

# QWEST CORP

## FORM 10-K405

(Annual Report (Regulation S-K, item 405))

Filed 3/3/2000 For Period Ending 12/31/1999

Address	1801 CALIFORNIA ST SUITE 2950 DENVER, Colorado 80202
Telephone	303-896-3099
CIK	0000068622
Fiscal Year	12/31

---

---

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 10-K

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

**FOR THE FISCAL YEAR ENDED DECEMBER 31, 1999**  
OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 OF THE  
SECURITIES EXCHANGE ACT OF 1934

**FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_**

**COMMISSION FILE NO. 1-3040**

## U S WEST COMMUNICATIONS, INC.

A COLORADO CORPORATION

84-0273800

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

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

1801 California Street, Denver, Colorado 80202  
Telephone Number (303) 672-2700

---

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

TITLE OF EACH CLASS -----	NAME OF EACH EXCHANGE ON WHICH REGISTERED -----
5.625% Notes Due 2008	New York Stock Exchange

---

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

None

THE REGISTRANT, A WHOLLY-OWNED SUBSIDIARY OF U S WEST, INC., MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION I(1) (a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION I(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 registrant's 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 a wholly-owned subsidiary.


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

ITEM -----	DESCRIPTION -----	PAGE -----
PART I		
1.	Business.....	2
2.	Properties.....	4
3.	Legal Proceedings.....	4
4.	Submission of Matters to a Vote of Security Holders.....	4
PART II		
5.	Market for Registrant's Common Equity and Related Stockholder Matters.....	4
6.	Selected Financial Data.....	4
7.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	4
7A.	Quantitative and Qualitative Disclosures About Market Risk.....	4
8.	Consolidated Financial Statements and Supplementary Data....	4
9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	4
PART III		
10.	Directors and Executive Officers of the Registrant.....	5
11.	Executive Compensation.....	5
12.	Security Ownership of Certain Beneficial Owners and Management.....	5
13.	Certain Relationships and Related Transactions.....	5
PART IV		
14.	Financial Statement Schedules, Reports on Form 8-K and Exhibits.....	5

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

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Some of the information presented in this Annual Report on Form 10-K constitutes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). Although U S WEST Communications, Inc. (the "Company," which may also be referred to as "we," "us" or "our") believes that its expectations are based on reasonable assumptions within the bounds of its knowledge of its businesses and operations, there can be no assurance that actual results will not differ materially from its expectations. Factors that could cause actual results to differ from expectations include:

- greater than anticipated competition from new entrants into the local exchange, intraLATA (local access transport area) toll, wireless and data markets, causing loss of customers and increased price competition;
- changes in demand for our products and services, including optional custom calling features;
- higher than anticipated employee levels, capital expenditures and operating expenses (such as costs associated with interconnection);
- the loss of significant customers;
- pending and future state and federal regulatory changes affecting the telecommunications industry, including changes that could have an impact on the competitive environment and service pricing in the local exchange market;
- acceleration of the deployment of additional services and/or advanced new services to customers, such as broadband data and wireless (including the purchase of spectrum licenses), which would require substantial expenditure of financial and other resources;
- changes in economic conditions in the various markets served by our operations;
- higher than anticipated start-up costs associated with new business opportunities;
- delays in our ability to begin offering interLATA long-distance services;
- timing, cost and consumer acceptance of telephony and wireless services;
- delays in the development of anticipated technologies, or the failure of such technologies to perform according to expectations; and
- timing and completion of the announced merger of our parent company, U S WEST, Inc. ("U S WEST"), with Qwest Communications International Inc. ("Qwest") and the subsequent integration of the businesses of the two companies.

You should not construe these cautionary statements as an exhaustive list or as any admission by us regarding the adequacy of disclosures made by us. We cannot always predict or determine after the fact what factors would cause actual results to differ materially from those indicated by our forward-looking statements or other statements. In addition, you are urged to consider statements that include the terms "believes," "belief," "expects," "plans," "objectives," "anticipates," "intends," or the like to be uncertain and forward-looking. All cautionary statements should be read as being applicable to all forward-looking statements wherever they appear.

We do not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this report might not occur.

## **PART I**

### **ITEM 1. BUSINESS.**

#### **GENERAL**

We are incorporated under the laws of the State of Colorado and have our principal offices at 1801 California Street, Denver, Colorado 80202, telephone number (303) 672-2700. We are a wholly-owned subsidiary of U S WEST, Inc., a Delaware corporation ("U S WEST").

On June 12, 1998, our former parent corporation, which has subsequently been renamed MediaOne Group, Inc., separated its media business and communications business into two publicly traded companies (the "Separation"). The media business is conducted through MediaOne Group, Inc. and the communications business, including the domestic directory business, is now conducted through U S WEST and its subsidiaries.

On July 18, 1999, our parent company and Qwest entered into an agreement and plan of merger (the "Qwest Merger Agreement"). Upon completion of the merger, holders of U S WEST common stock will receive, for each share of U S WEST common stock, subject to the collar and the cash options described in the Qwest Merger Agreement, shares of Qwest common stock having a value of \$69. The merger is subject to, among other things, the approval of the Federal Communications Commission ("FCC") and other state regulatory reviews.

#### **COMPANY OPERATIONS**

We provide communications services to more than 25 million residential and business customers in our 14 state 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. We are organized on the basis of our products and services and operate in three segments: retail services, wholesale services and network services. For further financial information on our segments, you should refer to Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 12 to the consolidated financial statements on page F-16 through F-17.

#### **RETAIL SERVICES**

The principal types of retail services we offer are: (i) local exchange telephone services, (ii) long-distance services within local access and transport areas ("LATAs") in the Region, (iii) wireless services and (iv) high-speed data and Internet services.

**LOCAL EXCHANGE.** Local exchange telephone services provide lines from telephone exchange offices to customers' premises to originate and terminate telecommunications services within our local exchange service territories as defined by the state public utilities commissions ("PUCs"). These services include basic local exchange services provided through our regular switched network, dedicated private line facilities for voice and special services, such as transport of data, radio, switching services for customers' internal communications through facilities owned by us, data transport services that include managing and configuring special service networks and dedicated low and high-capacity public or private digital networks. Other local exchange revenue is derived from directory assistance, public telephone service and various custom calling features such as Caller ID, Call Waiting, Call Return and 3-Way Calling.

We also provide other products and services, such as customer premises equipment and enhanced services, including voice mail to residents, business customers and governmental agencies.

**INTRALATA LONG-DISTANCE.** We provide intraLATA long-distance services within our Region. These services include intraLATA service beyond the local calling area, Wide Area Telecommunications Service or "800" services for customers with highly concentrated demand, and special services, such as transport of data and radio. We intend to begin offering interLATA long-distance services in our Region pursuant to the Telecommunications Act of 1996 (the "Telecommunications Act" or the "Act") upon satisfaction of

certain regulatory conditions primarily related to local exchange telephone competition. We currently offer limited out-of-region long-distance services.

**WIRELESS SERVICES.** We hold 10 MHz licenses to provide personal communications services ("PCS") in 53 markets in our Region. These licenses, which cover approximately 20 million POPs (i.e., potential customers), were purchased in an FCC auction held in January 1997. In December 1997, we purchased additional licenses for a majority of the Seattle market, which cover an additional 4 million POPs. Using these licenses, we are constructing networks utilizing digital code division multiple access technology. We launched wireless PCS services in (i) Denver, Fort Collins, Greeley and Colorado Springs, Colorado; Portland and Salem, Oregon; and Vancouver, Washington in 1997; (ii) Phoenix and Tucson, Arizona; Minneapolis, St. Cloud, St. Paul and Rochester, Minnesota; and Seattle, Olympia and Bremerton, Washington in 1998; and (iii) Cheyenne, Wyoming; Pueblo, Colorado and Salt Lake City, Utah (including the Wasatch front region) in 1999, covering approximately 15 million POPs. These wireless services, which are being marketed under the "U S WEST Wireless" brand, enable customers to use the same number for their wireless phone as for their home or business phone. We recently announced a joint venture with Touch America, Inc., the telecommunications subsidiary of The Montana Power Corporation, to provide the nation's only one-number digital PCS service to customers in seven states in the Pacific Northwest and the Upper Midwest.

**HIGH-SPEED DATA AND INTERNET SERVICES.** We offer high-speed data and Internet services to customers in our Region. Through U S WEST INTERPRISE, our data division, we provide high-speed data communications and network services, including frame relay service, transparent LAN (Local Area Network) service, ATM (Asynchronous Transfer Mode) Cell Relay Service, network integration solutions and other data-related services to business customers. In 1997 and 1998, we introduced U S WEST Megabit-TM- Services, a high-speed Internet access service in select markets and expect to launch this service in additional markets in 2000.

At December 31, 1999, we had over 17 million telephone network access lines in service, an increase of 2.5% over 1998. In June 1999, we entered into a series of definitive agreements to sell local exchange telephone properties serving approximately 530,000 access lines in nine states for approximately \$1.65 billion in cash, subject to adjustment. Approval of the sale is subject to review by federal and state regulatory agencies. The transfer of ownership, which will occur on a state-by-state basis, is expected to be completed over the next two years. Additionally, we are planning to sell approximately 270,000 access lines in New Mexico and Washington.

## **WHOLESALE SERVICES**

We provide sales, marketing and customer care for competitive local exchange carriers ("CLECs"), interexchange carriers ("IXCs") and wireless providers in the purchase of wholesale local network services. CLECs are communications companies, certified by a state PUC, that provide local exchange service within a U S WEST associated local calling area. IXCs provide transitional long-distance services to end users by handling calls that are made from a phone exchange in one LATA to an exchange in another LATA. We have 27 LATAs within our Region. We provide such wholesale local network services by interconnecting such carriers and providers to our public switched network or through our dedicated private lines. These carriers can resell our products and services.

## **NETWORK SERVICES**

Our network segment provides access to our telecommunications network, including our information technologies, primarily to our retail services and wholesale services segments.

## **COMPETITION AND REGULATION**

For a discussion of competition and regulation affecting us, you should read "Item 1. Business" of U S WEST's Form 10-K for the year ended December 31, 1999.

## **ITEM 2. PROPERTIES.**

Our properties do not lend themselves to description by character and location of principal units. At December 31, 1999, the percentage distribution of total net property, plant and equipment by major category for us was as follows:

Telecommunications outside plant.....	40%
Telecommunications network equipment (primarily central office equipment).....	42
Land and buildings (principally central offices).....	6
General purpose computers and other.....	12

At December 31, 1999, substantially all of the installations of central office equipment were located in buildings owned by us situated on land which we own in fee, while many garages and administrative and business offices are leased.

## **ITEM 3. LEGAL PROCEEDINGS.**

We are subject to claims and proceedings arising in the ordinary course of business. For a discussion of these actions, you should read Note 10 to the consolidated financial statements.

## **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

Not applicable.

## **PART II**

## **ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.**

Not applicable.

## **ITEM 6. SELECTED FINANCIAL DATA.**

We have omitted this information pursuant to General Instruction I(2).

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

We have omitted certain information pursuant to General Instruction I(2). For "Management's Discussion and Analysis of Financial Condition and Results of Operations," please refer to the information set forth on pages 9 through 15.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.**

See "Management's Discussion and Analysis of Financial Condition and Results of Operation--Risk Management." Please refer to the information set forth on page 13.

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

Please refer to the information set forth on pages F-1 through F-17.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

We have nothing to report to you under this item.



### PART III

#### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

We have omitted this information pursuant to General Instruction I(2).

#### ITEM 11. EXECUTIVE COMPENSATION.

We have omitted this information pursuant to General Instruction I(2).

#### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

We have omitted this information pursuant to General Instruction I(2).

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

We have omitted this information pursuant to General Instruction I(2).

### PART IV

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

(a) Documents filed as part of this report

	PAGE
(1) Reports of Independent Public Accountants.....	F-1
(2) Consolidated Financial Statements:	
Consolidated Statements of Income for the years ended	
December 31, 1999, 1998 and 1997.....	F-2
Consolidated Balance Sheets as of December 31, 1999 and	
1998.....	F-3
Consolidated Statements of Cash Flows for the years ended	
December 31, 1999, 1998 and 1997.....	F-4
Consolidated Statements of Stockholder's Equity.....	F-5
Notes to Consolidated Financial Statements and Supplementary	
Data.....	F-6 - F-17
(3) Consolidated Financial Statement Schedule:	
Schedule II--Valuation and Qualifying Accounts.....	F-18

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:

U S WEST Communications filed the following reports on Form 8-K during the fourth quarter of 1999 and through the filing of this Form 10-K:

(i) report dated February 11, 2000 providing notification of the release of fourth quarter earnings.

(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. All other exhibits are provided as part of this electronic submission.

EXHIBIT  
NUMBER  
-----

- (1-A) Purchase Agreement, dated October 26, 1999, among U S WEST Communications, Inc., Salomon Smith Barney Inc., ABN AMRO Incorporated, Banc of America Securities, LLC and Chase Securities Inc., as representatives of the initial purchaser named therein.
- (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. (Incorporated herein by this reference to Exhibit 3a to Form 10-K filed on April 13, 1998, File No. 1-3040.)
- (3b) Bylaws of the Registrant, as amended. (Incorporated herein by this reference to Exhibit 3b to Form 10-K filed on April 13, 1998, File No. 1-3040.)
- 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.
- 4a Registration Rights Agreement, dated October 26, 1999, between U S WEST Communications, Inc., Salomon Smith Barney Inc., ABN AMRO Incorporated, Bank of America Securities LLC and Chase Securities, Inc.
- 4b Indenture dated as of October 15, 1999, between U S WEST Communications, Inc. and Bank One Trust Company, NA, as Trustee.
- (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).

EXHIBIT  
NUMBER

(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.
24	Power 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 3, 2000.

U S WEST COMMUNICATIONS, INC.

By: /s/ ALLAN R. SPIES

-----  
Allan R. Spies  
EXECUTIVE 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:

/s/ Solomon D. Trujillo President and Chief Executive Officer

PRINCIPAL FINANCIAL OFFICER:

/s/ Allan R. Spies Executive Vice President and Chief Financial  
Officer

PRINCIPAL ACCOUNTING OFFICER:

/s/ Janet K. Cooper Vice President--Finance and Controller

DIRECTORS:

/s/ Solomon D. Trujillo

/s/ Allan R. Spies

/s/ Janet K. Cooper

Dated: March 3, 2000

# U S WEST COMMUNICATIONS, INC.

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

(DOLLARS IN MILLIONS)

Special Note: Certain statements set forth below under this caption constitute "forward-looking statements" within the meaning of the Reform Act. See "Special Note Regarding Forward-Looking Statements" on page 1 for additional factors relating to such statements.

### RESULTS OF OPERATIONS

#### 1999 COMPARED WITH 1998

Several non-recurring items impacted net income in 1998. Results of operations for the two years, normalized to exclude the effects of such items, are as follows:

	1999	1998	INCREASE (DECREASE)	
Net income.....	\$1,562	\$1,335	\$227	17.0%
Non-recurring items.....	--	89	(89)	(100.0)
Normalized income.....	\$1,562	\$1,424	\$138	9.7%
	=====	=====	=====	=====

Non-recurring items in 1998 include:

- an after-tax charge of \$68 for Separation costs and
- an after-tax charge of \$21 related to the impairment of certain long-lived assets associated with our video operations.

Normalized income increased \$138 or 9.7% in 1999. The increase was primarily due to revenue growth associated with increased demand for services. Partially offsetting these revenue increases were higher operating costs driven by growth initiatives and interconnection activities.

The following sections provide a more detailed discussion of the changes in revenues and expenses.

### REVENUES

	1999	1998	INCREASE	
Local services revenues.....	\$7,773	\$7,124	\$649	9.1%

**LOCAL SERVICES REVENUES.** Local services revenues include retail and wholesale basic monthly service fees, fees for calling services such as voice messaging and caller identification, wireless revenues, subscriber line charges, MegaBit-TM- data services, local number portability ("LNP") charges, public phone revenues, interconnection, paging, and installation and connection charges. State PUCs regulate most local service rates.

Local services revenues increased primarily due to greater sales of wireless and calling services of \$142 and \$119, respectively. Additionally, access line growth contributed to the rise in revenues. Second line additions by residential and small business customers contributed to access line growth due to continuing demand for Internet access and data transport capabilities. As of the end of 1999, we had added 408,000 access lines, an increase of 2.5% over the end of 1998. Of this increase, residential second line installations accounted for 187,000 lines, an increase of 11.8% compared with 1998. Also contributing to the revenue growth were greater revenues from inside wire maintenance plans, LNP charges, interconnection revenues, subscriber line charges and increases in the subscriber base of our Megabit-TM- data services, collectively

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

contributing \$212. Partially offsetting these increases were net regulatory rate adjustments and refunds of \$16 for 1999, over the comparable 1998 period.

While local services revenues increased in 1999, our growth rate has declined from 1998. The decline in the growth rate was primarily attributable to increased competition as well as our customer retention strategy of offering bundles of services to customers at lower prices in return for entering into longer-term contracts. Additionally, some business customers have opted to migrate from multiple single lines to high capacity lines, which decreases local services revenues but increases access services revenues. We believe we may continue to experience declining growth rates as the level of customer demand slows and competition increases. In June 1999, we entered into a series of definitive agreements to sell local exchange telephone properties serving approximately 530,000 access lines in nine states for approximately \$1,650 in cash, subject to adjustment. The transfer of ownership, which will occur on a state-by-state basis, is expected to be completed over the next two years. The access lines accounted for approximately 3% of fiscal 1999 local services revenues. While the sale is expected to provide us with one-time gains in 2000 and 2001, it will negatively impact future local services revenue growth. Additionally, we are planning the sale of approximately 270,000 access lines in New Mexico and Washington.

	1999	1998	INCREASE	
	-----	-----	-----	
Access services revenues.....	\$2,731	\$2,662	\$69	2.6%

**ACCESS SERVICES REVENUES.** Access services revenues are derived primarily from charging IXC's, such as AT&T and MCI WorldCom, for use of our local network to connect customers to their long-distance networks. Also included in access services revenues are special access and private line revenues from end-users buying dedicated local exchange capacity to support their private networks.

The growth in access services revenues was attributable to increased demand for private line and special access services. Revenues from private line and special access services increased \$186 primarily due to the increased demand for data services. Additionally, increased demand from IXC's contributed to the revenue increase. Access minutes of use increased 5.0% for 1999. The growth in access minutes of use was partially offset by mandated rate reductions of \$164.

	1999	1998	DECREASE	
	-----	-----	-----	
Long-distance services revenues.....	\$568	\$779	\$(211)	(27.1)%

**LONG-DISTANCE SERVICES REVENUES.** Long-distance services revenues are derived from customer calls to locations outside of their local calling area but within the same LATA. The decrease in long-distance services revenues for 1999 was primarily attributable to greater competition, strategic price reductions and the expansion in the number and size of extended service areas. Mandated rate reductions of \$40 for 1999 also contributed to the revenue decrease. As of December 31, 1999, customers in all 14 states in which we operate are able to choose an alternative provider for intraLATA calls without dialing a special access code when placing a call.

We believe we will continue to experience further declines in long-distance services revenues as regulatory actions provide for increased levels of competition. We are responding to competition through competitive pricing of intraLATA long-distance services and increased promotional efforts to retain customers. See "Special Note Regarding Forward-Looking Statements" on page 1.

	1999	1998	INCREASE	
	-----	-----	-----	
Other services revenues.....	\$392	\$306	\$86	28.1%

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

**OTHER SERVICES REVENUES.** Other services revenues include billing and collection services for IXC's and sales of customer equipment. The increase for 1999 was primarily attributable to greater billing and collection revenues.

**EXPENSES**

	1999	1998	INCREASE	
	-----	-----	-----	
Employee-related expenses.....	\$3,696	\$3,430	\$266	7.8%

**EMPLOYEE-RELATED EXPENSES.** Employee-related expenses include salaries and wages, benefits, payroll taxes and contract labor.

Employee related expenses for 1998 include \$21 of costs related to the third quarter 1998 work stoppage. Excluding the work stoppage costs, employee-related expenses increased \$287 or 8.4% for 1999 over 1998. Employee-related expenses increased because of increased commitments towards improving customer service, including meeting requests for installation and repair services, resulting in higher labor costs. Additionally, growth in several sectors of the business, primarily wireless and data communications and year 2000 costs, resulted in increased employee levels and contract labor costs. Across-the-board wage increases also contributed to the increase in employee-related expenses. Additionally, included in employee-related expenses for 1999 are the salary and benefit costs for employees who were transferred from Old U S WEST as part of the Separation. Prior to the Separation, these costs were allocated to us and included in other operating expenses. Partially offsetting these increases was the capitalization in 1999 of employee-related costs associated with developing internal use software due to the adoption of the American Institute of Certified Public Accountants' Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." In accordance with the SOP, \$85 of employee related costs were capitalized in 1999. An increase in net pension credits of \$38 also partially offset the increase in employee-related expenses for 1999. As a result of the favorable return on investment earnings on pension plan assets, we will continue to experience increases in our pension credits in 2000.

	1999	1998	DECREASE	
	-----	-----	-----	
Other operating expenses.....	\$2,515	\$2,685	\$(170)	(6.3)%

**OTHER OPERATING EXPENSES.** Other operating expenses include access charges paid to carriers for the routing of local and long-distance traffic to their facilities, interconnection costs, taxes other than income taxes and other selling, general and administrative costs. Included in 1998 were \$129 of Separation costs and asset impairment charges. Excluding the Separation costs and asset impairment charges, other operating expenses decreased \$41, or 1.6% for 1999 over 1998. This decrease was primarily attributable to the effect of capitalizing \$281 of software costs in 1999 primarily associated with developing internal use software in accordance with SOP 98-1. Additionally, for the second half of 1998, the transfer of employees from Old U S WEST as part of the Separation resulted in the reclassification of related salary and benefit costs to employee-related expenses.

Offsetting the decrease were the following:

- increased costs of product sales associated with our growth initiatives, including wireless handset costs and costs applicable to our data communications services,
- higher access and interconnection expenses resulting from regulatory rulings that require us to pay access charges to carriers for calls that originate on our network and terminate on other carriers'

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

networks offset by reductions in access expense due to end-users dialing toll calls directly to IXC's and bypassing our network,

- higher rent expense related to increased computer software, hardware and telephone pole leasing,

- higher property taxes,

- higher bad debt expense related to increased revenues, and

- higher marketing and advertising costs for wireless, data communications services and calling services such as caller identification.

	1999	1998	INCREASE	
	-----	-----	-----	
Depreciation and amortization expense.....	\$2,293	\$2,138	\$155	7.2%

**DEPRECIATION AND AMORTIZATION EXPENSE.** Depreciation and amortization expense increased primarily due to higher overall property, plant and equipment balances resulting from continued investment in our network. Additionally, we incurred amortization costs related to the capitalization of internal use software in accordance with SOP 98-1 and reduced the useful lives of certain assets due to changes in technology, both of which caused greater depreciation expense. Partially offsetting the increases was the cessation of depreciation associated with access lines that are intended to be sold.

	1999	1998	DECREASE	
	-----	-----	-----	
Other expense--net.....	\$440	\$468	\$(28)	(6.0)%

**OTHER EXPENSE--NET.** Interest expense was \$403 in 1999 and \$386 in 1998. The increase was due to higher average debt balances to fund growth initiatives.

Also included in other expense--net was other expense of \$37 for 1999, compared to \$82 for 1998. The decrease in other expense was due to a reduction in regulatory interest expense and gains on sales of real estate. Additionally, the decrease in other expense-net for 1999 was due to the reduction in interest expense attributable to an anticipated settlement of federal income tax liabilities for tax years still under audit.

	1999	1998	INCREASE (DECREASE)	
	-----	-----	-----	
Segment results:				
Retail segment.....	\$ 6,111	\$ 6,194	\$(83)	(1.3)%
Wholesale segment.....	2,157	1,908	249	13.1
Network segment.....	(2,793)	(2,776)	(17)	(0.1)

**SEGMENT RESULTS.** Segment results represent margins which, for segment reporting purposes, exclude certain costs and expenses, including depreciation and amortization, corporate expenses and taxes other than income. See Note 12 to the consolidated financial statements on pages F-16 through F-17.

Margin from the retail services segment decreased from 1998 due to operating expenses increasing at a greater rate than revenue growth. Revenues from the retail services segment increased 5.4% for 1999 over 1998, primarily due to growth in local services revenues which include wireless services, calling services and Megabit-TM- data services. The revenue increase was more than offset by higher operating expenses driven by growth initiatives and costs associated with enhancing customer service. Margin from the wholesale services segment increased as a result of greater demand for access and interconnect services, partially offset by price reductions as mandated by both federal and state regulators and higher



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

access charge expenses. Margin from the network services segment decreased due to increased volumes, service initiatives and year 2000 costs.

	1999	1998	INCREASE	
	-----	-----	-----	
Provision for income taxes.....	\$958	\$815	\$143	17.5%

**PROVISION FOR INCOME TAXES.** The effective tax rate remained relatively consistent at 38.0% for 1999 compared to 37.9% for 1998.

**RISK MANAGEMENT**

Over time, we are exposed to market risks arising from changes in interest rates. The objective of our interest rate risk management program is to manage the level and volatility of our interest expense. We may employ derivative financial instruments to manage our interest rate risk exposure. We have also employed financial derivatives to hedge interest rate and foreign currency exposures associated with particular debt issues to synthetically obtain below market interest rates. We do not use derivative financial instruments for trading purposes.

As of December 31, 1999 and 1998, approximately \$218 and \$123, respectively, of floating-rate debt was exposed to changes in interest rates. This exposure is primarily linked to commercial paper rates and changes in 3-month LIBOR. A hypothetical increase of 1% in commercial paper rates and 3-month LIBOR would not have had a material effect on our earnings. As of December 31, 1999 and 1998, we also had \$522 and \$228, respectively, of long-term fixed rate debt obligations maturing in the following 12 months. Any new debt obtained to refinance this debt would be exposed to changes in interest rates. A hypothetical 10% change in the interest rates on this debt would not have had a material effect on our earnings.

As of December 31, 1999, all outstanding interest rate swaps and the associated debt instrument have matured. As of December 31, 1998, we had interest rate swaps with notional amounts of \$155. The swaps synthetically transformed certain of the Company's floating rate issues into fixed rate obligations.

As of December 31, 1999 and 1998, we had also entered into cross-currency swaps with notional amounts of \$133 and \$204, respectively. The cross-currency swaps synthetically transform \$94 and \$182 of Swiss Franc borrowings at December 31, 1999 and 1998, respectively, into U.S. dollar obligations. Any gains (losses) on the cross-currency swaps would be offset by losses (gains) on the Swiss Franc debt obligations.

Other assets at December 31, 1999 included marketable equity securities recorded at a fair value of \$334 including net unrealized gains of \$325. The securities have exposure to price risk. The estimated potential loss in fair value resulting from a hypothetical 10% decrease in prices quoted by stock exchanges would decrease the fair value of our equity securities by \$33.

**CONTINGENCIES**

We have certain pending regulatory actions. See Note 10 to the consolidated financial statements.

**OTHER ITEMS**

From time to time, we engage in discussions regarding restructurings, dispositions, acquisitions and other similar transactions. Any such transaction could include, among other things, the transfer, sale or acquisition of significant assets, businesses or interests, including joint ventures, or the incurrence,

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

assumption or refinancing of indebtedness, and could be material to our financial condition and results of operations. There is no assurance that any such discussions will result in the consummation of any such transaction.

### **COMPETITION AND REGULATORY ENVIRONMENT**

For a complete discussion of our competitive and regulatory environment, see the U S WEST, Inc. Form 10-K--Management's Discussion and Analysis of Financial Condition and Results of Operations--Competition and Regulation.

### **YEAR 2000 COSTS**

**BACKGROUND.** We conducted a comprehensive review of our computer-based systems and related software and took measures to ensure that such systems would properly recognize the year 2000 and continue to process beyond December 31, 1999. The systems we evaluated include systems within (i) the Public Switched Telephone Network (the "Network"), (ii) Information Technologies ("IT"), and (iii) individual Business Units (the "Business Units").

The Network, which processes voice and data information relating to our core communications business, relies on remote switches, central office equipment, interoffice equipment and loop transport equipment that is predominantly provided to us by telecommunications network vendors. IT is comprised of our internal business systems that employ hardware and software on an enterprise-wide basis, including operational, financial and administrative functions. The Business Units, which include internal organizations such as finance, procurement, directory services, operator services, wireless, data networks, real estate, etc., employ systems that support desktop and departmental applications, as well as embedded computer chip technologies, which relate specifically to each of our Business Unit's functions and generally are not part of the Network or IT.

**COSTS RELATING TO YEAR 2000.** We spent approximately \$223 from the beginning of 1997 through the end of 1999 on year 2000 projects and activities. Virtually all year 2000 related expenditures were funded through operations.

**SUMMARY.** As of January 26, 2000, our Network, IT and Business Unit systems have not experienced any critical failures. To date, we have not experienced any disruption in our operations or impairment in our ability to bill or collect revenues relating to the year 2000. We do not expect to incur any additional year 2000 costs in 2000.

### **NEW ACCOUNTING STANDARDS**

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("FAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments and for hedging activities. FAS No. 133 requires, among other things, that all derivative instruments be recognized at fair value as assets or liabilities on the balance sheet and that changes in fair value generally be recognized currently in earnings unless specific hedge accounting criteria are met. The standard is effective for our 2001 fiscal year though earlier adoption is permitted. Financial statement impacts of adopting the new standard depend upon the amount and nature of the future use of derivative instruments and their relative changes in valuation over time. Had we adopted FAS No. 133 in 1999, its impact on the consolidated financial statements would not have been material.

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

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 (the "Bulletin"), "Revenue Recognition in Financial Statements", which addresses revenue recognition issues. The Bulletin requires, in certain cases, nonrefundable up-front fees for services to be deferred and recognized over the expected period of performance. The Bulletin also requires that incremental direct costs incurred in obtaining the up-front fees be deferred and recognized over the same period as the up-front fees. The Bulletin is required to be adopted for the quarter ending March 31, 2000. We are assessing the types of transactions that may be impacted by this pronouncement. The impact of the Bulletin on the consolidated financial statements is not yet known.

## **REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

### **To U S WEST Communications, Inc.:**

We have audited the accompanying consolidated balance sheets of U S WEST Communications, Inc. (a Colorado corporation) and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income, stockholder's equity and cash flows for each of the three years in the period ended December 31, 1999. These consolidated financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 financial position of U S WEST Communications, Inc. and subsidiaries as of December 31, 1999 and 1998 and the results of their operations, changes in stockholder's equity and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule II is presented for purposes of complying with the Securities and Exchange Commission's rules and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### **ARTHUR ANDERSEN LLP**

Denver, Colorado,  
January 26, 2000.

**U S WEST COMMUNICATIONS, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
	(IN MILLIONS)		
Revenues:			
Local services.....	\$7,773	\$7,124	\$6,280
Access services.....	2,731	2,662	2,645
Long-distance services.....	568	779	885
Other services.....	392	306	273
	-----	-----	-----
Total revenues.....	11,464	10,871	10,083
Operating expenses:			
Employee-related expenses.....	3,696	3,430	3,344
Other operating expenses.....	2,515	2,685	2,300
Depreciation and amortization.....	2,293	2,138	2,103
	-----	-----	-----
Total operating expenses.....	8,504	8,253	7,747
	-----	-----	-----
Operating income.....	2,960	2,618	2,336
Other expense:			
Interest expense.....	403	386	374
Other expense (income)--net.....	37	82	(56)
	-----	-----	-----
Total other expense--net.....	440	468	318
	-----	-----	-----
Income before income taxes.....	2,520	2,150	2,018
Provision for income taxes.....	958	815	766
	-----	-----	-----
Net Income.....	\$1,562	\$1,335	\$1,252
	=====	=====	=====

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

**U S WEST COMMUNICATIONS, INC.  
CONSOLIDATED BALANCE SHEETS**

	DECEMBER 31,	
	1999	1998
	(IN MILLIONS)	
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 61	\$ 68
Accounts receivable, less allowance for uncollectibles of \$46 and \$48.....	1,811	1,619
Inventories and supplies.....	211	154
Deferred tax asset.....	154	113
Prepaid and other.....	95	61
	-----	-----
Total current assets.....	2,332	2,015
Property, plant and equipment--net.....	16,049	14,681
Other assets--net.....	1,597	882
	-----	-----
Total assets.....	\$19,978	\$17,578
	=====	=====
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Short-term debt.....	\$ 1,684	\$ 789
Accounts payable.....	1,721	1,411
Accrued expenses.....	1,560	1,383
Advanced billings and customer deposits.....	343	326
	-----	-----
Total current liabilities.....	5,308	3,909
Long-term debt.....	5,408	5,154
Postretirement and other postemployment benefit obligations.....	2,462	2,458
Deferred income taxes.....	1,331	898
Unamortized investment tax credits.....	161	159
Deferred credits and other.....	588	537
Commitments and contingencies (Note 10)		
Stockholder's equity:		
Common stock--one share without par value, owned by parent.....	8,140	8,080
Cumulative deficit.....	(3,617)	(3,617)
Accumulated other comprehensive income.....	197	--
	-----	-----
Total stockholder's equity.....	4,720	4,463
	-----	-----
Total liabilities and stockholder's equity.....	\$19,978	\$17,578
	=====	=====

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,		
	1999	1998	1997
	(IN MILLIONS)		
OPERATING ACTIVITIES			
Net income.....	\$ 1,562	\$ 1,335	\$ 1,252
Adjustments to net income:			
Depreciation and amortization.....	2,293	2,138	2,103
Gains on sales of local telephone exchanges.....	--	--	(77)
Gain on sale of investment in Bellcore.....	--	--	(53)
Asset impairment.....	--	35	--
Deferred income taxes and amortization of investment tax credits.....	206	110	(23)
Changes in operating assets and liabilities:			
Accounts receivable.....	(192)	(11)	(46)
Inventories, supplies and other current assets.....	(76)	28	(53)
Accounts payable, accrued expenses and advanced billings.....	300	(210)	508
Other.....	147	100	167
Cash provided by operating activities.....	4,240	3,525	3,778
INVESTING ACTIVITIES			
Expenditures for property, plant and equipment.....	(3,754)	(2,566)	(2,101)
Proceeds from sales of local telephone exchanges.....	--	--	67
Proceeds from sale of investment in Bellcore.....	--	--	65
Proceeds from (payments on) disposals of property, plant and equipment.....	(48)	(30)	22
Other.....	--	(26)	(73)
Cash used for investing activities.....	(3,802)	(2,622)	(2,020)
FINANCING ACTIVITIES			
Net proceeds from (repayments of) short-term debt.....	603	399	(639)
Proceeds from issuance of long-term debt.....	782	320	29
Repayments of long-term debt.....	(336)	(443)	(142)
Dividends paid on common stock.....	(1,494)	(1,200)	(1,367)
Equity infusions from U S WEST, Inc.....	--	63	295
Cash used for financing activities.....	(445)	(861)	(1,824)
CASH AND CASH EQUIVALENTS			
Increase (decrease).....	(7)	42	(66)
Beginning balance.....	68	26	92
Ending balance.....	\$ 61	\$ 68	\$ 26

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

**U S WEST COMMUNICATIONS, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY**  
(IN MILLIONS)

	COMMON STOCK	CUMULATIVE DEFICIT/OTHER COMPREHENSIVE INCOME	TOTAL
BALANCE, JANUARY 1, 1997.....	\$7,677	\$ (3,617)	\$ 4,060
Net income.....	--	1,252	1,252
Dividends declared.....	--	(1,252)	(1,252)
Equity infusions.....	295	--	295
Other.....	45	--	45
BALANCE, DECEMBER 31, 1997.....	8,017	(3,617)	4,400
Net income.....	--	1,335	1,335
Dividends declared.....	--	(1,335)	(1,335)
Equity infusions.....	63	--	63
BALANCE, DECEMBER 31, 1998.....	8,080	(3,617)	4,463
Net income.....	--	1,562	1,562
Other comprehensive income:			
Unrealized gains on securities.....	--	197	197
Total comprehensive income.....	--	1,759	1,759
Dividends declared.....	--	(1,562)	(1,562)
Net transfers from U S WEST, Inc.....	60	--	60
BALANCE, DECEMBER 31, 1999.....	\$8,140	\$ (3,420)	\$ 4,720
	=====	=====	=====

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



U S WEST COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997

(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. We are a wholly owned subsidiary of U S WEST, Inc. ("U S WEST").

**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.

**INVENTORIES AND SUPPLIES.** New and reusable materials 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. Wireless inventories are carried at the lower of cost or market on a first in, first out basis.

**PROPERTY, PLANT AND EQUIPMENT.** Property, plant and equipment is carried at cost. The majority of property, plant and equipment is depreciated using straight-line group methods. Under the group method, when an asset is sold or retired, the cost is deducted from property, plant and equipment and charged to accumulated depreciation without recognition of a gain or loss. Certain unregulated assets are depreciated using straight-line unit methods. When such depreciable property is retired or sold, the resulting gain or loss is included in income. The depreciable lives used for the major categories of property, plant, and equipment are as follows:

CATEGORY	LIFE (YEARS)
-----	-----
Buildings.....	27 - 40
Telecommunications network equipment.....	8 - 14
Telecommunications outside plant.....	8 - 57
General purpose computers and other.....	2 - 17

Interest related to qualifying construction projects is capitalized and reflected as a reduction of interest expense. Amounts capitalized were \$27, \$25 and \$20 in 1999, 1998 and 1997, respectively.

**VALUATION OF LONG-LIVED ASSETS.** We assess the impairment of long-lived assets such as property, plant and equipment when changes in circumstances indicate that their carrying value may not be recoverable. If the total expected future cash flows or salvage value is less than the carrying value of the asset, a loss is recognized.

**COMPUTER SOFTWARE.** On January 1, 1999, we adopted the accounting provisions required by the American Institute of Certified Public Accountants' Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". SOP 98-1, among other things,

**U S WEST COMMUNICATIONS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997**

(DOLLARS IN MILLIONS)

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

requires that certain costs of internal use software, whether purchased or developed internally, be capitalized and amortized over the estimated useful life of the software.

Capitalized computer software costs of \$544 and \$180 at December 31, 1999 and 1998, respectively, are recorded in property, plant and equipment and other assets--net. Amortization of capitalized computer software costs totaled \$104, \$82 and \$78 in 1999, 1998 and 1997, respectively.

**MARKETABLE SECURITIES.** All marketable securities are classified as available-for-sale securities under the provisions of Statement of Financial Accounting Standards ("FAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Unrealized holding gains and losses are determined on the specific identification method and presented as a component of accumulated other comprehensive income within stockholder's equity.

**FINANCIAL INSTRUMENTS.** The objective of our interest rate risk management program is to obtain the minimum total cost of debt over time consistent with an acceptable level of interest rate volatility. This objective is achieved through the type of debt issued, interest rate swaps that adjust the ratio of fixed- to variable-rate debt, cross-currency swaps that convert foreign-denominated debt to dollar-denominated debt and forward contracts to hedge future debt issues.

Under an interest rate swap, we agree with another party to exchange interest payments, based on a notional amount, at specified intervals over a defined term. Interest rate swaps are accounted for under the synthetic instruments accounting model if the index, maturity and amount of the instrument match the terms of the underlying debt. Net interest accrued is recognized over the life of the instruments as an adjustment to interest expense and is a component of cash provided by operating activities. Any gain or loss on the termination of an instrument that qualifies for synthetic instrument accounting would be deferred and amortized over the remaining life of the original instrument.

Under a cross-currency swap, we agree with another party to exchange U. S. dollars for foreign currency based on a notional amount, at specified intervals over a defined term. Cross-currency swaps are accounted for under the synthetic instruments accounting model if the index, maturity and amount of the instruments match the terms of the underlying debt. The cross-currency swaps and the foreign currency debt are combined and accounted for as if dollar denominated-debt was issued directly.

Under a forward contract, we agree with another party to sell a specified amount of U. S. Treasuries to hedge the treasury-rate component of future debt issues. The gain or loss on the forward contract is recorded as part of the carrying value of the related debt and is amortized as a yield adjustment.

**REVENUE RECOGNITION.** Local telephone and wireless services are generally billed in advance with revenues recognized when services are provided. Revenues derived from exchange access, long-distance network services and wireless airtime usage are recognized as services are provided.

**ADVERTISING COSTS.** Costs related to advertising are expensed as incurred. Advertising expense was \$226, \$208 and \$188 in 1999, 1998 and 1997, respectively.

**U S WEST COMMUNICATIONS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997**

(DOLLARS IN MILLIONS)

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

**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. For financial statement purposes, investment tax credits are being amortized over the economic lives of the related property, plant and equipment.

We are included in the consolidated federal income tax returns of U S WEST. We recognize federal income tax expense based upon a pro-rata allocation agreement with U S WEST. Under the agreement, we are allocated income tax consequences or benefits based upon our pro-rata contribution to the consolidated group's taxable income, deductions and credits. The amount of federal income tax expense recognized by us is not significantly different than an amount computed on a stand-alone basis.

We are included in combined state tax returns filed by U S WEST. We recognize state income tax expense based upon a stand-alone allocation policy with U S WEST.

**NEW ACCOUNTING STANDARDS.** On June 15, 1998, the Financial Accounting Standards Board issued FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments and for hedging activities. FAS No. 133 requires, among other things, that all derivative instruments be recognized at fair value as assets or liabilities in the consolidated balance sheets and changes in fair value are generally recognized currently in earnings unless specific criteria are met. This standard is effective for our 2001 fiscal year, although earlier adoption is permitted. Financial statement impacts of adopting the new standard depend upon the amount and nature of the future use of derivative instruments and their relative changes in valuation over time. Had we adopted FAS No. 133 in 1999, its impact on the financial statements would not have been material.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (the "Bulletin"), "Revenue Recognition in Financial Statements", which addresses revenue recognition issues. The Bulletin requires, in certain cases, nonrefundable up-front fees for services to be deferred and recognized over the expected period of performance. The Bulletin also requires that incremental direct costs incurred in obtaining the up-front fees be deferred and recognized over the same period as the up-front fees. The Bulletin is required to be adopted for the quarter ending March 31, 2000. We are assessing the types of transactions that may be impacted by this pronouncement. The impact of the Bulletin on the consolidated financial statements is not yet known.

**RECLASSIFICATION.** Certain reclassifications within the consolidated financial statements have been made to conform to the current year presentation.

**U S WEST COMMUNICATIONS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997**

(DOLLARS IN MILLIONS)

**NOTE 2: PROPERTY, PLANT AND EQUIPMENT**

The components of property, plant and equipment are as follows:

	DECEMBER 31,	
	1999	1998
Land and buildings.....	\$ 2,442	\$ 2,405
Telecommunications network equipment.....	15,695	14,742
Telecommunications outside plant.....	15,014	14,342
General purpose computers and other.....	2,871	2,870
Construction in progress.....	1,328	681
	-----	-----
	37,350	35,040
	-----	-----
Less accumulated depreciation:		
Buildings.....	724	709
Telecommunications network equipment.....	9,028	8,944
Telecommunications outside plant.....	9,642	9,151
General purpose computers and other.....	1,907	1,555
	-----	-----
	21,301	20,359
	-----	-----
Property, plant and equipment--net.....	\$16,049	\$14,681
	=====	=====

**ASSET IMPAIRMENT.** During 1998, we recorded a non-cash charge of \$21 (net of a \$14 income tax benefit) related to the impairment of certain long-lived assets associated with our video operations in Omaha, Nebraska. The impaired assets primarily consist of underground cable and hardware. Recent technological advances have permitted us to pursue and use more economical DSL technology in cable overbuild situations. Because the projected future cash flows were less than the assets' carrying value, an impairment loss was recognized in accordance with FAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". The amount of impairment was determined based on the net present value of the expected future cash flows of the video operations, discounted at our cost of capital. The pretax charge is recorded in "other operating expenses" within the consolidated statements of income.

**LEASING ARRANGEMENTS.** Certain office facilities, real estate and equipment used in operations are under operating leases. Rent expense under operating leases for 1999, 1998 and 1997 was \$227, \$169, and \$185, respectively. At December 31, 1999, the future minimum rental payments under noncancelable operating leases for the years 2000 through 2004 and thereafter are \$138, \$142, \$104, \$89, \$104 and \$453, respectively.

**SALE OF EXCHANGES.** In June 1999, we entered into a series of definitive agreements to sell local-exchange telephone properties serving approximately 530,000 access lines in nine states for approximately \$1,650 in cash, subject to adjustment. Approval of the sale is subject to review by federal and state regulatory agencies. The transfer of ownership, which will occur on a state-by-state basis, is expected to be completed over the next two years. We are planning the sale of approximately 270,000 additional access

**U S WEST COMMUNICATIONS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997**

(DOLLARS IN MILLIONS)

**NOTE 2: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

lines in New Mexico and Washington. In accordance with FAS No. 121, we ceased depreciation on the access lines in 1999.

**NOTE 3: ACCRUED EXPENSES**

Accrued expenses consist of the following:

	DECEMBER 31,	
	1999	1998
Employee compensation.....	\$ 318	\$ 326
Dividends payable to U S WEST.....	396	328
Current portion of state regulatory liability.....	35	42
Accrued property taxes.....	206	187
Other.....	605	500
	-----	-----
Total accrued expenses.....	\$1,560	\$1,383
	=====	=====

**NOTE 4: DEBT**

**SHORT-TERM DEBT**

The components of short-term debt were as follows:

	DECEMBER 31,	
	1999	1998
Commercial paper.....	\$ 218	\$123
Due to U S WEST.....	846	337
Current portion of long-term debt.....	620	329
	-----	-----
Total.....	\$1,684	\$789
	=====	=====

The weighted-average interest rate on commercial paper was 7.14% and 5.49% at December 31, 1999 and 1998, respectively. The interest rate on the debt due to U S WEST was 7.5% at December 31, 1999 and 1998.

We maintain commercial paper programs to finance short-term cash flow requirements, as well as to maintain a presence in the short-term debt market. We enter into lines of credit as backup facilities in issuing commercial paper. We have lines of credit totaling \$800 that expire in 2000. Commitment fees on the unused portion of the lines are 0.06%. As of December 31, 1999, there was no outstanding balance. To the extent we continue our commercial paper programs, we plan to renew our lines of credit.

**U S WEST COMMUNICATIONS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997**

(DOLLARS IN MILLIONS)

**NOTE 4: DEBT (CONTINUED)**

**LONG-TERM DEBT**

Interest rates and maturities of long-term debt at December 31 were as follows:

INTEREST RATES	MATURITIES					TOTAL 1999	TOTAL 1998
	2001	2002	2003	2004	THEREAFTER		
Up to 5%.....	\$ --	\$100	\$ 50	\$ --	\$ --	\$ 150	\$ 240
Above 5% to 6%.....	50	--	--	99	430	579	578
Above 6% to 7%.....	133	250	43	--	1,405	1,831	2,088
Above 7% to 8%.....	--	--	62	749	1,556	2,367	1,618
Above 8% to 9%.....	--	--	--	--	243	243	243
Above 9% to 10%.....	--	--	--	--	--	--	175
	====	====	====	====	=====	-----	-----
	\$183	\$350	\$155	\$848	\$3,634	5,170	4,942
Capital lease obligations.....						114	121
Other.....						124	91
						-----	-----
Total.....						\$5,408	\$5,154
						=====	=====

Interest paid, net of amounts capitalized, was \$353, \$374 and \$374 for 1999, 1998 and 1997, respectively.

**FINANCIAL CONTRACTS**

The following table summarizes the terms of outstanding interest rate and cross-currency swaps at December 31, 1999 and 1998. Variable rates are indexed to two- and ten-year constant maturity U.S. Treasuries. Cross-currency swaps are tied to the Swiss Franc.

	DECEMBER 31, 1999				DECEMBER 31, 1998			
			WEIGHTED- AVERAGE RATE				WEIGHTED- AVERAGE RATE	
	NOTIONAL AMOUNT	MATURITIES	RECEIVE	PAY	NOTIONAL AMOUNT	MATURITIES	RECEIVE	PAY
Variable to fixed.....	\$ --	--	--%	--%	\$155	1999	5.16%	6.24%
Cross-currency.....	133	2001	--	6.51	204	1999-2001	--	6.55

At December 31, 1999, deferred credits of \$7 and deferred charges of \$49 on closed forward contracts are included as part of the carrying value of the underlying debt. The deferred credits and charges are recognized as yield adjustments over the life of the debt that matures at various dates through 2043.

In the event we are owed money under the swap agreements, we could be exposed to risk in the event of nonperformance by counterparties. We manage this exposure by monitoring the credit standing of the counterparties and establishing dollar and term limitations that correspond to the respective credit rating

**U S WEST COMMUNICATIONS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997**

(DOLLARS IN MILLIONS)

**NOTE 4: DEBT (CONTINUED)**

of each counterparty. As of December 31, 1999, we do not believe that we have any exposure to any individual counterparty.

**NOTE 5: FAIR VALUES OF FINANCIAL INSTRUMENTS**

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

The fair values of interest rate and cross-currency swaps are based on estimated amounts we would receive or pay to terminate such agreements allowing for current interest/foreign exchange 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. Fair value of equity investments is based on market prices quoted by stock exchanges.

	DECEMBER 31,			
	1999		1998	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Debt (includes short-term portion).....	\$7,092	\$5,649	\$5,943	\$6,209
Swap agreements--liabilities.....	--	(36)	--	24
Equity investments.....	90	415	--	--

**NOTE 6: STOCKHOLDER'S EQUITY**

**OTHER COMPREHENSIVE INCOME.** Components of other comprehensive income consist of the following:

	1999
Unrealized gains on marketable securities.....	\$ 325
Income tax expense.....	(128)
Other comprehensive income.....	\$ 197
	=====

**NOTE 7: EMPLOYEE BENEFITS**

**PENSION PLAN.**

We participate in a defined benefit pension plan sponsored by U S WEST which covers substantially all management and occupational employees. Management benefits are based upon their salary and years of service while occupational employee benefits are based upon years of service and job classification. The projected unit credit method is used for the determination of pension cost for financial reporting purposes and the aggregate cost method for funding purposes. Net pension credits for 1999, 1998 and 1997 were \$116, \$83 and \$29, respectively. No pension funding was required in 1999, 1998 or 1997.

**U S WEST COMMUNICATIONS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997**

(DOLLARS IN MILLIONS)

**NOTE 7: EMPLOYEE BENEFITS (CONTINUED)**  
**POSTRETIREMENT BENEFITS OTHER THAN PENSIONS.**

We participate in plans sponsored by U S WEST which provide certain health care and life insurance benefits to retired employees. We use the projected unit credit method for the determination of postretirement medical and life costs for financial reporting purposes. Net postretirement benefit costs for 1999, 1998 and 1997 were \$128, \$149, and \$160, respectively. The amount funded by us is based on regulatory accounting requirements.

**NOTE 8: INCOME TAXES**

The components of the provision for income taxes are as follows:

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Federal:			
Current.....	\$661	\$614	\$680
Deferred.....	170	101	(16)
Investment tax credits--net.....	(15)	(14)	(15)
	-----	-----	-----
	816	701	649
State and local:			
Current.....	91	91	109
Deferred.....	51	23	8
	-----	-----	-----
	142	114	117
	-----	-----	-----
Provision for income taxes.....	\$958	\$815	\$766
	====	====	====

We paid \$650, \$642 and \$797 for income taxes in 1999, 1998 and 1997, respectively.

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

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
	-----	-----	-----
	(IN PERCENT)		
Federal statutory tax rate.....	35.0	35.0	35.0
Investment tax credit amortization.....	(0.4)	(0.4)	(0.5)
State income taxes--net of federal effect.....	3.7	3.4	3.7
Other.....	(0.3)	(0.1)	(0.2)
	-----	-----	-----
Effective tax rate.....	38.0	37.9	38.0
	====	====	====



**U S WEST COMMUNICATIONS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997**

(DOLLARS IN MILLIONS)

**NOTE 8: INCOME TAXES (CONTINUED)**

The components of the net deferred tax liability are as follows:

	DECEMBER 31,	
	1999	1998
Property, plant and equipment.....	\$1,941	\$1,630
State deferred taxes--net of federal effect.....	256	205
Investments.....	114	--
Other.....	35	44
	-----	-----
Deferred tax liabilities.....	2,346	1,879
	-----	-----
Postretirement benefits, net of pension.....	677	659
Unamortized investment tax credit.....	56	56
State deferred taxes--net of federal effect.....	128	120
Other.....	308	259
	-----	-----
Deferred tax assets.....	1,169	1,094
	-----	-----
Net deferred tax liability.....	\$1,177	\$ 785
	=====	=====

At December 31, 1999 and 1998, we had outstanding taxes payable to U S WEST of \$191 and \$90, respectively.

**NOTE 9: RELATED PARTY TRANSACTIONS**

We purchase various services from affiliated companies. We also provide various services to affiliated companies. The amount paid and received for these services is determined in accordance with the Federal Communications Commission 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 total cost of services purchased from affiliated companies was \$683, \$654 and \$566 in 1999, 1998 and 1997, respectively. The total amount of revenues derived from affiliated companies was \$172, \$111 and \$85 in 1999, 1998 and 1997, respectively.

It is not practicable to provide a detailed estimate of the expenses that would be recognized on a stand-alone basis. However, we believe that corporate services, including those related to procurement, tax, legal and human resources, are obtained more economically through affiliates than they would be on a stand-alone basis, since we absorb only a portion of the total costs.

BELL COMMUNICATIONS RESEARCH, INC. ("BELLCORE"). Charges relating to research, development and maintenance of existing technologies performed by Bellcore, in which we had a one-seventh ownership interest, were \$118 in 1997.

In 1997, we sold our interest in Bellcore. We received cash proceeds of \$65 and recorded an after-tax gain of \$32. Bellcore, now name Telcordia, continues to provide research and development and other services to us on a contract basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997

(DOLLARS IN MILLIONS)

**NOTE 10: COMMITMENTS AND CONTINGENCIES**

**COMMITMENTS**

We have entered into an agreement with Olympic Properties of the United States to sponsor the 2002 Salt Lake City Winter Olympics and the U.S. Olympic Teams through 2004. As of December 31, 1999, we have a remaining commitment of \$48 to be paid in a combination of cash and services through 2004.

**CONTINGENCIES**

**REGULATORY CONTINGENCIES.** On May 1, 1996, the Oregon Public Utilities Commission ("OPUC") approved a stipulation terminating prematurely our alternative form of regulation ("AFOR") plan and it then undertook a review of our earnings. In May 1997, the OPUC ordered us to reduce its annual revenues by \$97, effective May 1, 1997, and to issue a one-time refund, including interest, of approximately \$102 to reflect the revenue reduction for the period May 1, 1996 through April 30, 1997. This one-time refund for interim rates became subject to refund when our AFOR plan was terminated on May 1, 1996.

We filed an appeal of the order and asked for an immediate stay of the refund with the Oregon Circuit Court which granted our request for a stay, pending a full review of the OPUC's order. On February 19, 1998, the Oregon Circuit Court entered a judgment in our favor on most of the appealed issues. The OPUC appealed to the Oregon Court of Appeals on March 19, 1998. In light of the settlement discussed below, the appellate court remanded the matter back to the OPUC.

On September 9, 1999, the Company and the OPUC staff reached a tentative settlement agreement whereby we would refund approximately \$247 and provide ongoing rate reductions of \$63. A hearing on the propriety of the proposed settlement was held by the OPUC, and that agency is expected to issue its decision sometime during March 2000. We have reserved for the proposed refunds.

In December 1999, the Colorado Public Utilities Commission decided to fine us \$13 for violations of service quality rules between January 1998 and April 1999, although a written order has not yet been issued. We have reserved for this fine.

We have pending regulatory actions in local regulatory jurisdictions which call for price decreases, refunds or both. These actions are generally routine and incidental to our business. We will continue to monitor and evaluate the risks associated with its local regulatory jurisdictions.

**OTHER CONTINGENCIES.** On October 1, 1999, a Fifth Amended Class Action Complaint was filed against U S WEST and the Company purportedly on behalf of 220,000 customers in the State of Colorado. The complaint alleges, inter alia, that from 1993 to the present, U S WEST and the Company, in violation of alleged statutory and common law obligations, willfully delayed the provision of local telephone service to the purported class members. In addition, the complaint alleges that U S WEST and the Company misrepresented the date on which such local telephone service was to be provided to the purported class members. The complaint seeks compensatory damages for purported class members, disgorgement of profits and punitive damages. U S WEST and the Company intend to vigorously defend this action.

The New Mexico Public Regulatory Commission has ordered an interim rate reduction of \$29, but the Commission stayed the implementation of its order. Permanent resolution of this matter is expected during 2000.

**U S WEST COMMUNICATIONS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997**

(DOLLARS IN MILLIONS)

**NOTE 10: COMMITMENTS AND CONTINGENCIES (CONTINUED)**

We are subject to other legal proceedings and claims that arise in the ordinary course of business. Although there can be no assurance of the ultimate disposition of these matters, it is management's opinion, based upon the information available at this time, that the expected outcome, individually or in the aggregate, will not have a material adverse effect on our consolidated results of operations or financial position.

**NOTE 11: QUARTERLY FINANCIAL DATA (UNAUDITED)**

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
	-----	-----	-----	-----
1999				
Operating revenues.....	\$2,788	\$2,843	\$2,907	\$2,926
Income before income taxes.....	585	633	662	640
Net income.....	369	387	411	395
1998				
Operating revenues.....	\$2,668	\$2,692	\$2,736	\$2,775
Income before income taxes.....	607	454	579	510
Net income.....	374	276	360	325

1998 second-quarter net income includes separation expenses of \$68 and a \$21 charge relating to the impairment of certain long-lived assets associated with our video operations.

**NOTE 12: SEGMENT INFORMATION**

We operate in three segments: retail services, wholesale services and network services. The retail services segment provides local telephone services, long-distance services, wireless services and data services. The wholesale services segment provides exchange access services that connect customers to the facilities of interexchange carriers and interconnection to our telecommunications network to competitive local exchange carriers. Our network services segment provides access to our telecommunications network, including our information technologies, primarily to our retail services and wholesale services segments. We provide our services to more than 25 million residential customers and business customers in Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming.

Following is a breakout of our segments, which has been extracted from the financial statements of U S WEST, Inc. Separate segment data is not provided to our chief operating decision maker for U S WEST Communications, Inc. Certain revenue and expenses of U S WEST, Inc. are included in the segment data, which have been eliminated in the reconciling items column. Additionally, because significant expenses of operating the retail services and wholesale services segments are not allocated to such segments for decision making purposes, management does not believe the segment margins are representative of the actual operating results of the segments. The margin for the retail services and wholesale services segments excludes network and corporate expenses. The margin for the network services segment excludes corporate expenses. The "other" category includes our corporate expenses. Asset information by segment is not provided to our chief operating decision maker. The communications and related services

**U S WEST COMMUNICATIONS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997**

(DOLLARS IN MILLIONS)

**NOTE 12: SEGMENT INFORMATION (CONTINUED)**

column represents a total of the retail services, wholesale services and network services segments. As a result of regulatory actions and changes in internal reporting, the classification of certain operating revenues and expenses has changed during 1999, 1998 and 1997. It has not been practicable to restate 1997 results to conform to the current year's presentation. Accordingly, the operating revenues and margins may not be comparable for each year.

	RETAIL SERVICES	WHOLESALE SERVICES	NETWORK SERVICES	TOTAL COMMUNICATIONS AND RELATED SERVICES	OTHER	RECONCILING ITEMS	CONSOLIDATED TOTAL
	-----	-----	-----	-----	-----	-----	-----
1999							
Operating revenues....	\$9,022	\$2,871	\$ 242	\$12,135	\$ --	\$ (671)	\$11,464
Margin.....	6,111	2,157	(2,793)	5,475	(116)	(2,839)	2,520(1)
Capital expenditures.....	587(2)	111	3,473	4,171	(1)	(143)	4,027
1998							
Operating revenues....	8,556	2,590	214	11,360	--	(489)	10,871
Margin.....	6,194	1,908	(2,776)	5,326	(234)	(2,942)	2,150(1)
Capital expenditures.....	362(2)	--	2,376	2,738	125	(297)	2,566
1997							
Operating revenues....	7,893	2,609	163	10,665	--	(582)	10,083
Margin.....	5,940	2,176	(2,738)	5,378	(396)	(2,964)	2,018(1)
Capital expenditures.....	340(2)	--	2,214	2,554	89	(542)	2,101

(1) Represents income before income taxes. Adjustments that are made to the total of the segments' income in order to arrive at income before income taxes include the following:

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
	-----	-----	-----
Costs and adjustments to reconcile segment data to the consolidated total:			
Separation costs.....	\$ --	\$ 94	\$ --
Asset impairment charge.....	--	35	--
Regulatory charges.....	--	--	230
Other expense--net.....	440	468	318
Taxes other than income taxes.....	377	356	406
Other charges applicable to U S WEST, Inc.....	(271)	(149)	(93)
Depreciation and amortization.....	2,293	2,138	2,103
	-----	-----	-----
	\$2,839	\$2,942	\$2,964
	=====	=====	=====

(2) Capital expenditures reported for the retail services segment include only expenditures for wireless services and certain data services. Additional capital expenditures relating to these services are included in network services capital expenditures.

In addition to the operating revenues disclosed above, intersegment operating revenues of the retail services segment were \$87, \$28 and \$30 for 1999, 1998 and 1997, respectively. Intersegment operating revenues of the network services segment were \$60, \$70 and \$64 for 1999, 1998 and 1997, respectively.

**SIGNIFICANT CONCENTRATIONS.** At December 31, 1999, 74% of our employees were represented by unions.

**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 uncollectibles:					
1999.....	\$48	\$118(1)	\$ --	\$ 120(2)	\$ 46
1998.....	50	113(1)	--	115(2)	48
1997.....	37	101(1)	--	88(2)	50

(1) Does not include amounts charged directly to expense. These amounts were \$2, \$5 and \$8 for 1999, 1998 and 1997, respectively.

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

	BALANCE AT BEGINNING OF PERIOD	CHARGED TO EXPENSE	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS	BALANCE AT END OF PERIOD
	-----	-----	-----	-----	-----
Allowance for obsolete inventory:					
1999.....	\$--	\$ 4	\$--	\$--	\$ 4
1998.....	--	--	--	--	--
1997.....	--	--	--	--	--

## REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (the "AGREEMENT") is made and entered into as of October 26, 1999 among U S WEST Communications, Inc., a Colorado corporation (the "COMPANY"), and the Initial Purchasers (as hereinafter defined).

This Agreement is made pursuant to the Purchase Agreement dated October 26, 1999 (the "PURCHASE AGREEMENT"), among the Company, as issuer of the 7.20% Notes due November 1, 2004 (the "SECURITIES"), and the Initial Purchasers, which provides for, among other things, the sale by the Company to the Initial Purchasers of the aggregate principal amount of Securities specified therein. In order to induce the Initial Purchasers to enter into the Purchase Agreement, the Company has agreed to provide to the Initial Purchasers and their direct and indirect transferees the registration rights set forth in this Agreement. The execution and delivery of this Agreement is a condition to the closing under the Purchase Agreement.

In consideration of the foregoing, the parties hereto agree as follows:

SECTION 1. DEFINITIONS. As used in this Agreement, the following capitalized defined terms shall have the following meanings:

"ADVICE" shall have the meaning set forth in the last paragraph of Section 3 hereof.

"AFFILIATE" has the same meaning as given to that term in Rule 405 under the Securities Act or any successor rule thereunder.

"APPLICABLE PERIOD" shall have the meaning set forth in Section 3(t) hereof.

"BUSINESS DAY" means any day other than a day on which banks are permitted or required to be closed in The City of New York.

"COMPANY" shall have the meaning set forth in the preamble to this Agreement and also includes the Company's successors and permitted assigns.

"DEPOSITARY" shall mean The Depository Trust Company, or any other depository appointed by the Company; PROVIDED, HOWEVER, that such depository must have an address in the Borough of Manhattan, The City of New York.

"EFFECTIVENESS PERIOD" shall have the meaning set forth in Section 2(b) hereof.

"EXCHANGE ACT" shall mean the Securities Exchange Act of 1934, as amended from time to time.

"EXCHANGE OFFER" shall mean the offer by the Company to the Holders to exchange all of the Registrable Securities for a like amount of EXCHANGE SECURITIES pursuant to Section 2(a) hereof.

"EXCHANGE OFFER REGISTRATION" shall mean a registration under the Securities Act effected pursuant to Section 2(a) hereof.

"EXCHANGE OFFER REGISTRATION STATEMENT" shall mean an exchange offer registration statement on Form S-4 (or, if applicable, on another appropriate form), and all amendments and supplements to such registration statement, in each case including the Prospectus contained therein, all exhibits thereto and all documents incorporated by reference therein.

"EXCHANGE PERIOD" shall have the meaning set forth in Section 2(a) hereof.

"EXCHANGE SECURITIES" shall mean the 7.20% Notes due November 1, 2004 issued by the Company under the Indenture containing terms identical in all material respects to the Securities (except that (i) interest thereon shall accrue from the last date on which interest was paid or duly provided for on the Securities or, if no such interest has been paid, from the date of their original issue, (ii) they will not contain terms with respect to transfer restrictions under the Securities Act and (iii) they will not provide for any Special Interest Premium thereon) to be offered to Holders of Securities in exchange for Securities pursuant to the Exchange Offer.

"HOLDER" shall mean any Initial Purchaser, for so long as it owns any Registrable Securities, and each of its successors, assigns and direct and indirect transferees who become registered owners of Registrable Securities under the Indenture.

"INDENTURE" shall mean the Indenture, dated as of October 15, 1999, between the Company, as issuer, and Bank One Trust Company, NA, as trustee, as the same may be amended or supplemented from time to time in accordance with the terms thereof.

"INITIAL PURCHASERS" shall mean Salomon Smith Barney Inc., ABN AMRO Incorporated, Banc of America Securities LLC, Chase Securities Inc., The Williams Capital Group, L.P., McDonald Investment Inc., U.S. Bancorp Piper Jaffray, Utendahl Capital Partners, BNP Capital Markets, LLC, Commerzbank Capital Markets Corporation, RBC Dominion Securities Corporation, and TD Securities USA, Inc.

"INSPECTORS" shall have the meaning set forth in Section 3(n) hereof.

"ISSUE DATE" shall mean November 1, 1999, the initial date of delivery of the Securities from the Company to the Initial Purchasers.

"MAJORITY HOLDERS" shall mean the Holders of a majority of the aggregate principal amount of outstanding Securities and EXCHANGE SECURITIES.

"PARTICIPATING BROKER-DEALER" shall have the meaning set forth in Section 3(t) hereof.

"PERSON" shall mean an individual, partnership, corporation, trust or unincorporated organization, limited liability corporation, or a government or agency or political subdivision thereof.

"PROSPECTUS" shall mean the prospectus included in a Registration Statement, including any preliminary prospectus, and any such prospectus as amended or supplemented by any prospectus supplement, including a prospectus supplement with respect to the terms of the offering of any portion of the Registrable Securities covered by a Shelf Registration Statement, and by all other amendments and supplements to a prospectus, including post-effective amendments, and in each case including all documents incorporated by reference therein.

"PURCHASE AGREEMENT" shall have the meaning set forth in the preamble to this Agreement.

"RECORDS" shall have the meaning set forth in Section 3(n) hereof.

"REGISTRABLE SECURITIES" shall mean the Securities; PROVIDED, HOWEVER, that any Securities shall cease to be Registrable Securities when any of the following occurs: (i) a Registration Statement with respect to such Securities for the exchange or resale thereof shall have been declared effective under the Securities Act and such Securities shall have been disposed of pursuant to such Registration Statement, (ii) such Securities shall have been sold to the public pursuant to Rule 144(k) (or any similar provision then in force, but not Rule 144A) under the Securities Act or are eligible to be sold without restriction as contemplated by Rule 144(k), (iii) such Securities shall have ceased to be outstanding or (iv) such Securities shall have been exchanged for EXCHANGE SECURITIES upon consummation of the Exchange Offer and are thereafter freely tradable by the Holder thereof (other than an Affiliate of the Company).

"REGISTRATION EXPENSES" shall mean any and all expenses incident to performance of or compliance by the Company with this Agreement, including without limitation: (i) all SEC or National Association of Securities Dealers, Inc. (the "NASD") registration and filing fees, including, if applicable, the fees and expenses of any "qualified independent underwriter" (and its counsel) that is required to be retained by any Holder of Registrable Securities in accordance with the rules and regulations of the NASD, (ii) all fees and expenses incurred in connection with compliance with state securities or blue sky laws (including reasonable fees and disbursements of one counsel for all underwriters and Holders as a group in connection with blue sky qualification of any of the Exchange Securities or Registrable Securities) and compliance with the rules of the NASD, (iii) all expenses of any Persons in preparing or assisting in preparing, word processing, printing and distributing any Registration Statement, any Prospectus and any amendments or supplements thereto, and in preparing or assisting in preparing, printing and distributing any underwriting agreements, securities sales agreements and other documents relating to the performance of and compliance with this Agreement, (iv) all rating agency fees, (v) the fees and disbursements of counsel for the Company and of the independent certified public accountants of the Company and its subsidiaries, including the expenses of any "cold comfort" letters required by or incident to the performance of and compliance with this Agreement, (vi) the reasonable fees and expenses of the Trustee and its counsel and any exchange agent or custodian, and (vii) the reasonable fees and expenses of any special experts retained by the Company in connection with any Registration Statement.



"REGISTRATION STATEMENT" shall mean any registration statement of the Company which covers any of the Exchange Securities or Registrable Securities pursuant to the provisions of this Agreement, and all amendments and supplements to any such Registration Statement, including post-effective amendments, in each case including the Prospectus contained therein, all exhibits thereto and all documents incorporated by reference therein.

"RULE 144(k) PERIOD" shall mean the period of two years (or such shorter period as may hereafter be referred to in Rule 144(k) under the Securities Act (or similar successor rule)) commencing on the Issue Date.

"SEC" shall mean the Securities and Exchange Commission.

"SECURITIES" shall have the meaning set forth in the preamble to this Agreement.

"SECURITIES ACT" shall mean the Securities Act of 1933, as amended from time to time.

"SHELF REGISTRATION" shall mean a registration effected pursuant to Section 2(b) hereof.

"SHELF REGISTRATION EVENT" shall have the meaning set forth in Section 2(b) hereof.

"SHELF REGISTRATION EVENT DATE" shall have the meaning set forth in Section 2(b) hereof.

"SHELF REGISTRATION STATEMENT" shall mean a "shelf" registration statement of the Company pursuant to the provisions of Section 2(b) hereof which covers all of the Registrable Securities (except Registrable Securities which the Holders have elected not to include in such Shelf Registration Statement or the Holders of which have not complied with their obligations under the penultimate paragraph of Section 3 hereof or under the penultimate sentence of Section 2(b) hereof) on an appropriate form under Rule 415 under the Securities Act, or any similar rule that may be adopted by the SEC, and all amendments and supplements to such registration statement, including post-effective amendments, in each case including the Prospectus contained therein, all exhibits thereto and all documents incorporated by reference therein.

"SPECIAL INTEREST PREMIUM" shall have the meaning set forth in Section 2(e) hereof.

"TIA" shall have the meaning set forth in Section 3(k) hereof.

"TRUSTEE" shall mean the trustee under the Indenture.

## SECTION 2. REGISTRATION UNDER THE SECURITIES ACT.

(a) EXCHANGE OFFER. Except as set forth in Section 2(b) below, the Company shall, for the benefit of the Holders, at the Company's cost, use its reasonable best efforts to (i) file with the SEC within 150 calendar days after the Issue Date an Exchange Offer Registration Statement on an appropriate form under the Securities Act relating to the Exchange Offer, (ii) cause such Exchange Offer Registration Statement to be declared effective under the Securities Act by the SEC not later than the date which is 180 calendar days after the Issue Date, (iii) keep such Exchange Offer Registration Statement effective for not less than 30 calendar days (or longer if

required by applicable law) after the date notice of the Exchange Offer is mailed to the Holders and (iv) cause the Exchange Offer to be consummated within 225 calendar days after the Issue Date. Promptly after the effectiveness of the Exchange Offer Registration Statement, the Company shall commence the Exchange Offer, it being the objective of such Exchange Offer to enable each Holder eligible and electing to exchange Registrable Securities for a like principal amount of Exchange Securities (provided that such Holder (i) is not an Affiliate of the Company, (ii) is not a broker-dealer tendering Registrable Securities acquired directly from the Company, (iii) acquires the Exchange Securities in the ordinary course of such Holder's business and (iv) has no arrangements or understandings with any Person to participate in the Exchange Offer for the purpose of distributing the Exchange Securities) to transfer such Exchange Securities from and after their receipt without any limitations or restrictions under the Securities Act and under state securities or blue sky laws.

In connection with the Exchange Offer, the Company shall:

- (i) mail to each Holder a copy of the Prospectus forming part of the Exchange Offer Registration Statement, together with an appropriate letter of transmittal and related documents;
- (ii) keep the Exchange Offer open for acceptance for a period of not less than 30 days after the date notice thereof is mailed to the Holders (or longer if required by applicable law) (such period referred to herein as the "EXCHANGE PERIOD");
- (iii) utilize the services of the Depositary for the Exchange Offer with respect to Securities represented by a global certificate;
- (iv) permit Holders to withdraw tendered Registrable Securities at any time prior to the close of business, New York City time, on the last Business Day of the Exchange Period, by sending to the institution specified in the notice to Holders, a telegram, telex, facsimile transmission or letter setting forth the name of such Holder, the principal amount of Registrable Securities delivered for exchange, and a statement that such Holder is withdrawing his election to have such Registrable Securities exchanged;
- (v) notify each Holder that any Registrable Security not tendered by such Holder in the Exchange Offer will remain outstanding and continue to accrue interest but will not retain any rights under this Agreement (except in the case of the Initial Purchasers and Participating Broker-Dealers as provided herein); and
- (vi) otherwise comply in all respects with all applicable laws relating to the Exchange Offer.

As soon as practicable after the close of the Exchange Offer, the Company shall:

- (i) accept for exchange all Registrable Securities or portions thereof duly tendered and not validly withdrawn pursuant to the Exchange Offer in accordance with the terms of the Exchange Offer Registration Statement and letter of transmittal which is an exhibit thereto;

(ii) deliver, or cause to be delivered, to the Trustee for cancellation all Registrable Securities or portions thereof so accepted for exchange by the Company; and

(iii) issue, and cause the Trustee under the Indenture to promptly authenticate and deliver to each Holder, Exchange Securities equal in principal amount to the principal amount of the Securities as are surrendered by such Holder.

Interest on each Exchange Security issued pursuant to the Exchange Offer will accrue from the last date on which interest was paid or duly provided for on the Security surrendered in exchange therefor or, if no interest has been paid on such Security, from the Issue Date. To the extent not prohibited by any law or applicable interpretation of the staff of the SEC, the Company shall use reasonable best efforts to complete the Exchange Offer as provided above, and shall comply with the applicable requirements of the Securities Act, the Exchange Act and other applicable laws in connection with the Exchange Offer. The Exchange Offer shall not be subject to any conditions other than the conditions referred to in Section 2(b)(i) and (ii) below and those conditions that are customary in similar exchange offers. Each Holder of Registrable Securities who wishes to exchange such Registrable Securities for Exchange Securities in the Exchange Offer will be required to make certain customary representations in connection therewith, including, in the case of any Holder, representations that (i) it is not an Affiliate of the Company, (ii) it is not a broker-dealer tendering Registrable Securities acquired directly from the Company, (iii) the Exchange Securities to be received by it are being acquired in the ordinary course of its business and (iv) at the time of the Exchange Offer, it has no arrangements or understandings with any Person to participate in the distribution (within the meaning of the Securities Act) of the Exchange Securities. The Company shall inform the Initial Purchasers, after consultation with the Trustee, of the names and addresses of the Holders to whom the Exchange Offer is made, and the Initial Purchasers shall have the right to contact such Holders in order to facilitate the tender of Registrable Securities in the Exchange Offer.

Upon consummation of the Exchange Offer in accordance with this Section

2(a), the provisions of this Agreement shall continue to apply, *MUTATIS MUTANDIS*, solely with respect to Exchange Securities held by Participating Broker-Dealers, and the Company shall have no further obligation to register the Registrable Securities held by any Holder pursuant to Section 2(b) of this Agreement.

(b) **SHELF REGISTRATION.** If (i) because of any change in law or in currently prevailing interpretations thereof by the staff of the SEC, the Company is not permitted to effect the Exchange Offer as contemplated by Section 2(a) hereof,

(ii) the Exchange Offer is not consummated within 225 days after the Issue Date or (iii) upon the request of any Initial Purchaser with respect to any Registrable Securities held by it, if such Initial Purchaser is not permitted, in the reasonable opinion of Brown & Wood LLP, pursuant to applicable law or applicable interpretations of the staff of the SEC, to participate in the Exchange Offer and thereby receive securities that are freely tradeable without restriction under the Securities Act and applicable blue sky or state securities laws (other than due solely to the status of such Initial Purchaser as an Affiliate of the Company or as a Participating Broker-Dealer) (any of the events specified in (i), (ii) or (iii) being a "SHELF REGISTRATION EVENT", and the date of occurrence thereof,

the "SHELF REGISTRATION EVENT DATE"), then in addition to or in lieu of conducting the Exchange Offer contemplated by Section 2(a), as the case may be, the Company shall promptly notify the Holders in writing thereof and shall, at its cost, file as promptly as practicable after such Shelf Registration Event Date and, in any event, within 90 days after such Shelf Registration Event Date, a Shelf Registration Statement providing for the sale by the Holders of all of the Registrable Securities (other than Registrable Securities owned by Holders who have elected not to include such Registrable Securities in such Shelf Registration Statement or who have not complied with their obligations under the penultimate paragraph of Section 3 hereof or under the penultimate sentence of this Section 2(b), and shall use its reasonable best efforts to cause such Shelf Registration Statement to be declared effective by the SEC as soon as practicable. No Holder of Registrable Securities shall be entitled to include any of its Registrable Securities in any Shelf Registration pursuant to this Agreement unless and until such Holder agrees in writing to be bound by all of the provisions of this Agreement applicable to such Holder and furnishes to the Company in writing, within 15 days after receipt of a request therefor, such information as the Company may, after conferring with counsel with regard to information relating to Holders that would be required by the SEC to be included in such Shelf Registration Statement or Prospectus included therein, reasonably request for inclusion in any Shelf Registration Statement or Prospectus included therein. Each Holder as to which any Shelf Registration is being effected agrees to furnish to the Company all information with respect to such Holder necessary to make the information previously furnished to the Company by such Holder not materially misleading.

The Company agrees to use its reasonable best efforts to keep the Shelf Registration Statement continuously effective and the Prospectus usable for resales for the earlier of: (a) the Rule 144(k) Period or (b) such time as all of the securities covered by the Shelf Registration Statement have been sold pursuant to the Shelf Registration Statement or cease to be Registrable Securities (the "EFFECTIVENESS PERIOD"). The Company shall not permit any securities other than (i) the Company's issued and outstanding securities currently possessing incidental registration rights and (ii) Registrable Securities, to be included in the Shelf Registration. The Company will, in the event a Shelf Registration Statement is declared effective, provide to each Holder of Registrable Securities covered thereby a reasonable number of copies of the Prospectus which is a part of the Shelf Registration Statement, notify each such Holder when the Shelf Registration has become effective and take any other action required to permit unrestricted resales of the Registrable Securities. The Company further agrees, if necessary, to supplement or amend the Shelf Registration Statement, if required by the rules, regulations or instructions applicable to the registration form used by the Company for such Shelf Registration Statement or by the Securities Act or by any other rules and regulations thereunder for shelf registrations, and the Company agrees to furnish to the Holders of Registrable Securities covered by such Shelf Registration Statement copies of any such supplement or amendment promptly after its being used or filed with the SEC.

(c) EXPENSES. The Company shall pay all Registration Expenses in connection with any Registration Statement filed pursuant to Section 2(a) and/or 2(b) hereof and will reimburse the Initial Purchasers for the reasonable fees and disbursements of Brown & Wood LLP incurred in connection with the Exchange Offer. Except as provided herein, each Holder shall pay all expenses of its counsel, underwriting discounts and commissions and transfer taxes, if any,

relating to the sale or disposition of such Holder's Registrable Securities pursuant to the Shelf Registration Statement.

(d) **EFFECTIVE REGISTRATION STATEMENT.** An Exchange Offer Registration Statement pursuant to Section 2(a) hereof or a Shelf Registration Statement pursuant to Section 2(b) hereof will not be deemed to have become effective unless it has been declared effective by the SEC; PROVIDED, HOWEVER, that if, after it has been declared effective, the offering of Registrable Securities pursuant to such Exchange Offer Registration Statement or Shelf Registration Statement is interfered with by any stop order, injunction or other order or requirement of the SEC or any other governmental agency or court, such Exchange Offer Registration Statement or Shelf Registration Statement will be deemed not to have been effective during the period of such interference, until the offering of Registrable Securities pursuant to such Registration Statement may legally resume. The Company will be deemed not to have used its reasonable best efforts to cause the Exchange Offer Registration Statement or the Shelf Registration Statement, as the case may be, to become, or to remain, effective during the requisite period if they voluntarily take any action that would result in any such Registration Statement not being declared effective or that would result in the Holders of Registrable Securities covered thereby not being able to exchange or offer and sell such Registrable Securities during that period, unless such action is required by applicable law.

(e) **SPECIAL INTEREST PREMIUM.** In the event that:

(i) the Exchange Offer Registration Statement is not filed with the SEC on or prior to the 150th day after the Issue Date, then, commencing on the 151st day after the Issue Date, a special interest premium (the "Special Interest Premium") shall accrue on the principal amount of the Securities at a rate of 0.25% per annum;

(ii) the Exchange Offer Registration Statement is not declared effective by the SEC on or prior to the 180th day after the Issue Date, then, commencing on the 181st day after the Issue Date, a Special Interest Premium shall accrue on the principal amount of the Securities at a rate of 0.25% per annum;

(iii) (A) the Company has not exchanged Exchange Securities for all Securities validly tendered in respect of the Exchange Securities, in accordance with the terms of the Exchange Offer on or prior to the 225th day after the Issue Date or (B) if the Shelf Registration Statement is required to be filed pursuant to Section 2(b) but is not declared effective by the SEC on or prior to the 225th day after the Issue Date, then, commencing on the 226th day after the Issue Date, a Special Interest Premium shall accrue on the principal amount of the Securities at the rate of 0.25% per annum; or

(iv) the Shelf Registration Statement has been declared effective and such Shelf Registration Statement ceases to be effective or the Prospectus ceases to be usable for resales (A) at any time prior to the expiration of the Effectiveness Period or (B) if related to corporate developments, public filings or similar events or to correct a material misstatement or omission in the Prospectus, for more than 60 days (whether or not consecutive) in any twelve-month period, then a Special Interest Premium shall accrue on the principal amount of the Securities at a

rate of 0.25% per annum commencing on the day (in the case of (A) above), or the 61st day after (in the case of (B) above), such Shelf Registration Statement ceases to be effective or the Prospectus ceases to be usable for resales;

PROVIDED, HOWEVER, that the aggregate amount of the Special Interest Premium in respect of the Securities may not exceed 0.25% per annum; PROVIDED, FURTHER, HOWEVER, that (1) upon the filing of the Exchange Offer Registration Statement (in the case of clause (i) above), (2) upon the effectiveness of the Exchange Offer Registration Statement (in the case of clause (ii) above), (3) upon the exchange of Exchange Securities for all Securities validly tendered (in the case of clause (iii)(A) above) or upon the effectiveness of the Shelf Registration Statement (in the case of clause (iii) (B) above) or (4) the earlier of (y) such time as the Shelf Registration Statement which had ceased to remain effective or the Prospectus which had ceased to be usable for resales again becomes effective and usable for resales and (z) the expiration of the Effectiveness Period (in the case of clause (iv) above), the Special Interest Premium on the principal amount of the Securities as a result of such clause (or the relevant subclause thereof) shall cease to accrue;

PROVIDED, FURTHER, HOWEVER, that if the Exchange Offer Registration Statement is not declared effective by the SEC on or prior to the 225th day after the Issue Date and the Company shall request Holders to provide the information required by the SEC for inclusion in the Shelf Registration Statement, the Securities owned by Holders who do not provide such information when required pursuant to Section 2(b) will not be entitled to any Special Interest Premium for any day after the 225th day after the Issue Date.

Any Special Interest Premium due pursuant to Section 2(e)(i), (ii), (iii) or (iv) above will be payable in cash on the next succeeding May 1 or November 1, as the case may be, to Holders on the relevant record dates for the payment of interest pursuant to the Indenture.

(f) SPECIFIC ENFORCEMENT. Without limiting the remedies available to the Holders, the Company acknowledges that any failure by the Company to comply with its obligations under Section 2(a) and Section 2(b) hereof may result in material irreparable injury to the Holders for which there is no adequate remedy at law, that it would not be possible to measure damages for such injuries precisely and that, in the event of any such failure, any Holder may obtain such relief as may be required to specifically enforce the Company's obligations under Section 2(a) and Section 2(b) hereof.

SECTION 3. REGISTRATION PROCEDURES. In connection with the obligations of the Company with respect to the Registration Statements pursuant to Sections 2(a) and 2(b) hereof, the Company shall use its reasonable best efforts to:

(a) prepare and file with the SEC a Registration Statement or Registration Statements as prescribed by Sections 2(a) and 2(b) hereof within the relevant time period specified in Section 2 hereof on the appropriate form under the Securities Act, which form shall (i) be selected by the Company, (ii) in the case of a Shelf Registration, be available for the sale of the Registrable Securities by the selling Holders thereof and, in the case of an Exchange Offer, be available for the exchange of Registrable Securities, and (iii) comply as to form in all material respects with the requirements of the applicable form and include all financial statements required by the SEC to be

filed therewith; the Company shall use its reasonable best efforts to cause such Registration Statement to become effective and remain effective (and, in the case of a Shelf Registration Statement, the Prospectus to be usable for resales) in accordance with Section 2 hereof; PROVIDED, HOWEVER, that if (1) such filing is pursuant to Section 2(b), or (2) a Prospectus contained in an Exchange Offer Registration Statement filed pursuant to Section 2(a) is required to be delivered under the Securities Act by any Participating Broker-Dealer who seeks to sell Exchange Securities, before filing any Registration Statement or Prospectus or any amendments or supplements thereto, the Company shall furnish to and afford the Holders of the Registrable Securities and each such Participating Broker-Dealer, as the case may be, covered by such Registration Statement, their counsel and the managing underwriters, if any, a reasonable opportunity to review copies of all such documents (including copies of any documents to be incorporated by reference therein and all exhibits thereto) proposed to be filed; and the Company shall not file any Registration Statement or Prospectus or any amendments or supplements thereto in respect of which the Holders must be afforded an opportunity to review prior to the filing of such document if the Majority Holders of the Registrable Securities, depending solely upon which Holders must be afforded the opportunity of such review, or such Participating Broker-Dealer, as the case may be, their counsel or the managing underwriters, if any, shall reasonably object in a timely manner;

(b) prepare and file with the SEC such amendments and post-effective amendments to each Registration Statement as may be necessary to keep such Registration Statement effective for the Effectiveness Period or the Applicable Period, as the case may be, and cause each Prospectus to be supplemented, if so determined by the Company or requested by the SEC, by any required prospectus supplement and as so supplemented to be filed pursuant to Rule 424 (or any similar provision then in force) under the Securities Act, and comply with the provisions of the Securities Act, the Exchange Act and the rules and regulations promulgated thereunder applicable to it with respect to the disposition of all securities covered by each Registration Statement during the Effectiveness Period or the Applicable Period, as the case may be, in accordance with the intended method or methods of distribution by the selling Holders thereof described in this Agreement (including sales by any Participating Broker-Dealer);

(c) in the case of a Shelf Registration, (i) notify each Holder of Registrable Securities included in the Shelf Registration Statement, at least three Business Days prior to filing, that a Shelf Registration Statement with respect to the Registrable Securities is being filed and advising such Holder that the distribution of Registrable Securities will be made in accordance with the method selected by the Majority Holders of the Registrable Securities, (ii) furnish to each Holder of Registrable Securities included in the Shelf Registration Statement and to each underwriter of an underwritten offering of Registrable Securities, if any, without charge, as many copies of each Prospectus, including each preliminary prospectus, and any amendment or supplement thereto, and such other documents as such Holder or underwriter may reasonably request, in order to facilitate the public sale or other disposition of the Registrable Securities and (iii) consent to the use of the Prospectus or any amendment or supplement thereto by each of the selling Holders of Registrable Securities included in the Shelf Registration Statement in connection with the offering and sale of the Registrable Securities covered by the Prospectus or any amendment or supplement thereto;

(d) in the case of a Shelf Registration, register or qualify the Registrable Securities under all applicable state securities or "blue sky" laws of such jurisdictions by the time the applicable Registration Statement is declared effective by the SEC as any Holder of Registrable Securities covered by a Registration Statement and each underwriter of an underwritten offering of Registrable Securities shall reasonably request in writing in advance of such date of effectiveness, and do any and all other acts and things which may be reasonably necessary or advisable to enable such Holder and underwriter to consummate the disposition in each such jurisdiction of such Registrable Securities owned by such Holder; PROVIDED, HOWEVER, that the Company shall not be required to (i) qualify as a foreign corporation or as a dealer in securities in any jurisdiction where it would not otherwise be required to qualify but for this Section 3(d), (ii) file any general consent to service of process in any jurisdiction where it would not otherwise be subject to such service of process or (iii) subject itself to taxation in any such jurisdiction if it is not then so subject;

(e) (1) in the case of a Shelf Registration or (2) if Participating Broker-Dealers from whom the Company have received prior written notice that they will be utilizing the Prospectus contained in the Exchange Offer Registration Statement as provided in Section 3(t) hereof, are seeking to sell Exchange Securities and are required to deliver Prospectuses, promptly notify each Holder of Registrable Securities, or such Participating Broker-Dealers, as the case may be, their counsel and the managing underwriters, if any, and promptly confirm such notice in writing (i) when a Registration Statement has become effective and when any post-effective amendments thereto become effective, (ii) of any request by the SEC or any state securities authority for amendments and supplements to a Registration Statement or Prospectus or for additional information after the Registration Statement has become effective, (iii) of the issuance by the SEC or any state securities authority of any stop order suspending the effectiveness of a Registration Statement or the qualification of the Registrable Securities or the Exchange Securities to be offered or sold by any Participating Broker-Dealer in any jurisdiction described in Section 3(d) hereof or the initiation of any proceedings for that purpose, (iv) in the case of a Shelf Registration, if, between the effective date of a Registration Statement and the closing of any sale of Registrable Securities covered thereby, the representations and warranties of the Company contained in any purchase agreement, securities sales agreement or other similar agreement cease to be true and correct in all material respects, (v) of the happening of any event or the failure of any event to occur or the discovery of any facts, during the Effectiveness Period, which makes any statement made in such Registration Statement or the related Prospectus untrue in any material respect or which causes such Registration Statement or Prospectus to omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, as well as any other corporate developments, public filings with the SEC or similar events causing such Registration Statement not to be effective or the Prospectus not to be useable for resales and (vi) of the reasonable determination of the Company that a post-effective amendment to the Registration Statement would be appropriate;

(f) obtain the withdrawal of any order suspending the effectiveness of a Registration Statement at the earliest possible moment;



(g) in the case of a Shelf Registration, furnish to each Holder of Registrable Securities included within the coverage of such Shelf Registration Statement, without charge, at least one conformed copy of each Registration Statement relating to such Shelf Registration and any post-effective amendment thereto (without documents incorporated therein by reference or exhibits thereto, unless requested);

(h) in the case of a Shelf Registration, cooperate with the selling Holders of Registrable Securities to facilitate the timely preparation and delivery of certificates representing Registrable Securities to be sold and not bearing any restrictive legends (except any customary legend borne by securities held through The Depository Trust Company or any similar depository) and in such denominations (consistent with the provisions of the Indenture and the officers' certificate establishing the forms and the terms of the Securities pursuant to the Indenture) and registered in such names as the selling Holders or the underwriters may reasonably request at least two Business Days prior to the closing of any sale of Registrable Securities pursuant to such Shelf Registration Statement;

(i) in the case of a Shelf Registration or an Exchange Offer Registration, promptly after the occurrence of any event specified in Section 3(e)(ii), 3(e)(iii), 3(e)(v) (subject to a 60-day grace period within any twelve-month period) or 3(e)(vi) hereof, prepare a supplement or post-effective amendment to such Registration Statement or the related Prospectus or any document incorporated therein by reference or file any other required document so that, as thereafter delivered to the purchasers of the Registrable Securities, such Prospectus will not include any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and the Company shall notify each Holder to suspend use of the Prospectus as promptly as practicable after the occurrence of such an event, and each Holder hereby agrees to suspend use of the Prospectus until the Company has amended or supplemented the Prospectus to correct such misstatement or omission;

(j) obtain a CUSIP number for the Exchange Securities or the Registrable Securities, as the case may be, not later than the effective date of a Registration Statement, and provide the Trustee with certificates for the Exchange Securities or the Registrable Securities, as the case may be, in a form eligible for deposit with the Depository;

(k) cause the Indenture to be qualified under the Trust Indenture Act of 1939, as amended (the "TIA"), in connection with the registration of the Exchange Securities or Registrable Securities, as the case may be, and effect such changes to such documents as may be required for them to be so qualified in accordance with the terms of the TIA and execute, and cause the Trustee to execute, all documents as may be required to effect such changes, and all other forms and documents required to be filed with the SEC to enable such documents to be so qualified in a timely manner;

(l) in the case of a Shelf Registration, enter into such agreements (including underwriting agreements) as are customary in underwritten offerings and take all such other appropriate actions in connection therewith as are reasonably requested by the Holders of at least 25% in

aggregate principal amount of the Registrable Securities in order to expedite or facilitate the registration or the disposition of the Registrable Securities;

(m) in the case of a Shelf Registration, whether or not an underwriting agreement is entered into and whether or not the registration is an underwritten registration, if requested by (x) an Initial Purchaser, in the case where such Initial Purchaser holds Securities acquired by it as part of its initial placement and Holders of at least 25% in aggregate principal amount of the Registrable Securities covered thereby: (i) make such representations and warranties to Holders of such Registrable Securities and the underwriters (if any), with respect to the business of the Company and its subsidiaries as then conducted and the Registration Statement, Prospectus and documents, if any, incorporated or deemed to be incorporated by reference therein, in each case, as are customarily made by issuers to underwriters in underwritten offerings, and confirm the same if and when requested; (ii) obtain opinions of counsel to the Company and updates thereof (which may be in the form of a reliance letter) in form and substance reasonably satisfactory to the managing underwriters (if any) and the Holders of a majority in amount of the Registrable Securities being sold, addressed to each selling Holder and the underwriters (if any) covering the matters customarily covered in opinions requested in underwritten offerings and such other matters as may be reasonably requested by such underwriters (it being agreed that the matters to be covered by such opinion may be subject to customary qualifications and exceptions); (iii) obtain "cold comfort" letters and updates thereof in form and substance reasonably satisfactory to the managing underwriters from the independent certified public accountants of the Company, and its subsidiaries (and, if necessary, any other independent certified public accountants of any business acquired or to be acquired by the Company for which financial statements and financial data are, or are required to be, included in the Registration Statement), addressed to each of the underwriters, such letters to be in customary form and covering matters of the type customarily covered in "cold comfort" letters in connection with underwritten offerings and such other matters as reasonably requested by such underwriters in accordance with Statement on Auditing Standards No. 72; and (iv) if an underwriting agreement is entered into, the same shall contain indemnification provisions and procedures no less favorable than those set forth in Section 4 hereof (or such other provisions and procedures acceptable to Holders of a majority in aggregate principal amount of Registrable Securities covered by such Registration Statement and the managing underwriters) customary for such agreements with respect to all parties to be indemnified pursuant to said Section (including, without limitation, such underwriters and selling Holders); and in the case of an underwritten registration, the above requirements shall be satisfied at each closing under the related underwriting agreement or as and to the extent required thereunder;

(n) if (1) a Shelf Registration is filed pursuant to Section 2(b) or (2) a Prospectus contained in an Exchange Offer Registration Statement filed pursuant to Section 2(a) is required to be delivered under the Securities Act by any Participating Broker-Dealer who seeks to sell Exchange Securities during the Applicable Period, make reasonably available for inspection by any selling Holder of Registrable Securities or Participating Broker-Dealer, as applicable, who certifies to the Company that it has a current intention to sell Registrable Securities pursuant to the Shelf Registration, any underwriter participating in any such disposition of Registrable Securities, if any, and any attorney, accountant or other agent retained by any such selling

Holder, Participating Broker-Dealer, as the case may be, or underwriter (collectively, the "INSPECTORS"), at the offices where normally kept, during the Company's normal business hours, all financial and other records, pertinent organizational and operational documents and properties of the Company and its subsidiaries (collectively, the "RECORDS") as shall be reasonably necessary to enable them to conduct due diligence activities, and cause the officers, trustees and employees of the Company and its subsidiaries to supply all relevant information in each case reasonably requested by any such Inspector in connection with such Registration Statement; records and information which the Company determines, in good faith, to be confidential and any Records and information which it notifies the Inspectors are confidential shall not be disclosed to any Inspector except where (i) the disclosure of such Records or information is necessary to avoid or correct a material misstatement or omission in such Registration Statement, (ii) the release of such Records or information is ordered pursuant to a subpoena or other order from a court of competent jurisdiction or is necessary in connection with any action, suit or proceeding or (iii) such Records or information previously has been made generally available to the public; each selling Holder of such Registrable Securities and each such Participating Broker-Dealer will be required to agree in writing that Records and information obtained by it as a result of such inspections shall be deemed confidential and shall not be used by it as the basis for any market transactions in the securities of the Company unless and until such is made generally available to the public through no fault of an Inspector or a selling Holder; and each selling Holder of such Registrable Securities and each such Participating Broker-Dealer will be required to further agree in writing that it will, upon learning that disclosure of such Records or information is sought in a court of competent jurisdiction, or in connection with any action, suit or proceeding, give notice to the Company and allow the Company at its expense to undertake appropriate action to prevent disclosure of the Records and information deemed confidential;

(o) comply with all applicable rules and regulations of the SEC so long as any provision of this Agreement shall be applicable and make generally available to its securityholders earning statements satisfying the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder (or any similar rule promulgated under the Securities Act) no later than 45 days after the end of any 12-month period (or 60 days after the end of any 12-month period if such period is a fiscal year) (i) commencing at the end of any fiscal quarter in which Registrable Securities are sold to underwriters in a firm commitment or best efforts underwritten offering and (ii) if not sold to underwriters in such an offering, commencing on the first day of the first fiscal quarter of the Company after the effective date of a Registration Statement, which statements shall cover said 12-month periods, provided that the obligations under this paragraph

(o) shall be satisfied by the timely filing of quarterly and annual reports on Forms 10-Q and 10-K under the Exchange Act;

(p) upon consummation of an Exchange Offer, if requested by the Trustee, obtain an opinion of counsel to the Company addressed to the Trustee for the benefit of all Holders of Registrable Securities participating in the Exchange Offer, substantially to the effect that the Company has duly authorized, executed and delivered the Exchange Securities and the Exchange Securities constitutes a legal, valid and binding obligation of the Company, enforceable against the Company, in accordance with its terms (with customary exceptions);

(q) if an Exchange Offer is to be consummated, upon delivery of the Registrable Securities by Holders to the Company (or to such other Person as directed by the Company), in exchange for the Exchange Securities, the Company shall mark, or cause to be marked, on such Securities delivered by such Holders that such Securities are being cancelled in exchange for the Exchange Securities; it being understood that in no event shall such be marked as paid or otherwise satisfied;

(r) cooperate with each seller of Registrable Securities covered by any Registration Statement and each underwriter, if any, participating in the disposition of such Registrable Securities and their respective counsel in connection with any filings required to be made with the NASD;

(s) take all other steps necessary to effect the registration of the Registrable Securities covered by a Registration Statement contemplated hereby;

(t) (A) in the case of the Exchange Offer Registration Statement (i) include in the Exchange Offer Registration Statement a section entitled "Plan of Distribution," which section shall be reasonably acceptable to the Initial Purchasers or another representative of the Participating Broker-Dealers, and which shall contain a summary statement of the positions taken or policies made by the staff of the SEC with respect to the potential "underwriter" status of any broker-dealer that holds Registrable Securities acquired for its own account as a result of market-making activities or other trading activities (a "PARTICIPATING BROKER-DEALER") and that will be the beneficial owner (as defined in Rule 13d-3 under the Exchange Act) of Exchange Securities to be received by such broker-dealer in the Exchange Offer, whether such positions or policies have been publicly disseminated by the staff of the SEC or such positions or policies, in the reasonable judgment of the Initial Purchasers or such other representative, represent the prevailing views of the staff of the SEC, including a statement that any such broker-dealer who receives Exchange Securities for Registrable Securities pursuant to the Exchange Offer may be deemed a statutory underwriter and must deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of such Exchange Securities, (ii) furnish to each Participating Broker-Dealer who has delivered to the Company the notice referred to in Section 3(e), without charge, as many copies of each Prospectus included in the Exchange Offer Registration Statement, including any preliminary Prospectus, and any amendment or supplement thereto, as such Participating Broker-Dealer may reasonably request (the Company hereby consents to the use of the Prospectus forming part of the Exchange Offer Registration Statement or any amendment or supplement thereto by any Person subject to the prospectus delivery requirements of the Securities Act, including all Participating Broker-Dealers, in connection with the sale or transfer of the Exchange Securities covered by the Prospectus or any amendment or supplement thereto), (iii) use its reasonable best efforts to keep the Exchange Offer Registration Statement effective and to amend and supplement the Prospectus contained therein in order to permit such Prospectus to be lawfully delivered by all Persons subject to the prospectus delivery requirements of the Securities Act for such period of time as such Persons must comply with such requirements under the Securities Act and applicable rules and regulations in order to resell the Exchange Securities; PROVIDED, HOWEVER, that such period shall not be required to exceed 225 days (or such longer period if extended pursuant to the last

sentence of Section 3 hereof) (the "APPLICABLE PERIOD"), and (iv) include in the transmittal letter or similar documentation to be executed by an exchange offeree in order to participate in the Exchange Offer (x) the following provision:

"If the exchange offeree is a broker-dealer holding Registrable Securities acquired for its own account as a result of market-making activities or other trading activities, it will deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of Exchange Securities received in respect of such Registrable Securities pursuant to the Exchange Offer"; and

(y) a statement to the effect that by a broker-dealer making the acknowledgment described in clause (x) and by delivering a Prospectus in connection with the exchange of Registrable Securities, the broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act; and

(B) in the case of any Exchange Offer Registration Statement, the Company agrees to deliver to the Initial Purchasers or to another representative of the Participating Broker-Dealers, if reasonably requested by an Initial Purchaser or such other representative of Participating Broker-Dealers, on behalf of the Participating Broker-Dealers upon consummation of the Exchange Offer (i) an opinion of counsel in form and substance reasonably satisfactory to such Initial Purchaser or such other representative of the Participating Broker-Dealers, covering the matters customarily covered in opinions requested in connection with Exchange Offer Registration Statements and such other matters as may be reasonably requested (it being agreed that the matters to be covered by such opinion may be subject to customary qualifications and exceptions), (ii) an officers' certificate substantially similar to that specified in Section 6(d) and (e) of the Purchase Agreement and such additional certifications as are customarily delivered in a public offering of debt securities and (iii) upon the effectiveness of the Exchange Offer Registration Statement, comfort letters, in each case, in customary form if permitted by Statement on Auditing Standards No. 72.

The Company may require each seller of Registrable Securities as to which any registration is being effected to furnish to the Company such information regarding such seller as may be required by the staff of the SEC to be included in a Registration Statement. The Company may exclude from such registration the Registrable Securities of any seller who unreasonably fails to furnish such information within a reasonable time after receiving such request. The Company shall have no obligation to register under the Securities Act the Registrable Securities of a seller who so fails to furnish such information.

In the case of a Shelf Registration Statement, or if Participating Broker-Dealers who have notified the Company that they will be utilizing the Prospectus contained in the Exchange Offer Registration Statement as provided in this Section 3(t) hereof are seeking to sell Exchange Securities and are required to deliver Prospectuses, each Holder agrees that, upon receipt of any notice from the Company of the occurrence of any event specified in Section

3(e)(ii), 3(e)(iii), 3(e)(v) or 3(e)(vi) hereof, such Holder will forthwith discontinue disposition of Registrable Securities pursuant to a Registration Statement until such Holder's receipt of the copies of the

supplemented or amended Prospectus contemplated by Section 3(i) hereof or until it is advised in writing (the "ADVICE") by the Company that the use of the applicable Prospectus may be resumed, and, if so directed by the Company, such Holder will deliver to the Company (at the Company's expense) all copies in such Holder's possession, other than permanent file copies then in such Holder's possession, of the Prospectus covering such Registrable Securities or Exchange Securities, as the case may be, current at the time of receipt of such notice. If the Company shall give any such notice to suspend the disposition of Registrable Securities or Exchangeable Securities, as the case may be, pursuant to a Registration Statement, the Company shall use its reasonable best efforts to file and have declared effective (if an amendment) as soon as practicable after the resolution of the related matters an amendment or supplement to the Registration Statement and shall extend the period during which such Registration Statement is required to be maintained effective and the Prospectus usable for resales pursuant to this Agreement by the number of days in the period from and including the date of the giving of such notice to and including the date when the Company shall have made available to the Holders (x) copies of the supplemented or amended Prospectus necessary to resume such dispositions or (y) the Advice.

**SECTION 4. INDEMNIFICATION AND CONTRIBUTION.** (a) In connection with any Registration Statement, the Company shall indemnify and hold harmless the Initial Purchasers, each Holder, each underwriter who participates in an offering of the Registrable Securities, each Participating Broker-Dealer, each Person, if any, who controls any of such parties within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act and each of their respective directors, officers, employees and agents, as follows:

(i) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, arising out of any untrue statement or alleged untrue statement of a material fact contained in any Registration Statement (or any amendment or supplement thereto), covering Registrable Securities or Exchange Securities, as applicable, or the omission or alleged omission therefrom of a material fact required to be stated therein, in the light of the circumstances under which they were made, not misleading;

(ii) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, to the extent of the aggregate amount paid in settlement of any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or of any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission; provided that (subject to Section 4(d) hereof) any such settlement is effected with the prior written consent of the Company; and

(iii) against any and all expenses whatsoever, as incurred (including the reasonable fees and disbursements of counsel chosen by such Holder, such Participating Broker-Dealer, or any underwriter (except to the extent otherwise expressly provided in Section 4(c) hereof)), reasonably incurred in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue statement or omission, or any such alleged

untrue statement or omission, to the extent that any such expense is not paid under subparagraph (i) or (ii) of this Section 4(a);

PROVIDED, HOWEVER, that this indemnity does not apply to any loss, liability, claim, damage or expense to the extent arising out of an untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with written information furnished in writing to the Company by the Initial Purchasers or such Holder, underwriter or Participating Broker-Dealer for use in a Registration Statement (or any amendment thereto) or any Prospectus (or any amendment or supplement thereto).

(b) Each Holder agrees, severally and not jointly, to indemnify and hold harmless the Company, each Initial Purchaser, each underwriter who participates in the offering of Registrable Securities, each Participating Broker-Dealer, the other Holders, and each Person, if any, who controls any of such parties within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act and each of their respective directors, officers, employees and agents, against any and all loss, liability, claim, damage and expense whatsoever described in the indemnity contained in Section 4(a) hereof, as incurred, but only with respect to untrue statements or omissions, or alleged untrue statements or omissions, made in a Registration Statement (or any amendment thereto) or any Prospectus (or any amendment or supplement thereto) in reliance upon and in conformity with written information furnished to the Company by such Holder expressly for use in such Registration Statement (or any amendment thereto), or any such Prospectus (or any amendment or supplement thereto); PROVIDED, HOWEVER, that in the case of a Shelf Registration Statement, no such Holder shall be liable for any claims hereunder in excess of the amount of net proceeds received by such Holder from the sale of Registrable Securities pursuant to such Shelf Registration Statement.

(c) Each indemnified party shall give notice as promptly as reasonably practicable to each indemnifying party of any action commenced against it in respect of which indemnity may be sought hereunder, but failure to so notify an indemnifying party shall not relieve such indemnifying party from any liability which it may have under this Section 4 to the extent that it is not materially prejudiced by such failure as a result thereof, and in any event shall not relieve it from liability which it may have otherwise on account of this indemnity agreement. In the case of parties indemnified pursuant to Section 4(a) or (b) above, counsel to the indemnified parties shall be selected by such parties. An indemnifying party may participate at its own expense in the defense of such action; provided, however, that counsel to the indemnifying party shall not (except with the consent of the indemnified party) also be counsel to the indemnified party. In no event shall the indemnifying parties be liable for the fees and expenses of more than one counsel (in addition to local counsel), separate from their own counsel, for all indemnified parties in connection with any one action or separate but similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances. No indemnifying party shall, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever in respect of which indemnification or contribution could be sought under this Section 4 (whether or not the indemnified parties are actual or potential parties thereto), unless

such settlement, compromise or consent (i) includes an unconditional written release of each indemnified party from all liability arising out of such litigation, investigation, proceeding or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any indemnified party.

(d) If at any time an indemnified party shall have validly requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel, such indemnifying party agrees that it shall be liable for any settlement of the nature contemplated by Section 4(a)(ii) effected without its written consent if (i) such settlement is entered into more than 45 days after receipt by such indemnifying party of the aforesaid request, (ii) such indemnifying party shall have received notice of the terms of such settlement at least 30 days prior to such settlement being entered into and (iii) such indemnifying party shall not have reimbursed such indemnified party in accordance with such request prior to the date of such settlement.

(e) In order to provide for just and equitable contribution in circumstances under which any of the indemnity provisions set forth in this Section 4 is for any reason held to be unenforceable by an indemnified party although applicable in accordance with its terms, the Company and the Holders shall contribute to the aggregate losses, liabilities, claims, damages and expenses of the nature contemplated by such indemnity agreement incurred by the Company and the Holders, as incurred; PROVIDED, HOWEVER, that no Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person that was not guilty of such fraudulent misrepresentation. As between the Company and the Holders, such parties shall contribute to such aggregate losses, liabilities, claims, damages and expenses of the nature contemplated by such indemnity agreement in such proportion as shall be appropriate to reflect the relative fault of the Company, on the one hand, and the Holders, on the other hand, with respect to the statements or omissions which resulted in such loss, liability, claim, damage or expense, or action in respect thereof, as well as any other relevant equitable considerations. The relative fault of the Company, on the one hand, and of the Holders, on the other hand, shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company, on the one hand, or by or on behalf of the Holders, on the other, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Holders agree that it would not be just and equitable if contribution pursuant to this Section 4 were to be determined by pro rata allocation or by any other method of allocation that does not take into account the relevant equitable considerations. For purposes of this Section 4, each Affiliate of a Holder, and each director, officer and employee and Person, if any, who controls a Holder or such Affiliate within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act shall have the same rights to contribution as such Holder and each Person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act shall have the same rights to contribution as the Company.

**SECTION 5. PARTICIPATION IN AN UNDERWRITTEN REGISTRATION.** No Holder may participate in an underwritten registration hereunder unless such Holder (a) agrees to sell such Holder's



Registrable Securities on the basis provided in the underwriting arrangement approved by the Persons entitled hereunder to approve such arrangements and (b) completes and executes all reasonable questionnaires, powers of attorney, indemnities, underwriting agreements, lock-up letters and other documents reasonably required under the terms of such underwriting arrangements.

**SECTION 6. SELECTION OF UNDERWRITERS.** The Holders of Registrable Securities covered by the Shelf Registration Statement who desire to do so may sell the Securities covered by such Shelf Registration in an underwritten offering, subject to the provisions of Section 3(1) hereof. In any such underwritten offering, the underwriter or underwriters and manager or managers that will administer the offering will be selected by the Holders of a majority in aggregate principal amount of the Registrable Securities included in such offering; PROVIDED, HOWEVER, that such underwriters and managers must be reasonably satisfactory to the Company.

**SECTION 7. MISCELLANEOUS.**

(a) **RULE 144 AND RULE 144A.** For so long as the Company is subject to the reporting requirements of Section 13 or 15 of the Exchange Act and any Registrable Securities remain outstanding, the Company will file the reports required to be filed by it under the Securities Act and Section 13(a) or 15(d) of the Exchange Act and the rules and regulations adopted by the SEC thereunder; PROVIDED, HOWEVER, that if the Company ceases to be so required to file such reports, it will, upon the request of any Holder of Registrable Securities, (a) make publicly available such information as is necessary to permit sales of its securities pursuant to Rule 144 under the Securities Act, (b) deliver such information to a prospective purchaser as is necessary to permit sales of its securities pursuant to Rule 144A under the Securities Act, and (c) take such further action that is reasonable in the circumstances, in each case, to the extent required from time to time to enable such Holder to sell its Registrable Securities without registration under the Securities Act within the limitation of the exemptions provided by (i) Rule 144 under the Securities Act, as such rule may be amended from time to time, (ii) Rule 144A under the Securities Act, as such rule may be amended from time to time, or (iii) any similar rules or regulations hereafter adopted by the SEC. Upon the request of any Holder of Registrable Securities, the Company will deliver to such Holder a written statement as to whether it has complied with such requirements.

(b) **NO INCONSISTENT AGREEMENTS.** The Company has not entered into, nor will the Company on or after the date of this Agreement enter into, any agreement which is inconsistent with the rights granted to the Holders of Registrable Securities in this Agreement or otherwise conflicts with the provisions hereof. The rights granted to the Holders hereunder do not in any way conflict with and are not inconsistent with the rights granted to the holders of the Company's other issued and outstanding securities under any such agreements.

(c) **AMENDMENTS AND WAIVERS.** The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, unless the Company has obtained the written consent of Holders of a majority in aggregate principal amount of the

outstanding Registrable Securities affected by such amendment, modification, supplement, waiver or departure; PROVIDED that no amendment, modification or supplement or waiver or consent to the departure with respect to the provisions of Section 4 hereof shall be effective as against any Holder of Registrable Securities unless consented to in writing by such Holder of Registrable Securities. Notwithstanding the foregoing sentence (i) this Agreement may be amended, without the consent of any Holder of Registrable Securities, by written agreement signed by the Company and the Initial Purchasers, to cure any ambiguity, correct or supplement any provision of this Agreement that may be inconsistent with any other provision of this Agreement or to make any other provisions with respect to matters or questions arising under this Agreement which shall not be inconsistent with other provisions of this Agreement, (ii) this Agreement may be amended, modified or supplemented, and waivers and consents to departures from the provisions hereof may be given, by written agreement signed by the Company and the Initial Purchasers to the extent that any such amendment, modification, supplement, waiver or consent is, in their reasonable judgment, necessary or appropriate to comply with applicable law (including any interpretation of the Staff of the SEC) or any change therein and (iii) to the extent any provision of this Agreement relates to an Initial Purchaser, such provision may be amended, modified or supplemented, and waivers or consents to departures from such provisions may be given, by written agreement signed by such Initial Purchaser and the Company.

(d) NOTICES. All notices and other communications provided for or permitted hereunder shall be made in writing by hand-delivery, registered first-class mail, telex, telecopier, or any courier guaranteeing overnight delivery (i) if to a Holder, at the most current address given by such Holder to the Company by means of a notice given in accordance with the provisions of this Section 7(d), which address initially is, with respect to each Initial Purchaser, the address set forth in the Purchase Agreement; and (ii) if to the Company, initially at the Company's address set forth in the Purchase Agreement and thereafter at such other address, notice of which is given in accordance with the provisions of this Section 7(d).

All such notices and communications shall be deemed to have been duly given: at the time delivered by hand, if personally delivered; five Business Days after being deposited in the mail, postage prepaid, if mailed; when answered back, if telexed; when receipt is acknowledged, if telecopied; and on the next Business Day, if timely delivered to an air courier guaranteeing overnight delivery.

Copies of all such notices, demands, or other communications shall be concurrently delivered by the Person giving the same to the Trustee, at the address specified in the Indenture.

(e) SUCCESSORS AND ASSIGNS. This Agreement shall inure to the benefit of and be binding upon the successors, assigns and transferees of the Initial Purchasers, including, without limitation and without the need for an express assignment, subsequent Holders; PROVIDED, HOWEVER, that nothing herein shall be deemed to permit any assignment, transfer or other disposition of Registrable Securities in violation of the terms of the Purchase Agreement or the Indenture. If any transferee of any Holder shall acquire Registrable Securities in any manner, whether by operation of law or otherwise, such Registrable Securities shall be held subject to all of the terms of this Agreement, and by taking and holding such Registrable Securities, such

Person shall be conclusively deemed to have agreed to be bound by and to perform all of the terms and provisions of this Agreement and such Person shall be entitled to receive the benefits hereof.

(f) **THIRD PARTY BENEFICIARIES.** Each Holder and any Participating Broker-Dealer shall be third party beneficiaries of the agreements made hereunder among the Initial Purchasers and the Company, and the Initial Purchasers shall have the right to enforce such agreements directly to the extent it deems such enforcement necessary or advisable to protect its rights or the rights of Holders hereunder.

(g) **COUNTERPARTS.** This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

(h) **HEADINGS.** The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(i) **GOVERNING LAW.** THIS AGREEMENT SHALL BE DEEMED TO HAVE BEEN MADE IN THE STATE OF NEW YORK. THE VALIDITY AND INTERPRETATION OF THIS AGREEMENT, AND THE TERMS AND CONDITIONS SET FORTH HEREIN, SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO ANY PROVISIONS RELATING TO CONFLICTS OF LAWS.

(j) **SEVERABILITY.** In the event that any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions contained herein shall not be affected or impaired thereby.

(k) **SECURITIES HELD BY THE COMPANY OR ITS AFFILIATES.** Whenever the consent or approval of Holders of a specified percentage of Registrable Securities is required hereunder, Registrable Securities held by the Company or its Affiliates shall not be counted in determining whether such consent or approval was given by the Holders of such required percentage.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

**U S WEST COMMUNICATIONS, INC.**

By: /s/ Sean P. Foley  
-----  
Name: Sean P. Foley  
Title: Vice President - Treasurer

Confirmed and accepted as of  
the date first above written:  
**SALOMON SMITH BARNEY INC.**  
**ABN AMRO INCORPORATED**  
**BANC OF AMERICA SECURITIES LLC**  
**CHASE SECURITIES INC.**

By: SALOMON SMITH BARNEY INC.

By: /s/ Alan B. Mitchell  
-----  
Authorized Signatory

For themselves and as Representatives of the several Initial Purchasers

**EXHIBIT 4(C)**

---

**U S WEST COMMUNICATIONS, Inc.,  
Issuer**

and

**BANK ONE TRUST COMPANY, NA,  
Trustee**

**INDENTURE**

**DATED AS OF OCTOBER 15, 1999**

Providing for the Issuance of Debt  
Securities in Series

---

## TIE-SHEET

Reconciliation and tie between Indenture dated as of October 15, 1999 and the Trust Indenture Act of 1939. This reconciliation section does not constitute part of the Indenture.

TRUST INDENTURE ACT OF 1939 SECTION	INDENTURE SECTION
310(a)(1).....	7.10
(a)(2).....	7.10
(a)(3).....	Inapplicable
(a)(4).....	Inapplicable
(b).....	7.08, 7.10
(c).....	Inapplicable
311(a).....	7.11
(b).....	7.11
(c).....	Inapplicable
312(a).....	2.07
(b).....	11.03
(c).....	11.03
313(a).....	7.06
(b)(1).....	Inapplicable
(b)(2).....	7.06
(c).....	4.02, 11.02
(d).....	7.06
314(a).....	4.02, 11.02
(b).....	Inapplicable
(c)(1).....	11.04
(c)(2).....	11.04
(c)(3).....	Inapplicable
(d).....	Inapplicable
(e).....	11.05
(f).....	Inapplicable
315(a).....	7.01(b)
(b).....	7.05, 11.02
(c).....	7.01(a)
(d).....	6.05, 7.01(c),
(e).....	6.07, 6.11
316(a) (last sentence).....	2.11
(a)(1)(A).....	6.05
(a)(1)(B).....	6.04
(a)(2).....	Inapplicable
(b).....	6.07
317(a)(1).....	6.01, 6.08
(a)(2).....	6.09
(b).....	2.06
318(a).....	11.01

## TABLE OF CONTENTS\*

### ARTICLE 1. DEFINITIONS AND INCORPORATION BY REFERENCE

Section 1.01	DEFINITIONS.....	1
Section 1.02	OTHER DEFINITIONS.....	4
Section 1.03	INCORPORATION BY REFERENCE OF TRUST INDENTURE ACT.....	4
Section 1.04	RULES OF CONSTRUCTION.....	4

### ARTICLE 2. THE SECURITIES

Section 2.01	ISSUABLE IN SERIES.....	5
Section 2.02	ESTABLISHMENT OF TERMS AND FORM OF SERIES OF SECURITIES.....	5
Section 2.03	EXECUTION, AUTHENTICATION, AND DELIVERY.....	7
Section 2.04	REGISTRAR AND PAYING AGENT.....	9
Section 2.05	PAYMENT ON SECURITIES.....	9
Section 2.06	PAYING AGENT TO HOLD MONEY IN TRUST.....	10
Section 2.07	SECURITYHOLDER LISTS; OWNERSHIP OF SECURITIES.....	11
Section 2.08	TRANSFER AND EXCHANGE.....	11
Section 2.09	REPLACEMENT SECURITIES.....	12
Section 2.10	OUTSTANDING SECURITIES.....	13
Section 2.11	TREASURY SECURITIES.....	14
Section 2.12	TEMPORARY SECURITIES.....	14
Section 2.13	CANCELLATION.....	15
Section 2.14	DEFAULTED INTEREST.....	15
Section 2.15	GLOBAL SECURITIES.....	15

### ARTICLE 3. REDEMPTION

Section 3.01	NOTICE TO THE TRUSTEE.....	16
Section 3.02	SELECTION OF SECURITIES TO BE REDEEMED.....	16
Section 3.03	NOTICE OF REDEMPTION.....	17
Section 3.04	EFFECT OF NOTICE OF REDEMPTION.....	18
Section 3.05	DEPOSIT OF REDEMPTION PRICE.....	18
Section 3.06	SECURITIES REDEEMED IN PART.....	18

ARTICLE 4.  
COVENANTS

Section 4.01	PAYMENT OF SECURITIES.....	18
Section 4.02	REPORTS BY THE COMPANY.....	18
Section 4.03	LIEN ON ASSETS.....	19

ARTICLE 5.  
SUCCESSOR CORPORATION

Section 5.01	WHEN THE COMPANY MAY MERGE, ETC.....	20
--------------	--------------------------------------	----

ARTICLE 6.  
DEFAULTS AND REMEDIES

Section 6.01	EVENTS OF DEFAULT.....	20
Section 6.02	ACCELERATION.....	21
Section 6.03	OTHER REMEDIES AVAILABLE TO TRUSTEE.....	21
Section 6.04	WAIVER OF EXISTING DEFAULTS.....	22
Section 6.05	CONTROL BY MAJORITY.....	22
Section 6.06	LIMITATION ON SUITS BY SECURITYHOLDERS.....	22
Section 6.07	RIGHTS OF HOLDERS TO RECEIVE PAYMENT.....	23
Section 6.08	COLLECTION SUITS BY TRUSTEE.....	23
Section 6.09	TRUSTEE MAY FILE PROOFS OF CLAIM.....	23
Section 6.10	PRIORITIES.....	23
Section 6.11	UNDERTAKING FOR COSTS.....	23

ARTICLE 7.  
TRUSTEE

Section 7.01	DUTIES OF TRUSTEE.....	24
Section 7.02	RIGHTS OF TRUSTEE.....	25
Section 7.03	INDIVIDUAL RIGHTS OF TRUSTEE.....	25
Section 7.04	TRUSTEE'S DISCLAIMER.....	25
Section 7.05	NOTICE OF DEFAULTS.....	26
Section 7.06	REPORTS BY TRUSTEE TO HOLDERS.....	26
Section 7.07	COMPENSATION AND INDEMNITY.....	26
Section 7.08	REPLACEMENT OF TRUSTEE.....	27
Section 7.09	SUCCESSOR TRUSTEE, AGENTS BY MERGER, ETC.....	29
Section 7.10	ELIGIBILITY; DISQUALIFICATION.....	29
Section 7.11	PREFERENTIAL COLLECTION OF CLAIMS AGAINST THE COMPANY.....	29



ARTICLE 8.  
DISCHARGE OF INDENTURE

Section 8.01	TERMINATION OF THE COMPANY'S OBLIGATIONS.....	29
Section 8.02	APPLICATION OF TRUST MONEY.....	30
Section 8.03	REPAYMENT TO THE COMPANY.....	30
Section 8.04	INDEMNITY FOR GOVERNMENT OBLIGATIONS.....	31

ARTICLE 9.  
AMENDMENTS AND WAIVERS

Section 9.01	WITHOUT CONSENT OF HOLDERS.....	31
Section 9.02	WITH CONSENT OF HOLDERS.....	32
Section 9.03	COMPLIANCE WITH TRUST INDENTURE ACT.....	33
Section 9.04	REVOCATION AND EFFECT OF CONSENTS.....	33
Section 9.05	NOTATION ON OR EXCHANGE OF SECURITIES.....	33
Section 9.06	TRUSTEE PROTECTED.....	33

ARTICLE 10.  
SINKING FUNDS

Section 10.01	APPLICABILITY OF ARTICLE.....	33
Section 10.02	SATISFACTION OF SINKING FUND PAYMENTS WITH SECURITIES.....	34
Section 10.03	REDEMPTION OF SECURITIES FOR SINKING FUND.....	34

ARTICLE 11.  
MISCELLANEOUS

Section 11.01	TRUST INDENTURE ACT CONTROLS.....	35
Section 11.02	NOTICES.....	35
Section 11.03	COMMUNICATION BY HOLDERS WITH OTHER HOLDERS.....	36
Section 11.04	CERTIFICATE AND OPINION AS TO CONDITIONS PRECEDENT.....	36
Section 11.05	STATEMENTS REQUIRED IN CERTIFICATE OR OPINION.....	36
Section 11.06	RULES BY TRUSTEE AND AGENTS.....	37
Section 11.07	LEGAL HOLIDAYS.....	37
Section 11.08	GOVERNING LAW.....	37
Section 11.09	NO ADVERSE INTERPRETATION OF OTHER AGREEMENTS.....	37

Section 11.10	NO RECOURSE AGAINST OTHERS.....	37
Section 11.11	EXECUTION IN COUNTERPARTS.....	37
Section 11.12	CURRENCIES.....	37

ARTICLE 12.  
REPAYMENT AT THE OPTION OF HOLDERS

Section 12.01	APPLICABILITY OF ARTICLE.....	38
---------------	-------------------------------	----

---

\*This Table of Contents does not constitute part of this Indenture.

INDENTURE dated as of October 15, 1999 between U S WEST COMMUNICATIONS, Inc., a Colorado corporation (the "COMPANY"), and Bank One Trust Company, NA, a national banking association (the "TRUSTEE").

## **RECITALS OF THE COMPANY**

The Company has duly authorized the execution and delivery of this Indenture to provide for the issuance from time to time of its unsecured and unsubordinated debentures, notes or other evidences of indebtedness ("SECURITIES") as herein provided.

All things necessary to make this Indenture a valid agreement of the Company, in accordance with its terms, have been done.

For and in consideration of the premises and the purchase of the Securities by the Holders thereof, it is mutually covenanted and agreed as follows for the equal and ratable benefit of the Holders of the Securities:

## **ARTICLE 1.**

### **DEFINITIONS AND INCORPORATION BY REFERENCE**

#### Section 1.01 DEFINITIONS.

"AFFILIATE" means any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Company.

"AGENT" means any Paying Agent, Registrar or transfer agent as may be appointed by the Company from time to time.

"AUTHORIZED NEWSPAPER" means a newspaper of general circulation, in the official language of the country of publication or in the English language, customarily published on each business day. Whenever successive weekly publications in an Authorized Newspaper are required hereunder, they may be made (unless otherwise expressly provided herein) on the same or different days of the week and in the same or different Authorized Newspapers.

"BOARD OF DIRECTORS" mean the Board of Directors of the Company or any duly authorized committee thereof.

"BOARD RESOLUTION" means a copy of a resolution of the Board of Directors, certified by the Secretary or an Assistant Secretary of the Company to have been adopted by the Board of Directors and to be in full force and effect on the date of the certificate.

"COMPANY" means the party named as such in this Indenture until a successor replaces it and thereafter means the successor.

"COMPANY ORDER" means an order signed by two Officers of the Company.

"DEPOSITARY" means, with respect to Securities of any Series for which the Company shall determine that such Securities will be issued as a Global Security, The Depository Trust Company, New York, New York, another clearing agency or any successor registered as a clearing agency under the Securities and Exchange Act of 1934, as amended (the "EXCHANGE ACT"), or other applicable statute or regulation, which, in each case, shall be designated by the Company pursuant to either Section 2.02 or 2.15.

"DEFAULT" means any event which is, or after notice or passage of time would be, an Event of Default.

"GLOBAL SECURITY" means, with respect to any Series of Securities, a Security executed by the Company and delivered by the Trustee to the Depository or pursuant to the Depository's instruction, all in accordance with the Indenture, which shall be registered in the name of the Depository or its nominee.

"HOLDER" or "SECURITYHOLDER" means a bearer of an Unregistered Security or of a coupon appertaining thereto or a person in whose name a Registered Security is registered on the Registrar's books.

"INDENTURE" means this Indenture as amended or supplemented from time to time and shall include the forms and terms of particular Series of Securities established as contemplated hereunder.

"INTEREST" when used with respect to an Original Issue Discount Security which by its terms bears interest only after maturity, means interest payable after maturity.

"OFFICER" means the President, any Executive Vice-President, Vice President, the Treasurer, any Assistant Treasurer, the Secretary, any Assistant Secretary or the Comptroller or any Assistant Comptroller of the Company.

"OFFICERS' CERTIFICATE" means a certificate signed by two Officers of the Company.

"OPINION OF COUNSEL" means a written opinion of legal counsel who is acceptable to the Company and the Trustee. The counsel may be an employee of or counsel to the Company or the Trustee.

"ORIGINAL ISSUE DISCOUNT SECURITY" means any Security which provides for an amount less than the stated principal amount thereof to be due and payable upon declaration of acceleration of the maturity thereof pursuant to Section 6.02.

"PRINCIPAL" of a Security means the principal amount of the Security plus, when appropriate, the premium, if any, on the Security.

"REGISTERED SECURITY" means any Security issued hereunder and registered as to principal and interest by the Registrar.

"RESPONSIBLE OFFICER" when used with respect to the Trustee, means the chairman or any vice-chairman of the board of directors or trustees, the chairman or any vice-chairman of the executive committee of the board of directors or trustees, the president, any executive vice-president, any senior vice-president, any vice-president, any assistant vice-president, the treasurer, the secretary, any trust officer, any second or assistant vice-president, or any other officer or assistant officer of the Trustee customarily performing functions similar to those performed by the persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of his knowledge of and familiarity with a particular subject.

"SEC" means the Securities and Exchange Commission.

"SERIES" or "SERIES OF SECURITIES" means a series of Securities.

"SECURITIES" means the debentures, notes or other obligations of the Company issued, authenticated and delivered under this Indenture.

"SUBSIDIARY" means any corporation more than 50% of the outstanding voting stock of which is owned, directly or indirectly, by the Company and/or by one or more other Subsidiaries. For purposes of such definition, "voting stock" means stock ordinarily having voting power for the election of directors, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

"TIA" means the Trust Indenture Act of 1939 (15 U.S.C. Sections 777aaa-777bbb) as in effect on the date of this Indenture, except as provided in Section 9.03.

"TRUSTEE" means the party named as such in this Indenture until a successor replaces it and, thereafter, means the successor and if, at any time, there is more than one Trustee, "Trustee" as used with respect to the Securities of any Series shall mean the Trustee with respect to that Series.

"U.S. PERSON" means a citizen, national or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, or an estate or trust which is subject to United States federal income taxation regardless of its source of income.

"UNREGISTERED SECURITY" means any Security issued hereunder which is not a Registered Security.

"YIELD TO MATURITY" means the yield to maturity, calculated by the Company at the time of issuance of a Series of Securities or, if applicable, at the most recent determination of interest on such Series in accordance with accepted financial practice.

Section 1.02 OTHER DEFINITIONS.

TERM	INDENTURE SECTION
"Bankruptcy Law".....	6.01
"Custodian".....	6.01
"Event of Default".....	6.01
"Legal Holiday".....	11.07
"Paying Agent".....	2.04
"Registrar".....	2.04
"U.S. Government Obligations".....	8.01

Section 1.03 INCORPORATION BY REFERENCE OF TRUST INDENTURE ACT.

Whenever this Indenture refers to a provision of the TIA, the provision is incorporated by reference in and made a part of this Indenture. The following TIA terms used in this Indenture have the following meanings:

- "Commission" means the SEC.
- "indenture securities" means the Securities.
- "indenture security holder" means a Holder or a Securityholder. "indenture to be qualified" means this Indenture.
- "indenture trustee" or "institutional trustee" means the Trustee. "obligor" on the indenture securities means the Company.

All other terms used in this Indenture that are defined by the TIA, defined by TIA reference to another statute or defined by SEC rule under the TIA have the meanings assigned to them therein.

Section 1.04 RULES OF CONSTRUCTION.

Unless the context otherwise requires:

- (1) a term has the meaning assigned to it;
- (2) an accounting term not otherwise defined has the meaning assigned to it in accordance with generally accepted accounting principles;
- (3) "or" is not exclusive; and
- (4) words in the singular include the plural, and words in the plural include the singular.

## **ARTICLE 2.**

### **THE SECURITIES**

#### **Section 2.01 ISSUABLE IN SERIES.**

The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is unlimited. The Securities may be issued in one or more Series. There may be Registered Securities and Unregistered Securities within a Series and the Unregistered Securities may be subject to such restrictions, and contain such legends, as may be required by United States laws and regulations. All Series of Securities shall be equally and ratably entitled to the benefits of this Indenture.

#### **Section 2.02 ESTABLISHMENT OF TERMS AND FORM OF SERIES OF SECURITIES.**

(a) At or prior to the issuance of any Series of Securities, the following shall be established by a Company Board Resolutions, by one or more Officers of the Company pursuant to a Company Board Resolution, or by an indenture supplemental hereto:

(1) the title of the Securities of the Series (which title shall distinguish the Securities of the Series from the Securities of any other Series and from any other securities issued by the Company);

(2) any limit upon the aggregate principal amount of the Securities of the Series which may be authenticated and delivered under this Indenture (which limit shall not pertain to Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities of the Series pursuant to Section 2.08, 2.09, 2.12, 3.06 or 9.05);

(3) the date or dates on which the principal of the Securities of the Series is payable;

(4) the rate or rates at which the Securities of the Series shall bear interest, if any, or the manner of determining such rate or rates of interest, the date or dates from which such interest shall accrue, the dates on which such interest shall be payable, and, with respect to Registered Securities, the record date for the interest payable on any interest payment date, and the basis upon which interest shall be calculated if other than on the basis of a 360-day year of twelve 30-day months;

(5) the place or places where the principal of and interest on Registered and Unregistered, if any, Securities of the Series shall be payable;

(6) the period or periods within which, the price or prices at which, and the terms and conditions upon which, Securities of the Series may be redeemed, in whole or in part, at the option of the Company;

(7) the obligation, if any, of the Company to redeem or purchase Securities of the Series pursuant to any sinking fund or analogous provisions or upon the happening of a specified event or at the option of a Holder thereof and the period or periods within which, the price or prices at which, and the terms and conditions upon which, Securities of the Series shall be redeemed or purchased, in whole or in part, pursuant to such obligation;

(8) if in other than denominations of \$1,000 and any integral multiple thereof, the denominations in which Securities of the Series shall be issuable;

(9) if other than the principal amount thereof, the portion of the principal amount of Securities of the Series which shall be payable upon declaration of acceleration of the maturity thereof pursuant to Section 6.02;

(10) whether Securities of the Series shall be issuable as Registered Securities or Unregistered Securities (with or without interest coupons), or both, and any restrictions applicable to the offering, sale or delivery of Unregistered Securities and whether, and the terms upon which, Unregistered Securities of a Series may be exchanged for Registered Securities of the same Series and vice versa;

(11) whether and under what circumstances the Company will pay additional amounts on the Securities of that Series held by a person who is not a U.S. Person in respect of taxes or similar charges withheld or deducted and, if so, whether the Company will have the option to redeem such Securities rather than pay such additional amounts;

(12) the form or forms of the Securities (or forms thereof if Unregistered and Registered Securities shall be issuable in such Series), including such legends as may be required by United States laws or regulations, the form of any coupons or temporary Global Security which may be issued and the forms of any certificates, opinions or other documents which may be required hereunder or under United States laws or regulations in connection with the offering, sale, delivery or exchange of Unregistered Securities;

(13) whether the Securities of the Series are issuable as a Global Security and, in such case, the identity of the Depositary for such Series;

(14) if other than such coin or currency of the United States of America as at the time of payment is legal tender for payment of public or private debts, the coin or currency, including composite currency, in which payment of the principal of and premium, if any, or interest on the Securities of the Series shall be payable;

(15) if the principal of or interest on the Securities of the Series are to be payable, at the election of the Company or a Holder thereof, in a coin or currency other than that in which the Securities are stated to be payable, the coin or currency, including composite currency, in which payment of the principal of and premium, if any, or interest on the Securities of such Series as to which such election is made shall be payable, the period or periods within which, and the terms and conditions upon which, such election may be made;



(16) if the amount of payments of principal of or interest on the Securities of the Series may be determined with reference to an index based on any coin or currency other than that in which the Securities are stated to be payable, the manner in which such amounts shall be determined; and

(17) any other terms of the Series (which terms shall not be inconsistent with the provisions of this Indenture), including any terms which may be required by or advisable under United States laws or regulations or advisable in connection with the marketing of Securities of that Series.

(b) All Securities of any one Series shall be substantially identical except as to denomination and the rate or rates of interest, if any, and maturity and currency and, except as may otherwise be provided in or pursuant to a Company Board Resolution or a certificate delivered pursuant to Section 2.02(c) or in an indenture supplemental hereto. All Securities of any one Series need not be issued at the same time, and, unless otherwise provided, a Series may be reopened for issuances of additional Securities of such Series.

(c) If the terms and form or forms of any Series of Securities are established by or pursuant to a Company Board Resolution, the Company shall deliver a copy of such Board Resolution to the Trustee at or prior to the issuance of such Series with (1) the form or forms of the Securities which have been approved attached thereto; or (2) if such Board Resolution authorizes a specific Officer or Officers to establish the terms and form or forms of the Securities, a certificate of such Officer or Officers establishing or providing for the establishment of the terms and form or forms of the Securities, with such form or forms of the Securities attached to the certificate establishing such form or forms.

(d) Unregistered Securities and their coupons must have the following statement on their face: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Section 165(j) and 1287 of the Internal Revenue Code of 1986, as amended."

#### Section 2.03 EXECUTION, AUTHENTICATION, AND DELIVERY.

(a) The Securities shall be executed on behalf of the Company by its President, an Executive Vice President or a Vice President, and by its Treasurer, an Assistant Treasurer, its Secretary or an Assistant Secretary. Signatures shall be manual or facsimile. The Company's seal shall be reproduced on the Securities and may, but need not, be attested. The coupons of Unregistered Securities shall bear the facsimile signature of the Treasurer or an Assistant Treasurer of the Company.

(b) If an Officer whose signature is on a Security or coupon no longer holds that office at the time the Security is authenticated, the Security or coupon shall be valid nevertheless.

(c) A Security shall not be valid until authenticated by the manual signature of the Trustee or an authenticating agent, and no coupon shall be valid until the Security to

which it appertains has been so authenticated. Such signature shall be conclusive evidence that the Security has been authenticated under this Indenture. Each Unregistered Security shall be dated the date of its authentication.

(d) The Trustee (or an authenticating agent appointed pursuant to Section 2.03(f)) shall at any time, and from time to time, authenticate and deliver Securities of any Series executed and delivered by the Company for original issue in an unlimited aggregate principal amount, upon receipt by the Trustee (or an authentication agent) of (i) a Company Order or directions pursuant to such a Company Order for the authentication and delivery of such Securities;

(ii) if the terms and form or forms of the Securities of such Series have been established by or pursuant to a Board Resolution as permitted pursuant to Section 2.02, a copy of such Board Resolution and any certificate that may be required pursuant to Section 2.02(c); and (iii) an Opinion of Counsel stating:

(1) if the form of such Securities has been established by or pursuant to a Board Resolution as permitted by Section 2.02, that such form has been established in conformity with the provisions of this Indenture;

(2) if the terms of such Securities have been established by or pursuant to a Board Resolution as permitted by Section 2.02, that such terms have been established, or provision has been made for their establishment, in conformity with the provisions of this Indenture; and

(3) that such Securities, when authenticated and delivered by the Trustee (or an authenticating agent) and issued by the Company in the manner and subject to any conditions specified in such Opinion of Counsel, will constitute valid and legally binding obligations of the Company, enforceable in accordance with their terms, subject to bankruptcy, insolvency, reorganization and other laws of general applicability relating to or affecting the enforcement of creditors' rights and to general equity principles.

If the terms and form or forms of such Securities have been established by or pursuant to a Board Resolution as permitted by Section 2.02, the Trustee shall not be required to authenticate such Securities if the issue of such Securities pursuant to this Indenture will materially and adversely affect the Trustee's own rights, duties or immunities under the Securities and this Indenture or otherwise in a manner which is not reasonably acceptable to the Trustee.

Notwithstanding the foregoing, until the Company has notified the Trustee and the Registrar that, as a result of the action described, the Company would not suffer adverse consequences under the provisions of United States law or regulations in effect at the time of the delivery of Unregistered Securities,

(i) delivery of Unregistered Securities will be made only outside the United States and its possessions, and (ii) Unregistered Securities will be released in definitive form to the person entitled to physical delivery thereof only upon presentation of a certificate in the form prescribed by the Company.

(e) The aggregate principal amount of Securities of any Series outstanding at any time may not exceed any limit upon the maximum principal amount for such Series set forth in the Board Resolution (or certificate of an Officer or Officers) or supplemental indenture pursuant to Section 2.02 or in any additional Board Resolution or supplemental indenture which shall reopen a Series of Securities pursuant to Section 2.02.

(f) The Trustee may appoint an authenticating agent acceptable to the Company to authenticate Securities. An authenticating agent may authenticate Securities whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such agent. An authenticating agent has the same rights as an Agent to deal with the Company or an Affiliate.

#### Section 2.04 REGISTRAR AND PAYING AGENT.

The Company shall maintain for each Series of Securities an office or agency where (subject to Section 2.08) Registered Securities may be presented for registration of transfer or for exchange ("REGISTRAR") and an office or agency where (subject to Section 2.05) Securities may be presented for payment ("PAYING AGENT"). With respect to any Series of Securities issued in whole or in part as Unregistered Securities, the Company shall maintain one or more Paying Agents located outside the United States and its possessions and shall maintain such Paying Agents for a period of two years after the principal of such Unregistered Securities has become due and payable. During any period thereafter for which it is necessary in order to conform to United States tax law or regulations, the Company will maintain a Paying Agent outside the United States and its possessions to which the Unregistered Securities or coupons appertaining thereto may be presented for payment and will provide the necessary funds therefor to such Paying Agent upon reasonable notice. The Registrar shall keep a register with respect to each Series of Securities issued in whole or in part as Registered Securities and as to their transfer and exchange. The Company may appoint one or more co-Registrars and one or more additional Paying Agents for each Series of Securities and the Company may terminate the appointment of any co-Registrar. The term "Paying Agent" includes any additional Paying Agent. The Company shall notify the Trustee of the name and address of any Agent not a party to this Indenture. If the Company fails to maintain a Registrar or Paying Agent, the Trustee shall act as such.

#### Section 2.05 PAYMENT ON SECURITIES.

(a) Subject to the following provisions, the Company will pay to the Trustee or the Paying Agent the amounts, in such coin or currency as is at the time legal tender for the payment of public or private debt, at the times and for the purposes set forth herein and in the text of the Securities of a Series, and the Company hereby authorizes and directs the Trustee or the Paying Agent, from funds so paid to it, to make or cause to be made payment of the principal of, interest, and premium, if any, on the Securities and coupons of each Series as set forth herein and in the text of such Securities and coupons. The Trustee will arrange directly with any Paying Agent for the payment, or the Trustee will make payment, from funds furnished by the Company, of the principal of, interest and premium, if any, on the Securities

and coupons of each Series by check drawn upon a bank specified by the Company and acceptable to the Trustee.

(b) Interest, if any, on Registered Securities of a Series shall be paid on each interest payment date for such Series to the Holder thereof at the close of business on the relevant record dates specified in the Securities of such Series. The Company may pay such interest by check mailed to such Holder's address as it appears on the register for Securities of such Series. Principal of Registered Securities shall be payable only against presentation and surrender thereof at the office of the Paying Agent in The City of New York, unless the Company shall have otherwise instructed the Trustee in writing.

(c) Anything in Section 2.05(a) or 2.05(b) to the contrary notwithstanding, a Holder of Securities of any Series with an aggregate principal amount of \$5 million or more may request in writing, at least three business days prior to the relevant interest payment date, that interest be wired to an account specified by such Holder.

(d) To the extent provided in the Securities of a Series, (i) interest, if any, on Unregistered Securities shall be paid only against presentation and surrender of the coupons for such interest installments as are evidenced thereby as they mature; and (ii) original issue discount (as defined in Section 1273 of the Internal Revenue Code of 1986, as amended), if any, on Unregistered Securities shall be paid only against presentation and surrender of such Securities; in either case at the office of a Paying Agent located outside of the United States and its possessions, unless the Company shall have otherwise instructed the Trustee in writing. Principal of Unregistered Securities shall be paid only against presentation and surrender thereof as provided in the Securities of a Series. If at the time a payment of principal of or interest, if any, or original issue discount, if any, on an Unregistered Security or coupon shall become due, the payment of the full amount so payable at the office or offices of all the Paying Agents outside the United States and its possessions is illegal or effectively precluded because of the imposition of exchange controls or other similar restrictions on the payment of such amount in United States currency, then the Company will instruct the Trustee in writing as to how and when such payment will be made and may instruct the Trustee to make such payments at the office of a Paying Agent located in the United States, provided that the Company has determined that provision for such payment in the United States would not cause such Unregistered Security to be treated as a "registration-required obligation" under United States law and regulations. Unless otherwise instructed in writing by the Company, no payments of interest, original issue discounts, or principal with respect to Unregistered Securities shall be made by a Paying Agent (i) by transfer of funds into an account maintained by the payee in the United States, (ii) mailed to an address in the United States, or (iii) paid to a United States address by electronic funds transfer.

#### Section 2.06 PAYING AGENT TO HOLD MONEY IN TRUST.

The Company shall require each Paying Agent, other than the Trustee, to agree in writing that the Paying Agent will hold in trust, for the benefit of Securityholders of any or all Series of Securities, or the Trustee, all money held by the Paying Agent for the payment of

principal or interest on such Series of Securities, and that the Paying Agent will notify the Trustee of any default by the Company (or any other obligor on the Securities) in making any such payment. While any such default continues, the Trustee may require a Paying Agent to pay all money held by it to the Trustee. If the Company or a Subsidiary acts as Paying Agent, it shall segregate the money held by it for the payment of principal or interest on any Series of Securities and hold such money as a separate trust fund. The Company at any time may require a Paying Agent to pay all money held by it to the Trustee. Upon so doing, the Paying Agent shall have no further liability for the money so paid. The Trustee or the Paying Agent may allow and credit to the Company (or any other obligor on the Securities) interest on any monies received by it hereunder at such rate as may be agreed upon with the Company (or any other obligor on the Securities) from time to time and as may be permitted by law.

#### Section 2.07 SECURITYHOLDER LISTS; OWNERSHIP OF SECURITIES.

(a) The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Holders of each Series of Securities. If the Trustee is not the Registrar, the Company shall furnish to the Trustee semiannually on or before the last day of June and December in each year, and at such other times as the Trustee may request in writing, a list in such form and as of such date as the Trustee may reasonably require, containing all the information in the possession or control of the Registrar, the Company or any of the Paying Agents other than the Trustee as to the names and addresses of Holders of each such Series of Securities.

(b) Ownership of Registered Securities of a Series shall be proved by the register for such Series kept by the Registrar. Ownership of Unregistered Securities may be proved by the production of such Unregistered Securities, or by a certificate or affidavit executed by the person holding such Unregistered Securities, or by a depository with whom such Unregistered Securities were deposited if the certificate or affidavit is satisfactory to the Trustee. The Company, the Trustee and any agent of the Company may treat the bearer of any Unregistered Security or coupon and the person in whose name a Registered Security is registered as the absolute owner thereof for all purposes.

#### Section 2.08 TRANSFER AND EXCHANGE.

(a) Where Registered Securities of a Series are presented to the Registrar with a request to register their transfer or to exchange them for an equal principal amount of Registered Securities of the same Series containing identical terms and provisions and date of maturity of other authorized denominations, the Registrar shall register the transfer or make the exchange if its requirements for such transactions are met.

(b) If both Registered and Unregistered Securities are authorized for a Series of Securities and the terms of such Securities permit, (i) Unregistered Securities may be exchanged for an equal principal amount of Registered or Unregistered Securities containing identical terms and provisions of the same Series and date of maturity in any authorized denominations upon delivery to the Registrar (or a Paying Agent, if the exchange is for Unregistered Securities) of the Unregistered Security with all unmatured coupons and all

matured coupons in default appertaining thereto and if all other requirements of the Registrar (or such Paying Agent) and such Securities for such exchange are met, and (ii) Registered Securities may be exchanged for an equal principal amount of Unregistered Securities of the same Series and date of maturity in any authorized denominations (except that any coupons appertaining to such Unregistered Securities which have matured and have been paid shall be detached) upon delivery to the Registrar of the Registered Securities and if all other requirements of the Registrar (or such Paying Agent) and such Securities for such exchange are met.

Notwithstanding the foregoing, the exchange of Unregistered Securities for Registered Securities or Registered Securities for Unregistered Securities will be subject to the satisfaction of the provisions of United States law and regulations in effect at the time of such exchange, and no exchange of Registered Securities for Unregistered Securities will be made until the Company has notified the Trustee and the Registrar that, as a result of such exchange, the Company would not suffer adverse consequences under the provisions of United States law or regulations.

(c) To permit registrations of transfers and exchanges the Trustee (or an authenticating agent) shall authenticate Securities upon instructions of the Registrar or, if applicable, a Paying Agent upon surrender of Securities for registration of transfer or for exchange as provided in this Section. The Company will not make any charge for any registration of transfer or exchange but may require the payment by the party requesting such registration of transfer or exchange of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

(d) Neither the Company nor the Registrar shall be required (i) to issue, register the transfer of or exchange Securities of any Series for the period of 15 days immediately preceding the selection of any such Securities to be redeemed, or (ii) to register the transfer of or exchange Securities of any Series selected, called or being called for redemption as a whole, or the portion being redeemed of any such Securities selected, called or being called for redemption in part.

(e) Unregistered Securities or any coupons appertaining thereto shall be transferable by delivery.

#### Section 2.09 REPLACEMENT SECURITIES.

(a) If a mutilated Security or a Security with a mutilated coupon appertaining to it is surrendered to the Trustee (or an authenticating agent), the Company shall issue and the Trustee (or an authenticating agent) shall authenticate a replacement Registered Security, if such surrendered security was a Registered Security, or a replacement Unregistered Security with coupons corresponding to the coupons appertaining to the surrendered Security, if such surrendered Security was an Unregistered Security of the same Series and containing identical terms and provisions, if the Trustee's (or authenticating agent's) requirements are met.

(b) If the Holder of a Security claims that the Security or any coupon appertaining thereto has been lost, destroyed or wrongfully taken, the Company shall issue and the Trustee (or an authenticating agent) shall authenticate a replacement Registered Security, if such Holder's claim pertains to a Registered Security, or a replacement Unregistered Security with coupons corresponding to the coupons appertaining to the lost, destroyed or wrongfully taken Unregistered Security or the Unregistered Security to which such lost, destroyed or wrongfully taken coupon appertains, if such Holder's claim pertains to an Unregistered Security, of the same Series and containing identical terms and provisions, if the Trustee's requirements are met; provided, however, that the Trustee (or an authenticating agent) or the Company may require any such Holder to provide to the Trustee and the Company security or indemnity sufficient in the judgment of the Company and the Trustee (or an authenticating agent) to protect the Company, the Trustee (or an authenticating agent) and any Agent from any loss which any of them may suffer if a Security is replaced. The Company and the Trustee (or an authenticating agent) may charge the party requesting a replacement Security for its expenses in replacing a Security.

(c) Every replacement Security is an additional obligation of the Company.

(d) Notwithstanding anything to the contrary contained herein, replacement Securities need not be issued in any of the circumstances described in Section 2.09 if the Company or the Trustee (or an authenticating agent) have notice that the mutilated, lost, destroyed or wrongfully taken Security has been acquired by a bona fide purchaser.

#### Section 2.10 OUTSTANDING SECURITIES.

(a) Securities outstanding at any time are all Securities authenticated by the Trustee (or an authenticating agent), except for those canceled by it, those delivered to it for cancellation and those described in this Section as not outstanding.

(b) If a Security is replaced pursuant to Section 2.09, it ceases to be outstanding until the Trustee (or an authenticating agent) receives proof satisfactory to it that the replaced Security is held by a bona fide purchaser.

(c) If the Paying Agent holds on a redemption date or maturity date money or U.S. Government Obligations sufficient to pay all amounts due on Securities of any Series on that date, then, on and after that date, all Securities of such Series cease to be outstanding and interest on them ceases to accrue.

(d) A Security does not cease to be outstanding because the Company or an Affiliate of the Company holds the Security.

(e) In determining whether the Holders of the requisite principal amount of outstanding Securities of any Series have given any request, demand, authorization, direction, notice, consent or waiver hereunder, or whether sufficient funds are available for redemption or for any other purpose, (i) the principal amount of an Original Issue Discount Security that shall be deemed to be outstanding for such purpose shall be the amount of the principal thereof

that would be due and payable as of the date of such determination upon a declaration of acceleration of the maturity thereof pursuant to Section 6.02; and (ii) the principal amount of any Security denominated in a currency other than United States dollars that shall be deemed to be outstanding for such purposes shall be that amount of United States dollars that could be obtained for such amount on such reasonable basis of exchange and as of the record date for such determination or action (or, if there shall be no applicable record date, such other date reasonably proximate to the date of such determination or action), in each case, as the Company shall specify in a written notice to the Trustee.

#### Section 2.11 TREASURY SECURITIES.

In determining whether the Holders of the requisite principal amount of Securities of any Series have concurred in any direction, waiver or consent, Securities of such Series owned by the Company or an Affiliate of the Company shall be disregarded, except that for the purposes of determining whether the Trustee shall be protected in relying on any such direction, waiver or consent, only Securities of such Series which the Trustee knows are so owned shall be so disregarded.

#### Section 2.12 TEMPORARY SECURITIES.

(a) Until definitive Registered Securities of any Series are ready for delivery, the Company may prepare and execute and the Trustee shall authenticate temporary Registered Securities of such Series. Temporary Registered Securities of any Series shall be substantially in the form of definitive Registered Securities of such Series but may have variations that the Company considers appropriate for temporary Securities. Every temporary Registered Security shall be executed by the Company, authenticated by the Trustee and registered by the Registrar, upon the same conditions, and with like effect, as a definitive Registered Security. Without unreasonable delay, the Company shall prepare and the Trustee shall authenticate definitive Registered Securities of the same Series and containing identical terms and provisions in exchange for temporary Registered Securities.

(b) Until definitive Unregistered Securities of any Series are ready for delivery, the Company may prepare and execute and the Trustee shall authenticate one or more temporary Unregistered Securities, which may have coupons attached or which may be in the form of a single temporary global Unregistered Security of that Series. The temporary Unregistered Security or Securities of any Series shall be substantially in the form approved by or pursuant to a Board Resolution and shall be delivered to one of the Paying Agents located outside the United States and its possessions or to such other person or persons as the Company shall direct against such certification as the Company may from time to time prescribe by or pursuant to a Board Resolution. The temporary Unregistered Security or Securities of a Series shall be executed by the Company and authenticated by the Trustee, upon the same conditions, and with like effect, as a definitive Unregistered Security of such Series, except as provided herein or therein. A temporary Unregistered Security or Securities shall be exchangeable for definitive Unregistered Securities containing identical terms and provisions at the time and on the conditions, if any, specified in the temporary Security.



Upon any exchange of a part of a temporary Unregistered Security of a Series for definitive Unregistered Securities of such Series, the temporary Unregistered Security shall be endorsed by the Trustee or Paying Agent to reflect the reduction of its principal amount by an amount equal to the aggregate principal amount of definitive Unregistered Securities of such Series so exchanged and endorsed.

#### Section 2.13 CANCELLATION.

The Company at any time may deliver Securities and coupons to the Trustee for cancellation. The Registrar and the Paying Agent shall forward to the Trustee any Securities and coupons surrendered to them for registration of transfer or for exchange or for payment. Except as otherwise required by this Indenture, the Trustee shall cancel all Securities and coupons surrendered for registration of transfer, or for exchange, payment or cancellation, and will dispose of canceled Securities and coupons as the Company directs; provided, however, that any Unregistered Securities of a Series delivered to the Trustee for exchange prior to maturity shall be retained by the Trustee for reissue as provided herein or in the Securities of such Series. The Company may not issue new Securities to replace Securities that it has paid or delivered to the Trustee for cancellation.

#### Section 2.14 DEFAULTED INTEREST.

If the Company defaults on a payment of interest on a Series of Securities, it shall pay the defaulted interest as provided in such Securities or in any lawful manner not inconsistent with the requirements of any securities exchange on which such Securities may be listed.

#### Section 2.15 GLOBAL SECURITIES.

(a) If the Company shall establish pursuant to Section 2.02 that the Securities of a particular Series are to be issued as a Global Security, then the Company shall execute and the Trustee shall, in accordance with Section 2.03, authenticate and deliver, a Global Security that (i) shall represent, and shall be denominated in an amount equal to the aggregate principal amount of, all of the outstanding Securities of such Series, (ii) shall be registered in the name of the Depositary or its nominee, (iii) shall be delivered by the Trustee to the Depositary or pursuant to the Depositary's instruction and (iv) shall bear a legend substantially to the following effect: "Except as otherwise provided in Section 2.15 of the Indenture, this Security may be transferred, in whole but not in part, only to another nominee of the Depositary or to a successor Depositary or to a nominee of such successor Depositary."

(b) Notwithstanding the provisions of Section 2.08, the Global Security of a Series may be transferred, in whole but not in part and in the manner provided in Section 2.08, only to another nominee of the Depositary for such Series, or to a successor Depositary for such Series selected or approved by the Company or to a nominee of such successor Depositary.

(c) If at any time the Depositary for a Series of the Securities notifies the Company that it is unwilling or unable to continue as Depositary for such Series or if at any

time the Depositary for such Series shall no longer be registered or in good standing under the Exchange Act or other applicable statute or regulation, and a successor Depositary for such Series is not appointed by the Company within 90 days after the Company receives such notice or becomes aware of such condition, as the case may be, this Section 2.15 shall no longer be applicable to the Securities of such Series and the Company will execute, and, subject to Section 2.08, the Trustee will authenticate and deliver the Securities of such Series, in authorized denominations, and in an aggregate principal amount equal to the principal amount of the Global Security of such Series in exchange for such Global Security. In addition, the Company may at any time determine that the Securities of any Series shall no longer be represented by a Global Security and that the provisions of this Section 2.15 shall no longer apply to the Securities of such Series. In such event the Company will execute and, subject to Section 2.08, the Trustee, upon receipt of an Officers' Certificate evidencing such determination by the Company, will authenticate and deliver the Securities of such Series, in authorized denominations, and in an aggregate principal amount equal to the principal amount of the Global Security of such Series in exchange for such Global Security. Upon the exchange of the Global Security for such Securities in authorized denominations, the Global Security shall be canceled by the Trustee. Such Securities issued in exchange for the Global Security pursuant to this Section 2.15(c) shall be registered in such names and in such authorized denominations as the Depositary, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Trustee. The Trustee shall deliver such Securities to the Depositary for delivery to the persons in whose names such Securities are so registered.

### **ARTICLE 3.**

#### **REDEMPTION**

##### **Section 3.01 NOTICE TO THE TRUSTEE.**

The Company may, with respect to any Series of Securities, reserve the right to redeem and pay the Series of Securities or any part thereof, or may covenant to redeem and pay the Series of Securities or any part thereof, before maturity at such time and on such terms as provided for in such Securities. The election of the Company to redeem any Securities shall be evidenced by a Company Order. In case of any redemption at the election of the Company of all or less than all of the Securities of any Series with the same issue date, interest rate and stated maturity, the Company shall, at least 60 days prior to the redemption date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee of such redemption date and of the principal amount and redemption price of Securities of such Series to be redeemed.

##### **Section 3.02 SELECTION OF SECURITIES TO BE REDEEMED.**

If less than all the Securities of any Series with the same issue date, interest rate and stated maturity are to be redeemed, the particular Securities to be redeemed shall be selected, not more than 60 days prior to the redemption date, by the Trustee from the outstanding Securities of such Series not previously called for redemption, by such method as the Trustee shall deem fair and appropriate and which may provide for the selection for redemption of

portions of the principal amount of Securities of such Series; provided, however, that no such partial redemption shall reduce the portion of the principal amount of a Security of such Series not redeemed to less than the minimum denomination for a Security of that Series established pursuant to

Section 2.02. The Trustee shall promptly notify the Company in writing of the Securities selected for redemption by it and, in the case of any Securities selected for partial redemption, the amount thereof to be redeemed.

### Section 3.03 NOTICE OF REDEMPTION.

(a) At least 30 days but not more than 90 days before a redemption date, unless a shorter period is specified in the Securities to be redeemed, the Company shall mail a notice of redemption by first-class mail to each Holder of Registered Securities that are to be redeemed.

(b) If Unregistered Securities are to be redeemed, notice of redemption shall be published in an Authorized Newspaper in each of The City of New York, London, and, if such Securities to be redeemed are listed on the Luxembourg Stock Exchange, Luxembourg once in each of four successive calendar weeks, the first publication to be not less than 30 nor more than 90 days before the redemption date.

(c) All notices shall identify the Series of Securities to be redeemed and shall state:

(1) the redemption date;

(2) the redemption price;

(3) if less than all the outstanding Securities of a Series are to be redeemed, the identification (and, in the case of partial redemption, the principal amounts) of the particular Securities to be redeemed;

(4) the name and address of the Paying Agent;

(5) that Securities of the Series called for redemption and all unmatured coupons, if any, appertaining thereto must be surrendered to the Paying Agent to collect the redemption price; and

(6) that interest on Securities of the Series called for redemption ceases to accrue on and after the redemption date.

At the Company's request, the Trustee shall give the notice of redemption in the Company's name and at its expense.

If the Company gives the notice of redemption, the Company shall promptly provide the Trustee with evidence satisfactory to the Trustee of its compliance with the notice requirements of this Section.

#### Section 3.04 EFFECT OF NOTICE OF REDEMPTION.

Once notice of redemption is mailed or published, Securities of a Series called for redemption become due and payable on the redemption date and from and after such date (unless the Company shall default in the payment of the redemption price) such Securities shall cease to bear interest. Upon surrender to the Paying Agent of such Securities together with all unmatured coupons, if any, appertaining thereto, such Securities shall be paid at the redemption price plus accrued interest to the redemption date, but installments of interest due on or prior to the redemption date will be payable, in the case of Unregistered Securities, to the bearers of the coupons for such interest upon surrender thereof, and, in the case of Registered Securities, to the Holders of such Securities of record at the close of business on the relevant record dates.

#### Section 3.05 DEPOSIT OF REDEMPTION PRICE.

On or before the redemption date, the Company shall deposit with the Trustee or the Paying Agent money sufficient to pay the redemption price of and (unless the redemption date shall be an interest payment date) interest accrued to the redemption date on all Securities to be redeemed on that date.

#### Section 3.06 SECURITIES REDEEMED IN PART.

Upon surrender of a Security that is redeemed in part, the Company shall issue and the Trustee or the authenticating agent shall authenticate for the Holder of that Security a new Security or Securities of the same Series, the same form, and the same maturity in authorized denominations equal in aggregate principal amount to the unredeemed portion of the Security surrendered.

### **ARTICLE 4.**

#### **COVENANTS**

##### Section 4.01 PAYMENT OF SECURITIES.

(a) The Company shall pay the principal of, premium, if any, and interest on the Securities on the dates and in the manner provided herein and in the Securities. An installment of principal or interest shall be considered paid on the date it is due if the Trustee or Paying Agent holds on that date money designated for and sufficient to pay the installment.

(b) The Company shall pay interest on overdue principal of a Security of any Series at the rate of interest (or Yield to Maturity in the case of Original Issue Discount Securities) borne by such Security of that Series; to the extent lawful, it shall pay interest on overdue installments of interest at the same rate.

##### Section 4.02 REPORTS BY THE COMPANY.

The Company covenants:

(a) to file with the Trustee, within 20 days after the Company has filed the same with the SEC, copies of the annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as the SEC may from time to time by rules and regulations prescribe) which the Company may be required to file with the SEC pursuant to

Section 13 or Section 15(d) of the Exchange Act, or, if the Company is not required to file information, documents or reports pursuant to either of such sections, to file with the Trustee and the SEC, in accordance with rules and regulations prescribed from time to time by the SEC, such of the supplementary and periodic information, documents and reports which may be required pursuant to Section 13 of the Exchange Act, in respect of a security listed and registered on a national securities exchange as may be prescribed from time to time in such rules and regulations;

(b) to file with the Trustee and the SEC, in accordance with the TIA or the rules and regulations prescribed from time to time by the SEC, such additional information, documents and reports with respect to compliance by it with the conditions and covenants provided for in this Indenture as may be required from time to time by the TIA or such rules and regulations; and

(c) to transmit by mail to all Holders of Registered Securities, as the names and addresses of such Holders appear on the register for each Series of Securities, and to such Holders of Unregistered Securities as have, within the two years preceding such transmission, filed their names and addresses with the Trustee for that purpose, within 30 days after the filing thereof with the Trustee, such summaries of any information, documents and reports required to be filed by the Company pursuant to subsections (a) and (b) of this Section 4.02 as may be required by rules and regulations prescribed from time to time by the SEC.

#### Section 4.03 LIEN ON ASSETS.

If at any time the Company mortgages, pledges or otherwise subjects to any lien the whole or any part of any property or assets now owned or hereafter acquired by it, except as hereinafter provided in this Section 4.03, the Company will secure the outstanding Securities, and any other obligations of the Company which may then be outstanding and entitled to the benefit of a covenant similar in effect to this covenant, equally and ratably with the indebtedness or obligations secured by such mortgage, pledge, or lien, for as long as any such indebtedness or obligation is so secured. The foregoing covenant does not apply

(i) to the creation, extension, renewal or refunding of (a) mortgages or liens created or existing at the time property is acquired, (b) mortgages or liens created within 180 days thereafter, or (c) mortgages or liens for the purpose of securing the cost of construction or improvement of property; or (ii) to the making of any deposit or pledge to secure public or statutory obligations or with any governmental agency at any time required by law in order to qualify the Company to conduct its business or any part thereof in order to entitle it to maintain self-insurance or to obtain the benefits of any law relating to workmen's compensation, unemployment insurance, old age pensions or other social security, or with any court, board, commission, or governmental agency as security incident to the proper conduct of any proceeding before it. Nothing contained in this Indenture prevents any entity other than the Company from

mortgaging, pledging, or subjecting to any lien any of its property or assets, whether or not acquired from the Company.

## **ARTICLE 5.**

### **SUCCESSOR CORPORATION**

#### **Section 5.01 WHEN THE COMPANY MAY MERGE, ETC.**

The Company may consolidate with, or merge into, or be merged into, or transfer or lease its properties and assets substantially as an entirety to, any person provided (i) that the person is a corporation which assumes by supplemental indenture all the obligations of the Company under the Securities and any coupons appertaining thereto and under this Indenture; and (ii) that after giving effect thereto, no Default or Event of Default shall have occurred and be continuing. Thereafter, all such obligations of the Company shall terminate.

## **ARTICLE 6.**

### **DEFAULTS AND REMEDIES**

#### **Section 6.01 EVENTS OF DEFAULT.**

An "Event of Default" occurs with respect to the Securities of any Series if:

- (1) the Company defaults in the payment of interest on any Security of that Series when the same becomes due and payable and the Default continues for a period of 90 days;
- (2) the Company defaults in the payment of the principal of any Security of that Series when the same becomes due and payable at maturity, upon redemption or otherwise;
- (3) the Company fails to comply with any of its other agreements in the Securities of that Series, in this Indenture or in any supplemental indenture under which the Securities of that Series may have been issued, and the Default continues for the period and after the notice specified below;
- (4) the Company, pursuant to or within the meaning of any Bankruptcy Law:
  - (a) commences a voluntary case,
  - (b) consents to the entry of an order for relief against it in an involuntary case,
  - (c) consents to the appointment of a Custodian of it or for all or substantially all of its property, or

(d) makes a general assignment for the benefit of its creditors; or

(5) a court of competent jurisdiction enters an order under any Bankruptcy Law that:

(a) is for relief against the Company in an involuntary case,

(b) appoints a Custodian of the Company or for all or substantially all of its property, or

(c) orders the liquidation of the Company and the order or decree remains unstayed and in effect for 90 days.

The term "Bankruptcy Law" means Title 11, U.S. Code, or any similar federal or state law for the relief of debtors. The term "Custodian" means any receiver, trustee, assignee, liquidator, or similar official under any Bankruptcy Law.

A Default under clause (3) is not an Event of Default until the Trustee or the Holders of at least 25% in principal amount of all the outstanding Securities of that Series notify the Company (and the Trustee in the case of notification by such Holders) of the Default and the Company does not cure the Default within 90 days after receipt of the notice. The notice must specify the Default, demand that it be remedied, and state that the notice is a "Notice of Default."

#### Section 6.02 ACCELERATION.

If an Event of Default occurs with respect to the Securities of any Series and is continuing, the Trustee, by notice to the Company, or the Holders of at least 25% in principal amount of all of the outstanding Securities of that Series, by notice to the Company and the Trustee, may declare the principal (or, if the Securities of that Series are Original Issue Discount Securities, such portion of the principal amount as may be specified in the terms of that Series) of all the Securities of that Series to be due and payable. Upon such declaration, such principal (or, in the case of Original Issue Discount Securities, such specified amount) shall be due and payable immediately. The Holders of a majority in principal amount of all of the Securities of that Series, by notice to the Trustee, may rescind such a declaration and its consequences if the rescission would not conflict with any judgment or decree and if all existing Events of Default have been cured or waived except nonpayment of principal or interest that has become due solely because of the acceleration.

#### Section 6.03 OTHER REMEDIES AVAILABLE TO TRUSTEE.

(a) If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy to collect the payment of principal of or interest on the Securities of the Series that is in default or to enforce the performance of any provision of the Securities of that Series or this Indenture.

(b) The Trustee may maintain a proceeding even if it does not possess any of the Securities or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Securityholder in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. No remedy is exclusive of any other remedy. All available remedies are cumulative.

#### Section 6.04 WAIVER OF EXISTING DEFAULTS.

The Holders of a majority in principal amount of any Series of Securities by notice to the Trustee may waive an existing Default with respect to that Series and its consequences, except a Default in the payment of the principal of or interest on any Security.

#### Section 6.05 CONTROL BY MAJORITY.

The Holders of a majority in principal amount of the Securities of each Series affected (with each such Series voting as a class) may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on it. However, the Trustee may refuse to follow any direction that conflicts with law or this Indenture or that would involve the Trustee in personal liability.

#### Section 6.06 LIMITATION ON SUITS BY SECURITYHOLDERS.

A Securityholder may pursue a remedy with respect to this Indenture or the Securities of any Series only if:

- (1) the Holder gives to the Trustee written notice of a continuing Event of Default;
- (2) the Holders of at least 25% in principal amount of the Securities of that Series make a written request to the Trustee to pursue the remedy;
- (3) such Holder or Holders offer to the Trustee indemnity satisfactory to the Trustee against any loss, liability, or expense to be, or which may be, incurred by the Trustee in pursuing the remedy;
- (4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity; and
- (5) during such 60 day period, the Holders of a majority in principal amount of the Securities of that Series do not give the Trustee a direction inconsistent with the request.

A Securityholder of any Series may not use this Indenture to prejudice the rights of another Securityholder of that Series or any other Series or to obtain a preference or priority over another Securityholder of that Series or any other Series.



#### Section 6.07 RIGHTS OF HOLDERS TO RECEIVE PAYMENT.

Notwithstanding any other provision of this Indenture, the right of any Holder of a Security to receive payment or principal of and interest on the Security, on or after the respective due dates expressed in the Security, and the right of any Holder of a coupon to receive payment of interest due as provided in such coupon, or to bring suit for the enforcement of any such payment, on or after such respective dates, shall not be impaired or affected without the consent of such Holder.

#### Section 6.08 COLLECTION SUITS BY TRUSTEE.

If a Default specified in Section 6.01(1) or (2) occurs and continues for the period specified therein, if any, the Trustee may recover judgment in its own name and as trustee of an express trust against the Company for the whole amount of such principal and interest then in default.

#### Section 6.09 TRUSTEE MAY FILE PROOFS OF CLAIM.

The Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and the Securityholders allowed in any judicial proceedings relating to the Company or its creditors or property.

#### Section 6.10 PRIORITIES.

If the Trustee collects any money pursuant to this Article, it shall pay out the money in the following order:

FIRST: to the Trustee for amounts due it under Section 7.07;

SECOND: to Holders of Securities in respect of which or for the benefit of which such money has been collected for amounts due and unpaid on such Securities for principal and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities for principal and interest, respectively; and

THIRD: to the person or persons lawfully entitled thereto, or as a court of competent jurisdiction may direct.

The Trustee may fix a record date (with respect to Registered Securities) and payment date for any such payment to Holders of Securities.

Any such record date shall not be less than 10 days nor more than 60 days prior to the applicable payment date.

#### Section 6.11 UNDERTAKING FOR COSTS.

In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court in its discretion

may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable attorneys' fees against any party litigant in this suit having due regard to the merits and good faith of the claims or defenses made by the party litigant. This

Section does not apply to a suit by the Trustee, a suit by a Holder pursuant to Section 6.07 or a suit by Holders of more than 10% in principal amount of the Securities of any Series.

## **ARTICLE 7.**

### **TRUSTEE**

#### **Section 7.01 DUTIES OF TRUSTEE.**

(a) If an Event of Default has occurred and is continuing, the Trustee shall exercise its rights, duties and powers under this Indenture and use the same degree of care and skill in their exercise as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(b) Except during the continuance of an Event of Default:

(1) The Trustee need perform only those duties that are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(2) In the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon notices, certificates, opinions or other documents furnished to the Trustee and conforming to the requirements of this Indenture. However, the Trustee shall examine the notices, certificates, opinions or other documents to determine whether or not they conform to the requirements of this Indenture.

(c) The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that:

(1) This paragraph does not limit the effect of paragraph  
(b) of this Section;

(2) The Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts; and

(3) The Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Sections 6.04 and 6.05.

(d) Every provision of this Indenture that in any way relates to the Trustee is subject to paragraph (a), (b), and (c) of this Section.

(e) The Trustee may refuse to perform any duty or exercise any right or power unless it receives indemnity satisfactory to it against any loss, liability or expense.

(f) The Trustee shall not be liable for interest on any money received by it except as the Trustee may agree with the Company. Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law.

#### Section 7.02 RIGHTS OF TRUSTEE.

(a) The Trustee may rely on any document believed by it to be genuine and to have been signed or presented by the proper person. The Trustee need not investigate any fact or matter stated in the document.

(b) Before the Trustee acts or refrains from acting, it may consult with counsel or require an Officers' Certificate or an Opinion of Counsel. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on a Board Resolution, the written advice of counsel acceptable to the Company and the Trustee, a certificate of an Officer or Officers delivered pursuant to Section 2.02(b), an Officers' Certificate, or an Opinion of Counsel.

(c) The Trustee may act through agents and shall not be responsible for the misconduct or negligence of any agent appointed with due care.

(d) The Trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers.

(e) Except as otherwise provided in Section 7.01, the Trustee shall not be liable for any action or omission of any Agent which is not the Trustee.

#### Section 7.03 INDIVIDUAL RIGHTS OF TRUSTEE.

The Trustee in its individual or any other capacity may become the owner or pledgee of Securities and may otherwise deal with the Company, or one of its Affiliates with the same rights it would have if it were not Trustee, subject to Sections 7.10 and 7.11. Any Agent may do the same with like rights.

#### Section 7.04 TRUSTEE'S DISCLAIMER.

The Trustee makes no representation as to the validity or adequacy of this Indenture or the Securities. It shall not be accountable for the Company's use of the proceeds from the Securities or for monies paid over to the Company or by the Company to any Holders or to any Paying Agent pursuant to the Indenture, and it shall not be responsible for any statement in the Securities other than its certificate of authentication.

#### Section 7.05 NOTICE OF DEFAULTS.

If a Default occurs and is continuing with respect to the Securities of any Series and if it is known to the Trustee, the Trustee shall mail to each Holder of a Security of that Series entitled to receive reports pursuant to Section 4.02(c) (and, if Unregistered Securities of that Series are outstanding, shall cause to be published at least once in an Authorized Newspaper in each of The City of New York, London, and, if Securities of that Series are listed on The Luxembourg Stock Exchange, Luxembourg) notice of the Default within 90 days after it occurs. Except in the case of a Default in payment on the Securities of any Series, the Trustee may withhold the notice if and so long as its Corporate Trust Committee or a committee of its Responsible Officers in good faith determines that withholding such notice is in the interests of Securityholders of that Series.

#### Section 7.06 REPORTS BY TRUSTEE TO HOLDERS.

(a) Within 60 days after each anniversary date of the first issue of a Series of Securities, the Trustee shall mail to each Securityholder of that Series entitled to receive reports pursuant to Section 4.02(c) a brief report dated as of such date that complies with TIA Section 313(a). The Trustee also shall comply with TIA Section 313(b).

(b) At the time that it mails such a report to Securityholders of any Series, the Trustee shall file a copy of that report with the SEC and with each stock exchange on which the Securities of that Series are listed. The Company shall provide written notice to the Trustee when the Securities of any Series are listed on any stock exchange.

#### Section 7.07 COMPENSATION AND INDEMNITY.

(a) The Company shall pay to the Trustee from time to time reasonable compensation for its services. The Trustee's compensation shall not be limited by any law on compensation of a trustee of an express trust. The Company shall reimburse the Trustee upon request for all reasonable out-of-pocket expenses incurred by it in connection with the performance of its duties under this Indenture. Such expenses shall include the reasonable compensation and expenses of the Trustee's agents and counsel.

(b) The Company shall indemnify the Trustee against any loss or liability incurred by it arising out of or in connection with its acceptance or administration of the trust or trusts hereunder. The Trustee shall notify the Company promptly of any claim for which it may seek indemnity. The Company shall defend the claim, and the Trustee shall cooperate in the defense. The Trustee may have separate counsel and the Company shall pay the reasonable fees and expenses of such counsel. The Company need not pay for any settlement made without its consent.

(c) The Company need not reimburse any expense or indemnify against any loss of liability incurred by the Trustee through negligence or bad faith.

(d) To secure the payment obligations of the Company pursuant to this Section, the Trustee shall have a lien prior to the Securities of any Series on all money or property held or collected by the Trustee, except that held in trust to pay principal and interest on particular Securities of a Series.

(e) If the Trustee incurs expenses or renders services after an Event of Default specified in Section 6.01(4) or (5) occurs, such expenses and the compensation for such services are intended to constitute expenses of administration under any Bankruptcy Law.

#### Section 7.08 REPLACEMENT OF TRUSTEE.

(a) The resignation or removal of the Trustee and the appointment of a successor Trustee shall become effective only upon the successor Trustee's acceptance of appointment as provided in this Section.

(b) The Trustee may resign with respect to the Securities of any Series by so notifying the Company. The Holders of a majority in principal amount of the Securities of any Series may remove the Trustee with respect to that Series by so notifying the Trustee and the Company, and may appoint a successor Trustee for such Series with the Company's consent.

(c) The Company may remove the Trustee with respect to Securities of any Series if:

(1) the Trustee fails to comply with Section 7.10;

(2) the Trustee is adjudged a bankrupt or an insolvent;

(3) a receiver or public officer takes charge of the Trustee or its property; or

(4) the Trustee becomes incapable of acting.

In addition, the Company may remove the Trustee with respect to Securities of any Series without cause if the Company gives written notice to the Trustee of such proposed removal at least six months in advance of the proposed effective date of such removal; provided, however, that such removal shall not become effective if a Default exists on the date of the giving of such notice or occurs prior to the date such removal is scheduled to become effective.

(d) If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason, with respect to Securities of any Series, the Company shall promptly appoint a successor Trustee for such Series.

(e) If a successor Trustee with respect to the Securities of any Series does not take office within 30 days after the retiring Trustee resigns or is removed, the retiring Trustee, the Company or the Holders of a majority in principal amount of the Securities of the

applicable Series may petition any court of competent jurisdiction for the appointment of a successor Trustee.

(f) If the Trustee with respect to the Securities of any Series fails to comply with Section 7.10, any Securityholder of the applicable Series may petition any court of competent jurisdiction for the removal of such Trustee and the appointment of a successor Trustee.

(g) A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and the Company. Thereupon, the resignation or removal of the retiring Trustee for any Series of Securities shall become effective, and the successor Trustee shall have all the rights, powers, and duties of the retiring Trustee with respect to all Series of Securities for which the successor Trustee is to be acting as Trustee under this Indenture. The retiring Trustee shall promptly transfer all property held by it as Trustee with respect to such Series of Securities to the successor Trustee subject to the lien provided for in Section 7.07. The Company shall give notice of each appointment of a successor Trustee for any Series of Securities by publishing notice of such event once in an Authorized Newspaper in each of The City of New York, London, and, if Securities of that Series are listed on The Luxembourg Stock Exchange, Luxembourg, and by mailing written notice of such event by first-class mail to the Holders of Securities of such Series entitled to receive reports pursuant to Section 4.02(c).

(h) All provisions of this Section 7.08 except subparagraphs (c)(1) and (d) and the words "subject to the lien provided for in Section 7.07" in subparagraph (g) shall apply also to any Paying Agent located outside the U.S. and its possessions and required by Section 2.04.

(i) In case of the appointment hereunder of a successor Trustee with respect to the Securities of one or more (but not all) Series, the Company, the retiring Trustee and such successor Trustee shall execute and deliver a supplemental indenture wherein such successor Trustee shall accept such appointment, and which (1) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, such successor Trustee all the rights, powers, trusts, and duties of the retiring Trustee with respect to the Securities of that or those Series to which the appointment of such successor Trustee relates; (2) if the retiring Trustee is not retiring with respect to all Securities, shall contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those Series as to which the retiring Trustee is not retiring shall continue to be vested in the retiring Trustee; and (3) shall add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, it being understood that nothing herein or in such supplemental indenture shall constitute such Trustees co-trustees of the same trust and that each such Trustee shall be trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee.

**Section 7.09 SUCCESSOR TRUSTEE, AGENTS BY MERGER, ETC.**

If the Trustee or any Agent consolidates with, merges or converts into, or transfers all or substantially all of its corporate trust business assets to, another corporation, the successor corporation, without any further act, shall be the successor Trustee or Agent, as the case may be.

**Section 7.10 ELIGIBILITY; DISQUALIFICATION.**

This Indenture shall always have a Trustee with respect to each Series of Securities who satisfies the requirements of TIA Section 310(a)(1).

The Trustee shall always have a combined capital and surplus of at least \$10,000,000 as set forth in its most recent published annual report of condition. The Trustee is subject to TIA Section 310(b), including the optional provision permitted by the second sentence of TIA Section 310(b)(9), except that there shall be excluded from the operation of TIA Section 310(b)(1) each Series of Securities and all indentures of the Company or any of its Affiliates now or hereafter existing which may be excluded under the proviso of TIA Section 310(b)(1).

**Section 7.11 PREFERENTIAL COLLECTION OF CLAIMS AGAINST THE COMPANY.**

The Trustee is subject to TIA Section 311(a), excluding any creditor relationship listed in TIA Section 311(b). A Trustee who has resigned or been removed shall be subject to TIA Section 311(a) to the extent indicated.

**ARTICLE 8.**

**DISCHARGE OF INDENTURE**

**Section 8.01 TERMINATION OF THE COMPANY'S OBLIGATIONS.**

(a) The Company reserves the right to terminate all of its obligations under the Securities and this Indenture with respect to the Securities of any Series or any installment of principal, premium, if any, or interest on that Series if the Company irrevocably deposits in trust with the Trustee money or U.S. Government Obligations sufficient to pay, when due, principal, premium, if any, and interest on the Securities of that Series to maturity or redemption or such installment of principal and premium, if any, or interest, as the case may be, and if all other conditions set forth in the Securities of that Series are met. The Company shall designate the installment or installments of principal or interest to be so satisfied.

(b) However, the Company's obligations in Sections 2.04, 2.05, 2.06, 2.07, 2.08, 2.09, 4.01, 7.07, 7.08, 8.03 and 8.04 shall survive until the Securities are no longer outstanding. Thereafter, the Company's obligations in Sections 7.07, 8.03 and 8.04 shall survive.

(c) Before or after a deposit, the Company may make arrangements satisfactory to the Trustee for the redemption of Securities at a future date in accordance with Article 3.

(d) After a deposit by the Company in accordance with this Section in respect of the Securities of a Series, the Trustee upon request shall acknowledge in writing the discharge of the Company's obligations under the Securities of the Series in respect of which the deposit has been made and under this Indenture with respect to the Securities of that Series except for those surviving obligations specified above.

(e) In order to have money available on a payment date to pay principal of and premium, if any, or interest on the Securities of any Series, the U.S. Government Obligations shall be payable as to principal of or interest on or before such payment date in such amounts as will provide the necessary money. U.S. Government Obligations shall not be callable at the issuer's option.

(f) "U.S. Government Obligations" means:

(i) direct obligations of the United States of America for the payment of which the full faith and credit of the United States of America is pledged; or

(ii) obligations of a person controlled or supervised by and acting as an agency or instrumentality of the United States of America, the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America.

#### Section 8.02 APPLICATION OF TRUST MONEY.

The Trustee shall hold money or U.S. Government Obligations deposited with it pursuant to Section 8.01. It shall apply the deposited money and the money from U.S. Government Obligations through the Paying Agent and in accordance with this Indenture to the payment of principal of and interest on the Securities of each Series in respect of which the deposit shall have been made.

#### Section 8.03 REPAYMENT TO THE COMPANY.

(a) Subject to the provisions of Section 7.07(d), the Trustee and the Paying Agent shall promptly pay to the Company, upon request, any money or securities held by them at any time in excess of that required for the payment of principal, premium, if any, or interest on the Securities.

(b) The Trustee and the Paying Agent shall promptly pay to the Company, upon request, any money held by them for the payment of principal or interest that remains unclaimed for two years. After that, Securityholders entitled to the money must look to the Company for payment as general creditors unless an abandoned property law designates



another person. Upon payment to the Company, the Trustee and Paying Agent are released of any further obligation or liability with respect to the utilization of such moneys.

#### Section 8.04 INDEMNITY FOR GOVERNMENT OBLIGATIONS.

The Company shall pay and shall indemnify the Trustee and each Securityholder of each Series in respect of which the deposit shall have been made against any tax, fee, or other charge imposed on or assessed against deposited U.S. Government Obligations or the principal and interest received on such obligations.

### **ARTICLE 9.**

#### **AMENDMENTS AND WAIVERS**

##### Section 9.01 WITHOUT CONSENT OF HOLDERS.

The Company and the Trustee may enter into one or more supplemental indentures without consent of any Securityholder for any of the following purposes:

- (1) to cure any ambiguity, defect, or inconsistency herein, in the Securities of any Series;
- (2) to comply with Article 5;
- (3) to provide for uncertificated Securities in addition to or in place of certificated Securities;
- (4) to add to the covenants of the Company for the benefit of the Holders of all or any Series of Securities (and if such covenants are to be for the benefit of less than all Series of Securities, stating that such covenants are expressly being included solely for the benefit of such Series) or to surrender any right or power herein conferred upon the Company;
- (5) to add to, delete from, or revise the conditions, limitations, and restrictions on the authorized amount, terms, or purposes of issue, authentication, and delivery of Securities, as herein set forth;
- (6) to secure the Securities pursuant to Section 4.03;
- (7) to make any change that does not adversely affect the rights of any Securityholder in any material respect; or
- (8) to provide for the issuance of and establish the form and terms and conditions of Securities of any Series as provided in Section 2.02, to establish the form of any certifications required to be furnished pursuant to the terms of this Indenture or any Series of Securities, or to add to the rights of the Holders of any Series of Securities.

Section 9.02 WITH CONSENT OF HOLDERS.

(a) With the written consent of the Holders of a majority in principal amount of the outstanding Securities of each Series affected by such supplemental indenture (with each Series voting as a class), the Company and the Trustee may enter into a supplemental indenture to add any provisions to or to change or eliminate any provisions of this Indenture or of any supplemental indenture or to modify, in each case in any manner not covered by Section 9.01, the rights of the Securityholders of each such Series. The Holders of a majority in principal amount of the outstanding Securities of each Series affected by such waiver (with each Series voting as a class), by notice to the Trustee, may waive compliance by the Company with any provision of this Indenture, any supplemental indenture, or the Securities of any such Series, except a Default in the payment of the principal of or interest on any Security. However, without the consent of each Securityholder affected, an amendment or waiver may not:

(1) reduce the amount of Securities whose Holders must consent to an amendment or waiver;

(2) change the rate of or change the time for payment of interest on any Security;

(3) change the principal of or change the fixed maturity of any Security;

(4) waive a Default in the payment of the principal of or interest on any Security;

(5) make any Security payable in money other than that stated in the Security; or

(6) make any change in Section 6.04, 6.07, or 9.02(a) (third sentence).

(b) It is not necessary under this Section 9.02 for the Securityholders to consent to the particular form of any proposed supplemental indenture, but it is sufficient if they consent to the substance thereof.

(c) Promptly after the execution by the Company and the Trustee of any supplemental indenture pursuant to the provisions of this Section 9.02, the Company shall transmit by mail a notice, setting forth in general terms the substance of such supplemental indenture, to all Holders of Registered Securities, as the names and addresses of such Holders appear on the register for each Series of Securities, and to such Holders of Unregistered Securities as are entitled to receive reports pursuant to Section 4.02(c). Any failure of the Company to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture.

#### Section 9.03 COMPLIANCE WITH TRUST INDENTURE ACT.

Every amendment to this Indenture or the Securities of one or more Series shall be set forth in a supplemental indenture that complies with the TIA as then in effect.

#### Section 9.04 REVOCATION AND EFFECT OF CONSENTS.

Until an amendment or waiver becomes effective, a consent to it by a Holder of a Security is a continuing consent by the Holder and every subsequent Holder of a Security or portion of a Security that evidences the same debt as the consenting Holder's Security even if a notation of the consent is not made on any Security. However, any such Holder or subsequent Holder may revoke the consent as to his Security or portion of his Security if the Trustee receives a written notice of revocation before the date the amendment or waiver becomes effective. After an amendment or waiver becomes effective, it shall bind every Securityholder of each Series affected by such amendment or wavier.

#### Section 9.05 NOTATION ON OR EXCHANGE OF SECURITIES.

The Trustee shall place an appropriate notation about an amendment or waiver on any Security of any Series thereafter authenticated. The Company, in exchange for Securities of that Series, may issue and the Trustee shall authenticate new Securities of that Series that reflect the amendment or waiver.

#### Section 9.06 TRUSTEE PROTECTED.

The Trustee need not sign any supplemental indenture that adversely affects its rights or obligations.

### **ARTICLE 10.**

#### **SINKING FUNDS**

##### Section 10.01 APPLICABILITY OF ARTICLE.

The provisions of this Article shall be applicable to any sinking fund for the retirement of Securities of a Series, except as otherwise permitted or required by any form of Security of such Series issued pursuant to this Indenture.

The minimum amount of any sinking fund payment provided for by the terms of Securities of any Series is herein referred to as "mandatory sinking fund payment," and any payment in excess of such minimum amount provided for by the terms of Securities of such Series is herein referred to as an "optional sinking fund payment." If provided for by the terms of Securities of any Series, the cash amount of any sinking fund payment may be subject to reduction as provided in Section 10.02. Each sinking fund payment shall be applied to the redemption of Securities of any Series as provided for by the terms of Securities of such Series.

## Section 10.02 SATISFACTION OF SINKING FUND PAYMENTS WITH SECURITIES.

The Company may, in satisfaction of all or any part of any sinking fund payment with respect to the Securities of such Series to be made pursuant to the terms of such Securities as provided for by the terms of such Series, (1) deliver outstanding Securities of such Series (other than any of such Securities previously called for redemption or any of such Securities in respect of which cash shall have been released to the Company), and (2) apply as a credit Securities of such Series which have been redeemed either at the election of the Company pursuant to the terms of such Series of Securities or through the application of permitted optional sinking fund payments pursuant to the terms of such Securities, provided that such Series of Securities have not been previously so credited. Such Securities shall be received and credited for such purpose by the Trustee at the redemption price specified in such Securities for redemption through operation of the sinking fund and the amount of such sinking fund payment shall be reduced accordingly. If as a result of the delivery or credit of Securities of any Series in lieu of cash payments pursuant to this

Section 10.02, the principal amount of Securities of such Series to be redeemed in order to exhaust the aforesaid cash payment shall be less than \$500,000, the Trustee shall not call Securities of such Series for redemption, except upon Company Order, and such cash payment shall be held by the Trustee or a Paying Agent and applied to the next succeeding sinking fund payment, provided, however, that the Trustee or such Paying Agent shall at the request of the Company from time to time pay over and deliver to the Company any cash payment so being held by the Trustee or such Paying Agent upon delivery by the Company to the Trustee of Securities of that Series purchased by the Company having an unpaid principal amount equal to the cash payment required to be released to the Company.

## Section 10.03 REDEMPTION OF SECURITIES FOR SINKING FUND.

Not less than 60 days prior to each sinking fund payment date for any Series of Securities, the Company will deliver to the Trustee an Officers' Certificate specifying the amount of the next ensuing mandatory sinking fund payment for that Series pursuant to the terms of that Series, the portion thereof, if any, which is to be satisfied by payment of cash, and the portion thereof, if any, which is to be satisfied by delivering and crediting of Securities of that Series pursuant to Section 10.02, and the optional amount, if any, to be added in cash to the next ensuing mandatory sinking fund payment, and will also deliver to the Trustee any Securities to be so credited and not theretofore delivered. If such Officers' Certificate shall specify an optional amount to be added in cash to the next ensuing mandatory sinking fund payment, the Company shall thereupon be obligated to pay the amount therein specified. Not less than 30 days before each such sinking fund payment date, the Trustee shall select the Securities to be redeemed upon such sinking fund payment date in the manner specified in Section 3.02 and cause notice of the redemption thereof to be given in the name of and at the expense of the Company in the manner provided in Section 3.03. Such notice having been duly given, the redemption of such Securities shall be made upon the terms and in the manner stated in Sections 3.04, 3.05 and 3.06.

## **ARTICLE 11.**

### **MISCELLANEOUS**

#### **Section 11.01 TRUST INDENTURE ACT CONTROLS.**

If any provision of this Indenture limits, qualifies or conflicts with a provision which is required to be included in this Indenture by the TIA, the required provision shall control.

#### **Section 11.02 NOTICES.**

(a) Any notice or communication by the Company or the Trustee is duly given if in writing and delivered in person or mailed by certified mail:

**if to the Company to:**

U S West Communications, Inc.  
1801 California Street  
Denver, Colorado 80202

Attention: Treasurer

**if to the Trustee to:**

Bank One Trust Company, N.A.

One Bank One Plaza  
Suite IL1-0126  
Chicago, Illinois 60670-0126  
Attention: Global Corporate Trust Services

(b) The Company or the Trustee by notice to the others may designate additional or different addresses for subsequent notices or communications.

(c) Any notice or communication to Holders of Securities entitled to receive reports pursuant to Section 4.02(c) shall be mailed by first-class mail to the addresses for Holders of Registered Securities shown on the register kept by the Registrar and to addresses filed with the Trustee for other Holders. Failure to so mail a notice or communication or any defect in such notice or communication shall not affect its sufficiency with respect to other Holders of Securities of that or any other Series entitled to receive notice.

(d) If a notice of communication is mailed in the manner provided above within the time prescribed, it is conclusively presumed to have been duly given, whether or not the addressee receives it.

(e) If the Company mails a notice or communication to Securityholders, it shall mail a copy to the Trustee and to each Agent at the same time.

(f) If it shall be impractical in the opinion of the Trustee or the Company to make any publication of any notice required hereby in an Authorized Newspaper, any publication or other notice in lieu thereof which is made or given with the approval of the Trustee shall constitute a sufficient publication of such notice.

#### Section 11.03 COMMUNICATION BY HOLDERS WITH OTHER HOLDERS.

Securityholders of any Series may communicate pursuant to TIA Section 312(b) with other Securityholders of that Series or of all Series with respect to their rights under this Indenture or under the Securities of that Series or of all Series. The Company, the Trustee, the Registrar and anyone else shall have the protection of TIA Section 312(c).

#### Section 11.04 CERTIFICATE AND OPINION AS TO CONDITIONS PRECEDENT.

Upon any request or application by the Company to the Trustee to take any action under this Indenture, the Company shall furnish to the Trustee:

- (1) an Officers' Certificate stating that, in the opinion of the signers, all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with; and
- (2) an Opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent have been complied with.

#### Section 11.05 STATEMENTS REQUIRED IN CERTIFICATE OR OPINION.

Each certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include:

- (1) a statement that the person making such certificate or opinion has read such covenant or condition;
- (2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;
- (3) a statement that, in the opinion of such person, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and
- (4) a statement as to whether or not, in the opinion of such person, such condition or covenant has been complied with.

#### Section 11.06 RULES BY TRUSTEE AND AGENTS.

The Trustee may make reasonable rules for action by or a meeting of Securityholders of one or more Series. The Paying Agent or Registrar may make reasonable rules and set reasonable requirements for its functions.

#### Section 11.07 LEGAL HOLIDAYS.

Except as may otherwise be provided in the form of Securities of any particular Series pursuant to the provisions of this Indenture, a "Legal Holiday" is a Saturday, Sunday, or a day on which banking institutions are not required to be open. If a payment date is a Legal Holiday at a place of payment, payment may be made at such place on the next succeeding day that is not a Legal Holiday, and no interest shall accrue for the intervening period.

#### Section 11.08 GOVERNING LAW.

The laws of the State of New York shall govern this Indenture, the Securities and any coupons appertaining thereto.

#### Section 11.09 NO ADVERSE INTERPRETATION OF OTHER AGREEMENTS.

This Indenture may not be used to interpret another indenture, loan, or debt agreement of the Company or an Affiliate. No such indenture, loan, or debt agreement may be used to interpret this Indenture.

#### Section 11.10 NO RECOURSE AGAINST OTHERS.

No director, officer, employee or stockholder, as such, of the Company shall have any liability for any obligations of the Company under the Securities or the Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Securityholder by accepting a Security waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Securities.

#### Section 11.11 EXECUTION IN COUNTERPARTS.

This Indenture may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute but one instrument.

#### Section 11.12 CURRENCIES.

Except as may otherwise be provided in the form of Securities of any particular Series pursuant to the provisions of this Indenture, all references in this Indenture or in the Securities to "dollars," "\$," or any similar reference shall be to the currency of the United States of America.

## **ARTICLE 12.**

### **REPAYMENT AT THE OPTION OF HOLDERS**

#### **Section 12.01 APPLICABILITY OF ARTICLE.**

Securities of any Series which are repayable at the option of the Holders thereof before their stated maturity shall be repaid in accordance with the terms of the Securities of such Series.



IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

**U S WEST COMMUNICATIONS, INC.**

By: /s/ Sean P. Foley  
-----  
Name: Sean P. Foley  
Title: Vice President and Treasurer

(SEAL)  
Attest: /s/ Thomas O. McGimpsey  
-----  
Name: Thomas O. McGimpsey  
Title: Assistant Secretary

**BANK ONE TRUST COMPANY, N.A.,**  
as Trustee

By: /s/ Stephen M. Wagner  
-----  
Name: Stephen M. Wagner  
Title: Director

(SEAL)  
Attest: /s/ Diane M. Swanson  
-----  
Name: Diane M. Swanson  
Title: Account Executive

# EXHIBIT 12

## U S WEST COMMUNICATIONS, INC. RATIO OF EARNINGS TO FIXED CHARGES (IN MILLIONS)

	YEAR ENDED DECEMBER 31,				
	1999	1998	1997	1996	1995
Income before taxes.....	\$2,520	\$2,150	\$2,018	\$2,001	\$1,917
Interest expense (net of amounts capitalized).....	403	386	374	414	386
Interest factor on rentals ( 1/3).....	78	56	67	54	60
Earnings available for fixed charges.....	\$3,001	\$2,592	\$2,459	\$2,469	\$2,363
Interest expense.....	\$ 430	\$ 411	\$ 394	\$ 445	\$ 426
Interest factor on rentals ( 1/3).....	78	56	67	54	60
Fixed charges.....	\$ 508	\$ 467	\$ 461	\$ 499	\$ 486
Ratio of earnings to fixed charges.....	5.91	5.55	5.33	4.95	4.86

**EXHIBIT 24**

**POWER OF ATTORNEY**

**KNOW ALL MEN BY THESE PRESENTS:**

WHEREAS, U S WEST Communications, Inc., a Colorado corporation (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, 1999; and

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

NOW THEREFORE, each of the undersigned constitutes and appoints ALLAN R. SPIES and THOMAS O. MCGIMPSEY, and each of them, as attorney for him or her and in his or her name, place, and stead, and in his or her capacity as an Officer or Director of the Company, to execute and file such annual report, and thereafter to execute and file any amendment or amendments thereto on Form 10-K, 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 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, each of the undersigned has executed this Power of Attorney this 4th day of February 2000.

By:                   /s/ SOLOMON D. TRUJILLO  
-----  
                          Solomon D. Trujillo  
                          PRESIDENT AND CHIEF EXECUTIVE OFFICER AND  
                          DIRECTOR

By:                   /s/ ALLAN R. SPIES  
-----  
                          Allan R. Spies  
                          VICE PRESIDENT AND CHIEF FINANCIAL OFFICER  
                          AND DIRECTOR

By:                   /s/ JANET K. COOPER  
-----  
                          Janet K. Cooper  
                          VICE PRESIDENT--FINANCE AND CONTROLLER AND  
                          DIRECTOR

**ARTICLE 5**

MULTIPLIER: 1,000,000

PERIOD TYPE	6 MOS
FISCAL YEAR END	DEC 31 1999
PERIOD START	JAN 01 1999
PERIOD END	DEC 31 1999
CASH	61
SECURITIES	0
RECEIVABLES	1,811
ALLOWANCES	0
INVENTORY	211
CURRENT ASSETS	2,332
PP&E	37,350
DEPRECIATION	21,301
TOTAL ASSETS	19,978
CURRENT LIABILITIES	5,308
BONDS	5,408
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	0
OTHER SE	4,720
TOTAL LIABILITY AND EQUITY	19,978
SALES	11,464
TOTAL REVENUES	11,464
CGS	0
TOTAL COSTS	0
OTHER EXPENSES	8,504
LOSS PROVISION	0
INTEREST EXPENSE	403
INCOME PRETAX	2,520
INCOME TAX	958
INCOME CONTINUING	1,562
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	1,562
EPS BASIC	0
EPS DILUTED	0

---

**End of Filing**Powered By **EDGAR**  
Online

© 2005 | EDGAR Online, Inc.