interest between the indemnified representative and the corporation that would disqualify the corporation's counsel from representing the indemnified representative under the rules of professional conduct applicable to attorneys, it shall be the policy of the corporation to waive any or all of the foregoing conditions subject to such limitations or conditions as the corporation shall deem to be reasonable in the circumstances.

(e) For purposes of this Article:

(1) "indemnified capacity" means any and all past, present, or future services by an indemnified representative in one or more capacities as a director, officer, employee, or agent of the corporation or, at the request of the corporation, as a director, officer, employee, agent, fiduciary, or trustee of another corporation, partnership, joint venture, trust, employee benefit plan, or other entity or enterprise; any indemnified representative serving an affiliate of the corporation in any capacity shall be deemed to be doing so at the request of the corporation; an "affiliate of the corporation" means an entity that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the corporation;

(2) "indemnified representative" means any and all directors, officers, and employees of the corporation and any other person designated as an indemnified representative by the Board of Directors of the corporation;

(3) "liability" means any damage, judgment, amount paid in settlement, fine, penalty, punitive damage, excise tax assessed with respect to an employee benefit plan, or cost or expense of any nature (including, without limitation, expert witness fees, costs of investigation, litigation and appeal costs, attorneys' fees, and disbursements); and

(4) "proceeding" means any threatened, pending, or completed action, suit, appeal, or other proceeding of any nature, whether civil, criminal, administrative, or investigative, whether formal or informal, whether external or internal to the corporation, and whether brought by or in the right of the corporation, a class of its security holders or otherwise.

Section 2. Advancing Expenses. As provided by the Colorado Business Corporation Act and to the maximum extent permitted by such law, the corporation shall pay the reasonable expenses incurred in good faith by an indemnified representative in advance of the final disposition of a proceeding described in Section 1. Before making any such advance payment of expenses, the corporation shall receive an undertaking by or on behalf of the indemnified representative to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the corporation pursuant to this Article. Such undertaking shall be an unlimited, unsecured general obligation of the indemnified representative and shall be accepted without reference to the ability of such person to make repayment. No advance shall be made by the corporation if a determination is reasonably and promptly made by the Board of Directors by majority vote of a quorum of disinterested directors, or (if such a quorum is not obtainable or, even if obtainable, a quorum of disinterest directors so directs) by independent legal counsel

in a written opinion, that, based upon the facts known to the Board or counsel at the time such determination is made, the indemnified representative has acted in such a manner as to permit or require the denial of indemnification pursuant to the provisions of Section 1.

## **ARTICLE SEVEN**

### **Miscellaneous**

Section 1. Corporate Seal. The official seal for the corporation shall be circular in form and shall contain the name of the corporation and the words, "Corporate Seal" and "Colorado."

Section 2. Fiscal Year. The fiscal year of the corporation shall be as established by the Board of Directors.

Section 3. Waiver of Notice. When any notice is required to be given to any shareholder or Director of the corporation under the provisions of these Bylaws or under the provisions of the Articles of Incorporation or under the provisions of the Colorado Business Corporation Act, a waiver thereof, in writing, signed by the person entitled to such notice whether before, at, or after the time stated therein, shall be equivalent to the giving of such notice.

Section 4. Adoption or Amendment of Bylaws. The Board of Directors shall have power, to the maximum extent permitted by the Colorado Business Corporation Act, to make, amend and repeal the Bylaws of the corporation at any regular or special meeting of the Board unless the shareholders, in making, amending or repealing a particular bylaw, expressly provide that the Directors may not amend or repeal such bylaw. The shareholders also shall have the power to make, amend or repeal the Bylaws of the corporation at any annual meeting or at any special meeting called for that purpose.

Section 5. Gender. The masculine gender is used in these Bylaws as a matter of convenience only and shall be interpreted to include the feminine and neuter genders as the circumstances indicate.

Section 6. Conflicts. In the event of any irreconcilable conflict between these Bylaws and either the corporation's Articles of Incorporation or applicable law, the latter shall control.

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

	Quarter Ended	
	12/31/95	12/31/94
<hr/>		
Income before income taxes	\$457	\$477
Interest expense (net of amounts capitalized)	102	88
Interest factor on rentals (1/3)	16	18
	<hr/>	<hr/>
Earnings	\$575	\$583
Interest expense	112	104
Interest factor on rentals (1/3)	16	18
	<hr/>	<hr/>
Fixed charges	\$128	\$122
Ratio of earnings to fixed charges	4.49	4.78
<hr/>		

	Year-to-Date	
	12/31/95	12/31/94
<hr/>		
Income before income taxes	\$1,917	\$1,881
Interest expense (net of amounts capitalized)	386	331
Interest factor on rentals (1/3)	60	70
	<hr/>	<hr/>
Earnings	\$2,363	\$2,282
Interest expense	426	367
Interest factor on rentals (1/3)	60	70
	<hr/>	<hr/>
Fixed charges	\$486	\$437
Ratio of earnings to fixed charges	4.86	5.22
<hr/>		

**CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS**

We consent to the incorporation by reference in the Registration Statement of U S WEST Communications, Inc. on Form S-3 (File Nos. 33-51125 and 33-62845) of our report, which includes an explanatory paragraph regarding the discontinuance of accounting for the operations of U S WEST Communications, Inc. in accordance with Statement of Financial Accounting Standard No. 71, "Accounting for the Effects of Certain Types of Regulation", in 1993, dated February 12, 1996, on our audits of the consolidated financial statements of U S WEST Communications, Inc., as of December 31, 1995 and 1994, and for the years ended December 31, 1995, 1994 and 1993, which report is included in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated February 12, 1996 on the related consolidated financial statement schedules, which report is included in this Annual Report on Form 10-K.

*/S/ COOPERS & LYBRAND L.L.P.*

*Denver, Colorado  
March 27, 1996*



POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

WHEREAS, U S WEST Communications, Inc., a Colorado corporation (hereinafter referred to as the "Company"), proposes to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K for the fiscal year ended December 31, 1995; and

WHEREAS, each of the undersigned is an officer or Director, or both, of the Company, and holds the office or offices indicated below his or her name;

NOW THEREFORE, each of the undersigned hereby constitutes and appoints JOHN W. PUTNAM and STEPHEN E. BRILZ, and each of them, as attorneys for him or her and in his or her name, place, and stead, and in each of his or her offices and capacities in the Company, to execute and file such annual report, and thereafter to execute and file any amendment or amendments thereto on Form 10-K/A, hereby giving and granting to said attorneys full power and authority to do and perform all and every act and thing whatsoever requisite and necessary to be done in and about the premises as fully, to all intents and purposes, as he or she might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, the undersigned have hereunto executed this Power of Attorney this 22nd day of March, 1996.

/S/ JAMES T. ANDERSON

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James T. Anderson  
Director

/S/ BARBARA M. JAPHA

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

/S/ SOLOMON D. TRUJILLO

---

Solomon D. Trujillo  
President and Chief Executive Officer and  
Director

**ARTICLE 5**

CIK: 0000068622

NAME: U S WEST COMMUNICATIONS, INC.

MULTIPLIER: 1,000,000

PERIOD TYPE	12 MOS
FISCAL YEAR END	DEC 31 1995
PERIOD END	DEC 31 1995
CASH	191
SECURITIES	0
RECEIVABLES	1,576
ALLOWANCES	30
INVENTORY	142
CURRENT ASSETS	2,162
PP&E	30,988
DEPRECIATION	17,540
TOTAL ASSETS	16,350
CURRENT LIABILITIES	3,491
BONDS	5,411
COMMON	7,348
PREFERRED MANDATORY	0
PREFERRED	0
OTHER SE	(3,602)
TOTAL LIABILITY AND EQUITY	16,350
SALES	9,284
TOTAL REVENUES	9,284
CGS	0
TOTAL COSTS	0
OTHER EXPENSES	7,059
LOSS PROVISION	0
INTEREST EXPENSE	386
INCOME PRETAX	1,917
INCOME TAX	698
INCOME CONTINUING	1,219
DISCONTINUED	0
EXTRAORDINARY	(8)
CHANGES	0
NET INCOME	1,211
EPS PRIMARY	0
EPS DILUTED	0

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